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## **Snap-on Incorporated (SNA-US) Machinery**

- We reiterate our Buy rating on SNA as its innovative ability to create solutions that drive long-term value, and the near-term headwinds are creating a buying opportunity.
- SNA's strong Return on Capital will continue to drive increasing shareholder value creation.
- SNA drives incremental growth and diversifies its product lines with strategic acquisitions.
- SNA continues to drive growth through enhancing its franchise network, improving relationships with shop owners and repair facilities, ongoing expansion to critical industries, and increasing penetration in emerging markets.
- SNA continues to increase shareholder return through ongoing dividend increases and share repurchases.
- SNA is on our Research Focus List and in our Focused Opportunity Portfolio.

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**Company Note**
**Snap-on Incorporated (SNA-US)**  
 Machinery

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**Research Action:**

Reiterate rating

Rating: Buy

Prior Rating: Buy

Price 07/23/2019: \$154.84

52 Week High /

Low: \$189.46 / \$135.29

**Key Data: (TTM as of Jun-19)**

Excess Cash per Share: -\$0.84

Annual Dividend: \$3.80

Dividend Yield: 2.45%

Avg. Volume (30 Day): 0.5M

Shares Outstanding: 55.2M

Float: 51.9M

Short Interest: 8.9M

SI % / Float 17.22%

Equity MV: \$8,548.7M

Sales TTM: \$4,058.0M

Beta: 1.02

EBITDAR: \$1,056.2M

NOPAT: \$716.9M

Total Invested Capital: \$5,047.9M

Return on Capital: 15.08%

Cost of Capital: 6.24%

Economic Profit: \$420.4M

Market Value Added: \$4,753.3M

Current Operations Value: \$11,492.9M

Future Growth Value: (\$1,691.7)M

- We reiterate our Buy rating on SNA as its innovative ability to create solutions that drive long-term value, and the near-term headwinds are creating a buying opportunity.** SNA's ongoing value creation process continues to bring new products to market and drive its expansion into other industry verticals. SNA continues to benefit from the ongoing complexity of new vehicles and its own ability to create more technologically advanced diagnostic equipment to meet this growing and evolving demand. SNA continues to be the leading tool producer for the automotive industry and to expand into other verticals including aerospace, HVAC, military, marine, oil service, and power generation. SNA continues to benefit from increases in both service and repair revenue opportunities from the growing number of vehicles and the increase in complexity of vehicles in service. SNA will also benefit from new automotive onboard technologies, including sensors and computers that require increased diagnostic capabilities. Strength in database upgrades to diagnostic equipment adds incrementally to increasing Returns on Capital (ROC). We believe SNA's strong brand equity and innovative capabilities will continue to drive a strong ROC that will continue to drive greater shareholder value creation. SNA also continues to enhance shareholder returns through ongoing dividend increases and share repurchases. We believe significant upside exists in the shares for long-term investors from current levels and continue to recommend purchase.
- SNA's strong Return on Capital will continue to drive increasing shareholder value creation.** For the 12 months ending June 2019, Net Sales Revenue declined 0.84% Y/Y from \$4.09 billion to \$4.06 billion. We forecast a decline of 6% to \$3.81 billion over the NTM. Economic Operating Cash Flow (EBITDAR) increased 3.67% Y/Y from \$1.02 billion to \$1.06 billion over the LTM. We forecast a decline of 6.55% to \$987.10 million over the NTM. Net Operating Profit After Tax (NOPAT) increased 11.27% Y/Y from \$644.3 million to \$716.9 million over the LTM. We forecast a decline of 4.35% to \$685.7 million over the NTM. ROC increased Y/Y from 14.45% to 15.08%. We forecast a decline to 14.15% over the NTM. Economic Profit increased 27.13% Y/Y from \$330.7 million to \$420.4 million over the LTM. We forecast a decline of 4% to \$403.6 million over the NTM. SNA's above-average Returns on Capital (ROC) relative to the S&P 500 will drive positive shareholder value performance. We believe that there are opportunities for an increase to our forecast throughout the year which should also drive incremental gains in Business Performance trends and the potential further upside in shareholder value creation.

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- **SNA drives incremental growth and diversifies its product lines with strategic acquisitions.** In April of this year, SNA announced the acquisition of leading rescue tool manufacturer and distributor Power Hawk Technologies for governmental, fire, military, and other types of rescue and emergency operations. Power Hawk will be part of SNA's Commercial & Industrial Group and adds a new dimension to its product portfolio. SNA has had a successful history of expanding its product portfolio through strategic acquisitions. SNA has expanded its product portfolio with several acquisitions, including BTC Solutions, which provides automotive diagnostic software. SNA also acquired two torque tightening and equipment manufacturers, Norbar and Sturtevant Richmond which expands SNA beyond its core automotive business to many industries that require precise measures of torque in manufacturing and maintenance of equipment. SNA's acquisition of leading body repair equipment company Car-O-Liner significantly expanded its presence in automotive body repair, and Car-O-Liner is experiencing significant growth in body repair equipment through the ongoing increased use of aluminum in automotive bodies and the unique repair capabilities it requires. SNA continues to invest in new product development and footprint expansion to go "beyond the garage" into other critical industries, including aerospace, oil service, and power generation. SNA manufactures the most innovative, highest quality tools, enabling greater safety and operational improvements
- **SNA continues to drive growth through enhancing its franchise network, improving relationships with shop owners and repair facilities, ongoing expansion to critical industries, and increasing penetration in emerging markets.** SNA continues to create value through its Rapid Continuous Improvement (RCI) process. RCI continues to drive organizational efficiency and cost reduction, helping SNA increase sales, expand margins, and improve operating efficiencies. RCI is the key driver of SNA's global manufacturing and supply chain management process, creating a market demand-driven sales base and a lower cost replenishment process. RCI continues to help SNA increase order fill rates and profitability, driving gross margin improvements.

- **SNA continues to increase shareholder return through ongoing dividend increases and share repurchases.** In August 2018, SNA increased its quarterly dividend 14.6% from \$0.82 per share to \$0.95 per share which followed a 15.5% increase in its quarterly dividend from \$0.71 per share to \$0.82 per share in 2017. In 2018, SNA repurchased 7.7 million shares for a total of \$284.1 million. In February of this year, SNA announced an additional open market purchase for \$500 million worth of stock. So far in 2019, SNA has repurchased a total of \$107.5 million worth of stock, including the purchase of 365,000 shares for a total of \$60.1 million in the most recent quarter. Currently, SNA has remaining capacity to purchase up to an additional \$445.3 million worth of stock under its existing authorization.
- **SNA is on our Research Focus List and in our Focused Opportunity Portfolio.** SNA's strong brand equity and market-leading position best positions it to benefit from the increase in demand for vehicle services driven by further evolving vehicle complexity and new onboard technologies. SNA's innovative ability, together with its increasing expansion into other industries, both in the U.S. and internationally, will continue to drive its growth.

#### **Investment Thesis**

SNA is best positioned to take advantage of both the aging vehicle market and the record production of new, technologically advanced vehicles. SNA's growth will continue to be driven by its dominant position in the automotive repair market supported by the increase in automobile complexity along with new onboard technologies, including sensors and computers that require increased diagnostic capabilities. SNA's expansion into additional vertical areas of service and repair, including aerospace, HVAC, marine, military, oil service, and power generation creates additional growth opportunities. Additional catalysts for growth include the expansion of its network, greater penetration in critical industries, and growth opportunities in emerging markets. SNA is the market leader, benefiting from its innovative ability to develop and sell the best tools and diagnostic equipment. SNA's strong brand equity and innovative ability will continue to drive an increasing Return on Capital, growing Economic Profit, and greater shareholder value creation.

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**Company Overview**

**Snap-on Incorporated (SNA-US)** – Manufactures and sells the world's leading brand of professional tools, diagnostic equipment, and related solutions for technicians, vehicle service centers, original equipment manufacturers (OEMs) and other professional and industrial users. Its products include professional hand and power tools, vehicle diagnostic and service equipment, tool storage, hydraulic lifts, tire changers and balancers, diagnostic software and business management systems. Snap-on's brands include Snap-on, BAHCO, Blackhawk, Blue-Point, Car-o-Liner, Challenger Lifts, Ecotechnics, Mitchell1, Norbar, Power Hawk, ShopKey, Sturtevant Richmond, and Sun. Snap-on sells its products through multiple distribution channels, including direct sale and franchise distributors in over 130 countries. Founded in 1920, Snap-on originated the mobile-van tool distribution channel for the automotive repair market. Snap-on tools are backed by a lifetime warranty.

**Snap-on reports revenue and operates in four Business Segments:**

**Snap-on Tools Group:** (35% of revenue) Worldwide franchise mobile van channel selling to professional technicians and repair shops.

**Repair Systems & Information Group:** (29% of revenue) Sells diagnostic equipment, vehicle service information, business management systems, electronic parts catalogs, and other solutions for vehicle service to customers in the global vehicle service and repair market.

**Commercial & Industrial Group:** (29% of revenue) Sells tools and service equipment to a broad range of industrial and commercial users worldwide through direct, distributor and other non-franchise distribution channels in a broad range of industries.

**Financial Services:** (7% of revenue) Provides financing to customers for the purchase or lease of tools, equipment, and diagnostic products as well as business loans and vehicle leases to franchisees.

**Snap-on reports revenue in three Geographic Regions:** United States (67% of revenue); Europe (19% of revenue); and All Other (14% of revenue).



Snap-on Incorporated (SNA-US)

Machinery

Financial Data

Report Basis	LTM	LTM	LTM	LTM	LTM	LTM	NTM	5 Yr	3 Yr	Current
Reported Period Ending	06/28/2014	07/04/2015	07/02/2016	07/01/2017	06/30/2018	06/29/2019	06/30/2020	Average	Average	Trend
<b>Net Sales Revenue</b>	\$3,359.1	\$3,572.4	\$3,639.5	\$3,847.9	\$4,092.4	\$4,058.0	\$3,809.7	\$3,842.0	\$3,999.4	\$3,933.9
Sales Growth	6.89%	6.35%	1.88%	5.73%	6.35%	-0.84%	-6.12%	3.89%	3.75%	-3.48%
Sales Growth Trend	5.55%	6.57%	3.67%	4.19%	6.10%	2.04%	-4.01%	4.51%	4.11%	-0.98%
<b>Economic Operating Cash Flow (EBITDAR)</b>	\$748.3	\$882.0	\$917.7	\$1,031.4	\$1,018.9	\$1,056.2	\$987.1	\$981.2	\$1,035.5	\$1,021.7
EBITDAR Margin	22.28%	24.69%	25.22%	26.80%	24.90%	26.03%	25.91%	25.53%	25.91%	25.97%
EBITDAR Growth	10.24%	17.87%	4.05%	12.39%	-1.22%	3.67%	-6.55%	7.35%	4.95%	-1.44%
<b>Net Operating Profit Before Tax (NOPBT)</b>	\$639.4	\$770.6	\$803.7	\$911.4	\$888.4	\$931.5	\$868.0	\$861.1	\$910.4	\$899.8
NOPBT Margin	19.03%	21.57%	22.08%	23.69%	21.71%	22.96%	22.78%	22.40%	22.78%	22.87%
NOPBT Growth	11.73%	20.52%	4.30%	13.40%	-2.53%	4.86%	-6.82%	8.11%	5.24%	-0.98%
<b>Cash Operating Income Tax</b>	\$203.0	\$242.6	\$246.3	\$276.2	\$244.1	\$214.7	\$182.3	\$244.8	\$245.0	\$198.5
Economic Tax Effective Rate	31.75%	31.48%	30.65%	30.30%	27.48%	23.04%	21.00%	28.59%	26.94%	22.02%
<b>Net Operating Profit After Tax (NOPAT)</b>	\$436.4	\$528.0	\$557.4	\$635.3	\$644.3	\$716.9	\$685.7	\$616.4	\$665.5	\$701.3
NOPAT Margin	12.99%	14.78%	15.31%	16.51%	15.74%	17.67%	18.00%	16.00%	16.64%	17.83%
NOPAT Growth	11.49%	20.99%	5.57%	13.97%	1.42%	11.27%	-4.35%	10.64%	8.89%	3.46%
<b>Cash &amp; Equivalents</b>	\$115.8	\$124.6	\$119.9	\$89.0	\$112.3	\$164.0	\$157.4	\$122.0	\$121.8	\$160.7
<b>Total Assets</b>	\$4,228.3	\$4,390.7	\$4,505.1	\$5,067.1	\$5,272.0	\$5,545.4	\$5,323.2	\$4,956.1	\$5,294.8	\$5,434.3
<b>Non - Interest Bearing Liabilities (NIBLs)</b>	\$917.7	\$1,030.4	\$895.1	\$975.1	\$974.7	\$950.9	\$912.8	\$965.2	\$966.9	\$931.8
<b>Net Assets</b>	\$3,293.2	\$3,342.6	\$3,592.0	\$4,073.9	\$4,278.9	\$4,573.9	\$4,390.6	\$3,972.3	\$4,308.9	\$4,482.3
<b>Economic Asset Adjustments</b>	\$315.3	\$375.6	\$347.3	\$393.7	\$395.5	\$474.0	\$450.0	\$397.2	\$421.1	\$464.5
<b>Net Operating Assets</b>	\$3,608.5	\$3,718.2	\$3,939.3	\$4,467.6	\$4,674.4	\$5,047.9	\$4,845.6	\$4,369.5	\$4,730.0	\$4,946.8
<b>Debt &amp; Debt Equivalents</b>	\$979.0	\$992.8	\$963.2	\$1,180.9	\$1,150.1	\$1,252.5	\$1,202.3	\$1,107.9	\$1,194.5	\$1,227.4
<b>Equity &amp; Equivalents</b>	\$2,255.4	\$2,298.5	\$2,583.6	\$2,854.9	\$3,093.2	\$3,288.1	\$3,156.3	\$2,823.7	\$3,078.7	\$3,222.2
<b>Total Capital - Financing Sources</b>	\$3,234.4	\$3,291.3	\$3,546.8	\$4,035.8	\$4,243.3	\$4,540.6	\$4,358.7	\$3,931.6	\$4,273.2	\$4,449.6
<b>Capital Adjustments</b>	\$244.1	\$305.2	\$273.7	\$318.6	\$318.4	\$402.7	\$386.6	\$323.7	\$346.6	\$394.6
<b>Net Capital Financing Sources</b>	\$3,478.5	\$3,596.5	\$3,820.5	\$4,354.4	\$4,561.7	\$4,943.3	\$4,745.2	\$4,255.3	\$4,619.8	\$4,844.3
<b>Net Working Capital</b>	\$1,423.5	\$1,495.8	\$1,440.1	\$1,628.8	\$1,667.6	\$1,799.0	\$1,726.9	\$1,606.3	\$1,698.5	\$1,763.0
Cost of Net Working Capital	\$90.4	\$94.9	\$85.3	\$97.1	\$115.9	\$108.1	\$103.8	\$100.3	\$107.0	\$106.0
% of Revenue	2.69%	2.66%	2.34%	2.52%	2.83%	2.66%	2.72%	2.60%	2.67%	2.69%
<b>Operational Capital</b>	\$1,896.5	\$1,977.4	\$1,932.2	\$2,167.3	\$2,224.1	\$2,432.1	\$2,334.6	\$2,146.6	\$2,274.5	\$2,383.4
Cost of Operational Capital	\$121.2	\$126.0	\$113.5	\$129.6	\$154.4	\$145.2	\$139.4	\$133.8	\$143.1	\$142.3
% of Revenue	3.61%	3.53%	3.12%	3.37%	3.77%	3.58%	3.66%	3.47%	3.57%	3.62%
<b>Productive Capital</b>	\$2,955.6	\$2,963.2	\$2,909.6	\$3,322.8	\$3,376.0	\$3,567.0	\$3,424.1	\$3,227.7	\$3,421.9	\$3,495.5
Cost of Productive Capital	\$190.3	\$192.5	\$170.6	\$197.1	\$235.6	\$216.5	\$207.9	\$202.5	\$216.4	\$212.2
% of Revenue	5.66%	5.39%	4.69%	5.12%	5.76%	5.34%	5.46%	5.26%	5.40%	5.40%
<b>Total Operating Capital</b>	\$3,660.7	\$3,772.2	\$4,001.4	\$4,571.0	\$4,766.7	\$5,086.8	\$4,883.0	\$4,439.6	\$4,808.2	\$4,984.9
Cost of Total Operating Capital	\$232.3	\$241.7	\$225.8	\$271.1	\$328.4	\$307.3	\$295.0	\$274.9	\$302.3	\$301.2
% of Revenue	6.92%	6.77%	6.20%	7.05%	8.02%	7.57%	7.74%	7.12%	7.55%	7.66%
<b>Non - Operating Capital</b>	(\$52.2)	(\$54.0)	(\$62.1)	(\$103.4)	(\$92.3)	(\$38.9)	(\$37.3)	(\$70.1)	(\$78.2)	(\$38.1)
Cost of Non - Operating Capital	(\$1.2)	(\$3.5)	(\$3.4)	(\$5.2)	(\$6.9)	(\$4.1)	(\$3.9)	(\$4.6)	(\$5.4)	(\$4.0)
% of Revenue	-0.03%	-0.10%	-0.09%	-0.14%	-0.17%	-0.10%	-0.10%	-0.12%	-0.14%	-0.10%
<b>Total Capital</b>	\$3,608.5	\$3,718.2	\$3,939.3	\$4,467.6	\$4,674.4	\$5,047.9	\$4,845.6	\$4,369.5	\$4,730.0	\$4,946.8
Cost of Total Capital	\$231.2	\$238.3	\$222.4	\$265.9	\$321.5	\$303.2	\$291.1	\$270.2	\$296.9	\$297.1
% of Revenue	6.88%	6.67%	6.11%	6.91%	7.86%	7.47%	7.64%	7.00%	7.41%	7.56%
<b>Cost of Capital (WACC)</b>	6.66%	6.50%	5.81%	6.33%	7.03%	6.24%	6.24%	6.38%	6.53%	6.24%
<b>Capital Structure</b>										
<b>Debt &amp; Debt Equivalents</b>	\$979.0	\$992.8	\$963.2	\$1,180.9	\$1,150.1	\$1,252.5	\$1,202.3	\$1,107.9	\$1,194.5	\$1,227.4
Debt & Debt Equivalents % of Market Value	12.41%	9.57%	9.49%	11.42%	11.22%	12.01%	12.01%	10.75%	11.55%	12.01%
<b>Preferred Equity</b>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Preferred Equity % of Market Value	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Market Value of Common Equity</b>	\$6,910.1	\$9,377.6	\$9,187.1	\$9,155.9	\$9,095.9	\$9,177.1	\$8,809.4	\$9,198.7	\$9,143.0	\$8,993.3
Common Equity % of Market Value	87.59%	90.43%	90.51%	88.58%	88.78%	87.99%	87.99%	89.25%	88.45%	87.99%
<b>Total Economic Market Value (MV)</b>	\$7,889.1	\$10,370.4	\$10,150.3	\$10,336.8	\$10,246.0	\$10,429.6	\$10,011.7	\$10,306.6	\$10,337.5	\$10,220.7
Total %	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
<b>Excess Cash</b>	(\$52.2)	(\$54.0)	(\$62.1)	(\$103.4)	(\$92.3)	(\$38.9)	(\$37.3)	(\$70.1)	(\$78.2)	(\$38.1)
<b>Economic Enterprise Value</b>	\$7,941.2	\$10,424.4	\$10,212.4	\$10,440.2	\$10,338.4	\$10,468.5	\$10,049.0	\$10,376.8	\$10,415.7	\$10,258.8
<b>Average Capital</b>	\$3,347.5	\$3,537.5	\$3,708.5	\$4,087.4	\$4,458.0	\$4,752.5	\$4,844.3	\$4,108.8	\$4,432.7	\$4,798.4
Capital Δ	\$261.9	\$118.0	\$224.0	\$533.8	\$207.3	\$381.6	(\$198.1)	\$293.0	\$374.3	\$91.8

Source: Company Data, Financial statements and Tigress Research

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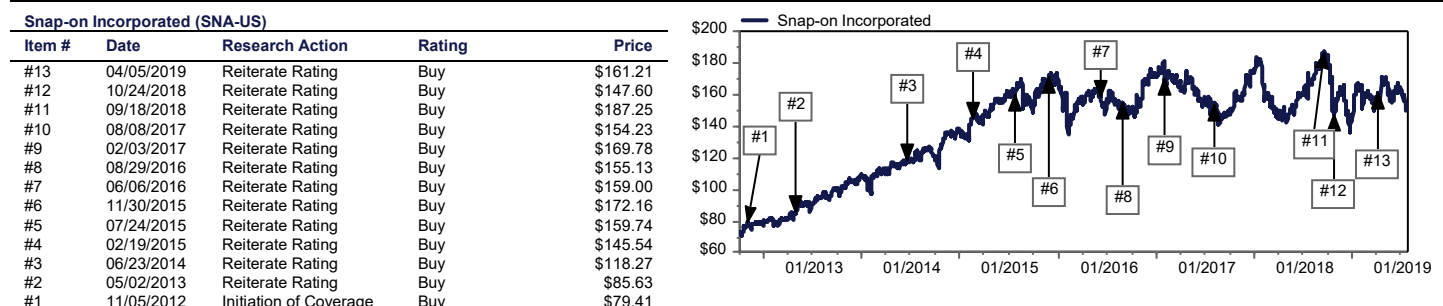
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**Snap-on Incorporated (SNA-US)**
**Machinery**
**Ratings History**

**Tigress Research Methodology Overview**

We employ proprietary quantitative valuation models combined with dynamic fundamental analysis based on the principles of Economic Profit to formulate timely and insightful investment ratings, analysis, strategies, and recommendations.

We make key adjustments to reported financial data eliminating GAAP-based accounting distortions and measuring all companies on a cash operating basis.

Our proprietary research framework is a multi-factor model that scores and ranks companies based on their risk-adjusted ability to create Economic Profit relative to their current market value focusing on three key components:

**Business Performance:** Measuring economic profitability, growth and operating efficiency.

**Risk:** Measuring business sustainability, volatility, strength, and consistency.

**Valuation:** Linking business performance to market value. Measuring value created relative to capital employed and enterprise multiples of economic profit and cash flow.

We score and rank 24 key measurements of performance, risk, and value into relative market and industry investment recommendations.

**Glossary of Key Terms and Measures**

**Excess Cash per Share:** Excess Cash per Share is the amount of excess cash divided by basic shares outstanding. Excess Cash consists of all cash and short-term securities less operating cash needed to run the business. Operating Cash is 5% of TTM net sales revenue.

**EBITDAR:** Earnings Before Interest, Taxes, Depreciation, Amortization, and Restructuring and Rent Costs. This is especially important when comparing companies that use a significant amount of leased assets like restaurants and retailers.

**NOPAT:** Net Operating Profit after Tax represents a company's after-tax cash operating profit excluding financing costs.

**Total Invested Capital:** Total Invested Capital the total cash investment that shareholders and debt holders have made during the life of the company.

**Return on Capital:** Return on Capital equals NOPAT divided by Total Invested Capital. It is a key measure of operating efficiency. ROC quantifies how well a company generates cash flow relative to the capital invested in its business.

**Cost of Capital:** Is the proportionately weighted cost of each category of capital – common equity, preferred equity and debt.

**Economic Profit:** Economic Profit is the net operating income after tax less the opportunity cost of the total capital invested. It is the most important driver of shareholder value.

**Current Operations Value:** Current Operations Value is the portion of market value based on the discounted present value of the current earnings stream assuming it remains constant forever.

**Future Growth Value:** Future Growth Value is the portion of market value based on un-earned Economic Profit

*For more information on the key terms and measures, please review the Tigress Investment Research Guide to Company Valuation and Analysis.*

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		Companies Under Coverage		Relationship Companies Under Coverage*		
		#	%	#	%	
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<b>Neutral:</b>	Expect little or no outperformance opportunity over the next 12 months.	44	37%	1	15%	
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<b>Sell:</b>	Expect price decline or significant relative market and industry underperformance over the next 12 months.	0	0%	0	0%	
<b>Not Rated</b>	No Current Research Rating	NA	NA	65	NA	
		<b>Total</b>	<b>119</b>	<b>100%</b>	<b>72</b>	<b>100%</b>

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