Snap-On Incorporated (SNA)

Updated October 20th, 2018 by Josh Arnold

Key Metrics

Current Price:	$151	**5 Year CAGR Estimate:**	13.7%	**Volatility Percentile:**	35.6%
Fair Value Price:	$179	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	45.6%
% Fair Value:	84%	**5 Year Valuation Multiple Estimate:**	3.5%	**Growth Percentile:**	71.8%
Dividend Yield:	2.2%	**5 Year Price Target**	$263	**Valuation Percentile:**	77.3%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	79.3%

Overview & Current Events

Snap-On Tools was founded in the early 1920's and since that time, has grown from a fledgling direct sales distributor of sockets to a full-service, global distributor of a wide array of common and specialty tools. The company's market capitalization is $8.5 billion, and it should generate almost $4 billion in revenue this year.

Q3 results were reported on 10/18/18 and the stock fell sharply on the news. Total sales fell slightly as 60bps of organic revenue growth and 20bps of incremental acquisition revenue were offset by 140bps of forex translation. Gross margins were up 80bps to 50.5% as a result of a sales mix shift. Adjusted operating expenses were roughly flat but operating margins rose due to the increase in gross margins. In total, earnings-per-share increased 24.5% and we've slightly increased our estimate for this year to $11.85. Credit portfolio expansion appears to be a concern for investors, but results remain strong, so we are not concerned at this point.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$4.07	$2.32	$3.19	$4.50	$5.20	$5.93	$7.14	$8.10	$9.20	$10.12	***$11.85***	***$17.40***
DPS	$1.20	$1.20	$1.22	$1.28	$1.36	$1.58	$1.85	$2.20	$2.54	$2.95	***$3.28***	***$5.65***
Shares	57	58	58	58	58	58	58	58	58	57	***56***	***55***

With the exception of 2009, Snap-On has produced materially higher earnings every year in the past decade. The company's constant focus on acquisitions, as well as its own organic revenue growth in concert with a rapidly growing financial services business has created a growth outlook that is tough to rival. The company continues to buy back its own stock as well, providing another tailwind for earnings-per-share. We see 8% earnings-per-share growth annually going forward as Snap-On continues to acquire brands, produce low single digit organic growth, see a low single digit tailwind from buybacks, and small gains from its cost saving program; it will see a bump in earnings this year from a lower tax rate as well. Growth of 8% a year would represent a slowdown from Snap-On's historical rate of growth, but based upon slowing rates of revenue growth, we believe this caution is warranted.

The dividend should keep increasing at double digit rates as the payout ratio is still low and earnings are growing nicely.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	12.1	14.2	14.4	12.3	12.7	15.6	16.8	19.1	17.1	16.3	***12.7***	***15.1***
Avg. Yld.	2.4%	3.6%	2.7%	2.3%	2.1%	1.7%	1.5%	1.4%	1.6%	1.8%	***2.2%***	***2.1%***

Snap-On's price-to-earnings multiple has spent the past several years in the mid-teens and after the post-earnings selloff, it is just 12.7. This compares very favorably to our estimate of fair value at 15.1 times earnings. As a result, we see a meaningful 3.5% tailwind to total returns from the valuation moving higher over time.

We see the yield remaining near where it is today as the share price and dividend growth should roughly mirror each other. Snap-On is not necessarily an income stock with the yield at 2.2%, but it is a very strong dividend growth issue and will remain so for the foreseeable future, increasing its attractiveness for investors.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	43.8%	43.7%	46.8%	46.9%	47.3%	48.2%	48.3%	49.2%	49.8%	49.5%	***50.0%***	***51.0%***
Debt/A	56%	62%	62%	58%	53%	48%	48%	44%	44%	43%	***42%***	***40%***
Int. Cov.	14.4	5.5	6.2	8.0	9.3	10.5	13.0	14.8	16.5	16.8	***17.0***	***20.0***
Payout	29%	51%	38%	29%	27%	26%	26%	27%	27%	28%	***28%***	***32%***
Std. Dev.	52.7%	54.9%	23.3%	31.7%	18.4%	11.6%	17.1%	14.2%	21.4%	15.6%	***19.0%***	***26.0%***

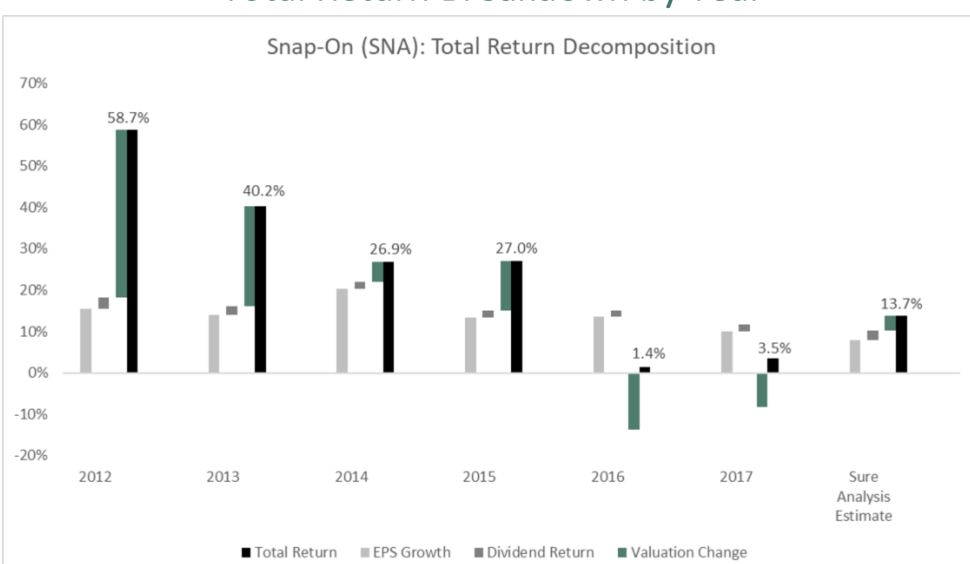
Snap-On's quality metrics have improved slightly over the past decade as its margins ticked higher, while debt has come down and interest coverage has improved. The company's focus on margin improvement is working, resulting in three years at 49% gross margins. We have increased our gross margin estimates for this year and moving forward as a result of continued improvements. Financing certainly is of no concern for Snap-On given its pristine balance sheet as well as its high rates of profit growth. The payout ratio is still very low and should remain in the low-30% range unless management decides to ramp up its dividend growth strategy, which we view as unlikely at this point given already-strong growth rates. Overall, Snap-On is in terrific shape financially.

Its main competitive advantage is in its very broad and deep assortment of all kinds of specialty tools. In addition, its global reach and in-house financing is a unique combination not found elsewhere. The financing business could pose a problem during a recession as customers may become past due on their accounts, so this would be the principal risk for Snap-On during the next economic downturn. Indeed, earnings suffered mightily during the Great Recession.

Final Thoughts & Recommendation

After two years of below market total returns, Snap-On is significantly undervalued. We now see total annual returns of 13.7% going forward, consisting of the 2.2% current yield, 8% earnings growth and a 3.5% tailwind from the valuation. Snap-On has been able to produce strong growth for many years consecutively and its focus on buybacks, acquisitions and margins should continue that streak. Snap-On looks suitable for both growth and dividend growth investors and after the recent selloff, we rate it a buy. The company's combination of value, earnings growth and dividend potential is a rare one, causing Snap-On to earn a buy recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	2853	2362.5	2681.5	2978.5	3099.2	3237.5	3492.6	3593.1	3711.8	4000.3
Gross Profit	1285	1057.6	1225.5	1410.8	1496.7	1598.6	1733.4	1818.5	1908.3	2042.4
Gross Margin	45.0%	44.8%	45.7%	47.4%	48.3%	49.4%	49.6%	50.6%	51.4%	51.1%
D&A Exp.	72	74.6	72.7	74.6	76.7	76.7	79.5	82.5	85.6	93.2
Operating Profit	351.5	233.2	331.4	457.1	516.4	586.2	684.7	764.8	854.2	881.5
Operating Margin	12.3%	9.9%	12.4%	15.3%	16.7%	18.1%	19.6%	21.3%	23.0%	22.0%
Net Profit	236.7	134.2	186.5	276.3	306.1	350.3	421.9	478.7	546.4	557.7
Net Margin	8.3%	5.7%	7.0%	9.3%	9.9%	10.8%	12.1%	13.3%	14.7%	13.9%
Free Cash Flow	146.5	282.7	89.3	67.3	249.9	322	322.5	426.8	501.8	526.5
Income Tax	117.8	62.7	87.6	133.7	148.2	166.7	199.5	221.2	244.3	250.9

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	2710.3	3447.4	3729.4	3672.9	3902.3	4110	4310.1	4331.1	4723.2	5249.1
Cash & Equivalents	115.8	699.4	572.2	185.6	214.5	217.6	132.9	92.8	77.6	92
Acc. Receivable	462.2	414.4	443.3	740.7	821	906.2	953.2	1009.8	1071.3	1181
Inventories	359.2	274.7	329.4	386.4	404.2	434.4	475.5	497.8	530.5	638.8
Goodwill & Int.	1020.1	1020.5	991.2	984.1	994.6	1029.3	1014	985.1	1080.1	1177.8
Total Liabilities	1505.8	2141.8	2325	2125.6	2083.3	1979.6	2084.8	1900.4	2088	2276.8
Accounts Payable	126	201.3	253.9	124.6	142.5	155.6	145	148.3	170.9	178.2
Long-Term Debt	515.4	1066.8	1170.8	984.1	975.6	972	919.3	880.1	1010.2	1186.8
Total Equity	1186.5	1290	1388.5	1530.9	1802.1	2113.2	2207.8	2412.7	2617.2	2953.9
D/E Ratio	0.43	0.83	0.84	0.64	0.54	0.46	0.42	0.36	0.39	0.40

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	8.6%	4.4%	5.2%	7.5%	8.1%	8.7%	10.0%	11.1%	12.1%	11.2%
Return on Equity	19.2%	10.8%	13.9%	18.9%	18.4%	17.9%	19.5%	20.7%	21.7%	20.0%
ROIC	13.5%	6.6%	7.5%	10.8%	11.5%	11.9%	13.5%	14.8%	15.7%	14.3%
Shares Out.	57	58	58	58	58	58	58	58	58	57
Revenue/Share	49.11	40.80	45.92	50.74	52.62	54.78	59.10	60.80	62.49	68.26
FCF/Share	2.52	4.88	1.53	1.15	4.24	5.45	5.46	7.22	8.45	8.98

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.