



Snap-On Inc. (SNA)

Updated February 14th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$190	5 Year CAGR Estimate:	4.8%	Market Cap:	\$10.3 B
Fair Value Price:	\$172	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	02/22/21
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.9%	Dividend Payment Date:	03/10/21
Dividend Yield:	2.6%	5 Year Price Target	\$210	Years Of Dividend Growth:	11
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	13.9%

Overview & Current Events

Snap-On Inc. 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, diagnostics equipment, repair information and system solutions instruments. Snap-On also operates a financial services business that finances its customers' purchases in-house. The company's market capitalization is \$10.3 billion after a sizable rally, and it should generate around \$3.8 billion in revenue this year.

Snap-On reported fourth quarter and full-year earnings on February 4th, 2021 with results for the top and bottom lines coming in better than expectations. Total sales were up 12% year-over-year in Q4, driven by a small gain from acquisitions, but primarily from a massive 10.6% organic sales gain.

Commercial & Industrial revenue was up 3.3% to \$364 million. Snap-On Tools soared 20.2% to \$495 million. Repair Systems and Information was up 7.8% to \$361 million.

Gross margins were up 88bps as well to 48.1% of revenue, and the combination of higher revenue and better margins sent operating income soaring over 20% of revenue, gaining 220bps year-over-year. That led to adjusted earnings rising 23% to \$210 million, so Q4 was excellent on all fronts.

Snap-On said it was quite bullish on prospects for this year, and our initial estimate is for \$12.30 in earnings-per-share. We expect further revenue growth, as well as a small measure of margin expansion to produce the gain.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$4.50	\$5.20	\$5.93	\$7.14	\$8.10	\$9.20	\$10.12	\$11.81	\$12.41	\$11.63	\$12.30	\$14.96
DPS	\$1.28	\$1.36	\$1.58	\$1.85	\$2.20	\$2.54	\$2.95	\$3.41	\$3.93	\$4.47	\$4.92	\$7.23
Shares¹	58	58	58	58	58	58	57	57	55	54	54	52

With the exception of 2020, 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 profile that is tough to rival. The company continues to buy back its stock as well, albeit in small amounts, providing another tailwind for earnings-per-share. Indeed, it has managed to compound earnings at an average rate of 10% annually in the past decade.

However, we are forecasting a 4% annual growth rate going forward as Snap-On grapples with its already-sizable scale, making further revenue and margin growth more difficult. We note that the company returned to growth from the pandemic slowdown more quickly than anticipated, however, and it appears Snap-On may be back on its prior trajectory from before the pandemic, starting in 2021.

The dividend should keep increasing at high rates as the payout ratio is still low. Snap-On produces more cash than it can use to profitably invest in the business, so shareholders should see the benefit. Indeed, the company raised its dividend by 14% for the December 2020 payout, similar to 2019.

¹ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.3	12.7	15.6	16.8	19.1	17.1	16.3	13.7	12.9	12.7	15.4	14.0
Avg. Yld.	2.3%	2.1%	1.7%	1.5%	1.4%	1.6%	1.8%	2.1%	2.5%	3.0%	2.6%	3.5%

Snap-On's price-to-earnings multiple has spent the past several years in the mid-teens. Today, shares trade for 15.4 times 2021 earnings. This compares somewhat unfavorably to our estimate of fair value at 14 times earnings. As a result, we see a modest headwind to total returns from the valuation moving higher over time.

We see the yield rising to the 3.5% area as Snap-On's impressive dividend growth, coupled with its decent current yield, make it a nice choice for dividend investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	29%	27%	26%	26%	27%	27%	28%	29%	32%	38%	40%	48%

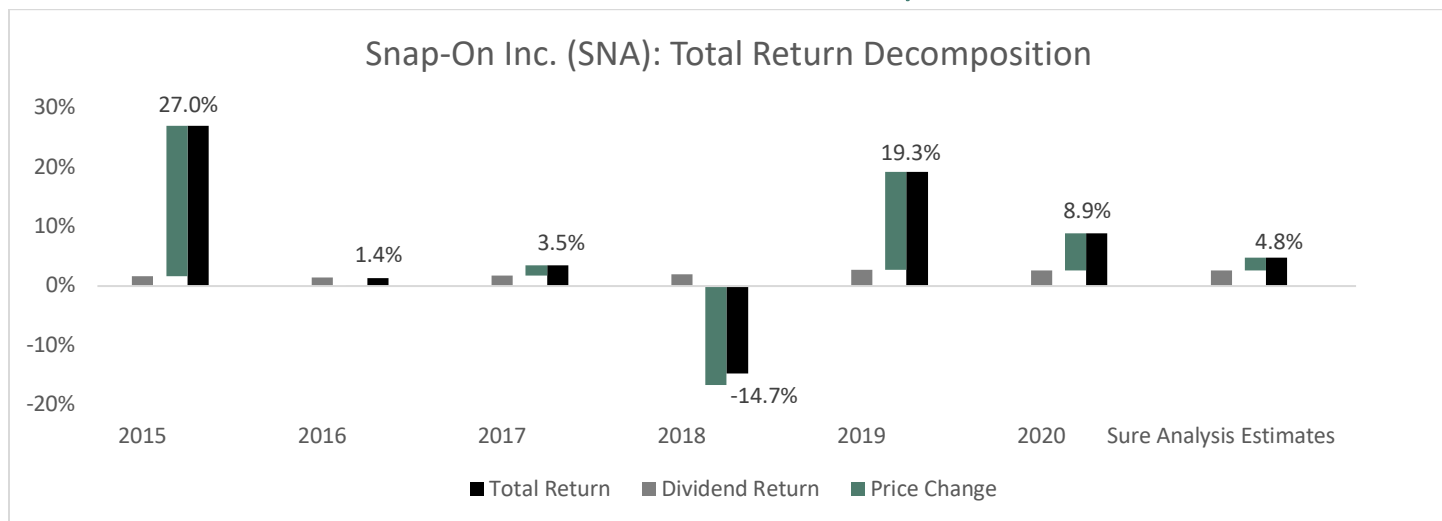
The payout ratio is still relatively low and should remain that way unless management decides to ramp up its dividend growth strategy, which we view as unlikely at this point given already-strong growth rates. We see the recent pace of dividend increases continuing, and therefore driving the payout ratio higher than it is today over time. However, we see no risk of Snap-On being able to afford its dividend at any time, even with high rates of dividend increases.

Snap-On's 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. Earnings suffered during the Great Recession.

Final Thoughts & Recommendation

Snap-On is slightly overvalued in our view. We now see total annual return potential of 4.8% going forward, consisting of the 2.6% current yield, 4% earnings growth, and a headwind from the valuation. The rebound from COVID-related weakness is progressing nicely, but shares are above our fair value estimate. Given this, we reiterate our hold rating on the stock, but note that Snap-On should be a strong dividend stock for many years to come.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2979	3099	3238	3493	3593	3712	4000	4070	4068	3,942
Gross Profit	1411	1497	1599	1733	1819	1908	2042	2100	2090	1,997
Gross Margin	47.4%	48.3%	49.4%	49.6%	50.6%	51.4%	51.1%	51.6%	51.4%	50.7%
D&A Exp.	75	77	77	80	83	86	93	94	92	97
Operating Profit	457	516	586	685	765	854	882	956	962	881
Operating Margin	15.3%	16.7%	18.1%	19.6%	21.3%	23.0%	22.0%	23.5%	23.7%	22.3%
Net Profit	276	306	350	422	479	546	558	680	694	627
Net Margin	9.3%	9.9%	10.8%	12.1%	13.3%	14.7%	13.9%	16.7%	17.0%	15.9%
Free Cash Flow	67	250	322	323	427	502	527	674	575	943
Income Tax	134	148	167	200	221	244	251	214	212	189

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3673	3902	4110	4310	4331	4723	5249	5373	5694	6,557
Cash & Equivalents	186	215	218	133	93	78	92	141	185	923
Accounts Receivable	741	821	906	953	1010	1071	1181	1211	1325	1,283
Inventories	386	404	434	476	498	531	639	674	760	747
Goodwill & Int. Ass.	984	995	1029	1014	985	1080	1178	1135	1158	1,243
Total Liabilities	2126	2083	1980	2085	1900	2088	2277	2255	2263	2,711
Accounts Payable	125	143	156	145	148	171	178	201	199	223
Long-Term Debt	984	976	972	919	880	1010	1187	1132	1150	1,451
Shareholder's Equity	1531	1802	2113	2208	2413	2617	2954	3099	3409	3,825
D/E Ratio	0.64	0.54	0.46	0.42	0.36	0.39	0.40	0.37	0.34	0.38

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	7.5%	8.1%	8.7%	10.0%	11.1%	12.1%	11.2%	12.8%	12.5%	10.2%
Return on Equity	18.9%	18.4%	17.9%	19.5%	20.7%	21.7%	20.0%	22.5%	21.3%	17.3%
ROIC	10.8%	11.5%	11.9%	13.5%	14.8%	15.7%	14.3%	16.2%	15.7%	12.7%
Shares Out.	58	58	58	58	58	58	57	57	55	54
Revenue/Share	50.74	52.62	54.78	59.10	60.80	62.49	68.26	71.04	72.77	71.94
FCF/Share	1.15	4.24	5.45	5.46	7.22	8.45	8.98	11.76	10.29	17.21

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

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