



Snap-On Inc. (SNA)

Updated October 19th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$326	5 Year CAGR Estimate:	3.6%	Market Cap:	\$17.1 B
Fair Value Price:	\$270	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/19/24 ¹
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.7%	Dividend Payment Date:	12/10/24
Dividend Yield:	2.3%	5 Year Price Target	\$345	Years Of Dividend Growth:	14
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Hold

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 \$17.1 billion, and it should generate around \$4.7 billion in revenue this year.

Snap-On posted third quarter earnings on October 17th, 2024, and results were mixed. Earnings-per-share came to \$4.70, which was 12 cents ahead of estimates. Revenue was off 0.9% to \$1.15 billion, and missed estimates by about \$10 million. Organic sales fell 1.7% year-over-year, which excludes \$0.3 million in unfavorable forex translation, as well as \$7.2 million in acquisition-related sales.

Operating earnings before financial services for the quarter was \$252.4 million, up from \$245.2 million a year ago. As a percentage of net sales, operating earnings before financial services were 22%, which was up from 21.2% a year ago. Financial services revenue in the quarter was \$100.4 million, up from \$94.9 million in last year's Q3. Operating earnings for the segment was \$71.7 million, up from \$69.4 million year-over-year.

Net earnings came to \$251 million, which was up from \$243 million year-over-year. We now see \$19.30 in adjusted earnings-per-share for this year with one quarter to go.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$7.14	\$8.10	\$9.20	\$10.12	\$11.81	\$12.41	\$11.63	\$14.92	\$16.82	\$18.76	\$19.30	\$24.63
DPS	\$1.85	\$2.20	\$2.54	\$2.95	\$3.41	\$3.93	\$4.47	\$5.11	\$5.88	\$6.72	\$7.44	\$9.96
Shares²	58	58	58	57	57	55	54	54	53	53	53	51

Except for 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 5% 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.

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

¹ Estimated date

² 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.



Snap-On Inc. (SNA)

Updated October 19th, 2024, by Josh Arnold

by 14.8% for the December 2023 payout, similar to prior years. We're expecting the next declared dividend to be higher, and would be the 15th consecutive raise.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.8	19.1	17.1	16.3	13.7	12.9	12.7	14.6	13.6	15.4	16.9	14.0
Avg. Yld.	1.5%	1.4%	1.6%	1.8%	2.1%	2.5%	3.0%	2.3%	2.6%	2.3%	2.3%	2.9%

Snap-On's price-to-earnings multiple spent several years in the mid-teens, but in recent years, has been more like 13. Today, shares trade for 16.9 times 2024 earnings, and we reiterate our estimate of fair value at 14 times earnings. This implies a modest negative impact from the valuation in the coming years.

We see the yield rising from 2.3% to 2.9% in the coming years, which is dependent upon the valuation declining back to our estimate of fair value. When coupled with its decent current yield, Snap-On is a nice choice for dividend growth investors, as well as income investors. We think the double digit growth in the payout of recent years may moderate given the elevated payout ratio, and lower earnings growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	26%	27%	27%	28%	29%	32%	38%	34%	35%	36%	39%	40%

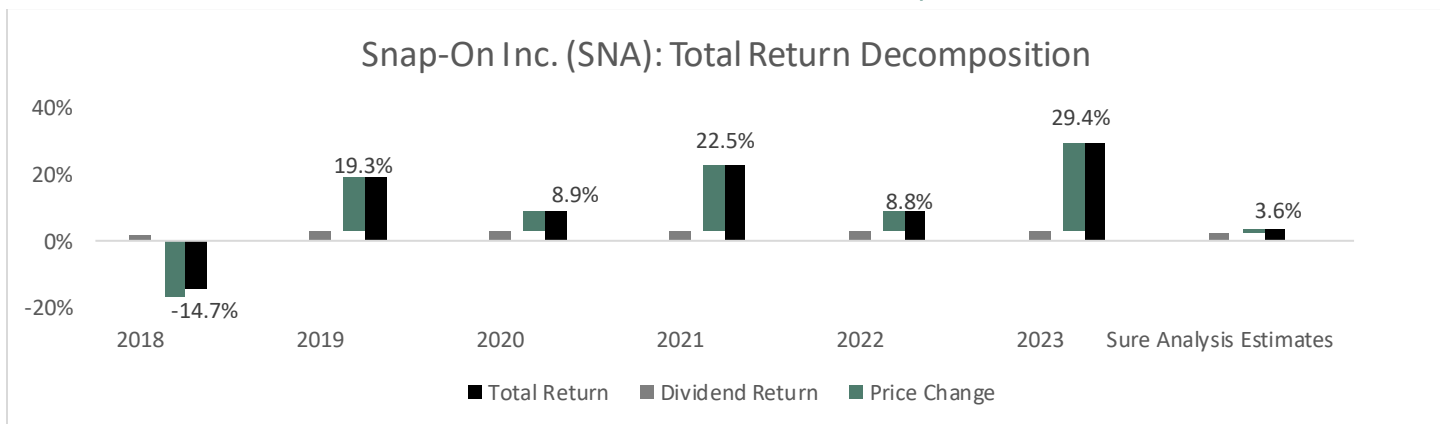
The payout ratio is still manageable and should remain that way unless management decides to ramp up its dividend growth strategy, which we view as unlikely at this point given already-strong growth rates. We see the recent pace of dividend increases likely moderating, and keeping the payout ratio near 40% of earnings. 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's recent price action has it overvalued still. We now forecast total annual return potential of 3.6% going forward, consisting of the 2.3% current yield, 5% earnings growth, and a modest headwind from the valuation. We continue to like Snap-On's fundamentals, and we reiterate the stock at a hold rating, noting relatively low total return prospects.

Total Return Breakdown by Year



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.



Snap-On Inc. (SNA)

Updated October 19th, 2024, by Josh Arnold

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3493	3593	3712	4000	4070	4068	3,942	4,602	4,842	5,108
Gross Profit	1733	1819	1908	2042	2100	2090	1,997	2,383	2,447	2,620
Gross Margin	49.6%	50.6%	51.4%	51.1%	51.6%	51.4%	50.7%	51.8%	50.5%	51.3%
D&A Exp.	80	83	86	93	94	92	97	105	100	99
Operating Profit	685	765	854	882	956	962	881	1,124	1,207	1,310
Operating Margin	19.6%	21.3%	23.0%	22.0%	23.5%	23.7%	22.3%	24.4%	26.9%	25.6%
Net Profit	422	479	546	558	680	694	627	821	912	1,011
Net Margin	12.1%	13.3%	14.7%	13.9%	16.7%	17.0%	15.9%	17.8%	20.3%	19.8%
Free Cash Flow	323	427	502	527	674	575	943	897	591	1,059
Income Tax	200	221	244	251	214	212	189	247	269	293

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4310	4331	4723	5249	5373	5694	6,557	6,760	6,973	7,545
Cash & Equivalents	133	93	78	92	141	185	923	780	757	1,002
Accounts Receivable	953	1010	1071	1181	1211	1325	1,283	682	762	791
Inventories	476	498	531	639	674	760	747	804	1,033	1,006
Goodwill & Int. Ass.	1014	985	1080	1178	1135	1158	1,243	1,418	1,321	1,366
Total Liabilities	2085	1900	2088	2277	2255	2263	2,711	2,556	2,469	2,452
Accounts Payable	145	148	171	178	201	199	223	278	287	238
Long-Term Debt	919	880	1010	1187	1132	1150	1,451	1,200	1,201	1,200
Shareholder's Equity	2208	2413	2617	2954	3099	3409	3,825	4,182	4,481	5,071
LTD/E Ratio	0.42	0.36	0.39	0.40	0.37	0.34	0.38	0.29	0.27	0.24

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	10.0%	11.1%	12.1%	11.2%	12.8%	12.5%	10.2%	12.3%	13.3%	13.9%
Return on Equity	19.5%	20.7%	21.7%	20.0%	22.5%	21.3%	17.3%	20.5%	21.0%	21.1%
ROIC	13.5%	14.8%	15.7%	14.3%	16.2%	15.7%	12.7%	15.3%	16.4%	16.9%
Shares Out.	58	58	58	57	57	55	54	54	54	54
Revenue/Share	59.10	60.80	62.49	68.26	71.04	72.77	71.94	83.67	89.35	94.77
FCF/Share	5.46	7.22	8.45	8.98	11.76	10.29	17.21	16.30	10.90	19.65

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.