

Snap-on

Tools group slows for the first time since 2020, material acceleration unlikely

Reiterate Rating: UNDERPERFORM | PO: 240.00 USD | Price: 271.89 USD

No change to our view for earnings growth, reiterate U/P

Following SNA's 4Q earnings results, our forward estimates remain largely unchanged, and we maintain our price objective of \$240. Our PO is based on a P/E of about 13x '24E, which is a slight discount to the company's historical average P/E. We view a discount as warranted given slowing tailwinds in the automotive aftermarket and slowing economic growth and credit conditions. We reiterate our Underperform rating.

4Q EBIT was about in line with expectations

Snap-On (SNA) reported 4Q EPS of \$4.75 which was modestly above our estimate of \$4.55 and consensus of \$4.66. While sales were somewhat above our estimate and consensus, gross margin was below. As a result, EBIT was roughly in line with our estimate, and the bottom-line beat was primarily driven by a lower tax rate than modeled.

Slow-down in Tools as customer confidence wanes

Sales in the Tools business (SNA's largest segment by revenue) declined 5.4% YoY, which was the first YoY decline since 2Q20. Management noted that while the company's automotive repair customers are "cash-rich", they are expressing lower sentiment about the current economic environment. Repair Systems & information (RS&I) grew 2.9% YoY, which slowed from a YTD '23 run-rate of +8.3%. We expect some moderation in tailwinds in the automotive aftermarket (see our [Owner's manual 2023 – an auto aftermarket primer 28 September 2023](#)), particularly as used vehicle values continue to soften. Overall SNA's operating margin held steady YoY.

Economic & credit risk remains in other segments

Commercial & Industrial (C&I) revenue grew 6.0% YoY and continued to experience YoY EBIT margin improvement. While the BofA US Economics does not expect a recession in the medium term, weak economic growth puts a cap on our expectations for growth in the C&I segment in 2024, as C&I is relatively more cyclical than Tools or RS&I. Financial Services revenue grew 10.1% YoY, but its operating margin compressed 251bps YoY. As credit tightens, we expect SNA's Financial Services customers to be faced with higher rates and lower appetite for high-ticket products, which will likely pressure originations.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	16.82	18.76	18.51	19.39	20.38
EPS Change (YoY)	12.7%	11.5%	-1.3%	4.8%	5.1%
Consensus EPS (Bloomberg)			19.23	20.34	21.81
DPS	5.88	6.72	7.44	8.18	9.00
Valuation (Dec)					
P/E	16.2x	14.5x	14.7x	14.0x	13.4x
Dividend Yield	2.2%	2.5%	2.7%	3.0%	3.3%
EV / EBITDA*	13.9x	12.7x	12.9x	12.6x	12.3x
Free Cash Flow Yield*	4.1%	7.4%	7.6%	7.6%	7.7%

* For full definitions of *IQmethod*SM measures, see page 5.

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08 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	4,846.0	4,853.9
2025E Rev (m)	4,985.4	4,993.2
2026E Rev (m)	5,129.2	5,136.8
2024E EPS	18.66	18.51
2025E EPS	19.56	19.39
2026E EPS	20.58	20.38

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Stock Data

Price	271.89 USD
Price Objective	240.00 USD
Date Established	20-Apr-2023
Investment Opinion	B-3-7
52-Week Range	226.68 USD - 297.26 USD
Mrkt Val (mn) / Shares Out (mn)	14,350 USD / 52.8
Free Float	98.1%
Average Daily Value (mn)	52.51 USD
BofA Ticker / Exchange	SNA / NYS
Bloomberg / Reuters	SNA US / SNA.N
ROE (2024E)	18.2%
Net Dbt to Eqty (Dec-2023A)	3.9%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Snap-on

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	12.4%	12.8%	11.5%	10.8%	10.3%
Return on Equity	20.9%	21.1%	18.2%	16.8%	15.6%
Operating Margin	20.9%	22.0%	21.1%	21.0%	21.0%
Free Cash Flow	591	1,059	1,094	1,086	1,112

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.7x	1.1x	1.2x	1.2x	1.2x
Asset Replacement Ratio	0.8x	1.0x	1.0x	1.1x	1.1x
Tax Rate	22.3%	22.1%	22.6%	22.6%	22.6%
Net Debt-to-Equity Ratio	9.9%	3.9%	-4.2%	-11.9%	-18.1%
Interest Cover	20.0x	20.8x	19.6x	20.0x	20.6x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,493	4,730	4,854	4,993	5,137
% Change	5.7%	5.3%	2.6%	2.9%	2.9%
Gross Profit	2,181	2,349	2,357	2,403	2,469
% Change	3.3%	7.7%	0.3%	2.0%	2.7%
EBITDA	1,041	1,139	1,124	1,149	1,179
% Change	8.9%	9.4%	-1.3%	2.2%	2.6%
Net Interest & Other Income	(5)	18	3	3	3
Net Income (Adjusted)	912	1,011	983	1,008	1,037
% Change	11.1%	10.9%	-2.8%	2.5%	2.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	934	1,035	983	1,008	1,037
Depreciation & Amortization	100	99	100	101	102
Change in Working Capital	(434)	(81)	(13)	(44)	(45)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	75	101	129	131	134
Capital Expenditure	(84)	(95)	(105)	(110)	(116)
Free Cash Flow	591	1,059	1,094	1,086	1,112
% Change	-34.1%	79.2%	3.3%	-0.8%	2.4%
Share / Issue Repurchase	(143)	(181)	34	34	34
Cost of Dividends Paid	(313)	(356)	(395)	(425)	(458)
Change in Debt	2	(2)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	757	1,002	1,437	1,952	2,458
Trade Receivables	762	791	825	849	873
Other Current Assets	1,850	1,859	1,979	2,035	2,094
Property, Plant & Equipment	513	539	544	553	566
Other Non-Current Assets	3,091	3,354	3,362	3,415	3,469
Total Assets	6,973	7,545	8,147	8,804	9,460
Short-Term Debt	17	16	16	16	16
Other Current Liabilities	954	926	964	990	1,016
Long-Term Debt	1,184	1,185	1,185	1,185	1,185
Other Non-Current Liabilities	314	325	365	371	376
Total Liabilities	2,469	2,452	2,530	2,560	2,592
Total Equity	4,504	5,093	5,692	6,318	6,943
Total Equity & Liabilities	6,973	7,545	8,222	8,879	9,535

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Industrials/Multi-Industry

Company Description

Snap-on (SNA) was founded in Milwaukee, Wisconsin in 1920 and is a leading global manufacturer of tools, storage, equipment and diagnostics for professional users. SNA's end markets include automotive repair, vehicle dealerships and industries including aviation, agricultural, government and military and power. Snap-on generated \$4.5bn in revenues in 2022 and operates across the globe. SNA distributes through a franchise of mobile tool vans as well as distributor and direct channels.

Investment Rationale

SNA is the dominant player in the market for automotive technician tools, equipment and storage, with a reputation for quality precision and strong pricing power. We believe SNA can leverage these competitive advantages to gain share in markets ranging from industrial tools to high-tech diagnostic equipment and software. However, with sales and earnings growth slowing and valuation in line with the 10-year average, we see less upside potential in SNA than in most other stocks in our coverage.

Stock Data

Average Daily Volume 193,118

Quarterly Earnings Estimates

	2023	2024
Q1	4.60A	4.63E
Q2	4.89A	4.63E
Q3	4.51A	4.58E
Q4	4.75A	4.67E

Exhibit 2: SNA quarterly earnings results, year-over-year and versus BofA estimates

4Q EPS was above our expectations as sales were ahead of expectations and operating margin was in line with our estimate. A lower tax rate contributed to the modest bottom-line beat.

(Dollars and shares in millions)	4Q22	4Q23	Y/Y change	vs. BofA est	BofA 4Q23E
Sales	\$1,156	\$1,197	3.5%	0.7%	\$1,188
Cost of sales	\$595	\$619	4.0%	4.6%	\$592
Gross profit	\$561	\$578	3.0%	-3.2%	\$597
SG&A expenses	\$313	\$320	2.2%	-5.9%	\$340
Operating income	\$312	\$326	4.5%	0.8%	\$323
Interest expense	\$12	\$13	4.2%	-4.4%	\$13
Pretax income	\$312	\$331	6.1%	1.7%	\$325
Income tax expense	\$67	\$70	3.4%	-7.1%	\$75
Net income from cont ops	\$239	\$255	6.9%	4.1%	\$245
Extraordinary items (loss)	\$0	\$0			0.0
GAAP net income	\$239	\$255	6.9%	4.1%	\$245
Diluted EPS from cont ops	\$4.42	\$4.75	7.5%	4.2%	\$4.55
GAAP EPS reported	\$4.42	\$4.75	7.5%	4.2%	\$4.55
Average shares - diluted	54	54	-0.6%	-0.2%	54
Margin analysis					
Gross margin	48.5%	48.3%	-24 bp	-194 bp	50.2%
SG&A to sales	27.1%	26.7%	-34 bp	-187 bp	28.6%
Operating margin	27.0%	27.2%	24 bp	3 bp	27.2%
Pretax margin	27.0%	27.6%	68 bp	28 bp	27.4%
Net margin	20.7%	21.3%	67 bp	69 bp	20.6%
Tax rate	21.6%	21.0%	-55 bp	-199 bp	23.0%
Segment EBIT					
Snap-on Tools	116	111	-4.4%	-8.9%	122
Commercial & Industrial	48	54	12.9%	6.5%	51
Repair systems & information	111	113	2.4%	-2.6%	116
Financial services	64	68	6.3%	2.4%	66
Corporate expenses	-27	-21	-22.9%	-36.0%	-32
Total	312	326	4.5%	0.8%	323

Source: BofA Global Research estimates, Company reports

BofA GLOBAL RESEARCH

Price objective basis & risk

Snap-on (SNA)

Our 12-month PO of \$240 is based on 13x our 2024 EPS estimate, which is a discount to SNA's pre-COVID average of 14x due to slowing earnings growth. With peak earnings growth likely in the rearview mirror, we do not expect SNA to maintain the premium to its historical valuation range that the stock has enjoyed in recent quarters.

Downside risks to our PO are exposure to cyclically sensitive markets through SNA's C&I segment, softness in the financial services segment, lower tools sales if macro conditions worsen and wages for technicians are pressured, and sales volatility in the RSI segment.

Upside risks to our PO are better-than-expected revenue growth in the commercial & industry segment in an environment of economic recovery, less than anticipated margin compression and better revenue growth in financial services, more robust tools sales on a better than expected pickup in industry trends and better than forecast adoption of SNA diagnostic tools and software.

Analyst Certification

I, Elizabeth L. Suzuki, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Arhaus, Inc.	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Elizabeth L. Suzuki
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Elizabeth L. Suzuki
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
NEUTRAL				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L. Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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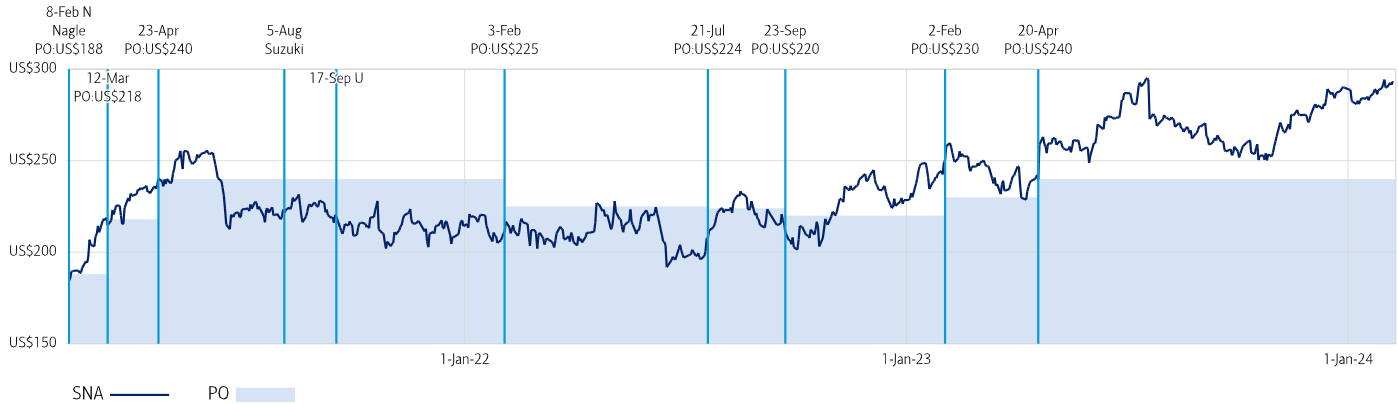
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Important Disclosures

Snap-on (SNA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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