

Snap-on

What's priced in?

Reiterate Rating: UNDERPERFORM | PO: 275.00 USD | Price: 295.24 USD

Entrenched market leader

Snap-on is a leading manufacturer of tools, storage, and equipment for pro users across auto repair, dealerships and commercial/Industrial markets. With organic tool sales falling in Q4, we reexamine the fundamental drivers of Snap-on's business. Overall near-term macroeconomic trends (weak sentiment, cost of living) and those in the car parc remain less favorable (lower values, less growth in post warranty vehicles), although Snap-on's growth prospects as an entrenched market leader are strong long term. While we see favorable long-term drivers, we reiterate our Underperform on a lack of near-term drivers for the stock and find that weaker growth prospects more than priced in.

But macro, used market weigh on customer confidence

Snap-on's revenues are primarily derived from the U.S., and the firm's U.S. sales are highly correlated to demand for the broader auto care industry. As growth in the automotive aftermarket slows, and car parc dynamics shift negative for DIFM (Do It For Me) in the near term, we expect more limited growth. Shifting dynamics in the car parc/auto care have been exacerbated by weaker sentiment among customers, which has shifted buying patterns. That said, car parc dynamics in the long term (complexity, electrification) are supportive of growth for Snap-on and the firm remains the premier provider of tools within their core markets.

Hosting CEO at Consumer & Retail Conference next week

We will host Snap-On's Chairman and CEO Nicholas Pinchuk at the annual BofA Consumer and Retail Conference in Miami on March 13th for a fireside chat and meetings. We look for more color on the demand environment, consumer purchasing trends, product development, and the impact of shifting production mix.

PO to \$275 on historical Avg multiple, slowdown priced in

We raise our estimates slightly (1-2%) as we refine our margin and share count forecasts. We raise our PO to \$275 (\$240 prior) on 14.5x (13.0x prior) 2024E EPS. Our valuation framework is in line with Snap-on's historical trading average, as we view the near-term slowing in the automotive aftermarket and slowing economic growth and credit conditions as largely priced in. Our PO implies 7% potential downside.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	16.82	18.76	18.90	19.55	21.00
EPS Change (YoY)	12.7%	11.5%	0.7%	3.4%	7.4%
Consensus EPS (Bloomberg)			19.10	20.35	21.64
DPS	5.88	6.72	7.58	8.22	9.10
Valuation (Dec)					
P/E	17.5x	15.7x	15.6x	15.1x	14.0x
Dividend Yield	2.0%	2.3%	2.6%	2.8%	3.1%
EV / EBITDA*	12.0x	11.2x	11.1x	10.9x	10.4x
Free Cash Flow Yield*	3.7%	6.7%	6.8%	6.6%	6.9%

* For full definitions of *IQmethod*SM measures, see page 9.

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Refer to important disclosures on page 10 to 12. Analyst Certification on page 8. Price Objective Basis/Risk on page 8.

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Timestamp: 08 March 2024 06:02PM EST

08 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	240.00	275.00
2024E Rev (m)	4,853.9	4,850.0
2025E Rev (m)	4,993.2	5,000.0
2026E Rev (m)	5,136.8	5,225.0
2024E EPS	18.51	18.90
2025E EPS	19.39	19.55
2026E EPS	20.38	21.00
2024E DPS	7.44	7.58

Sherif El-Sabbahy

Research Analyst
BofAS
+1 646 855 0294
sherif.el-sabbahy@bofa.com

Michael Feniger

Research Analyst
BofAS
michael.feniger@bofa.com

Nandita Nayar >>

Research Analyst
Merrill Lynch (Canada)
nandita.nayar@bofa.com

Blake Greenhalgh

Research Analyst
BofAS
blake.greenhalgh@bofa.com

Stock Data

Price	295.24 USD
Price Objective	275.00 USD
Date Established	8-Mar-2024
Investment Opinion	B-3-7
52-Week Range	226.68 USD - 297.53 USD
Mrkt Val (mn) / Shares Out (mn)	15,884 USD / 53.8
Free Float	98.0%
Average Daily Value (mn)	92.12 USD
BofA Ticker / Exchange	SNA / NYS
Bloomberg / Reuters	SNA US / SNA.N
ROE (2024E)	18.8%
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	15.9%	16.2%	14.7%	14.0%	14.1%
Return on Equity	21.0%	21.1%	18.8%	17.6%	17.5%
Operating Margin	26.9%	27.7%	27.1%	26.9%	26.9%
Free Cash Flow	591	1,059	1,084	1,048	1,095

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.7x	1.1x	1.2x	1.1x	1.1x
Asset Replacement Ratio	0.8x	1.0x	1.0x	1.0x	1.0x
Tax Rate	22.3%	22.1%	22.5%	22.4%	22.5%
Net Debt-to-Equity Ratio	9.9%	3.9%	-7.5%	-12.8%	-14.8%
Interest Cover	25.6x	26.3x	25.3x	26.9x	28.1x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,493	4,730	4,850	5,000	5,225
% Change	5.7%	5.3%	2.5%	3.1%	4.5%
Gross Profit	2,181	2,349	2,400	2,461	2,560
% Change	3.3%	7.7%	2.2%	2.5%	4.0%
EBITDA	1,307	1,410	1,414	1,448	1,514
% Change	6.4%	7.8%	0.3%	2.4%	4.6%
Net Interest & Other Income	(5)	18	23	20	20
Net Income (Adjusted)	912	1,011	1,017	1,037	1,084
% Change	11.1%	10.9%	0.5%	2.0%	4.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	956	1,058	1,057	1,077	1,124
Depreciation & Amortization	100	99	100	105	110
Change in Working Capital	(434)	(81)	28	(36)	(41)
Deferred Taxation Charge	(10)	(19)	0	0	0
Other Adjustments, Net	63	97	5	10	15
Capital Expenditure	(84)	(95)	(105)	(107)	(113)
Free Cash Flow	591	1,059	1,084	1,048	1,095
% Change	-34.1%	79.2%	2.4%	-3.3%	4.5%
Share / Issue Repurchase	55	114	0	0	0
Cost of Dividends Paid	(313)	(356)	(408)	(436)	(470)
Change in Debt	2	(2)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	757	1,002	1,628	1,980	2,131
Trade Receivables	110	121	121	121	121
Other Current Assets	2,502	2,530	2,505	2,550	2,604
Property, Plant & Equipment	513	539	544	547	549
Other Non-Current Assets	3,091	3,354	3,354	3,354	3,354
Total Assets	6,973	7,545	8,152	8,552	8,758
Short-Term Debt	17	16	16	16	16
Other Current Liabilities	954	926	930	938	951
Long-Term Debt	1,184	1,185	1,185	1,185	1,185
Other Non-Current Liabilities	314	325	325	325	325
Total Liabilities	2,469	2,452	2,455	2,464	2,476
Total Equity	4,504	5,093	5,697	6,088	6,282
Total Equity & Liabilities	6,973	7,545	8,152	8,552	8,758

* For full definitions of iQmethodSM measures, see page 9.

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 312,002

Quarterly Earnings Estimates

	2023	2024
Q1	4.60A	4.74E
Q2	4.89A	5.04E
Q3	4.51A	4.73E
Q4	4.75A	4.40E

What's priced in?

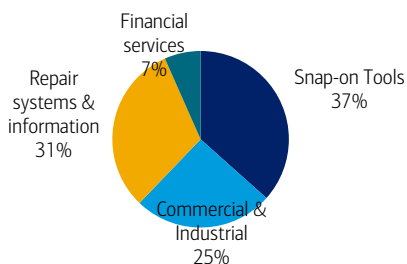
Following Snap-on's Q4 results, we examine the underlying near- and long-term drivers. The firm is a leading global manufacturer of tools, tool storage, equipment, diagnostics and repair system for pro users across auto repair, vehicle dealerships and industries including aviation, natural resources, the military and energy. Shares came under pressure following the Q4 results announcement as organic tool sales fell for the first time since the pandemic, an impact Snap-on sees as driven by worsening sentiment among customers despite being "cash rich". Near-term trends in the car parc are also likely contributing to more limited growth in the near term, although long term they remain favorable. Reiterate Underperform on a lack of near-term drivers for the stock.

Business model

The core of Snap-on's business model is its entrenched position among technicians and mechanics. The practice of partnering with technical schools, developing products based on user feedback, and having employees observe work on site with customers is part and parcel with the best practices of leading brands across power tools (Milwaukee), welding (ESAB) and other industrial firms selling into the skilled trades. The truck route model allows the firm continuous reach into their fractured customer market, aided by financing of tools. As a brand synonymous with quality, Snap-on also has a leading position in Commercial & Industrial maintenance applications, and more technical diagnostic and undercar equipment through its Repair Systems & Information segment.

Exhibit 1: SNA customer/channel mix 2023

Tools & Repair systems, and financial services are all largely tied to Auto

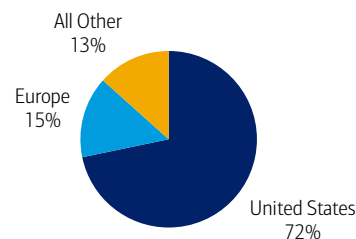


Source: Company Filings

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Exhibit 2: SNA geographic mix, 2023

The US makes up the vast majority of sales

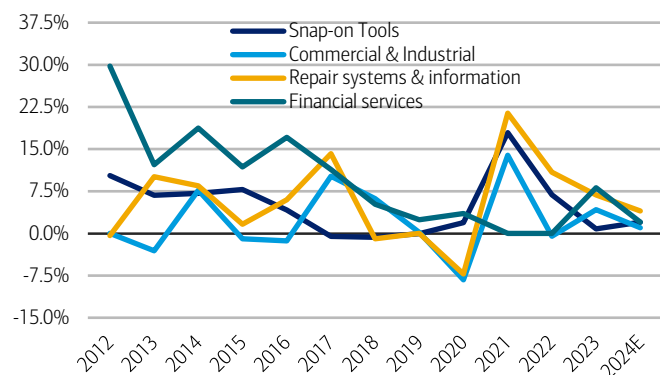


Source: Company Filings

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Exhibit 3: Revenue growth by segment

Growth across segments is expected to slow

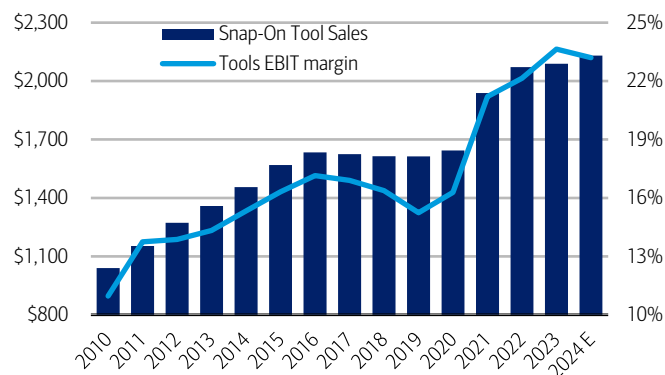


Source: Company filings, BofA Global Research estimates

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Exhibit 4: SNA tool sales and operating margin over time

Tools sales remained flattish YoY in 2023 at 2.1 bn as EBIT margin expanded



Source: Company filings, BofA Global Research estimates

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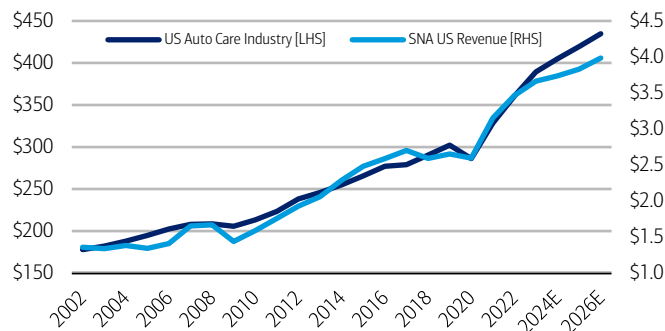
Long-term growth drivers

Autocare demand expanding alongside miles driven

Snap-on's revenues are primarily derived from the U.S., and the firm's U.S. sales are highly correlated to demand for the broader auto care industry (Exhibit 5 and Exhibit 6). Growth in the Autocare industry typically drives higher demand for maintenance and repair work amid a shortage of skilled labor. By designing tools that drive productivity and simplify workflow for an ever-growing set of applications, Snap-on is able to maintain demand and drive incremental purchases for even well-equipped techs. In recent years, vehicle miles driven have begun to recover to pre-pandemic levels, helping to drive service activity (Exhibit 7).

Exhibit 5: US Autocare Industry vs US SNA sales \$bn

Snap-on's US sales are highly correlated to Autocare industry

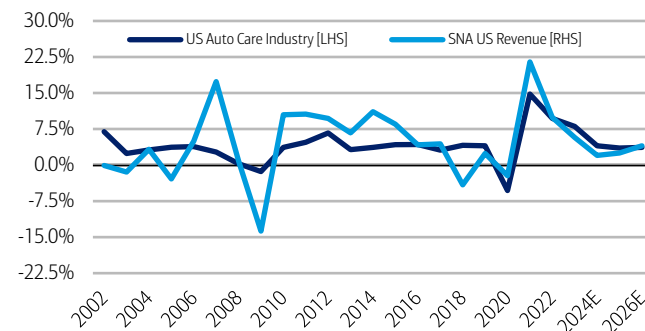


Source: ACA, Company filings, BofA Global Research estimates

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Exhibit 6: US Autocare Industry vs US SNA sales YoY

Snap-on's US sales are highly correlated to Autocare industry growth

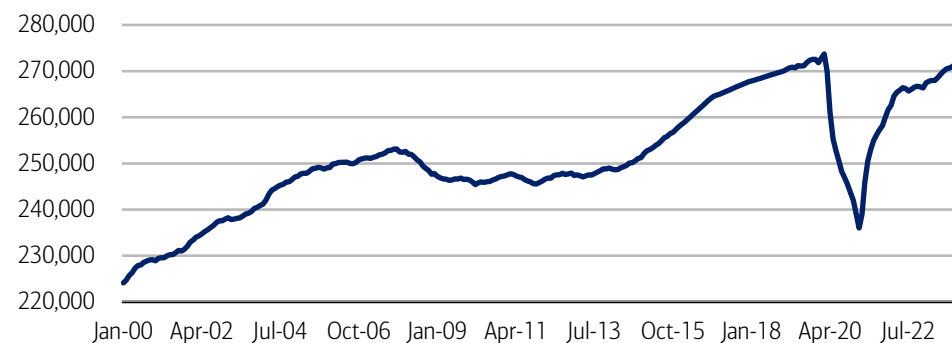


Source: ACA, Company filings, BofA Global Research estimates

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Exhibit 7: Vehicle miles driven (Mn) 12mo rolling average NSA

Vehicle miles driven remain below pre-pandemic levels, but have largely recovered



Source: FRED

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The car parc is becoming more complex

Vehicles broadly are becoming more complex, with software, sensors and advanced technologies becoming ever more present with each generation. Added technology makes repairs and maintenance increasingly complex, increasing DIFM demand over time. The shift towards electrification also increasingly favors DIFM, given complexity. Over the long term, the trend has been DIFM outgrowing DIY with the secular shift in vehicle technologies.

Headwinds near term

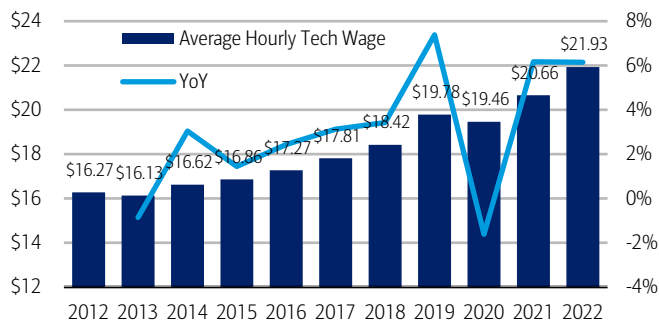
Macroeconomic sentiment impact on purchasing trends

Q4 tool sales were down for the first time since the pandemic. Management attributed the decline to low sentiment among automotive technicians despite them being "cash rich" as macroeconomic commentary remains downbeat. Overall mechanic and

technician wages have expanded over the past few years, with the average wage in 2022 (latest BLS study) reaching \$21.93 an hour, up 6.1% YoY. That said, we expect the impact of inflation over the same period (8% overall inflation for 2022, 5.4% for sticky price Exhibit 9) is likely also contributing to negative sentiment, with technicians likely paring back or substituting some premium purchases for lower-priced alternatives as the cost of living impact from inflation remains persistent.

Exhibit 8: Automotive technician wages have grown

Technician wages

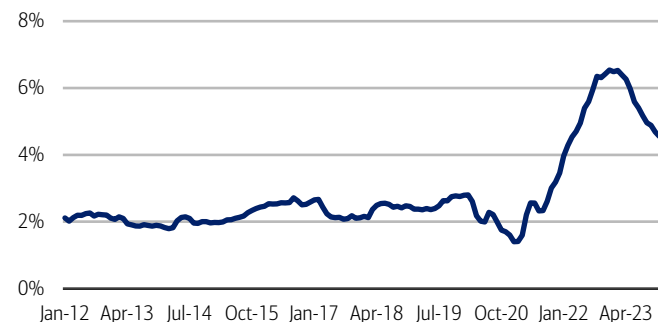


Source: BLS

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Exhibit 9: Sticky price consumer inflation less food & energy

Wages have kept pace with sticky price inflation



Source: FRED

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Historically Snap-on has seen technicians move to quicker payback items in poor economic conditions, with the firm adjusting production to match currently popular quick payback products. Snap-on is currently shifting toward products such as flex/swivel sockets and long nose pliers. That said the production shift does tend to cause some short-term inefficiencies at the factory.

Near-term car parc trends are unfavorable

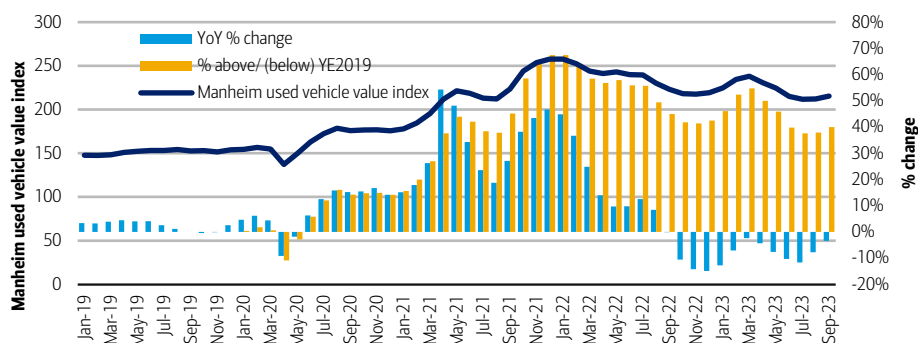
While we expect Snap-on to benefit from long-term demand drivers, in the near-term there are a number of headwinds for growth.

Used vehicle values are moderating

Elevated used vehicle values incentivized higher rates of repair and maintenance among owners and insurance firms. As used values ease, growth in the post warranty vehicle population channel will slow.

Exhibit 10: While average used vehicle values have moderated from the peak in January 2022, they remain about 40% above year-end 2019 levels as of September 2023.

Monthly Manheim used vehicle value index, YoY % change, and % above/below year-end 2019 level



Source: Manheim

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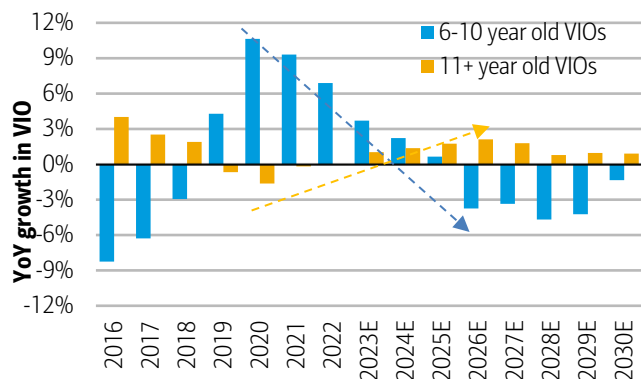
Population of 6-10 year old vehicles declining through 2025

According to BofA's retail team estimates, vehicles 11 years or older will match and exceed the rate of growth among 6-10 year old vehicles in the near term. Vehicles in the 11+ year old category drive demand in the DIY (Do It Yourself) channel, vs the 6-10 year

old category that is likely to be serviced by a professional in the DIFM (Do It For Me) channel (Exhibit 11 and Exhibit 12). Slower DIFM growth will impact tool & equipment demand for the professional market segment.

Exhibit 11: While growth in the 6- to 10-year-old vehicle population is slowing, growth in the 11-year-old+ vehicle population is growing

YoY growth in vehicles in operation (VIO) by age group

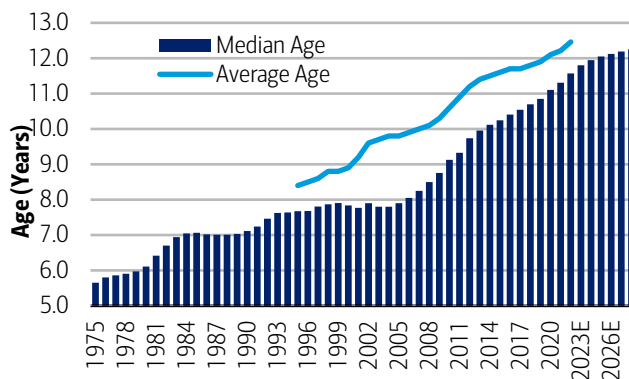


Source: Wards, BofA Global Research estimates

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Exhibit 12: BofA estimates that the median age of the US vehicle fleet will reach about 12 years by 2025

Median and average age of vehicles on the road in the US



Source: Wards, IHS Markit, BofA Global Research estimates

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Changing competitive dynamics around the edges

While Snap-on is a core premium brand with wide coverage across the automotive sector, other high quality and well-known brands are beginning to compete with Snap-on in product categories outside of the core automotive hand tool offerings. Milwaukee Tool in recent years has expanded their focus on the trades, including a line of power tools designed for the Automotive and C&I (Commercial & Industrial) industries (Exhibit 13) in recent years. While Milwaukee's foray into the space is limited in scope and focused on power tools, it does pose a challenge within some product verticals.

Within the budget tool categories, we sense a shift in the price/quality gaps versus higher quality peers. In recent years technician commentary has noted that the quality gap between budget and premium tools has closed somewhat as budget producers improve quality/warranties, while the price gap to premium peers remains fairly wide, likely driving substitution of less frequently used tools among technicians in some cases.

Exhibit 13: Milwaukee is developing transportation tools

While still early, Milwaukee has begun to round out a transportation offering



Source: Techtronic Company Filings

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Updating estimates, valuation framework

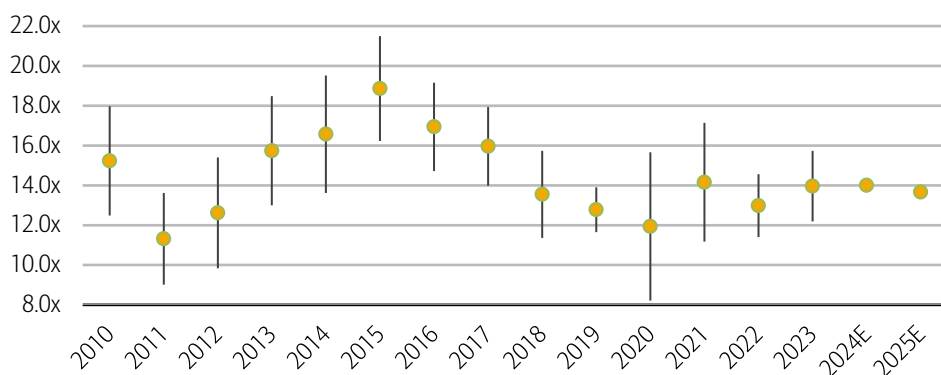
We raise estimates slightly (1-2%) as we refine our margin and share count estimates. We model in 2.4% growth for 2024 (2% Tools, 1% Commercial and Industrial, 4% Repair Systems & Information), with EBIT margin of 25.1% (-60bps YoY) with 23.2% in Tools, 15% in Commercial & Industrial, and 24% in Repair Systems & Information. We forecast EPS of \$18.90 in 2024, up 1% vs historical average EPS growth of ~17%.

Snap-on has continually generated cash, with FCF conversion averaging 86% from 2010-2023. Leverage for the business has always been low; however, the firm ended 2023 with leverage at just 0.1x, affording Snap-on significant balance sheet optionality to pursue M&A and reinvest in the business. The firm's consistent cash generation provides a 'natural' delivering bias. We expect Snap-on to continue to fund any future acquisitions with cash from ops. We model FCF conversion of 107% for 2024 (\$1.08bn).

We raise our PO to \$275 (\$240 prior) based on 14.5x (13.0x prior) 2024E EPS. We have raised our valuation framework to be in line with Snap-on's historical trading average, as we view near-term weakness in macro data (and impact to tool sales) as priced in. Our PO implies 7% potential downside.

Exhibit 14: SNA P/E ranges

SNA has historically traded at 14.5x on average



Source: Company Filings, BofA Global Research estimates

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Price objective basis & risk

Snap-on (SNA)

Our 12-month PO of \$275 is based on 14.5x 2024E EPS. Our multiple is in line with Snap-on's long term average of about 14.5x. With peak earnings growth likely in the rearview mirror, we do not expect Snap-on to maintain the current premium to its historical valuation range.

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, Sherif El-Sabbahy, 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 - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AECOM	ACM	ACM US	Michael Feniger
	Blue Bird Corp	BLBD	BLBD US	Sherif El-Sabbahy
	Caterpillar Inc	CAT	CAT US	Michael Feniger
	CNH Industrial NV	CNHI	CNHI US	Michael Feniger
	Construction Partners Inc.	ROAD	ROAD US	Michael Feniger
	ESAB Corp	ESAB	ESAB US	Sherif El-Sabbahy
	Finning International Inc.	YFTT	FTT CN	Sherif El-Sabbahy
	H&E Equipment Services Inc	HEES	HEES US	Sherif El-Sabbahy
	Knife River Corp	KNF	KNF US	Sherif El-Sabbahy
	Republic Services	RSG	RSG US	Michael Feniger
	Techtronic Industries Co Ltd	TTNDF	669 HK	Michael Feniger
	Techtronic Industries Co Ltd	TTNDY	TTNDY US	Michael Feniger
	United Rentals Inc	URI	URI US	Michael Feniger
	Vulcan Materials	VMC	VMC US	Michael Feniger
	Waste Connections Inc	WCN	WCN US	Michael Feniger
	WillScot Mobile Mini	WSC	WSC US	Sherif El-Sabbahy
NEUTRAL				
	AGCO Corp	AGCO	AGCO US	Michael Feniger
	Deere & Co	DE	DE US	Michael Feniger
	Fluor	FLR	FLR US	Michael Feniger
	GFL Environmental Inc	GFL	GFL US	Michael Feniger
	GFL Environmental Inc	YGFL	GFL CN	Michael Feniger
	Jacobs Eng.	J	J US	Michael Feniger
	Kennametal Inc.	KMT	KMT US	Michael Feniger
	Martin Marietta Materials	MLM	MLM US	Michael Feniger
	NV5 Global Inc.	NVEE	NVEE US	Michael Feniger
	PACCAR Inc	PCAR	PCAR US	Michael Feniger
	RB Global, Inc	RBA	RBA US	Michael Feniger
	Waste Management	WM	WM US	Michael Feniger
UNDERPERFORM				
	Allison Transmission Holdings Inc.	ALSN	ALSN US	Sherif El-Sabbahy

US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Casella	CWST	CWST US	Michael Feniger
	Cummins Inc	CMI	CMI US	Michael Feniger
	Herc Holdings Inc	HRI	HRI US	Sherif El-Sabbahy
	IPG Photonics	IPGP	IPGP US	Michael Feniger
	Oshkosh Corp.	OSK	OSK US	Michael Feniger
	Snap-on	SNA	SNA US	Sherif El-Sabbahy
	Terex Corp.	TEX	TEX US	Michael Feniger
	Timken Company	TKR	TKR US	Michael Feniger

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

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + 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

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + 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

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

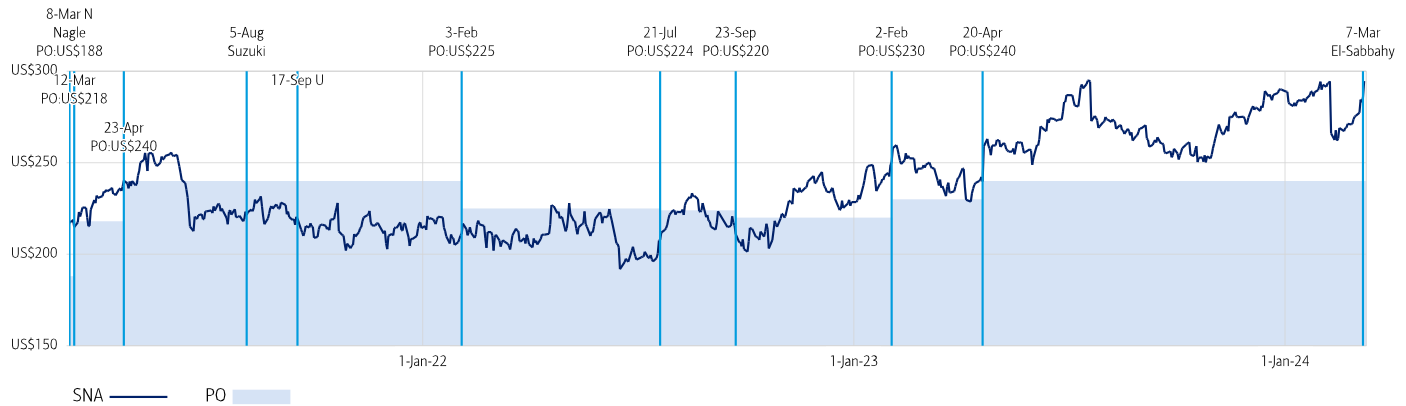
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Snap-on (SNA) Price Chart



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

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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%

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