

Snap-on

SNA delivers torque in its tools, but likely not in its earnings

Reiterate Rating: UNDERPERFORM | PO: 240.00 USD | Price: 292.61 USD

4Q unlikely to ratchet up investors' expectations for 2024

Snap-On (SNA) will report 4Q23 financial results before the market open on February 8th with an earnings call to follow at 10am ET. We are modeling 4Q EPS of \$4.55, below consensus of \$4.66. Compared to consensus expectations we are slightly more conservative on our EBIT assumptions across all segments—Snap-On Tools, Commercial & Industrial (C&I), Repair Systems & Information (RS&I), and Financial Services.

Few catalysts on the horizon, reiterate Underperform

SNA recently made a small acquisition in its C&I group, but outside of a larger transformative acquisition (which are not modeling) we do not see any material near-term catalysts to drive shares higher from here. With current valuation already at a P/E of about 16x our FY24E—above SNA's pre-pandemic long-term average of 14x—and auto aftermarket tailwinds slowing, per our [Owner's manual auto aftermarket primer](#), we expect shares to underperform compared to our broader coverage universe and maintain our price objective of \$240 (approximately 18% downside from the 02 Feb 2024 closing price), which is based on a P/E of 13x '24E. This is a discount to SNA's historical average which we believe is warranted given slowing earnings growth.

SNA does not usually provide an annual outlook

We expect SNA to maintain its practice of not providing an explicit outlook for sales, margins, or EPS for 2024 when the company reports its 4Q23 earnings results. Current sell-side consensus expects FY24 EPS of \$19.27 (a 3% YoY increase from consensus FY23 EPS of \$18.67). Our expectation is for EPS to be roughly flat YoY, as modest sales growth and share repurchases are likely to be offset by YoY margin compression. Therefore, we cannot justify the multiple expansion that the stock has enjoyed, as shares of SNA have appreciated 11% in the last three months while consensus estimates for 2024 earnings have stayed roughly flat.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	14.92	16.82	18.57	18.66	19.56
EPS Change (YoY)	28.3%	12.7%	10.4%	0.5%	4.8%
Consensus EPS (Bloomberg)			18.64	19.23	20.34
DPS	5.11	5.88	6.72	7.44	8.18
Valuation (Dec)					
P/E	19.6x	17.4x	15.8x	15.7x	15.0x
Dividend Yield	1.7%	2.0%	2.3%	2.5%	2.8%
EV / EBITDA*	17.0x	15.6x	14.6x	14.4x	14.0x
Free Cash Flow Yield*	5.8%	3.8%	6.3%	6.6%	6.8%

* For full definitions of *IQmethod*SM measures, see page 4.

05 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2023E EPS	18.51	18.57
2025E EPS	19.39	19.56
2023E DPS	6.47	6.72

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Stock Data

Price	292.61 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)	15,444 USD / 52.8
Free Float	98.1%
Average Daily Value (mn)	55.94 USD
BofA Ticker / Exchange	SNA / NYS
Bloomberg / Reuters	SNA US / SNA.N
ROE (2023E)	21.6%
Net Dbt to Eqty (Dec-2022A)	10.0%
ESGMeter TM	High

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Timestamp: 05 February 2024 05:01AM EST

iQprofileSM Snap-on

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	11.5%	12.4%	13.0%	12.0%	11.4%
Return on Equity	20.6%	21.1%	21.6%	19.3%	17.9%
Operating Margin	20.0%	20.9%	22.0%	21.3%	21.2%
Free Cash Flow	897	591	966	1,016	1,057

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.2x	0.7x	1.1x	1.1x	1.2x
Asset Replacement Ratio	0.7x	0.8x	1.0x	1.0x	1.1x
Tax Rate	22.7%	22.3%	22.6%	22.6%	22.6%
Net Debt-to-Equity Ratio	10.1%	10.0%	10.0%	0.9%	-6.6%
Interest Cover	16.0x	20.0x	20.6x	19.7x	20.2x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	4,252	4,493	4,722	4,846	4,985
% Change	18.4%	5.7%	5.1%	2.6%	2.9%
Gross Profit	2,111	2,181	2,368	2,368	2,414
% Change	20.4%	3.3%	8.6%	0%	1.9%
EBITDA	956	1,041	1,113	1,133	1,158
% Change	29.0%	8.9%	6.9%	1.8%	2.2%
Net Interest & Other Income	(37)	(5)	15	3	3
Net Income (Adjusted)	820	912	1,001	987	1,012
% Change	28.7%	11.1%	9.8%	-1.4%	2.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	841	934	1,001	987	1,012
Depreciation & Amortization	105	100	101	102	103
Change in Working Capital	(80)	(434)	(132)	(65)	(47)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	100	75	96	97	99
Capital Expenditure	(70)	(84)	(100)	(105)	(110)
Free Cash Flow	897	591	966	1,016	1,057
% Change	-4.9%	-34.1%	63.4%	5.2%	4.0%
Share / Issue Repurchase	(269)	(143)	(254)	(25)	(25)
Cost of Dividends Paid	(276)	(313)	(362)	(394)	(423)
Change in Debt	(247)	2	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	780	757	717	1,152	1,591
Trade Receivables	682	762	803	824	848
Other Current Assets	1,591	1,850	2,007	2,059	2,119
Property, Plant & Equipment	518	513	511	514	521
Other Non-Current Assets	3,188	3,091	3,323	3,308	3,360
Total Assets	6,760	6,973	7,360	7,858	8,439
Short-Term Debt	17	17	17	17	17
Other Current Liabilities	965	954	964	963	989
Long-Term Debt	1,183	1,184	1,184	1,184	1,184
Other Non-Current Liabilities	425	361	361	366	371
Total Liabilities	2,590	2,516	2,526	2,530	2,561
Total Equity	4,170	4,457	4,834	5,389	5,940
Total Equity & Liabilities	6,760	6,973	7,360	7,919	8,500

* For full definitions of iQmethodSM measures, see page 4.

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 191,187

Quarterly Earnings Estimates

	2022	2023
Q1	4.00A	4.60A
Q2	4.27A	4.89A
Q3	4.14A	4.51A
Q4	4.42A	4.55E

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

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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



US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Snap-on	SNA	SNA US	Elizabeth L Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA

iQ^{method} SM 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

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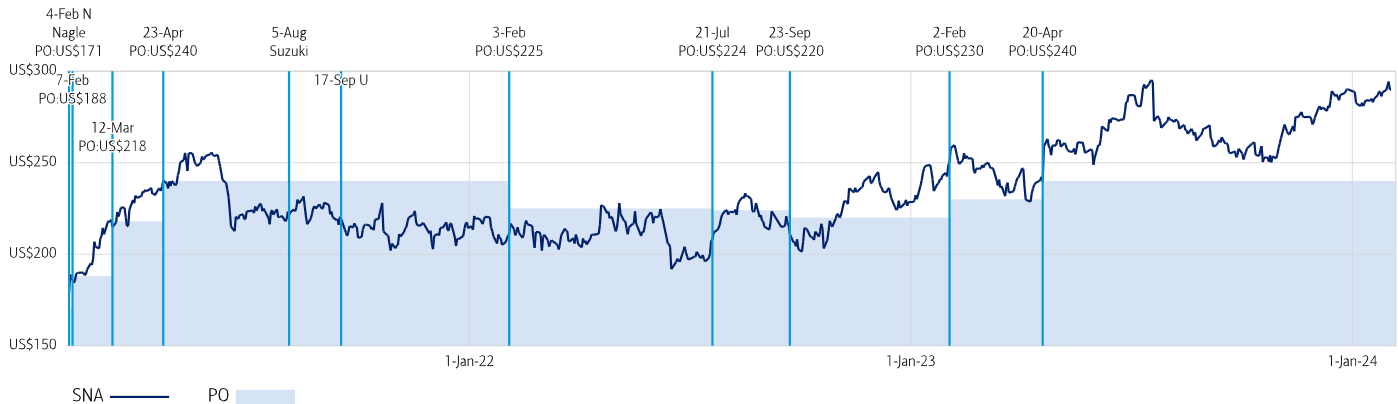
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Snap-on (SNA) Price Chart



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

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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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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