April 7th,2017

Snap-On Incorporated: SNA

Edward Stumm

Sector: Industrial Goods
Industry: Small Tools and Accessories
Current Price: 163.14
Target Price: 190.87

Company Description: Snap-on Incorporated is headquartered in Kenosha, Wisconsin and was founded in 1920. Snap-on Inc. develops, manufactures, and distributes tool and equipment solutions throughout the world. These tools are designed to provide the right assistance to members of the automotive service industry. Their main customer base includes professional service technicians and motor service shop owners.

Buy

Current Price:	$163.14
Target Price:	$190.87
SP debt rating:	a-
52 week range:	145.17-181.73
Market Cap:	9.46B
P/E:	17.69
Dividend yield:	1.74%
Debt to Equity:	38.3%
Average volume:	480,716

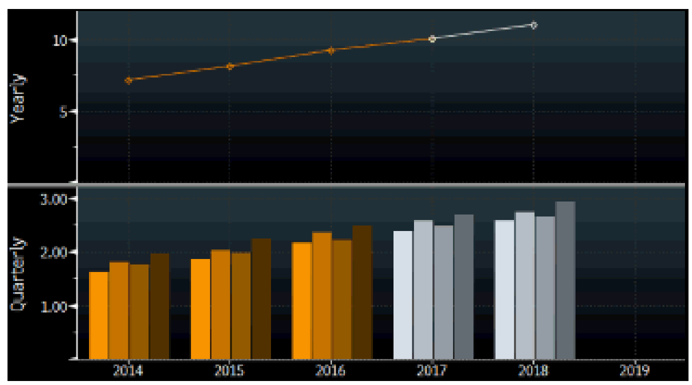
Catalysts:

Forward looking projections that call for positive/negative outlook that will strengthen your thesis. Example:

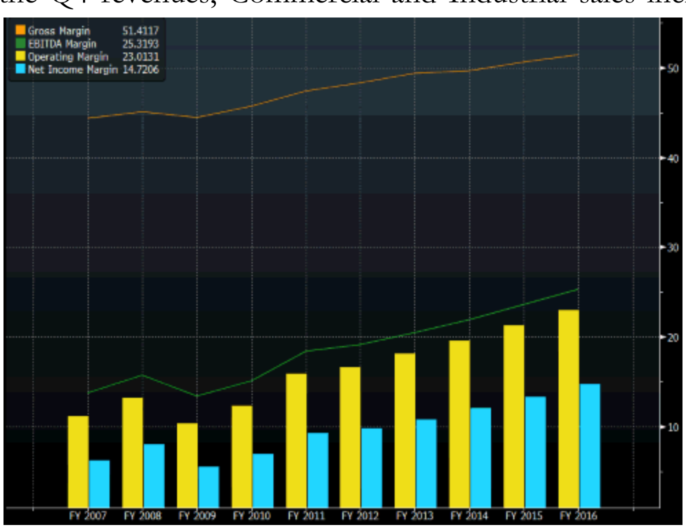
- Q1 earnings
- Entrance into new industries and emerging markets
- Mobile Franchise growth

Thesis: Snap-On Incorporated has developed an international reputation as a leading manufacturer and distributor of hand tool, auto diagnostic equipment, and shop implements. Snap-On has been able to create value through the expansion of their franchise and with the extension into new industries. Wi the acquisition of Car-O-Liner, Sturtevant Richmont, and Ryeson, Snap-On has been able to reach new markets within aviation, and locomotives. Historically, Snap-On has seen growth in a mature industry which has seen recent competition from ecommerce. With the continuous development of new countries, Snap-On will continue to demonstrate their growth by entering new markets, and capitalizing on the new opportunities. The automotive industry has recently seen advancements in the technology used in new vehicles. This will allow Snap-On to take advantage of the demand for new equipment required to repair these vehicles. With Solid EBITDA margin growth over the past years, and a consistent rise in sales, Snap-On is set to pursue the growth strategy they have in store to further differentiate themselves from the rest of their competitors.

Earnings Performance:

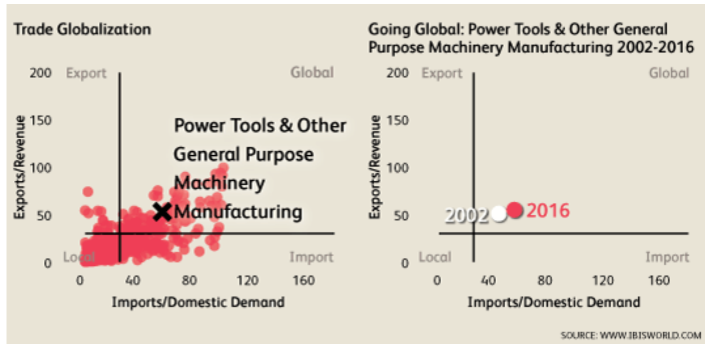


Snap-On saw a positive fourth quarter when they beat their estimated earnings of 2.41 with an actual of 2.47. Earnings per share are projected to steadily rise through 2018, which indicates a stable company. Sales for Q4 increased 4.5% to $889.8 million from the previous year's fourth quarter performance. The sales increase could partially be contributed to acquisitions of Car-O-Liner and Sturtevant Richmont. Also affecting the Q4 revenues was the unfavorable currency from foreign countries amounting to $15.2 million. Snap-On Incorporated increased their sales to the U.S. military when budget restraints loosened. To further breakdown the Q4 revenues, Commercial and Industrial sales increased 1.6% and organic sales increased 2.4%. Gross margins of 49.9% improved 150 basis points from the previous Q4 results. This means that Snap-On has found a way to reduce their cost of goods sold while increasing their sales. EBITDA margin increased to 25.32% from the previous Q4 results which indicates that Snap-On has increased profitability. The bottom line of Net Income margin has also increased to 14.72%. Operating expense margins accounted for 30.1% of sales in the quarter due to the acquisitions. Overall, Snap-On had a quality fourth quarter and will look to carry this momentum through to 2017.



Industry Outlook:

The industry as a whole has reached a mature stage. Every company currently has their set market which they appeal to. Snap-On is extending their reach into new industries beyond just the tool manufacturing. Snap-On now offers financial services which accounts for 7% of their revenues, and they operate over 2,000 vocational schools to educate and equip every person with the right set of skills. Revenues will continue to grow relatively similar to the economy unless Snap-On were to mix up their strategy. Exports will provides companies like Snap-On, who currently operate in 130 countries, the opportunity for continued growth. By reaching out to the new emerging markets, those areas will be in high demand for repair shops and equipment to keep development progressing. A key factor associated with the tool manufacturing sector is that they operate in multiple sectors, so when one sector suffers from a downturn, other sectors can pick up the slack. Snap-on is looking to expand their reach into new industries beyond just the automobiles, they want to create a presence in aviation, railroad, mining, oil & petroleum, and military & defense.

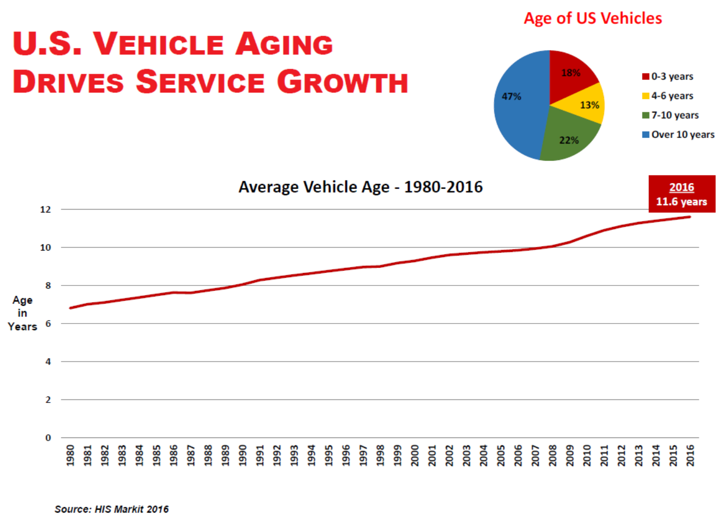


Business Model:

Snap-On has been around for nearly 100 years, and in its past they have paid out uninterrupted dividends. Snap-On Incorporated operates their business through four separate segments. These segments include the Snap-On tools group, the Repair Systems and Information Group, the Commercial and Industrial Group, and Financial Services. The Repair Systems and Information Group focuses on vehicle repair shop owners and managers, the commercial and Industrial Group focuses on professionals in a broad range of critical industries, and Snap-On Tools Group focuses on vehicle repair technicians. The company distributes its products through several channels including the mobile van channel, company direct sales, distributors, and ecommerce. They have created a strong business off of producing hand tools to make the lives of professionals easier. With the aging U.S. vehicles reaching 11.9 years on average, there will be increased needs for the solutions provided by Snap-On. This aligns with their current growth strategy of expanding to new emerging markets who are increasing demand for automotive repairs as their technology increases. To further increase their reach into new segments, Snap-On acquired Ryeson Corporation for a cash purchase price of $12.9 million, and acquired Car-O-Liner Holding AB for a cash purchase price of $151.8 million.

Technology:

In the past decade, we have witnessed the rise in popularity of hybrids as more consumers became green conscious. This was the beginning of the technology age for the automotive industry. Within the next several years we are expected to have autonomous vehicles under human supervision, driver override systems, biometric vehicle access, and the list goes on. Snap-On will benefit from these advancements in technology because there will be an increased demand for equipment to repair these cars when issues arise. Testing and re-programming will continue to expand, and vehicles will increase their need for diagnostics to read what is wrong. The increased technology will also increase the efficiency of the shops due to the employee being able to identify exactly what the problem is. It's safe to say that we can no longer fix a car with the toolbox located in the garage. Aside from the new technology that cars will be adopting, the average age of U.S vehicles has risen to 11.6 years which will drive an increase for the need of a repair shop. 47% of vehicles are over 10 years of age, so normal wear and tear is inevitable.



Competitors:

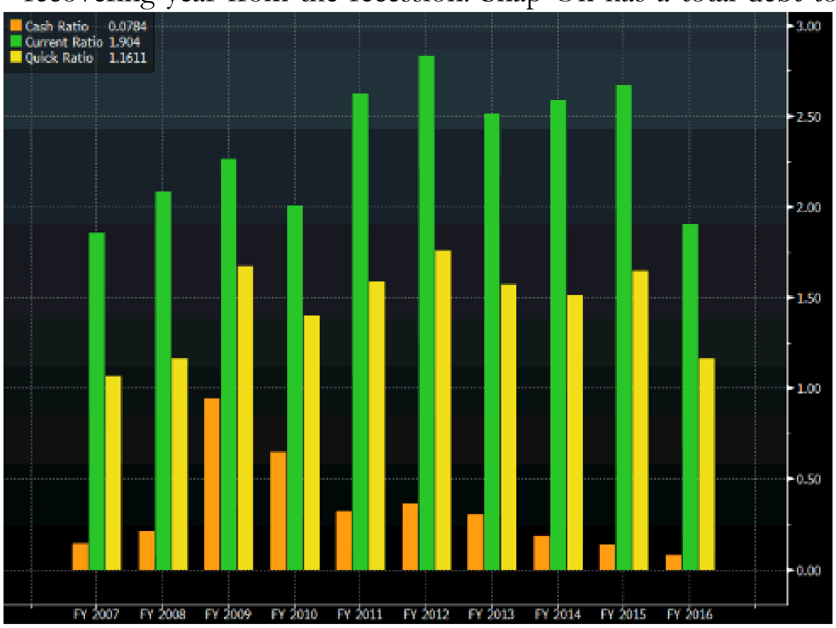
Snap-On is in a moderately competitive industry. They sell hand-tools, diagnostic equipment, and financial services to professionals to make their lives easier. Snap-on faces major competition from companies such as Stanley Black and Decker, Masco Corp, Griffon Corp, etc. Snap-On has proven to have a strong business with the highest EBITDA margin at 25.35% which comes in 10% higher than the industry average. They have exhibited steady growth in sales at an average of 3.30% which is slightly higher than the growth of the economy. In order to continue these growth sales, Snap-On is taking advantage of new developing countries and creating a presence. At the bottom line after all expenses are accounted for, Snap-On has return 14.74% in net profit margin compared to the industry average of 7.90%. Overall, Snap-On has a strong business in a competitive market. With the industry falling in the mature stage they will need to focus their attention towards the exports and build in new countries

	Name (BICS Best Fit)	Sales Growth (%)	EBITDA Growth (%)	EBITDA Margin	Operating Income Margin	Net Income Growth	Net Profit Margin	Capex/Sales (%)	Return on Invested	Return on	Return on Equity
	Median	2.56%	13.09%	15.95%	12.93%	20.48%	7.90%	2.72%	12.30%	7.50%	17.72%
100)	SNAP-ON INC	3.30%	11.36%	25.35%	23.04%	13.31%	14.74%	2.00%	17.61%	12.09%	21.75%
101)	STANLEY BLACK & DECK	2.10%	4.32%	16.26%	12.68%	6.68%	8.74%	3.04%	11.28%	6.47%	16.38%
102)	MASCO CORP	3.01%	14.81%	16.54%	14.72%	46.96%	7.25%	2.45%	23.47%	9.86%	--
103)	GRIFFON CORP	-3.88%	6.46%	9.45%	5.75%	5.88%	1.90%	4.64%	4.98%	2.10%	8.96%
104)	NACCO INDUSTRIES-CL	-6.49%	23.29%	9.01%	6.76%	50.89%	4.69%	1.89%	12.83%	6.06%	19.04%
105)	FORTUNE BRANDS HOME	8.85%	19.79%	15.64%	13.18%	27.65%	8.55%	3.00%	11.78%	8.52%	17.72%

Financials:

Snap-On has four segments of operation. The Repair Systems and Information accounts for 28% of revenue, the Snap-On Tools Group accounts for 39% of revenues, Commercial and Industrial Group accounts for 27% of revenues, and the Financial Services accounts for 7% of revenues. In 2016, revenues totaled 3.71 billion which is up 3% from fiscal year 2015. Snap-On has found a way to cut costs through the years with increasing margins and lower cost of goods sold. The cost of goods sold accounted for 50.1% of sales in 2016 which is down from 50.8% in the previous year. Margins have been on a steady incline since the recovering year from the recession. Snap-On has a total debt to equity of 39%. They currently have a high current ratio of 1.91 and quick ratio of 1.16 which indicates that they would be able to handle their financial obligations after accounting for all their inventory on hand. With solid growth over the last year, Snap-On has continued to pay out a dividend yield of 1.74% for the year. The company has been able to generate value with a Roic/Wacc ratio of 1.47 compared to the industry which has been below 1 on average. Snap-On has a Wacc of 9.6% which is their required return has proven to be a safe level of cost since they have been able to pay off all their debt obligations.

In Millions of USD except Per Share	FY 2013		FY 2014		FY 2015		FY 2016	
12 Months Ending	12/28/2013		01/03/2015		01/02/2016		12/31/2016	
Revenue	3,237.5	100.0%	3,492.6	100.0%	3,593.1	100.0%	3,711.8	100.0%
Snap-on Tools Group	1,358.4	37.3%	1,455.2	36.9%	1,568.7	38.4%	1,633.9	38.5%
Diagnostics & Information Group	1,009.6	27.7%	1,095.2	27.8%	1,113.2	27.2%	1,179.9	27.8%
Commercial & Industrial Group	1,091.0	30.0%	1,174.8	29.8%	1,163.6	28.5%	1,148.3	27.1%
Financial Services	181.0	5.0%	214.9	5.5%	240.3	5.9%	281.4	6.6%
Eliminations	-402.5		-447.5		-492.7		-531.7	



Franchise:

Snap-On has approximately 4,900 franchisees who operate through the mobile van channel, with 3,500 franchises located in the United States. The mobile van channels allows automotive technicians to receive products as needed on a weekly basis. The franchisees focus their sales on the distribution of power tools, tool storage products, shop equipment, and diagnostic information. Their main business is with car dealerships, mechanics, marinas, and airports. Snap-On relies heavily on their mobile van channel with 39% of revenues being accounted for by the franchises. The way the franchise works is that the franchise owner will buy these tools at a discounted price and then sell the products to the shop owners at a price of their choosing. Through the franchises, Snap-On receives reoccurring revenue through the franchise fee which accounted for $13.9

million in 2016. The mobile van channel will be a key factor in pursuing the growth strategy because they will need to reach out to new customers in the new developing countries. Snap-On already has approximately 1,400 mobile van channels operating outside the United States. With the entrance into new areas such as China and the Middle East, Snap-On will have a window of opportunity to capture more of the market.

Conclusion:

With the way Snap-On has created brand recognition and customer loyalty, they will continue to experience growth through the foreseeable future. With the rising opportunities in new developing countries, and the expansion into new industries through acquisitions, Snap-On will continue to gain market share and increase revenues. Overall, I believe that Snap-On is a buy at a target price of $190.87 because with the increasing technology, the development of countries, and the recent acquisitions, there is a big window of opportunity for Snap-On to capitalize on the rising demand for new products.

SIENA college

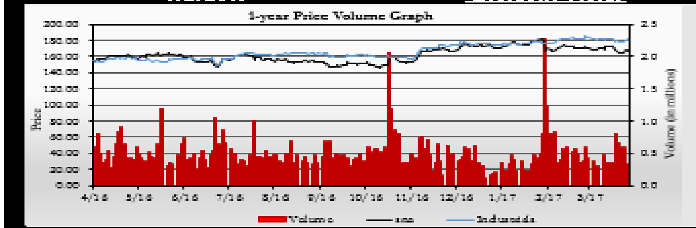
BJORKLUND FUND

Snap-on Incorporated (sna)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Edward Stumm	Current Price:	$168.67	Intrinsic Value	$187.91	Target 1 year Return: 21.05%
4/2/2017	Divident Yield:	0.1%	Target Price	$203.98	Probability of Price Increase: 99



Description

Snap-on Incorporated manufactures and markets tools, equipment, diagnostics, and repair information and systems solutions for professional users worldwide.

General Information	
Sector	Industrials
Industry	Machinery
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	6.25%
Effective Tax rate	32%
Effective Operating Tax rate	34%

Market Data	
Market Capitalization	$9,777.49
Daily volume (mil)	0.60
Shares outstanding (mil)	57.97
Diluted shares outstanding (mil)	59.40
% shares held by institutions	74%
% shares held by investments Managers	77%
% shares held by hedge funds	7%
% shares held by insiders	0.99%
Short interest	5.46%
Days to cover short interest	6.74
52 week high	$181.73
52-week low	$145.17
Levered Beta	1.05
Volatility	19.50%

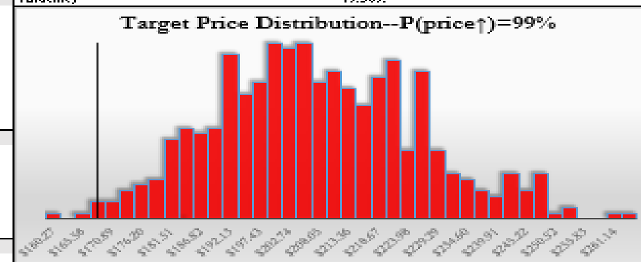
Past Earning Surprises

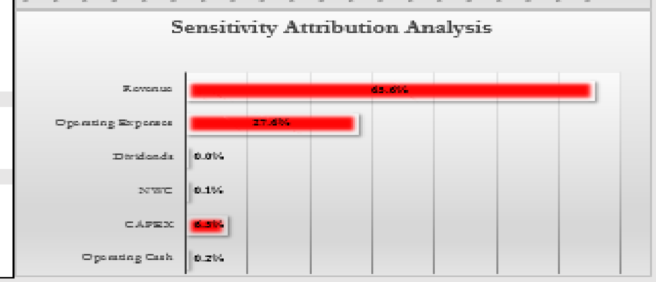
Quarter ending	Revenue	EBITDA
1/2/2016	-0.47%	-7.02%
4/2/2016	5.01%	0.45%
7/2/2016	7.00%	1.79%
10/1/2016	4.57%	1.87%
12/31/2016	7.83%	-5.00%
Mean	4.79%	-1.58%
Standard error	1.4%	1.9%

Peers
The Toro Company
Flowserve Corporation
The Timken Company
Illinois Tool Works Inc.
Crane Co.
Kennametal Inc.
Pentair plc
Briggs & Stratton Corporation

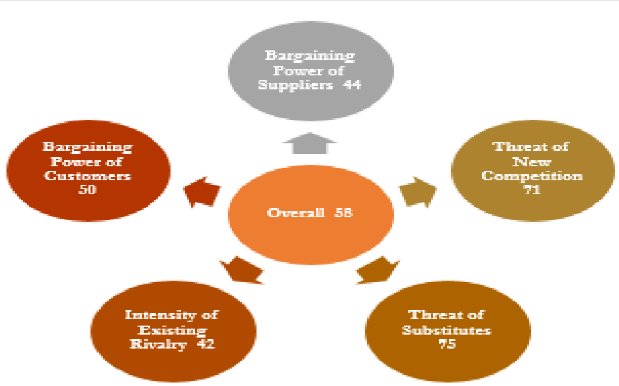
Management	Position	Total compensation growth	Total return to shareholders
Pinchuk, Nicholas	Chairman of the Board, Chief	7.45% per annum over 6y	0.46% per annum over 6y
Pagliari, Aldo	Chief Financial Officer and	20.45% per annum over 6y	0.46% per annum over 6y
Banerjee, Anup	Chief Development Officer an	N/M	1.56% per annum over 1y
Ward, Thomas	Senior Vice President and Pr	4.84% per annum over 6y	0.46% per annum over 6y
Kassouf, Thomas	Senior Vice President and Pr	11.81% per annum over 6y	0.46% per annum over 6y
Johnson, Constance	Principal Accounting Officer	N/M	N/M

Profitability	sna (LTM)	sna (5 years historical aver	Industry (LTM)
ROIC	35.8%	43.09%	10.41%
NOPAT Margin	13%	14.23%	9.7%
Revenue/Invested Capital	2.70	3.03	1.08
ROE	24.8%	32.56%	12.82%
Adjusted net margin	12%	12.42%	8.0%
Revenue/Adjusted Book Value	2.05	2.62	1.60
Invested Funds	**sna (LTM)**	**sna (5 years historical aver**	**Industry (LTM)**
Total Cash/Total Capital	2.6%	5.6%	12%
Estimated Operating Cash/Total Capital	2.6%	4.8%	N/A
Non-cash working Capital/Total Capital	19.5%	20.8%	17%
Invested Capital/Total Capital	50.6%	52.0%	87%
Capital Structure	**sna (LTM)**	**sna (5 years historical aver**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.00	-0.01	0.30
Cost of Existing Debt	-67.51%	119.99%	3.65%
Estimated Cost of new Borrowing	4.32%	4.39%	3.65%
CGFS Risk Rating	CCC	CCC	CC
Unlevered Beta (LTM)	1.06	1.43	0.99
WACC	11.38%	14.48%	9.58%





Porter's 5 forces (scores are out of 100)



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	3.3%	13.2%	3.14
12/31/2017	-3.7%	17.5%	4.16
12/31/2018	1.5%	19.1%	-3.56
12/31/2019	11.4%	19.9%	-5.03
12/31/2020	6.0%	19.8%	-5.87
12/31/2021	6.0%	21.5%	-8.76
12/31/2022	6.0%	21.9%	-13.80
12/31/2023	6.0%	22.3%	-30.31
12/31/2024	5.5%	20.3%	189.49
12/31/2025	5.0%	17.8%	18.56
12/31/2026	4.5%	15.7%	9.55
Continuing Period	4.0%	13.4%	4.74

Period	Invested Capital	Net Claims	Price per share
Base Year	$773.39	$134.65	$186.31
12/31/2017	$1,058.44	-$3,806.86	$203.63
12/31/2018	$1,432.00	-$4,071.59	$216.27
12/31/2019	$1,386.77	-$4,663.31	$230.30
12/31/2020	$1,373.46	-$5,098.08	$244.17
12/31/2021	$1,489.64	-$5,624.58	$258.43
12/31/2022	-$1,927.39	-$6,176.43	$272.99
12/31/2023	-$1,584.66	-$7,202.83	$295.39
12/31/2024	-$1,425.42	-$7,648.65	$310.19
12/31/2025	-$1,101.07	-$8,018.64	$324.99
12/31/2026	-$756.63	-$7,979.47	$340.36