

# Quarterly Financial Review

Third Quarter 2019

**Snap-on**<sup>®</sup>



# CAUTIONARY STATEMENT

- These slides should be read in conjunction with comments from the October 17, 2019 conference call. The financial statement information included herein is unaudited.
- Statements made during the October 17, 2019 conference call and/or information included in this presentation may contain statements, including earnings projections, that are forward-looking in nature and, accordingly, are subject to risks and uncertainties regarding Snap-on's expected results; actual results may differ materially from those described or contemplated in these forward-looking statements. Factors that may cause actual results to differ materially from those contained in the forward-looking statements are detailed in the corresponding press release and Form 8-K and in Snap-on's recent 1934 Act SEC filings, which are incorporated herein by reference. Snap-on disclaims any responsibility to update any forward-looking statement provided during the October 17, 2019 conference call and/or included in this presentation, except as required by law.
- This presentation includes certain non-GAAP measures of financial performance, which are not meant to be considered in isolation or as a substitute for their GAAP counterparts. Additional information regarding these non-GAAP measures is included in Snap-on's October 17, 2019 press release and Form 8-K, which can be found on the company's website in the investors section at [www.snapon.com](http://www.snapon.com).

## Who We Are

### OUR MISSION

The most valued productivity solutions in the world

#### BELIEFS

**We deeply believe in:**

Non-negotiable Product and Workplace Safety  
Uncompromising Quality  
Passionate Customer Care  
Fearless Innovation  
Rapid Continuous Improvement

#### VALUES

**Our behaviors define our success:**

We demonstrate Integrity.  
We tell the Truth.  
We respect the Individual.  
We promote Teamwork.  
We Listen.

#### VISION

**To be acknowledged as the:**

Brands of Choice  
Employer of Choice  
Franchisor of Choice  
Business Partner of Choice  
Investment of Choice

# Nick Pinchuk

Chairman &  
Chief Executive Officer

***Snap-on***<sup>®</sup>



# Aldo Pagliari

Senior Vice President &  
Chief Financial Officer

***Snap-on***<sup>®</sup>



# CONSOLIDATED RESULTS – 3<sup>RD</sup> QUARTER

(\$ in millions, except per share data - unaudited)	2019		2018		Change
	\$	%	\$	%	
Net sales	\$ 901.8		\$ 898.1		0.4 %
➤ Organic sales	12.5				1.4 %
➤ Acquisitions	2.9				0.3 %
➤ Currency translation	(11.7)				(1.3)%
Gross profit	\$ 448.1	49.7 %	\$ 453.9	50.5 %	
Operating expenses	280.4	31.1 %	280.8	31.2 %	
Operating earnings before financial services	\$ 167.7	18.6 %	\$ 173.1	19.3 %	(70) bps
Financial services revenue	\$ 84.1		\$ 82.0		2.6 %
Financial services operating earnings	61.0		59.3		2.9 %
Operating earnings	\$ 228.7	23.2 %	\$ 232.4	23.7 %	(50) bps
Diluted EPS – as reported	\$ 2.96		\$ 2.85		3.9 %
Diluted EPS – as adjusted*	\$ 2.96		\$ 2.88		2.8 %

- Organic sales up 1.4%; excludes \$2.9 million of acquisition-related sales and \$11.7 million of unfavorable foreign currency translation
- Gross margin of 49.7% declined 80 basis points (bps) primarily due to increased sales in lower gross margin businesses, 20 bps of unfavorable foreign currency effects, and higher material and other costs, partially offset by benefits from Rapid Continuous Improvement (“RCI”) initiatives
- The operating expense margin of 31.1% improved 10 bps from 31.2% last year
- Operating earnings before financial services of \$167.7 million, including \$4.4 million of unfavorable foreign currency effects, decreased \$5.4 million from \$173.1 million last year; operating margin of 18.6% compared to 19.3% last year
- Diluted EPS of \$2.96 is up 3.9% from 2018 diluted EPS of \$2.85; and up 2.8% from 2018 diluted EPS, as adjusted

\* As adjusted - see reconciliation of non-GAAP Financial Measures starting on slide 14

# COMMERCIAL & INDUSTRIAL – 3<sup>RD</sup> QUARTER

(\$ in millions - unaudited)	2019	2018	Change
Segment sales	\$ 335.3	\$ 330.2	1.5 %
➤ Organic sales	9.5		2.9 %
➤ Acquisitions	1.1		0.4 %
➤ Currency translation	(5.5)		(1.8)%
Gross profit	\$ 127.0	\$ 130.9	
% of sales	37.9 %	39.6 %	
Operating expenses	\$ 78.7	\$ 77.9	
% of sales	23.5 %	23.5 %	
Operating earnings	\$ 48.3	\$ 53.0	
% of sales	14.4 %	16.1 %	(170) bps

- Organic sales up \$9.5 million or 2.9%
  - Primarily due to increased sales in the specialty tools business, and gains in both the segment's European-based hand tools business and to customers in critical industries
  - Excludes \$1.1 million of acquisition-related sales and \$5.5 million of unfavorable currency translation
- Gross margin of 37.9% declined 170 bps from 2018 primarily due to increased sales in lower gross margin businesses and higher material and other costs, partially offset by savings from RCI initiatives
- The operating expense margin of 23.5% is unchanged from last year
- Operating earnings of \$48.3 million, including \$0.7 million of unfavorable foreign currency effects, decreased \$4.7 million from last year; operating margin of 14.4% compared to 16.1% last year

# SNAP-ON TOOLS – 3<sup>RD</sup> QUARTER

<i>(\$ in millions - unaudited)</i>	<b>2019</b>	<b>2018</b>	<b>Change</b>
Segment sales	\$ 385.2	\$ 389.8	(1.2)%
➤ Organic sales	(1.3)		(0.3)%
➤ Currency translation	(3.3)		(0.9)%
Gross profit	\$ 167.2	\$ 169.8	
% of sales	43.4 %	43.6 %	
Operating expenses	\$ 114.2	\$ 110.5	
% of sales	29.6 %	28.4 %	
Operating earnings	\$ 53.0	\$ 59.3	
% of sales	13.8 %	15.2 %	(140) bps

- Organic sales down \$1.3 million, or 0.3%, including a decrease in the segment's international operations, partially offset by a gain in the segment's U.S. franchise operations
- Gross margin of 43.4%, including 60 bps of unfavorable foreign currency effects, decreased 20 bps from last year
- The operating expense margin of 29.6% increased 120 bps primarily due to higher field support investments
- Operating earnings of \$53.0 million, including \$2.7 million of unfavorable foreign currency effects, decreased \$6.3 million and the operating margin of 13.8% compared to 15.2% last year



# REPAIR SYSTEMS & INFORMATION – 3<sup>RD</sup> QUARTER

<i>(\$ in millions - unaudited)</i>	<b>2019</b>	<b>2018</b>	<b>Change</b>
Segment sales	\$ 322.7	\$ 314.4	2.6 %
➤ Organic sales	10.1		3.2 %
➤ Acquisitions	1.8		0.6 %
➤ Currency translation	(3.6)		(1.2)%
Gross profit	\$ 153.9	\$ 153.2	
% of sales	47.7 %	48.7 %	
Operating expenses	\$ 70.6	\$ 72.5	
% of sales	21.9 %	23.0 %	
Operating earnings	\$ 83.3	\$ 80.7	
% of sales	25.8 %	25.7 %	10 bps

- Organic sales up \$10.1 million
  - Increase includes a gain in sales to OEM dealerships and in sales of diagnostic and repair information products to independent repair shop owners and managers, partially offset by a decrease in sales of undercar equipment
  - Excludes \$3.6 million of unfavorable foreign currency translation
- Gross margin of 47.7% declined 100 bps from 48.7% last year primarily due to increased sales in lower gross margin businesses
- The operating expense margin of 21.9% improved 110 bps from 23.0% last year primarily due to the benefits from sales volume leverage, including higher volumes in lower expense businesses, and savings from RCI initiatives
- Operating earnings of \$83.3 million, including \$1.0 million of unfavorable foreign currency effects, increased \$2.6 million; the operating margin of 25.8% compared to 25.7% last year

# FINANCIAL SERVICES – 3<sup>RD</sup> QUARTER

<i>(\$ in millions - unaudited)</i>	<b>2019</b>	<b>2018</b>	<b>Change</b>
Segment revenue	\$ 84.1	\$ 82.0	2.6 %
Operating earnings	\$ 61.0	\$ 59.3	2.9 %
Originations	\$ 253.5	\$ 267.0	(5.1)%

- Originations decreased \$13.5 million or 5.1%
- Average yield on finance receivables of 17.7% in both periods
- Average yield on contract receivables of 9.2% in both periods

# FINANCIAL SERVICES PORTFOLIO DATA

(\$ in millions - unaudited)	United States		International	
	Extended Credit	Total	Extended Credit	Total
Gross finance portfolio	\$ 1,490.1	\$ 1,848.2	\$ 189.2	\$ 266.4
Portfolio net losses (TTM)	\$ 46.9	\$ 49.0	\$ 3.0	\$ 3.9
60+ Delinquency:				
As of 9/30/19	1.7 %	1.4 %	0.7 %	0.8 %
As of 6/30/19	1.4 %	1.2 %	0.7 %	0.7 %
As of 1/31/19	1.5 %	1.3 %	0.7 %	0.8 %
As of 12/31/18	1.8 %	1.5 %	0.8 %	0.8 %
As of 9/30/18	1.7 %	1.4 %	0.7 %	0.8 %

- Gross finance portfolio of \$2,114.6 million as of September 30, 2019
  - YTD portfolio growth of \$31.6 million
  - Q3 portfolio growth of \$12.3 million
  
- TTM – Trailing twelve months

# CASH FLOWS

(\$ in millions - unaudited)	3rd Quarter		September YTD	
	2019	2018	2019	2018
<b>Net cash provided by operating activities</b>	<b>\$ 131.1</b>	<b>\$ 129.8</b>	<b>\$ 477.9</b>	<b>\$ 548.6</b>
➤ Net earnings	169.2	167.4	536.2	516.9
➤ Depreciation and amortization	22.9	23.2	68.5	71.2
➤ Changes in deferred income taxes	(1.7)	(2.8)	10.7	(6.9)
➤ Loss on early extinguishment of debt	-	-	-	7.8
➤ Changes in working investment	(64.2)	(42.4)	(96.5)	(50.6)
➤ Changes in accruals and other liabilities	(11.1)	(9.3)	(80.8)	(35.0)
➤ Changes in all other operating activities	16.0	(6.3)	39.8	45.2
Net increase in finance receivables	\$ (15.4)	\$ (22.7)	\$ (63.0)	\$ (79.5)
Capital expenditures	\$ (29.6)	\$ (29.9)	\$ (77.8)	\$ (68.5)
Free cash flow	\$ 86.1	\$ 77.2	\$ 337.1	\$ 400.6
<b>Free cash flow from Operations</b>	<b>\$ 71.0</b>	<b>\$ 78.1</b>	<b>\$ 283.5</b>	<b>\$ 367.2</b>
<b>Free cash flow from Financial Services</b>	<b>\$ 15.1</b>	<b>\$ (0.9)</b>	<b>\$ 53.6</b>	<b>\$ 33.4</b>
Increase in cash	\$ 3.5	\$ 9.9	\$ 26.6	\$ 30.2

- Changes in working investment – Net changes in trade and other accounts receivable, inventory and accounts payable
- Free cash flow – Net cash provided by operating activities less net change in finance receivables and capital expenditures
- Free cash flow from operations – Net cash provided by operating activities, exclusive of financial services, less capital expenditures
- Free cash flow from financial services – Net cash provided by financial services operating activities, less net change in finance receivables and capital expenditures

# BALANCE SHEET

<i>(\$ in millions - unaudited)</i>	<b>September 28, 2019</b>	<b>December 29, 2018</b>
Trade & Other Accounts Receivable - net	\$ 684.8	\$ 692.6
Days Sales Outstanding	66	67
Finance Receivables - net	\$ 1,618.2	\$ 1,592.9
Contract Receivables - net	\$ 451.3	\$ 443.2
Inventory - net	\$ 753.5	\$ 673.8
Inventory turns - TTM	2.6	2.9
Cash	\$ 167.5	\$ 140.9
Total debt	\$ 1,179.8	\$ 1,132.3
Net debt	\$ 1,012.3	\$ 991.4
Net debt to capital ratio	23.5 %	24.2 %

# RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

AS REPORTED <i>(\$ in millions, except per share data - unaudited)</i>	3rd Quarter		September YTD	
	2019	2018	2019	2018
<b>Benefit related to the settlement of a litigation matter (“legal settlement”)</b>				
Pre-tax legal settlement	\$ -	\$ -	\$ 11.6	\$ -
Income tax expense	<u>-</u>	<u>-</u>	<u>(2.9)</u>	<u>-</u>
Legal settlement, after tax	\$ -	\$ -	\$ 8.7	\$ -
Weighted-average shares outstanding – diluted	55.7	57.3	56.0	57.5
Diluted EPS – legal settlement	\$ -	\$ -	\$ 0.15	\$ -
<b>Adjustments related to implementation of tax legislation (“tax charge”)</b>				
Tax charge	\$ -	\$ (1.8)	\$ -	\$ (3.9)
Weighted-average shares outstanding – diluted	55.7	57.3	56.0	57.5
Diluted EPS – tax charge	\$ -	\$ (0.03)	\$ -	\$ (0.07)

# RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

AS REPORTED <i>(\$ in millions, except per share data - unaudited)</i>	3rd Quarter		September YTD	
	2019	2018	2019	2018
<b>Debt related items (“net debt items”)</b>				
<b>Gain on settlement of treasury lock (A)</b>				
Gain on settlement of treasury lock	\$ -	\$ -	\$ -	\$ 13.3
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3.3)</u>
Gain on settlement of treasury lock, after tax	\$ -	\$ -	\$ -	\$ 10.0
Weighted-average shares outstanding – diluted	55.7	57.3	56.0	57.5
Diluted EPS – gain on settlement of treasury lock	\$ -	\$ -	\$ -	\$ 0.17
<b>Loss on early extinguishment of debt (B)</b>				
Loss on early extinguishment of debt	\$ -	\$ -	\$ -	\$ (7.8)
Income tax benefit	<u>-</u>	<u>-</u>	<u>-</u>	<u>1.9</u>
Loss on early extinguishment of debt, after tax	\$ -	\$ -	\$ -	\$ (5.9)
Weighted-average shares outstanding – diluted	55.7	57.3	56.0	57.5
Diluted EPS – loss on early extinguishment of debt	\$ -	\$ -	\$ -	\$ (0.10)
<b>Net debt items (A + B)</b>				
Net debt items	\$ -	\$ -	\$ -	\$ 5.5
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1.4)</u>
Net debt items, after tax	\$ -	\$ -	\$ -	\$ 4.1
Weighted-average shares outstanding – diluted	55.7	57.3	56.0	57.5
Diluted EPS – net debt items	\$ -	\$ -	\$ -	\$ 0.07

# RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

ADJUSTED INFORMATION – NON-GAAP <i>(\$ in millions - unaudited)</i>	3rd Quarter		September YTD	
	2019	2018	2019	2018
<b>Operating earnings before financial services</b>				
As reported	\$ 167.7	\$ 173.1	\$ 545.0	\$ 543.9
Legal settlement	_____ -	_____ -	_____(11.6)	_____ -
As adjusted	\$ 167.7	\$ 173.1	\$ 533.4	\$ 543.9
<b>Operating earnings before financial services as a percentage of sales</b>				
As reported	18.6 %	19.3 %	19.6 %	19.5 %
As adjusted	18.6 %	19.3 %	19.2 %	19.5 %
<b>Operating earnings</b>				
As reported	\$ 228.7	\$ 232.4	\$ 728.7	\$ 717.9
Legal settlement	_____ -	_____ -	_____(11.6)	_____ -
As adjusted	\$ 228.7	\$ 232.4	\$ 717.1	\$ 717.9
<b>Operating earnings as a percentage of revenue</b>				
As reported	23.2 %	23.7 %	24.1 %	23.7 %
As adjusted	23.2 %	23.7 %	23.7 %	23.7 %



# RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

ADJUSTED INFORMATION – NON-GAAP <i>(\$ in millions - unaudited)</i>	3rd Quarter		September YTD	
	2019	2018	2019	2018
<b>Net earnings attributable to Snap-on Incorporated</b>				
As reported	\$ 164.6	\$ 163.2	\$ 522.9	\$ 504.9
Legal settlement, after tax	-	-	(8.7)	-
Net debt items, after tax	-	-	-	(4.1)
Tax charge	-	1.8	-	3.9
As adjusted	\$ 164.6	\$ 165.0	\$ 514.2	\$ 504.7
<b>Diluted EPS</b>				
As reported	\$ 2.96	\$ 2.85	\$ 9.34	\$ 8.78
Legal settlement, after tax	-	-	(0.15)	-
Net debt items, after tax	-	-	-	(0.07)
Tax charge	-	0.03	-	0.07
As adjusted	\$ 2.96	\$ 2.88	\$ 9.19	\$ 8.78
<b>Effective tax rate</b>				
As reported	23.5 %	24.0 %	23.8 %	24.6 %
Tax charge	-	(0.9)%	-	(0.5)%
As adjusted	23.5 %	23.1 %	23.8 %	24.1 %