



# Quarterly Financial Review

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**Fourth Quarter 2016**

# Cautionary Statement

- These slides should be read in conjunction with comments from the February 2, 2017 conference call. The financial statement information included herein is unaudited.
- Statements made during the February 2, 2017 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 February 2, 2017 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 February 2, 2017 press release and Form 8-K, which can be found on the company's website at <http://www.snapon.com/sna>.

## 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**

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**Chairman and Chief Executive Officer**



**Aldo Pagliari**

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**Senior Vice President and Chief Financial Officer**

# Consolidated Results – 4<sup>th</sup> Quarter

(\$ in millions, except per share data - unaudited)	2016		2015		Change
	\$	%	\$	%	
Net sales	\$ 889.8		\$ 851.7		4.5 %
➤ Organic sales	30.0				3.6 %
➤ Acquisitions	23.3				2.8 %
➤ Currency translation	(15.2)				(1.9)%
Gross profit	\$ 443.9	49.9 %	\$ 412.3	48.4 %	
Operating expenses	267.8	30.1 %	250.0	29.3 %	
Operating earnings before financial services	\$ 176.1	19.8 %	\$ 162.3	19.1 %	8.5 %
Financial services revenue	\$ 74.2		\$ 63.1		17.6 %
Financial services operating earnings	51.6		45.0		14.7 %
Operating earnings	\$ 227.7	23.6 %	\$ 207.3	22.7 %	9.8 %
Net earnings	\$ 146.3		\$ 131.4		11.3 %
Diluted EPS	\$ 2.47		\$ 2.22		11.3 %

- Organic sales up 3.6%; excludes \$23.3 million of acquisition-related sales and \$15.2 million of unfavorable foreign currency translation
- Gross margin of 49.9% improved 150 basis points (bps) primarily due to benefits from higher sales and savings from Rapid Continuous Improvement (“RCI”) initiatives
- The operating expense margin of 30.1% increased 80 bps primarily due to acquisition-related and other expenses, including operating expenses for Car-O-Liner and Sturtevant Richmond, and a 30 bps benefit realized in Q4 2015 from a gain on the sale of a former manufacturing facility, partially offset by lower pension expense
- Operating earnings before financial services of \$176.1 million, including \$3.7 million of unfavorable foreign currency effects, increased \$13.8 million and the operating margin improved 70 bps to 19.8%

# Commercial & Industrial – 4<sup>th</sup> Quarter

(\$ in millions - unaudited)	2016	2015	Change
Segment sales	\$ 286.3	\$ 281.8	1.6 %
➤ Organic sales	6.5		2.4 %
➤ Acquisitions	4.2		1.5 %
➤ Currency translation	(6.2)		(2.3)%
Gross profit	\$ 115.4	\$ 107.6	
% of sales	40.3 %	38.2 %	
Operating expenses	\$ 71.5	\$ 65.7	
% of sales	25.0 %	23.3 %	
Operating earnings	\$ 43.9	\$ 41.9	4.8 %
% of sales	15.3 %	14.9 %	

- Organic sales up \$6.5 million or 2.4%; excludes \$6.2 million of unfavorable foreign currency translation and \$4.2 million of acquisition-related sales
  - Increased sales in the segment's European-based hand tools business and higher sales to customers in critical industries
- Gross margin of 40.3% improved 210 bps primarily due to benefits from higher sales, savings from RCI initiatives and favorable foreign currency effects
- The operating expense margin of 25.0% increased 170 bps primarily as a result of higher costs, including operating expenses for new acquisitions, a 70 bps benefit realized in Q4 2015 from a gain on the sale of a former manufacturing facility and unfavorable foreign currency effects
- Operating earnings of \$43.9 million, including \$1.8 million of favorable foreign currency effects, increased \$2.0 million and the operating margin improved 40 bps to 15.3%

# Snap-on Tools – 4<sup>th</sup> Quarter

(\$ in millions - unaudited)	2016	2015	Change
Segment sales	\$ 417.5	\$ 411.2	1.5 %
➤ Organic sales	12.2		3.0 %
➤ Currency translation	(5.9)		(1.5)%
Gross profit	\$ 175.5	\$ 173.7	
% of sales	42.0 %	42.2 %	
Operating expenses	\$ 102.0	\$ 101.8	
% of sales	24.4 %	24.7 %	
Operating earnings	\$ 73.5	\$ 71.9	2.2 %
% of sales	17.6 %	17.5 %	

- Organic sales up \$12.2 million, or 3.0%, reflecting sales increases in both the company's U.S. and international franchise operations
- Gross margin of 42.0% declined 20 bps as 60 bps of unfavorable foreign currency effects was partially offset by benefits from higher sales
- The operating expense margin of 24.4% improved 30 bps primarily due to sales volume leverage
- Operating earnings of \$73.5 million, including \$3.8 million of unfavorable foreign currency effects, increased \$1.6 million and the operating margin improved 10 bps to 17.6%

# Repair Systems & Information – 4<sup>th</sup> Quarter

(\$ in millions - unaudited)	2016	2015	Change
Segment sales	\$ 319.8	\$ 280.6	14.0 %
➤ Organic sales	24.6		8.9 %
➤ Acquisition	19.1		6.9 %
➤ Currency translation	(4.5)		(1.8)%
Gross profit	\$ 153.0	\$ 131.0	
% of sales	47.8 %	46.7 %	
Operating expenses	\$ 70.5	\$ 58.9	
% of sales	22.0 %	21.0 %	
Operating earnings	\$ 82.5	\$ 72.1	14.4 %
% of sales	25.8 %	25.7 %	

- Organic sales up \$24.6 million or 8.9%
  - Increased sales of diagnostic and repair information products to independent repair shop owners and managers, higher sales to OEM dealerships and increased sales of undercar equipment
- Gross margin of 47.8% improved 110 bps primarily due to benefits from higher sales and savings from RCI initiatives
- The operating expense margin of 22.0% increased 100 bps primarily due to operating expenses for Car-O-Liner
- Operating earnings of \$82.5 million, including \$1.7 million of unfavorable foreign currency effects, increased \$10.4 million and the operating margin improved 10 bps to 25.8%

# Financial Services – 4<sup>th</sup> Quarter

<i>(\$ in millions - unaudited)</i>	<b>2016</b>	<b>2015</b>	<b>Change</b>
Segment revenue	\$ 74.2	\$ 63.1	17.6 %
Operating earnings	\$ 51.6	\$ 45.0	14.7 %
Originations	\$ 260.3	\$ 252.0	3.3 %

- Originations increased \$8.3 million or 3.3%
- Average yield on finance receivables of 18.2% compared to 17.8% in 2015
- Average yield on contract receivables of 9.3% compared to 9.5% in 2015

# Financial Services Portfolio Data

(\$ in millions - unaudited)	United States		International	
	Extended Credit	Total	Extended Credit	Total
Gross finance portfolio	\$ 1,304.2	\$ 1,600.7	\$ 151.4	\$ 214.0
Portfolio net losses (TTM)	\$ 31.2	\$ 32.5	\$ 1.9	\$ 2.2
60+ Delinquency:				
As of 12/31/16	1.6 %	1.3 %	0.7 %	0.7 %
As of 09/30/16	1.3 %	1.1 %	0.6%	0.5 %
As of 06/30/16	1.1 %	0.9 %	0.6 %	0.6 %
As of 03/31/16	1.2 %	1.0 %	0.7 %	0.6 %
As of 12/31/15	1.3 %	1.1 %	0.7 %	0.6 %

- Gross finance portfolio of \$1,814.7 million as of 2016 year end
  - Full year 2016 portfolio growth of \$224.0 million
- TTM – Trailing twelve months

# Cash Flows

(\$ in millions - unaudited)	4th Quarter		Full Year	
	2016	2015	2016	2015
<b>Net cash provided by operating activities</b>	<b>\$ 151.7</b>	<b>\$ 144.4</b>	<b>\$ 567.3</b>	<b>\$ 496.5</b>
➤ Net earnings	149.7	134.5	559.6	490.6
➤ Depreciation and amortization	21.7	21.4	85.6	82.5
➤ Changes in deferred income taxes	13.8	1.1	1.3	(5.1)
➤ Changes in working investment	(24.0)	(7.0)	(57.4)	(83.3)
➤ Changes in accruals and other liabilities	(49.8)	(18.5)	(60.7)	10.0
➤ Changes in all other operating activities	40.3	12.9	38.9	1.8
Net increase in finance receivables	\$ (53.6)	\$ (66.8)	\$ (243.3)	\$ (219.4)
Capital expenditures	\$ (17.7)	\$ (16.1)	\$ (74.3)	\$ (80.4)
Acquisitions of businesses, net of cash acquired	\$ (160.4)	\$ 1.3	\$ (160.4)	\$ (11.8)
Free cash flow	\$ 80.4	\$ 61.5	\$ 249.7	\$ 196.7
<b>Free cash flow from Operations</b>	<b>\$ 100.8</b>	<b>\$ 144.4</b>	<b>\$ 396.3</b>	<b>\$ 350.0</b>
<b>Free cash flow from Financial Services</b>	<b>\$ (20.4)</b>	<b>\$ (82.9)</b>	<b>\$ (146.6)</b>	<b>\$ (153.3)</b>
Decrease in cash	\$ (39.9)	\$ (26.4)	\$ (15.2)	\$ (40.1)

- 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>2016 Year End</b>	<b>2015 Year End</b>
Trade & Other Accounts Receivable - net	\$ 598.8	\$ 562.5
Days Sales Outstanding	63	60
Finance Receivables - net	\$ 1,407.0	\$ 1,220.0
Contract Receivables - net	\$ 374.8	\$ 348.7
Inventory - net	\$ 530.5	\$ 497.8
Inventory turns - TTM	3.3	3.5
Cash	\$ 77.6	\$ 92.8
Total debt	\$ 1,010.2	\$ 880.1
Net debt	\$ 932.6	\$ 787.3
Net debt to capital ratio	26.3 %	24.6 %

- Total debt as of 2016 year end included \$130 million of commercial paper borrowings; as of 2015 year end, there were no commercial paper borrowings outstanding
- On January 17, 2017, Snap-on repaid \$150 million of unsecured 5.50% notes at maturity with available cash and cash generated from issuances of commercial paper