



# Quarterly Financial Review

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**Third Quarter 2017**

# Cautionary Statement

- These slides should be read in conjunction with comments from the October 19, 2017 conference call. The financial statement information included herein is unaudited.
- Statements made during the October 19, 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 October 19, 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 October 19, 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 – 3<sup>rd</sup> Quarter

| (\$ in millions, except per share data - unaudited) | 2017     |        | 2016     |        | Change |
|---|----------|--------|----------|--------|--------|
|   | \$       | %      | \$       | %      |        |
| Net sales   | \$ 903.8 |        | \$ 834.1 |        | 8.4 %  |
| ➤ Organic sales                                     | 19.5     |        |          |        | 2.3 %  |
| ➤ Acquisitions                                      | 44.3     |        |          |        | 5.3 %  |
| ➤ Currency translation                              | 5.9      |        |          |        | 0.8 %  |
| Gross profit  | \$ 448.6 | 49.6 % | \$ 419.1 | 50.2 % |        |
| Operating expenses                                  | 295.5    | 32.7 % | 261.5    | 31.3 % |        |
| Operating earnings before financial services        | \$ 153.1 | 16.9 % | \$ 157.6 | 18.9 % | (2.9)% |
| Financial services revenue                          | \$ 79.0  |        | \$ 71.6  |        | 10.3 % |
| Financial services operating earnings               | 56.0     |        | 50.6     |        | 10.7 % |
| Operating earnings                                  | \$ 209.1 | 21.3 % | \$ 208.2 | 23.0 % | 0.4 %  |
| Net earnings  | \$ 133.4 |        | \$ 131.7 |        | 1.3 %  |
| Diluted EPS   | \$ 2.29  |        | \$ 2.22  |        | 3.2 %  |

- Organic sales up 2.3%; excludes \$44.3 million of acquisition-related sales and \$5.9 million of favorable foreign currency translation
- Gross margin of 49.6% declined 60 basis points (bps) primarily due to 40 bps of unfavorable foreign currency effects and lower gross margin on acquisition-related sales, partially offset by savings from Rapid Continuous Improvement (“RCI”) initiatives
- The operating expense margin of 32.7% increased 140 bps as 170 bps for a charge related to a judgment in an employment-related litigation matter that is being appealed (“legal charge”) and 30 bps of operating expenses for acquisitions were partially offset by sales volume leverage
- Operating earnings before financial services of \$153.1 million, including \$1.9 million of unfavorable foreign currency effects and \$15.0 million for the legal charge, decreased \$4.5 million and the operating margin of 16.9% compared to 18.9% last year
- Diluted EPS of \$2.29 up 3.2%; excluding \$0.16 per share legal charge, diluted EPS, as adjusted, of \$2.45 up 10.4%

# Commercial & Industrial – 3<sup>rd</sup> Quarter

| (\$ in millions - unaudited) | 2017     | 2016     | Change |
|------------------------------|----------|----------|--------|
| Segment sales                | \$ 314.6 | \$ 289.3 | 8.7 %  |
| ➤ Organic sales              | 0.6      |          | 0.2 %  |
| ➤ Acquisitions               | 22.7     |          | 7.8 %  |
| ➤ Currency translation       | 2.0      |          | 0.7 %  |
| Gross profit                 | \$ 126.7 | \$ 112.7 |        |
| % of sales                   | 40.3 %   | 39.0 %   |        |
| Operating expenses           | \$ 76.6  | \$ 69.0  |        |
| % of sales                   | 24.4 %   | 23.9 %   |        |
| Operating earnings           | \$ 50.1  | \$ 43.7  | 14.6 % |
| % of sales                   | 15.9 %   | 15.1 %   |        |

- Organic sales up \$0.6 million or 0.2%
  - Primarily due to increased sales to customers in critical industries and a gain in sales in the segment's European-based hand tools business, substantially offset by decreased sales of power tools and in the segment's Asia Pacific operations
  - Excludes \$22.7 million of acquisition-related sales and \$2.0 million of favorable foreign currency translation
- Gross margin of 40.3% increased 130 bps from 2016 primarily due to favorable business mix and benefits from RCI initiatives
- The operating expense margin of 24.4% increased 50 bps from last year primarily due to 40 bps of operating expenses for acquisitions
- Operating earnings of \$50.1 million, including \$0.1 million of favorable currency effects, increased \$6.4 million; the operating margin improved 80 bps to 15.9%

# Snap-on Tools – 3<sup>rd</sup> Quarter

| <i>(\$ in millions - unaudited)</i> | <b>2017</b> | <b>2016</b> | <b>Change</b> |
|-------------------------------------|-------------|-------------|---------------|
| Segment sales                       | \$ 392.7    | \$ 397.2    | (1.1)%        |
| ➤ Organic sales                     | (6.5)       |             | (1.6)%        |
| ➤ Currency translation              | 2.0         |             | 0.5 %         |
| Gross profit                        | \$ 164.2    | \$ 173.3    |               |
| % of sales                          | 41.8 %      | 43.6 %      |               |
| Operating expenses                  | \$ 107.9    | \$ 108.7    |               |
| % of sales                          | 27.5 %      | 27.3 %      |               |
| Operating earnings                  | \$ 56.3     | \$ 64.6     | (12.8)%       |
| % of sales                          | 14.3 %      | 16.3 %      |               |

- Organic sales down \$6.5 million, or 1.6%, including a decrease in the company's U.S. franchise operations, partially offset by increased sales in the company's international franchise operations
- Gross margin of 41.8% decreased 180 bps primarily due to a year-over-year shift in product mix and 70 bps of unfavorable foreign currency effects
- The operating expense margin of 27.5% increased 20 bps primarily due to the effect of the lower sales
- Operating earnings of \$56.3 million, including \$2.3 million of unfavorable foreign currency effects, decreased \$8.3 million and the operating margin of 14.3% compared to 16.3% last year



# Repair Systems & Information – 3<sup>rd</sup> Quarter

| (\$ in millions - unaudited) | 2017     | 2016     | Change |
|------------------------------|----------|----------|--------|
| Segment sales                | \$ 333.5 | \$ 286.1 | 16.6 % |
| ➤ Organic sales              | 23.7     |          | 8.2 %  |
| ➤ Acquisitions               | 21.6     |          | 7.5 %  |
| ➤ Currency translation       | 2.1      |          | 0.9 %  |
| Gross profit                 | \$ 157.7 | \$ 133.1 |        |
| % of sales                   | 47.3 %   | 46.5 %   |        |
| Operating expenses           | \$ 74.3  | \$ 61.3  |        |
| % of sales                   | 22.3 %   | 21.4 %   |        |
| Operating earnings           | \$ 83.4  | \$ 71.8  | 16.2 % |
| % of sales                   | 25.0 %   | 25.1 %   |        |

- Organic sales up \$23.7 million or 8.2%
  - Increased sales of diagnostic and repair information products to independent repair shop owners and managers, higher sales to OEM dealerships and higher sales of undercar equipment
- Gross margin of 47.3% improved 80 bps, including 40 bps of benefits from acquisitions and savings from RCI initiatives
- The operating expense margin of 22.3% increased 90 bps primarily due to 180 bps of impact from acquisitions, partially offset by benefits of sales volume leverage
- Operating earnings of \$83.4 million, including \$0.3 million of favorable foreign currency effects, increased \$11.6 million; the operating margin of 25.0% in the third quarter of 2017 compared to 25.1% last year, including 140 bps impact from acquisitions

# Financial Services – 3<sup>rd</sup> Quarter

| <i>(\$ in millions - unaudited)</i> | <b>2017</b> | <b>2016</b> | <b>Change</b> |
|-------------------------------------|-------------|-------------|---------------|
| Segment revenue                     | \$ 79.0     | \$ 71.6     | 10.3 %        |
| Operating earnings                  | \$ 56.0     | \$ 50.6     | 10.7 %        |
|                                     |             |             |               |
| Originations                        | \$ 271.8    | \$ 269.8    | 0.7 %         |

- Originations increased \$2.0 million or 0.7%
- Average yield on finance receivables of 17.9% compared to 18.0% in 2016
- Average yield on contract receivables of 9.2% compared to 9.4% in 2016

# Financial Services Portfolio Data

| (\$ in millions - unaudited) | United States   |            | International   |          |
|------------------------------|-----------------|------------|-----------------|----------|
|                              | Extended Credit | Total      | Extended Credit | Total    |
| Gross finance portfolio      | \$ 1,394.6      | \$ 1,714.0 | \$ 184.0        | \$ 259.8 |
| Portfolio net losses (TTM)   | \$ 41.5         | \$ 43.2    | \$ 2.2          | \$ 2.5   |
| 60+ Delinquency:             |                 |            |                 |          |
| As of 9/30/17                | 1.7 %           | 1.5 %      | 0.6 %           | 0.6 %    |
| As of 6/30/17                | 1.4 %           | 1.2 %      | 0.6 %           | 0.6 %    |
| As of 3/31/17                | 1.4 %           | 1.2 %      | 0.7 %           | 0.6 %    |
| 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 %    |

- Gross finance portfolio of \$1,973.8 million as of September 30, 2017
  - YTD 2017 portfolio growth of \$159.1 million
  - Q3 portfolio growth of \$59.4 million
- TTM – Trailing twelve months

# Cash Flows

| (\$ in millions - unaudited)                     | 3rd Quarter      |                  | September YTD    |                   |
|--|------------------|------------------|------------------|-------------------|
|  | 2017             | 2016             | 2017             | 2016              |
| <b>Net cash provided by operating activities</b> | <b>\$ 95.5</b>   | <b>\$ 111.9</b>  | <b>\$ 415.0</b>  | <b>\$ 415.6</b>   |
| ➤ Net earnings                                   | 137.1            | 135.2            | 439.0            | 409.9             |
| ➤ Depreciation and amortization                  | 23.5             | 21.2             | 69.4             | 63.9              |
| ➤ Changes in deferred income taxes               | (13.2)           | (6.8)            | (10.1)           | (12.5)            |
| ➤ Settlement of treasury lock                    | -                | -                | 14.9             | -                 |
| ➤ Changes in working investment                  | (63.8)           | (39.7)           | (111.2)          | (33.4)            |
| ➤ Changes in accruals and other liabilities      | 14.7             | 11.6             | (13.3)           | (10.9)            |
| ➤ Changes in all other operating activities      | (2.8)            | (9.6)            | 26.3             | (1.4)             |
| Net increase in finance receivables              | \$ (35.2)        | \$ (56.0)        | \$ (141.1)       | \$ (189.7)        |
| Capital expenditures                             | \$ (22.9)        | \$ (16.5)        | \$ (57.3)        | \$ (56.6)         |
| Acquisitions of businesses                       | (2.7)            | -                | \$ (82.9)        | -                 |
| Free cash flow                                   | \$ 37.4          | \$ 39.4          | \$ 216.6         | \$ 169.3          |
| <b>Free cash flow from Operations</b>            | <b>\$ 56.9</b>   | <b>\$ 88.3</b>   | <b>\$ 265.2</b>  | <b>\$ 295.5</b>   |
| <b>Free cash flow from Financial Services</b>    | <b>\$ (19.5)</b> | <b>\$ (48.9)</b> | <b>\$ (48.6)</b> | <b>\$ (126.2)</b> |
| Increase (decrease) in cash                      | \$ 5.1           | \$ (2.4)         | \$ 16.5          | \$ 24.7           |

- 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 30,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|---|-------------------------------|------------------------------|
| Trade & Other Accounts Receivable - net | \$ 675.2                      | \$ 598.8                     |
| Days Sales Outstanding                  | 67                            | 63                           |
| Finance Receivables - net               | \$ 1,524.4                    | \$ 1,407.0                   |
| Contract Receivables - net              | \$ 410.2                      | \$ 374.8                     |
| Inventory - net                         | \$ 649.9                      | \$ 530.5                     |
| Inventory turns - TTM                   | 3.1                           | 3.3                          |
| Cash                                    | \$ 94.1                       | \$ 77.6                      |
| Total debt                              | \$ 1,208.4                    | \$ 1,010.2                   |
| Net debt                                | \$ 1,114.3                    | \$ 932.6                     |
| Net debt to capital ratio               | 27.6 %                        | 26.3 %                       |

- Total debt as of 2016 year end included \$130 million of commercial paper borrowings; \$170 million of commercial paper borrowings were outstanding as of September 30, 2017
- Snap-on repurchased 1,348,000 shares for \$212.6 million in the first nine months of 2017

# Reconciliation of Non-GAAP Financial Measures

| AS REPORTED<br><i>(\$ in millions, except per share data - unaudited)</i>  | Three Months Ended |                 | Nine Months Ended |                 |
|--|--------------------|-----------------|-------------------|-----------------|
|  | Sept. 30,<br>2017  | Oct. 1,<br>2016 | Sept. 30,<br>2017 | Oct. 1,<br>2016 |
| <b>Charge related to a judgment in an employment-related litigation matter that is being appealed (“legal charge”)</b> |                    |                 |                   |                 |
| Pre-tax legal charge   | \$ 15.0            | \$ -            | \$ 15.0           | \$ -            |
| Income tax expense   | <u>(5.7)</u>       | <u>-</u>        | <u>(5.7)</u>      | <u>-</u>        |
| Legal charge, net of tax   | \$ 9.3             | \$ -            | \$ 9.3            | \$ -            |
| Weighted-average shares outstanding – diluted  | 58.3               | 59.3            | 58.9              | 59.4            |
| Diluted EPS – legal charge   | \$ 0.16            | \$ -            | \$ 0.16           | \$ -            |

# Reconciliation of Non-GAAP Financial Measures

| ADJUSTED INFORMATION – NON-GAAP<br><i>(\$ in millions, except per share data - unaudited)</i> | Three Months Ended |                 | Nine Months Ended |                 |
|---|--------------------|-----------------|-------------------|-----------------|
|   | Sept. 30,<br>2017  | Oct. 1,<br>2016 | Sept. 30,<br>2017 | Oct. 1,<br>2016 |
| <b>Operating earnings before financial services</b>   |                    |                 |                   |                 |
| As reported   | \$ 153.1           | \$ 157.6        | \$ 506.3          | \$ 479.4        |
| Legal charge  | <u>15.0</u>        | <u>-</u>        | <u>15.0</u>       | <u>-</u>        |
| As adjusted to exclude legal charge   | \$ 168.1           | \$ 157.6        | \$ 521.3          | \$ 479.4        |
| <b>Operating earnings before financial services as a percentage of sales</b>                  |                    |                 |                   |                 |
| As reported   | 16.9 %             | 18.9 %          | 18.7 %            | 18.9 %          |
| As adjusted to exclude legal charge   | 18.6 %             | 18.9 %          | 19.2 %            | 18.9 %          |
| <b>Operating earnings</b>   |                    |                 |                   |                 |
| As reported   | \$ 209.1           | \$ 208.2        | \$ 669.4          | \$ 626.5        |
| Legal charge  | <u>15.0</u>        | <u>-</u>        | <u>15.0</u>       | <u>-</u>        |
| As adjusted to exclude legal charge   | \$ 224.1           | \$ 208.2        | \$ 684.4          | \$ 626.5        |
| <b>Operating earnings as a percentage of revenue</b>  |                    |                 |                   |                 |
| As reported   | 21.3 %             | 23.0 %          | 22.7 %            | 22.8 %          |
| As adjusted to exclude legal charge   | 22.8 %             | 23.0 %          | 23.2 %            | 22.8 %          |
| <b>Net earnings attributable to Snap-on Inc.</b>  |                    |                 |                   |                 |
| As reported   | \$ 133.4           | \$ 131.7        | \$ 428.2          | \$ 400.1        |
| Legal charge  | <u>9.3</u>         | <u>-</u>        | <u>9.3</u>        | <u>-</u>        |
| As adjusted to exclude legal charge   | \$ 142.7           | \$ 131.7        | \$ 437.5          | \$ 400.1        |
| <b>Diluted EPS</b>  |                    |                 |                   |                 |
| As reported   | \$ 2.29            | \$ 2.22         | \$ 7.27           | \$ 6.74         |
| Legal charge  | <u>0.16</u>        | <u>-</u>        | <u>0.16</u>       | <u>-</u>        |
| As adjusted to exclude legal charge   | \$ 2.45            | \$ 2.22         | \$ 7.43           | \$ 6.74         |