



# Quarterly Financial Review

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**Second Quarter 2018**

# Cautionary Statement

- These slides should be read in conjunction with comments from the July 19, 2018 conference call. The financial statement information included herein is unaudited.
- Statements made during the July 19, 2018 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 July 19, 2018 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 July 19, 2018 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**

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**Chairman and Chief Executive Officer**



**Aldo Pagliari**

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**Senior Vice President and Chief Financial Officer**

# Consolidated Results – 2<sup>nd</sup> Quarter

(\$ in millions, except per share data - unaudited)	2018		2017		Change
	\$	%	\$	%	
Net sales	\$ 954.6		\$ 921.4		3.6 %
➤ Organic sales	12.1				1.3 %
➤ Acquisitions	8.1				0.9 %
➤ Currency translation	13.0				1.4 %
Gross profit	\$ 487.1	51.0 %	\$ 463.2	50.3 %	
Operating expenses	294.0	30.8 %	279.5	30.4 %	
Operating earnings before financial services	\$ 193.1	20.2 %	\$ 183.7	19.9 %	5.1 %
Financial services revenue	\$ 82.0		\$ 77.7		5.5 %
Financial services operating earnings	57.8		54.6		5.9 %
Operating earnings	\$ 250.9	24.2 %	\$ 238.3	23.9 %	5.3 %
Net earnings	\$ 178.7		\$ 153.2		16.6 %
Diluted EPS	\$ 3.12		\$ 2.60		20.0 %

- Organic sales up 1.3%; excludes \$8.1 million of acquisition-related sales and \$13.0 million of favorable foreign currency translation
- Gross margin of 51.0% improved 70 basis points (bps) primarily due to benefits from higher sales, savings from Rapid Continuous Improvement (“RCI”) initiatives and 10 bps of favorable currency effects, partially offset by higher material and other costs
- The operating expense margin of 30.8% increased 40 bps from 30.4% last year due to higher costs and 10 bps from acquisitions, partially offset by 10 bps of favorable foreign currency effects
- Operating earnings before financial services of \$193.1 million, including \$4.5 million of favorable foreign currency effects, increased \$9.4 million and the operating margin of 20.2% compared to 19.9% last year
- Diluted EPS of \$3.12 up 20.0%; excluding \$0.01 per share benefit for newly issued guidance associated with U.S. tax legislation, diluted EPS, as adjusted, of \$3.11 up 19.6%

# Commercial & Industrial – 2<sup>nd</sup> Quarter

<i>(\$ in millions - unaudited)</i>	<b>2018</b>	<b>2017</b>	<b>Change</b>
Segment sales	\$ 337.8	\$ 310.0	9.0 %
➤ Organic sales	13.9		4.4 %
➤ Acquisitions	8.1		2.6 %
➤ Currency translation	5.8		2.0 %
Gross profit	\$ 133.0	\$ 120.9	
% of sales	39.4 %	39.0 %	
Operating expenses	\$ 84.0	\$ 77.9	
% of sales	24.9 %	25.1 %	
Operating earnings	\$ 49.0	\$ 43.0	14.0 %
% of sales	14.5 %	13.9 %	

- Organic sales up \$13.9 million or 4.4%
  - Primarily due to increased sales to customers in critical industries and slightly higher sales in the segment's European-based hand tools business, partially offset by a decrease in sales of power tools
  - Excludes \$8.1 million of acquisition-related sales and \$5.8 million of favorable foreign currency translation
- Gross margin of 39.4% improved 40 bps from 2017 primarily due to higher sales volume and benefits from RCI initiatives, partially offset by 30 bps of unfavorable foreign currency effects
- The operating expense margin of 24.9% improved 20 bps from 25.1% last year
- Operating earnings of \$49.0 million, including \$0.2 million of unfavorable foreign currency effects, increased \$6.0 million; the operating margin of 14.5%, including 30 bps of unfavorable foreign currency effects, compared to 13.9% last year

# Snap-on Tools – 2<sup>nd</sup> Quarter

<i>(\$ in millions - unaudited)</i>	<b>2018</b>	<b>2017</b>	<b>Change</b>
Segment sales	\$ 411.9	\$ 413.8	(0.5)%
➤ Organic sales	(6.1)		(1.5)%
➤ Currency translation	4.2		1.0 %
Gross profit	\$ 189.2	\$ 183.6	
% of sales	45.9 %	44.4 %	
Operating expenses	\$ 110.2	\$ 102.9	
% of sales	26.7 %	24.9 %	
Operating earnings	\$ 79.0	\$ 80.7	(2.1)%
% of sales	19.2 %	19.5 %	

- Organic sales down \$6.1 million, or 1.5%, including a decrease in the company's U.S. franchise operations, while sales in the company's international franchise operations were essentially flat
- Gross margin of 45.9% improved 150 bps primarily due to 70 bps of favorable foreign currency effects, higher sales of higher margin products and benefits from RCI initiatives
- The operating expense margin of 26.7% increased 180 bps primarily due to higher costs and the effect of the lower sales volume
- Operating earnings of \$79.0 million, including \$4.1 million of favorable foreign currency effects, decreased \$1.7 million and the operating margin of 19.2% compared to 19.5% last year



# Repair Systems & Information – 2<sup>nd</sup> Quarter

<i>(\$ in millions - unaudited)</i>	<b>2018</b>	<b>2017</b>	<b>Change</b>
Segment sales	\$ 343.1	\$ 338.1	1.5 %
➤ Organic sales	0.1		0.0 %
➤ Currency translation	4.9		1.5 %
Gross profit	\$ 164.9	\$ 158.7	
% of sales	48.1 %	46.9 %	
Operating expenses	\$ 76.2	\$ 76.5	
% of sales	22.2 %	22.6 %	
Operating earnings	\$ 88.7	\$ 82.2	7.9 %
% of sales	25.9 %	24.3 %	

- Organic sales up \$0.1 million
  - Increased sales of diagnostic and repair information products to independent repair shop owners and managers, largely offset by decreased sales of undercar equipment; sales to OEM dealerships were essentially flat
  - Excludes \$4.9 million of favorable foreign currency translation
- Gross margin of 48.1% improved 120 bps primarily as a result of a shift in sales that included higher volumes of high gross margin products and benefits from RCI initiatives, partially offset by 20 bps of unfavorable foreign currency effects
- The operating expense margin of 22.2% improved 40 bps from 22.6% last year
- Operating earnings of \$88.7 million, including \$0.6 million of favorable foreign currency effects, increased \$6.5 million; the operating margin of 25.9% improved 160 bps from 24.3% last year

# Financial Services – 2<sup>nd</sup> Quarter

<i>(\$ in millions - unaudited)</i>	<b>2018</b>	<b>2017</b>	<b>Change</b>
Segment revenue	\$ 82.0	\$ 77.7	5.5 %
Operating earnings	\$ 57.8	\$ 54.6	5.9 %
Originations	\$ 276.1	\$ 270.6	2.0 %

- Originations increased \$5.5 million or 2.0% due to higher originations of contract receivables; originations of finance receivables declined slightly
- Average yield on finance receivables of 17.7% compared to 17.9% in 2017
- Average yield on contract receivables of 9.1% in both years

# Financial Services Portfolio Data

(\$ in millions - unaudited)	United States		International	
	Extended Credit	Total	Extended Credit	Total
Gross finance portfolio	\$ 1,439.4	\$ 1,770.5	\$ 185.3	\$ 260.1
Portfolio net losses (TTM)	\$ 49.2	\$ 50.7	\$ 2.3	\$ 2.7
60+ Delinquency:				
As of 6/30/18	1.4 %	1.2 %	0.7 %	0.7 %
As of 3/31/18	1.6 %	1.4 %	0.8 %	0.7 %
As of 12/31/17	1.9 %	1.5 %	0.7 %	0.7 %
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 %

- Gross finance portfolio of \$2,030.6 million as of June 30, 2018
  - YTD 2018 portfolio growth of \$28.7 million
  - Q2 portfolio growth of \$20.4 million
- TTM – Trailing twelve months

# Cash Flows

(\$ in millions - unaudited)	2nd Quarter		June YTD	
	2018	2017	2018	2017
<b>Net cash provided by operating activities</b>	<b>\$ 186.9</b>	<b>\$ 127.1</b>	<b>\$ 418.8</b>	<b>\$ 319.5</b>
➤ Net earnings	182.7	156.8	349.5	301.9
➤ Depreciation and amortization	24.0	22.8	48.0	45.9
➤ Changes in deferred income taxes	(4.5)	(4.3)	(4.1)	3.1
➤ Settlement of treasury lock	-	-	-	14.9
➤ Loss on early extinguishment of debt	-	-	7.8	-
➤ Changes in working investment	(9.1)	(48.5)	(8.2)	(47.4)
➤ Changes in accruals and other liabilities	(31.1)	(16.0)	(25.7)	(28.0)
➤ Changes in all other operating activities	24.9	16.3	51.5	29.1
Net increase in finance receivables	\$ (40.3)	\$ (52.7)	\$ (56.8)	\$ (105.9)
Capital expenditures	\$ (20.6)	\$ (15.8)	\$ (38.6)	\$ (34.4)
Free cash flow	\$ 126.0	\$ 58.6	\$ 323.4	\$ 179.2
<b>Free cash flow from Operations</b>	<b>\$ 139.5</b>	<b>\$ 79.4</b>	<b>\$ 289.1</b>	<b>\$ 208.3</b>
<b>Free cash flow from Financial Services</b>	<b>\$ (13.5)</b>	<b>\$ (20.8)</b>	<b>\$ 34.3</b>	<b>\$ (29.1)</b>
Increase (decrease) in cash	\$ 14.8	\$ (34.0)	\$ 20.3	\$ 11.4

- 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>June 30, 2018</b>	<b>December 30, 2017</b>
Trade & Other Accounts Receivable - net	\$ 667.1	\$ 675.6
Days Sales Outstanding	64	66
Finance Receivables - net	\$ 1,565.7	\$ 1,544.6
Contract Receivables - net	\$ 420.2	\$ 419.4
Inventory - net	\$ 668.3	\$ 638.8
Inventory turns - TTM	3.0	3.2
Cash	\$ 112.3	\$ 92.0
Total debt	\$ 1,073.0	\$ 1,186.8
Net debt	\$ 960.7	\$ 1,094.8
Net debt to capital ratio	23.7 %	27.0 %

- Inventory – net as of June 30, 2018 includes a \$20.9 million increase as a result of the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, at the beginning of fiscal 2018

# Reconciliation of Non-GAAP Financial Measures

AS REPORTED <i>(\$ in millions, except per share data - unaudited)</i>	2nd Quarter		June YTD	
	2018	2017	2018	2017
<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>(3.3)</u>	<u>-</u>
Gain on settlement of treasury lock, after tax	\$ -	\$ -	\$ 10.0	\$ -
Weighted-average shares outstanding – diluted	57.3	59.0	57.6	59.2
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>1.9</u>	<u>-</u>
Loss on early extinguishment of debt, after tax	\$ -	\$ -	\$ (5.9)	\$ -
Weighted-average shares outstanding – diluted	57.3	59.0	57.6	59.2
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>(1.4)</u>	<u>-</u>
Net debt items, after tax	\$ -	\$ -	\$ 4.1	\$ -
Weighted-average shares outstanding – diluted	57.3	59.0	57.6	59.2
Diluted EPS – net debt items	\$ -	\$ -	\$ 0.07	\$ -

# Reconciliation of Non-GAAP Financial Measures

ADJUSTED INFORMATION – NON-GAAP <i>(\$ in millions - unaudited)</i>	2nd Quarter		June YTD	
	2018	2017	2018	2017
<b>Net earnings attributable to Snap-on Incorporated</b>				
As reported	\$ 178.7	\$ 153.2	\$ 341.7	\$ 294.8
Net debt items, after tax	-	-	(4.1)	-
Tax (benefit)/charge	<u>(0.5)</u>	<u>-</u>	<u>2.1</u>	<u>-</u>
As adjusted to exclude net debt items and tax benefit/charge	\$ 178.2	\$ 153.2	\$ 339.7	\$ 294.8
<b>Diluted EPS</b>				
As reported	\$ 3.12	\$ 2.60	\$ 5.93	\$ 4.98
Net debt items, after tax	-	-	(0.07)	-
Tax (benefit)/charge	<u>(0.01)</u>	<u>-</u>	<u>0.04</u>	<u>-</u>
As adjusted to exclude net debt items and tax benefit/charge	\$ 3.11	\$ 2.60	\$ 5.90	\$ 4.98
<b>Effective tax rate</b>				
As reported	23.8 %	30.6 %	25.0 %	30.6 %
Tax benefit/(charge)	<u>0.2 %</u>	<u>-</u>	<u>-0.5 %</u>	<u>-</u>
As adjusted to exclude net debt items and tax benefit/charge	24.0 %	30.6 %	24.5 %	30.6 %