

August 21, 2017  
Company Update

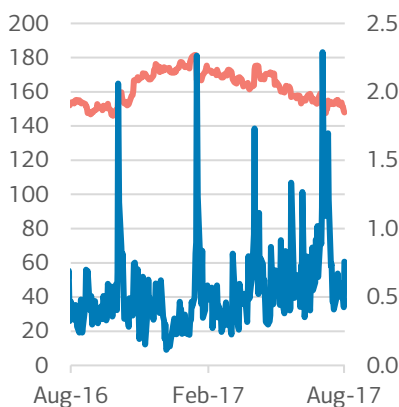
**Tim Murray**  
tim@jcapitalresearch.com

+852 2534 7405

### Snap-on Inc. (SNA US)

Price	147.96
<b>Rating</b>	<b>SELL</b>
<b>Price Target</b>	<b>116.2</b>
Difference	-21%
Avg Volume	558,000
Short interest	10%
Market Cap	USD 8.52 bln
P/E	15.31x

Snap-on Inc. (SNA US) last share price in USD (left, pink) and volume in mln shares (right, blue)



Source: Bloomberg August 21, 2017

## Snap-on Incorporated (SNA US) The Blame Game

### ► A Weak Q2

SNA blamed destocking ahead of the Snap-On Franchise Conference (SFC) in August for poor sales in Q2. A recent survey indicates that was an unlikely cause.

### ► Little Help from SFC

SFC was the event to turn around tool-storage sales, the other key cause claimed by management for poor sales in Q2. It has not happened.

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## Credit Rules Squeeze

Snap-on Tools had a poor Q2 2017 and blamed weak tool-storage sales and destocking ahead of the Snap-On Franchise Conference (SFC) in early August. We believe the market for tool storage is saturated as a direct result of excessive credit sales bringing forward consumption. Tightening credit terms have ended the party. The SFC did not turn this problem around.

Snap-On Tools sales showed an anemic 0.5% growth in Q2 2017. CEO Nicholas Pinchuk said on the earnings call, “There were two primary drivers attenuating tool activity: tool-storage sales and destock.”

He said, “the segment isn't saturated; however, our product line wasn't as compelling.” On the call, management said that loan originations were down 3.7%, because loan originations for tool storage were down 5.1%.

Sales “off the truck,” from franchisees to customers, were down about 5%, but from Snap-on Tools to franchisees, the sales of tool storage were down double digits.

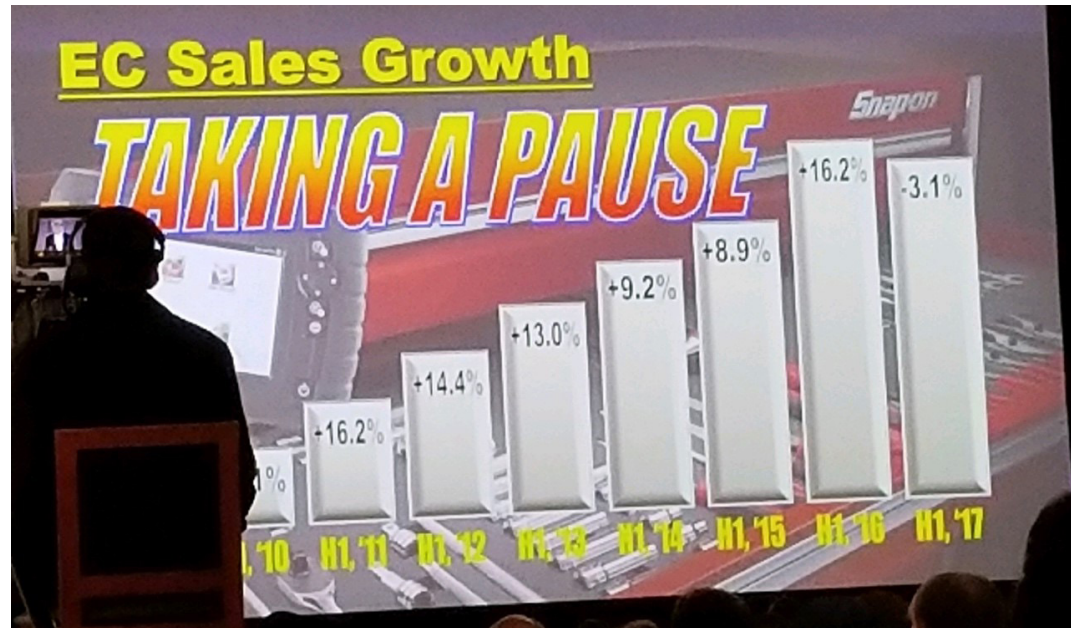
Pinchuk said this about destocking: “It appears that the traditional destocking that precedes the buying opportunities of the Snap-on Franchisee Conference or SFC, and always takes place in July and early August--well,

There were three separate “buy one, get one free” deals for tool boxes but franchisees said they did not make as many purchases this year as last.



Fancy new tool boxes on display at the SFC | Source: Snap-On Facebook page, August 2017.

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A presentation slide at the Snap-on Franchise Conference | Source: Event attendee, August 2017.

that contraction crept into part of June.”

“See, recent SFCs have been bigger than ever, offering more exciting products. Franchisees have been ordering more in that one big weekend, in this year, they’re getting ready earlier clearing the decks.”

### But Franchisees Didn't Destock!

The Capital Forum, a Washington-based research company, surveyed franchisees after the earnings call and before the SFC. Some 65% of respondents said they did not destock in June, and 20% said their destocking was the same as last year. The survey was sent to 2,324 franchisees, and 65 responded. In addition, 23% said they expected not being able to roll revolving account (RA) credit sales into extended credit sales (one of the key adjustments to the Platinum credit program in May 2017) and that this will lead to higher default of RA sales.

### Franchise Conference a Fizzer

The Snap-on Franchise Conference was held in Dallas from 12-14 August, with 8% fewer attendees than last year--8,000 versus 8,700 in 2016. A new range of tool boxes was released, but attendees said their purchases of tool boxes were down.

Attendees said tool storage was heavily promoted at the conference. They had a special day called “Tool Box Tuesday” to present the new range of tool box with fancy colors and decals. New tool boxes are marketed as “100%

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made in USA". There were many special sales deals, such as order more than USD 60,000 and get a tool box free. There were three separate "buy one, get one free" deals for tool boxes. However, franchisees said they did not make as many purchases this year as last. Tool-storage sales will not improve in Q3.

Credit tightening was a key theme at the conference. A booklet passed out at the conference outlined new credit conditions and included enhanced filing requirements for the federal government. The new credit policy was in place for part of Q2, with Q3 the first full quarter of tight credit we expect Snap-on Tools sales to be down in Q3 and defaults to rise by 50 basis points.

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