

SNAP-ON Inc
Form 10-Q
October 18, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 29, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-7724

(Exact name of registrant as specified in its charter)

Delaware 39-0622040
(State of incorporation) (I.R.S. Employer Identification No.)

2801 80th Street, Kenosha, Wisconsin 53143
(Address of principal executive offices) (Zip code)
(262) 656-5200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Class	Outstanding at October 12, 2018
Common Stock, \$1.00 par value	56,175,480 shares

Table of Contents

TABLE OF CONTENTS

	Page
<u>Part I: Financial Information</u>	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Condensed Consolidated Statements of Earnings (unaudited) – Three and Nine Months Ended September 29, 2018, and September 30, 2017</u> 2
	<u>Condensed Consolidated Statements of Comprehensive Income (unaudited) – Three and Nine Months Ended September 29, 2018, and September 30, 2017</u> 4
	<u>Condensed Consolidated Balance Sheets (unaudited) – September 29, 2018, and December 30, 2017</u> 5
	<u>Condensed Consolidated Statements of Equity (unaudited) – Nine Months Ended September 29, 2018, and September 30, 2017</u> 7
	<u>Condensed Consolidated Statements of Cash Flows (unaudited) – Nine Months Ended September 29, 2018, and September 30, 2017</u> 8
	<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u> 9
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> 39
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 58
<u>Item 4.</u>	<u>Controls and Procedures</u> 59
<u>Part II: Other Information</u>	
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 60
<u>Item 6.</u>	<u>Exhibits</u> 61
	<u>Signatures</u> 62

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

SNAP-ON INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in millions, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net sales	\$898.1	\$ 903.8	\$2,788.2	\$ 2,712.3
Cost of goods sold	(444.2)	(455.0)	(1,375.6)	(1,352.0)
Gross profit	453.9	448.8	1,412.6	1,360.3
Operating expenses	(280.8)	(296.1)	(868.7)	(853.7)
Operating earnings before financial services	173.1	152.7	543.9	506.6
Financial services revenue	82.0	79.0	247.0	233.5
Financial services expenses	(22.7)	(23.0)	(73.0)	(70.4)
Operating earnings from financial services	59.3	56.0	174.0	163.1
Operating earnings	232.4	208.7	717.9	669.7
Interest expense	(12.4)	(13.1)	(38.0)	(38.8)
Other income (expense) – net	(1.0)	(1.7)	1.2	(6.0)
Earnings before income taxes and equity earnings	219.0	193.9	681.1	624.9
Income tax expense	(51.5)	(57.2)	(164.9)	(187.1)
Earnings before equity earnings (loss)	167.5	136.7	516.2	437.8
Equity earnings (loss), net of tax	(0.1)	0.4	0.7	1.2
Net earnings	167.4	137.1	516.9	439.0
Net earnings attributable to noncontrolling interests	(4.2)	(3.7)	(12.0)	(10.8)
Net earnings attributable to Snap-on Incorporated	\$163.2	\$ 133.4	\$504.9	\$ 428.2
Net earnings per share attributable to Snap-on Incorporated:				
Basic	\$2.90	\$ 2.33	\$8.95	\$ 7.43
Diluted	2.85	2.29	8.78	7.27
Weighted-average shares outstanding:				
Basic	56.3	57.2	56.4	57.6
Effect of dilutive securities	1.0	1.1	1.1	1.3
Diluted	57.3	58.3	57.5	58.9
Dividends declared per common share	\$0.82	\$ 0.71	\$2.46	\$ 2.13

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

SNAP-ON INCORPORATED
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Amounts in millions)
 (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Comprehensive income:				
Net earnings	\$167.4	\$ 137.1	\$516.9	\$ 439.0
Other comprehensive income (loss):				
Foreign currency translation*	2.0	51.4	(56.5)	138.9
Unrealized gain/loss on cash flow hedges, net of tax:				
Other comprehensive income (loss) before reclassifications	—	—	(0.8)	6.1
Reclassification of cash flow hedges to net earnings	(0.4)	(0.5)	(1.2)	(1.2)
Defined benefit pension and postretirement plans:				
Amortization of net unrecognized losses and prior service credits included in net periodic benefit cost	7.8	6.6	23.4	19.8
Income tax benefit	(1.8)	(2.3)	(5.6)	(6.9)
Net of tax	6.0	4.3	17.8	12.9
Total comprehensive income	\$175.0	\$ 192.3	\$476.2	\$ 595.7
Comprehensive income attributable to noncontrolling interests	(4.2)	(3.7)	(12.0)	(10.8)
Comprehensive income attributable to Snap-on Incorporated	\$170.8	\$ 188.6	\$464.2	\$ 584.9

* There is no reclassification adjustment as there was no sale or liquidation of any foreign entity during any period presented.

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsSNAP-ON INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

	September 29, 2018	December 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 122.2	\$ 92.0
Trade and other accounts receivable – net	678.7	675.6
Finance receivables – net	519.0	505.4
Contract receivables – net	105.6	96.8
Inventories – net	690.6	638.8
Prepaid expenses and other assets	98.5	110.7
Total current assets	2,214.6	2,119.3
Property and equipment:		
Land	31.4	24.5
Buildings and improvements	366.7	357.4
Machinery, equipment and computer software	936.4	889.2
	1,334.5	1,271.1
Accumulated depreciation and amortization	(843.5) (786.7
Property and equipment – net	491.0	484.4
Deferred income tax assets	52.0	52.0
Long-term finance receivables – net	1,058.3	1,039.2
Long-term contract receivables – net	338.1	322.6
Goodwill	913.9	924.1
Other intangibles – net	237.8	253.7
Other assets	49.1	53.8
Total assets	\$ 5,354.8	\$ 5,249.1

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

SNAP-ON INCORPORATED
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Amounts in millions, except share data)
 (Unaudited)

	September 29, 2018	December 30, 2017
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable and current maturities of long-term debt	\$ 164.5	\$ 433.2
Accounts payable	197.6	178.2
Accrued benefits	49.8	55.8
Accrued compensation	72.7	71.5
Franchisee deposits	76.8	66.5
Other accrued liabilities	395.4	388.1
Total current liabilities	956.8	1,193.3
Long-term debt	944.8	753.6
Deferred income tax liabilities	27.3	28.4
Retiree health care benefits	33.7	36.0
Pension liabilities	92.8	158.9
Other long-term liabilities	115.3	106.6
Total liabilities	2,170.7	2,276.8
Commitments and contingencies (Note 14)		
Equity		
Shareholders' equity attributable to Snap-on Incorporated:		
Preferred stock (authorized 15,000,000 shares of \$1 par value; none outstanding)	—	—
Common stock (authorized 250,000,000 shares of \$1 par value; issued 67,415,010 and 67,407,704 shares, respectively)	67.4	67.4
Additional paid-in capital	360.9	343.2
Retained earnings	4,135.8	3,772.3
Accumulated other comprehensive loss	(369.7)	(329.0)
Treasury stock at cost (11,240,029 and 10,717,455 shares, respectively)	(1,030.0)	(900.0)
Total shareholders' equity attributable to Snap-on Incorporated	3,164.4	2,953.9
Noncontrolling interests	19.7	18.4
Total equity	3,184.1	2,972.3
Total liabilities and equity	\$ 5,354.8	\$ 5,249.1

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsSNAP-ON INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Amounts in millions, except share data)

(Unaudited)

The following summarizes the changes in total equity for the nine month period ended September 29, 2018:

Shareholders' Equity Attributable to Snap-on
Incorporated

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interests	Total Equity
Balance at December 30, 2017	\$67.4	\$ 343.2	\$3,772.3	\$ (329.0)	\$ (900.0)	\$ 18.4	\$2,972.3
Net earnings for the nine months ended September 29, 2018	—	—	504.9	—	—	12.0	516.9
Other comprehensive loss	—	—	—	(40.7)	—	—	(40.7)
Cash dividends – \$2.46 per share	—	—	(138.9)	—	—	—	(138.9)
Stock compensation plans	—	17.7	—	—	54.4	—	72.1
Share repurchases – 1,139,000 shares	—	—	—	—	(184.4)	—	(184.4)
Other	—	—	(2.5)	—	—	(10.7)	(13.2)
Balance at September 29, 2018	\$67.4	\$ 360.9	\$4,135.8	\$ (369.7)	\$ (1,030.0)	\$ 19.7	\$3,184.1

The following summarizes the changes in total equity for the nine month period ended September 30, 2017:

Shareholders' Equity Attributable to Snap-on
Incorporated

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interests	Total Equity
Balance at December 31, 2016	\$67.4	\$ 317.3	\$3,384.9	\$ (498.5)	\$ (653.9)	\$ 18.0	\$2,635.2
Net earnings for the nine months ended September 30, 2017	—	—	428.2	—	—	10.8	439.0
Other comprehensive income	—	—	—	156.7	—	—	156.7
Cash dividends – \$2.13 per share	—	—	(123.0)	—	—	—	(123.0)
Stock compensation plans	—	27.1	—	—	28.8	—	55.9
Share repurchases – 1,348,000 shares	—	—	—	—	(212.6)	—	(212.6)
Other	—	—	(0.6)	—	—	(10.6)	(11.2)
Balance at September 30, 2017	\$67.4	\$ 344.4	\$3,689.5	\$ (341.8)	\$ (837.7)	\$ 18.2	\$2,940.0

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsSNAP-ON INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Nine Months Ended	
	September 30,	September 30,
	2018	2017
Operating activities:		
Net earnings	\$516.9	\$ 439.0
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	52.0	48.7
Amortization of other intangibles	19.2	20.7
Provision for losses on finance receivables	41.5	38.6
Provision for losses on non-finance receivables	9.4	7.9
Stock-based compensation expense	22.6	21.4
Deferred income tax benefit	(6.9)	(10.1)
Loss (gain) on sales of assets	0.7	(0.1)
Settlement of treasury lock	—	14.9
Loss on early extinguishment of debt	7.8	—
Changes in operating assets and liabilities, net of effects of acquisitions:		
Increase in trade and other accounts receivable	(26.5)	(50.8)
Increase in contract receivables	(27.9)	(31.8)
Increase in inventories	(49.3)	(86.9)
Increase in prepaid and other assets	(1.1)	(9.7)
Increase in accounts payable	25.2	26.5
Decrease in accruals and other liabilities	(35.0)	(13.3)
Net cash provided by operating activities	548.6	415.0
Investing activities:		
Additions to finance receivables	(643.5)	(670.0)
Collections of finance receivables	564.0	528.9
Capital expenditures	(68.5)	(57.3)
Acquisitions of businesses, net of cash acquired	(3.0)	(82.9)
Disposals of property and equipment	0.3	1.4
Other	1.3	(2.5)
Net cash used by investing activities	(149.4)	(282.4)
Financing activities:		
Proceeds from issuance of long-term debt	395.4	297.8
Repayments of long-term debt	(457.8)	(150.0)
Proceeds from notes payable	—	16.8
Repayment of notes payable	(16.8)	(4.5)
Net increase in other short-term borrowings	0.9	38.7
Cash dividends paid	(138.9)	(123.0)
Purchases of treasury stock	(184.4)	(212.6)
Proceeds from stock purchase and option plans	54.1	36.2
Other	(19.6)	(18.9)
Net cash used by financing activities	(367.1)	(119.5)
Effect of exchange rate changes on cash and cash equivalents	(1.9)	3.4
Increase in cash and cash equivalents	30.2	16.5

Edgar Filing: SNAP-ON Inc - Form 10-Q

Cash and cash equivalents at beginning of year	92.0	77.6
Cash and cash equivalents at end of period	\$122.2	\$ 94.1
Supplemental cash flow disclosures:		
Cash paid for interest	\$(49.7)	\$(49.7)
Net cash paid for income taxes	(148.1)	(168.3)

See Notes to Condensed Consolidated Financial Statements.

8

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Summary of Accounting Policies

Principles of consolidation and presentation

The Condensed Consolidated Financial Statements include the accounts of Snap-on Incorporated and its wholly-owned and majority-owned subsidiaries (collectively, “Snap-on” or the “company”). These financial statements should be read in conjunction with, and have been prepared in conformity with, the accounting principles reflected in the consolidated financial statements and related notes included in Snap-on’s 2017 Annual Report on Form 10-K for the fiscal year ended December 30, 2017 (“2017 year end”). The company’s 2018 fiscal third quarter ended on September 29, 2018; the 2017 fiscal third quarter ended on September 30, 2017. Each of the company’s 2018 and 2017 fiscal first, second and third quarters contained 13 weeks of operating results.

Certain prior year amounts have been reclassified on the Condensed Consolidated Statements of Earnings to conform to the 2018 presentation following the retrospective adoption of ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.

The effects of the adjustments to the Condensed Consolidated Statements of Earnings as a result of the adoption of ASU No. 2017-07 for the three and nine month periods ended September 30, 2017, are as follows:

(Amounts in millions)	For the three months ended September 30, 2017			For the nine months ended September 30, 2017		
	As Previously Reported	Adjusted for ASU No. 2017-07	As Adjusted	As Previously Reported	Adjusted for ASU No. 2017-07	Adjusted
Net sales	\$903.8	\$ —	\$903.8	\$2,712.3	\$ —	\$2,712.3
Cost of goods sold	(455.2)	0.2	(455.0)	(1,352.7)	0.7	(1,352.0)
Gross profit	448.6	0.2	448.8	1,359.6	0.7	1,360.3
Operating expenses	(295.5)	(0.6)	(296.1)	(853.3)	(0.4)	(853.7)
Operating earnings before financial services	153.1	(0.4)	152.7	506.3	0.3	506.6
Operating earnings from financial services	56.0	—	56.0	163.1	—	163.1
Operating earnings	209.1	(0.4)	208.7	669.4	0.3	669.7
Interest expense	(13.1)	—	(13.1)	(38.8)	—	(38.8)
Other income (expense) - net	(2.1)	0.4	(1.7)	(5.7)	(0.3)	(6.0)
Earnings before income taxes and equity earnings	\$193.9	\$ —	\$193.9	\$624.9	\$ —	\$624.9

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Furthermore, the effects of the adjustments to the Consolidated Statements of Earnings as a result of the adoption of ASU No. 2017-07 for the fiscal years ended December 30, 2017, and December 31, 2016, are as follows:

(Amounts in millions)	2017			2016		
	As Previously Reported	Adjusted for ASU No. 2017-07	As Adjusted	As Previously Reported	Adjusted for ASU No. 2017-07	As Adjusted
Net sales	\$3,686.9	\$ —	\$3,686.9	\$3,430.4	\$ —	\$3,430.4
Cost of goods sold	(1,862.0)	1.0	(1,861.0)	(1,720.8)	0.8	(1,720.0)
Gross profit	1,824.9	1.0	1,825.9	1,709.6	0.8	1,710.4
Operating expenses	(1,160.9)	(0.4)	(1,161.3)	(1,054.1)	6.1	(1,048.0)
Operating earnings before financial services	664.0	0.6	664.6	655.5	6.9	662.4
Operating earnings from financial services	217.5	—	217.5	198.7	—	198.7
Operating earnings	881.5	0.6	882.1	854.2	6.9	861.1
Interest expense	(52.4)	—	(52.4)	(52.2)	—	(52.2)
Other income (expense) - net	(7.2)	(0.6)	(7.8)	(0.6)	(6.9)	(7.5)
Earnings before income taxes and equity earnings	\$821.9	\$ —	\$821.9	\$801.4	\$ —	\$801.4

Additionally, prior year “Operating earnings” for certain reportable business segments have been adjusted to reflect these reclassifications. See Note 17 for information on Snap-on’s reportable business segments.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for the fair presentation of the Condensed Consolidated Financial Statements for the three and nine month periods ended September 29, 2018, and September 30, 2017, have been made. Interim results of operations are not necessarily indicative of the results to be expected for the full fiscal year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments

The fair value of the company’s derivative financial instruments is generally determined using quoted prices in active markets for similar assets and liabilities. The carrying value of the company’s non-derivative financial instruments either approximates fair value, due to their short-term nature, or the amount disclosed for fair value is based upon a discounted cash flow analysis or quoted market values. See Note 9 for further information on financial instruments.

Change in Functional Currency

Argentina’s economy has been determined to be highly inflationary effective July 1, 2018. As a result, for GAAP reporting, the functional currency for the company’s subsidiary in Argentina changed from the Argentinian Peso to the U.S. Dollar. The impact of the change in functional currency was not material to the Condensed Consolidated Financial Statements for the three and nine months ended September 29, 2018.

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

New Accounting Standards

The following new accounting pronouncements were adopted in fiscal year 2018:

In March 2017, the Financial Accounting Standards Board (the “FASB”) issued ASU No. 2017-07, which provides additional guidance on the presentation of net periodic pension and postretirement benefit costs in the income statement and on the components eligible for capitalization. The amendments in this ASU require that an employer report the service cost component of the net periodic benefit costs in the same income statement line item as other compensation costs arising from services rendered by employees during the period. The non-service-cost components of net periodic benefit costs are to be presented in the income statement separately from the service cost components and outside a subtotal of income from operations. The ASU also allows for the capitalization of the service cost components, when applicable (i.e., as a cost of internally manufactured inventory or a self-constructed asset).

Snap-on adopted this ASU at the beginning of its 2018 fiscal year, with the changes related to the presentation in the statements of earnings of the service cost and non-service-cost components of net periodic benefit costs applied retrospectively, using the practical expedient permitting the use of the amounts disclosed in pension and other postretirement benefit plan notes as the estimation basis for the presentation of the prior comparative periods. For fiscal 2018 and all comparative periods, the non-service-cost components of net periodic benefit costs are included in “Other income (expense) - net” on the accompanying condensed consolidated statements of earnings. Beginning in fiscal 2018, changes related to the capitalization in assets of the service cost component of net periodic benefit costs were applied prospectively. The adoption of this ASU did not have a significant impact on the company’s Condensed Consolidated Statements of Earnings.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740) – Intra-Entity Transfers of Assets Other Than Inventory. The ASU eliminates the requirement to defer the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. Under the new guidance, an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The amendments in this ASU were to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings at the time of adoption. The adoption of this ASU did not have an impact on the company’s consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230), which adds and/or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this ASU did not have a significant impact to the designations of operating, investing and financing activities on the company’s Condensed Consolidated Statements of Cash Flows.

On December 31, 2017, the beginning of Snap-on’s 2018 fiscal year, Snap-on adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Topic 606 is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Topic 606 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Snap-on adopted Topic 606 using the modified retrospective approach applied to those contracts that were not

completed as of December 31, 2017, which means Topic 606 has been applied to the fiscal 2018 financial statements and disclosures going forward, but that prior period financial statements and disclosures reflect the prior revenue recognition standard. See Note 2 for additional information on revenue recognition.

Snap-on's revenues are primarily from the selling of products that are shipped and billed, services provided to customers and from subscriptions, including software subscriptions. Approximately 90% of net sales are earned at a point in time through ship-and- bill performance obligations. The remaining performance obligations that are recorded over time relate primarily to software subscriptions and to a lesser extent extended warranty and other subscription agreements. Revenues are recognized when control is transferred to customers, in an amount that reflects the consideration Snap-on expects to be entitled to in exchange for those goods and services. Revenue recognition is evaluated through the following five steps: (i) identification of the contract, or contracts, with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv)

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

allocation of the transaction price to the performance obligations in the contract; and (v) recognition of revenue when or as a performance obligation is satisfied.

Revenue related to software subscriptions, as well as extended warranty and other subscription agreements, is generally recognized over time on a ratable basis over the contract term beginning on the date that our service is made available to the customer.

Contracts with customers may include multiple performance obligations related to sales of hardware, software and software-related services. For these contracts, individual performance obligations are recorded separately if they are distinct. The transaction price, including any discounts, is allocated to each separate performance obligation based on its relative standalone selling price. The standalone selling prices are determined based on the prices charged to customers or by using an expected cost plus margin approach. The amount assigned to the products or services is recognized when the product is delivered and/or when the services are performed. In instances where the product and/or services are performed over an extended period, as is the case with subscription agreements, revenue is generally recognized over time on a ratable basis using a time-based output method applied over the contract term beginning on the date that the service is made available to the customer. These contracts are generally for 12 months but can be for a term up to 60 months.

Franchise fee revenue, including nominal, non-refundable initial fees, is recognized upon the granting of a franchise, which is when the company has performed substantially all initial services required by the franchise agreement. Franchise fee revenue also includes ongoing monthly fees (primarily for sales and business training as well as marketing and product promotion programs) that are recognized as the fees are earned. Franchise fee revenue totaled \$3.9 million and \$12.0 million for the three and nine month periods ended September 29, 2018, respectively.

The following new accounting pronouncements, and related impacts on adoption, are being evaluated by the company:

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which is designed to improve the effectiveness of disclosures by removing, modifying and adding disclosures related to fair value measurements. ASU No. 2018-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years; the ASU allows for early adoption in any interim period after issuance of the update. The company is currently assessing the impact this ASU will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General Subtopic 715-20 - Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans, which is designed to improve the effectiveness of disclosures by removing and adding disclosures related to defined benefit plans. ASU No. 2018-14 is effective for fiscal years ending after December 15, 2020; the ASU allows for early adoption in any year end after issuance of the update. The company is currently assessing the impact this ASU will have on its consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220), which allows for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from "H.R.1", formerly known as the Tax Cuts and Jobs Act (the "Tax Act"). ASU No. 2018-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; the ASU allows

for early adoption in any interim period after issuance of the update. The adoption of this ASU is not expected to have a significant impact on the company's consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities, which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments in this update also make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. ASU No. 2017-12 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; the ASU allows for early adoption in any interim period after issuance of the update. The adoption of this ASU is not expected to have a significant impact on the company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326), to require the measurement of expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable forecasts. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. ASU No. 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

those fiscal years; the ASU allows for early adoption as of the beginning of an interim or annual reporting period beginning after December 15, 2018. The company is currently assessing the impact this ASU will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU is intended to represent an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. This ASU, which supersedes most current lease guidance, affects any entity that enters into a lease (as that term is defined in the ASU), with some specified scope exemptions. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; the ASU allows for early adoption as of the beginning of an interim or annual reporting period.

Snap-on commenced its assessment of Topic 842 during the second half of 2017 and developed a comprehensive project plan that included representatives from across the company's business segments. The project plan included evaluating Snap-on's lease portfolio, analyzing the standard's impact on the company's various types of lease contracts and identifying the reporting requirements of the new standard. The company is in the process of identifying and implementing appropriate changes to its business processes, systems and controls to support lease accounting and disclosures under Topic 842.

As of September 29, 2018, and subject to the company's ongoing evaluation of new lease contracts, the company has made further progress with its evaluation of the expected impact of adopting Topic 842 and anticipates that the adoption of this standard will not have a significant impact on the company's consolidated financial statements. As a result of the adoption of this standard, a right-of-use asset and a related lease liability will be established to reflect the present value of the future lease payments at a level comparable to those reported in Snap-on's 2017 Annual Report on Form 10-K.

Note 2: Revenue Recognition

Snap-on recognizes revenue from the sale of tools, diagnostic and equipment products and related services based on when control of the product passes to the customer or the service is provided and is recognized at an amount that reflects the consideration expected to be received in exchange for such goods or services.

The effects of adjustments to the December 30, 2017 consolidated balance sheet for the adoption of Topic 606 were as follows:

(Amounts in millions)	Balance at December 30, 2017	Topic 606 Adjustments	Opening Balance at December 31, 2017
Assets			
Inventories - net	\$ 638.8	\$ 20.9	\$ 659.7
Deferred income tax assets	52.0	0.6	52.6
Liabilities and Equity			
Other accrued liabilities	\$ 388.1	\$ 23.3	\$ 411.4
Retained earnings	3,772.3	(1.8)	3,770.5

The adoption of Topic 606 did not have a significant impact on the company's consolidated financial statements. The adoption resulted in the recognition of an inventory asset related to certain product returns by increasing the returns liability and recognizing an inventory asset for the anticipated value of the returns to recognize Snap-on's contractual obligation to recover products from customers; this gross up had no corresponding impact on the Condensed Consolidated Statement of Earnings. For the anticipated value of the returns, the adoption resulted in the recognition of an increase in the inventory obsolescence reserve of \$2.4 million with a corresponding adjustment to fiscal 2018 beginning retained earnings. Other than the amounts recorded for the adoption of Topic 606 on the Condensed Consolidated Balance Sheets, there were no other changes since the adoption that would be materially different from previous accounting standards that would affect the Condensed Consolidated Statements of Earnings, Balance Sheets, or Cash Flows.

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Revenue Disaggregation

The following table shows the consolidated revenues by revenue source:

(Amounts in millions)	Three Months	Nine Months
	Ended	Ended
	September 29,	September 29,
	2018	2018
Revenue from contracts with customers	\$ 892.7	\$ 2,772.3
Other revenues	5.4	15.9
Total net sales	898.1	2,788.2
Financial services revenue	82.0	247.0
Total revenues	\$ 980.1	\$ 3,035.2

Snap-on evaluates the performance of its operating segments based on segment revenues, including both external and intersegment net sales, and segment operating earnings. Snap-on accounts for both intersegment sales and transfers based primarily on standard costs with reasonable mark-ups established between the segments. All significant intersegment amounts are eliminated to arrive at Snap-on's consolidated financial results.

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The following table represents external net sales disaggregated by geography, based on the customers' billing addresses:

	For the three months ended September 29, 2018					
	Commercial & Industrial Group	Snap-on Tools Group	Repair Systems & Information Group	Financial Services	Eliminations	Snap-on Incorporated
(Amounts in millions)	Group	Group	Group	Services	Eliminations	Incorporated
Net sales:						
North America*	\$ 119.9	\$ 335.4	\$ 177.6	\$ —	\$ —	\$ 632.9
Europe	70.4	32.0	57.6	—	—	160.0
All other	65.4	22.4	17.4	—	—	105.2
External net sales	255.7	389.8	252.6	—	—	898.1
Intersegment net sales	74.5	—	61.8	—	(136.3)	—
Total net sales	330.2	389.8	314.4	—	(136.3)	898.1
Financial services revenue	—	—	—	82.0	—	82.0
Total revenue	\$ 330.2	\$ 389.8	\$ 314.4	\$ 82.0	\$ (136.3)	\$ 980.1

	For the nine months ended September 29, 2018					
	Commercial & Industrial Group	Snap-on Tools Group	Repair Systems & Information Group	Financial Services	Eliminations	Snap-on Incorporated
(Amounts in millions)	Group	Group	Group	Services	Eliminations	Incorporated
Net sales:						
North America*	\$ 345.7	\$ 1,020.5	\$ 552.3	\$ —	\$ —	\$ 1,918.5
Europe	229.9	117.2	192.8	—	—	539.9
All other	206.0	68.7	55.1	—	—	329.8
External net sales	781.6	1,206.4	800.2	—	—	2,788.2
Intersegment net sales	218.0	—	194.3	—	(412.3)	—
Total net sales	999.6	1,206.4	994.5	—	(412.3)	2,788.2
Financial services revenue	—	—	—	247.0	—	247.0
Total revenue	\$ 999.6	\$ 1,206.4	\$ 994.5	\$ 247.0	\$ (412.3)	\$ 3,035.2

* North America is comprised of the United States, Canada and Mexico.

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The following table represents external net sales disaggregated by customer type:

	For the three months ended September 29, 2018					
	Commercial & Snap-on	Tools	Repair Systems & Information	Financial Services	Eliminations	Snap-on Incorporated
(Amounts in millions)	Group	Group	Group			
Net sales:						
Vehicle service professionals	\$21.4	\$ 389.8	\$ 252.6	\$ —	\$ —	\$ 663.8
All other professionals	234.3	—	—	—	—	234.3
External net sales	255.7	389.8	252.6	—	—	898.1
Intersegment net sales	74.5	—	61.8	—	(136.3)	—
Total net sales	330.2	389.8	314.4	—	(136.3)	898.1
Financial services revenue	—	—	—	82.0	—	82.0
Total revenue	\$ 330.2	\$ 389.8	\$ 314.4	\$ 82.0	\$ (136.3)	\$ 980.1

	For the nine months ended September 29, 2018					
	Commercial & Snap-on	Tools	Repair Systems & Information	Financial Services	Eliminations	Snap-on Incorporated
(Amounts in millions)	Group	Group	Group			
Net sales:						
Vehicle service professionals	\$69.5	\$1,206.4	\$ 800.2	\$ —	\$ —	\$ 2,076.1
All other professionals	712.1	—	—	—	—	712.1
External net sales	781.6	1,206.4	800.2	—	—	2,788.2
Intersegment net sales	218.0	—	194.3	—	(412.3)	—
Total net sales	999.6	1,206.4	994.5	—	(412.3)	2,788.2
Financial services revenue	—	—	—	247.0	—	247.0
Total revenue	\$ 999.6	\$ 1,206.4	\$ 994.5	\$ 247.0	\$ (412.3)	\$ 3,035.2

Nature of Goods and Services

Snap-on derives net sales from a broad line of products and complementary services that are grouped into three categories: (i) tools; (ii) diagnostics, information and management systems; and (iii) equipment. The tools product category includes hand tools, power tools, tool storage products and other similar products. The diagnostics, information and management systems product category includes handheld and PC-based diagnostic products, service and repair information products, diagnostic software solutions, electronic parts catalogs, business management systems and services, point-of-sale systems, integrated systems for vehicle service shops, original equipment manufacturer (“OEM”) purchasing facilitation services, and warranty management systems and analytics to help OEM dealership service and repair shops (“OEM dealerships”) manage and track performance. The equipment product category includes solutions for the service of vehicles and industrial equipment. Snap-on supports the sale of its diagnostics and vehicle service shop equipment by offering training programs as well as after-sales support to its customers. Through its financial services businesses, Snap on also derives revenue from various financing programs designed to facilitate the sales of its products and support its franchise business.

Approximately 90% of Snap-on's net sales are products sold at a point in time through ship-and-bill performance obligations that also includes service repair services. The remaining sales revenue is earned over time primarily on a subscription basis including software, extended warranty and other subscription service agreements.

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Snap-on enters into contracts related to the selling of tools, diagnostic and repair information and equipment products and related services. At contract inception, an assessment of the goods and services promised in the contracts with customers is performed and a performance obligation is identified for each distinct promise to transfer to the customer a good or service (or bundle of goods or services). To identify the performance obligations, Snap-on considers all of the goods or services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices. Contracts with customers are comprised of customer purchase orders, invoices and written contracts.

When Performance Obligations Are Satisfied

For performance obligations related to the majority of ship-and-bill products, including repair services contracts, control transfers at a point in time when title transfers upon shipment of the product to the customer, and for some sales, control transfers when title is transferred at time of receipt by customer. Once a product or repaired product has shipped or has been delivered, the customer is able to direct the use of, and obtain substantially all of the remaining benefits from the asset, revenue is recognized. Snap-on considers control to have transferred upon shipment or delivery when Snap-on has a present right to payment, the customer has legal title to the asset, Snap-on has transferred physical possession of the asset, and the customer has significant risk and rewards of ownership of the asset.

For performance obligations related to software subscriptions, extended warranties and other subscription agreements, Snap-on transfers control and recognizes revenue over time on a ratable basis using a time-based output method. The performance obligations are typically satisfied as services are rendered on a straight-line basis over the contract term, which is generally for 12 months but can be for a term up to 60 months.

Significant Payment Terms

For ship-and-bill type contracts with customers, the contract states the final terms of the sale, including the description, quantity, and price of each product or service purchased. Payment terms are typically due upon delivery or up to 30 days after delivery but can range up to 120 days after delivery.

For subscription contracts, payment terms are in advance or in arrears of services on a monthly, quarterly or annual basis over the contract term, which is generally for 12 months but can be for a term up to 60 months depending on the product or service. The customer typically agrees to a stated rate and price in the contract that does not vary over the contract term. In some cases, customers prepay for their licenses, or in other cases, pay on a monthly or quarterly basis. When the timing of the payment made by the customer precedes the delivery of the performance obligation, a contract liability is recognized.

Variable Consideration

In some cases, the nature of Snap-on's contracts give rise to variable consideration, including rebates, credits, allowances for returns or other similar items that generally decrease the transaction price. These variable amounts generally are credited to the customer, based on achieving certain levels of sales activity, product returns and making payments within specific terms.

In the normal course of business, Snap-on allows franchisees to return product per the provisions in the franchise agreement that allow for the return of product in a saleable condition. For other customers, product returns are generally not accepted unless the item is defective as manufactured. Where applicable, Snap-on establishes provisions for estimated sales returns. Estimated product returns are recorded as a reduction in reported revenues at the time of sale based upon historical product return experience and is adjusted for known trends to arrive at the amount of

consideration to which Snap-on expects to receive.

Variable consideration is estimated at the most likely amount that is expected to be earned. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the anticipated performance and all information (historical, current and forecasted) that is reasonably available.

Warranties

Snap-on allows customers to return product when the product is defective as manufactured. Where applicable, Snap-on establishes provisions for estimated warranties. Estimated product warranties are provided for specific product lines and Snap-on accrues for estimated future warranty cost in the period in which the sale is recorded. The costs are included in "Cost of goods sold" on the accompanying Condensed Consolidated Statements of Earnings. Snap-on calculates its accrual requirements based on historic warranty loss experience that is periodically adjusted for recent actual experience, including the timing of claims during the warranty period and actual costs incurred. Snap-on does not typically provide customers with the right to a refund.

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Practical Expedients and Exemptions

Snap-on typically expenses incremental direct costs of obtaining a contract (sales commissions) when incurred because the amortization period is generally 12 months or less. Capitalized long-term contract costs are not significant. Contract costs are expensed or amortized in “Operating expenses” on the accompanying Condensed Consolidated Statements of Earnings.

Snap-on elected to account for shipping and handling activities that occur after control of the related good transfers to the customer as fulfillment activities and are therefore recognized upon shipment of the goods.

Snap-on has applied the portfolio approach to its ship-and-bill contracts that have similar characteristics as it reasonably expects that the effects on the financial statements of applying this guidance to the portfolio of contracts would not differ materially from applying this guidance to the individual contracts within the portfolio.

Snap-on typically excludes from its sales transaction price any amounts collected from customers for sales (and similar) taxes.

For certain performance obligations related to software subscriptions, extended warranty and other subscription agreements that are settled over time, Snap-on has elected not to disclose the value of unsatisfied performance obligations for: (i) contracts that have an original expected length of one year or less; (ii) contracts where revenue is recognized as invoiced; and (iii) contracts with variable consideration related to unsatisfied performance obligations. The remaining duration of these unsatisfied performance obligations range from one month up to 60 months. Snap-on had approximately \$223.0 million of long-term contracts that have fixed consideration that extends beyond one year as of September 29, 2018. Snap-on expects to recognize approximately 50% of these contracts as revenue by the end of fiscal 2019, an additional 40% by the end of fiscal 2021 and the balance thereafter.

Contract Liabilities (Deferred Revenues)

Contract liabilities are recorded when cash payments are received in advance of Snap-on’s performance. The timing of payment is typically on a monthly, quarterly or annual basis. The balance of total contract liabilities at September 29, 2018, was \$63.4 million and was \$49.4 million at the beginning of fiscal 2018. The current portion of contract liabilities and the non-current portion are included in “Other accrued liabilities” and “Other long-term liabilities”, respectively, on the accompanying Condensed Consolidated Balance Sheets. For the first nine months of 2018, Snap-on recognized revenue of \$34.6 million that was included in the contract liability balance as of December 30, 2017, which was primarily from the amortization of software subscriptions, extended warranties and other subscription agreements. The increase in the total contract liabilities balance is primarily driven by the timing of cash payments received or due in advance of satisfying Snap-on’s performance obligations and growth in certain software subscriptions, partially offset by revenues recognized that were included in the contract liability balance at the beginning of the period.

Revenue Recognition Prior to 2018

Revenue recognition for fiscal 2017, as presented, is based on Revenue Recognition (Topic 605). Snap-on recognized revenue from the sale of tools and diagnostic and equipment products when contract terms were met, the price was fixed or determinable, collectability was reasonably assured and a product was shipped or risk of ownership had been transferred to and accepted by the customer. For sales contingent upon customer acceptance, revenue recognition was deferred until such obligations were fulfilled. Estimated product returns were recorded as a reduction in reported

revenues at the time of sale based upon historical product return experience and gross profit margin was adjusted for known trends. Provisions for customer volume rebates, discounts and allowances were also recorded as a reduction in reported revenues at the time of sale based on historical experience and known trends. Revenue related to extended warranty and subscription agreements was recognized over the terms of the respective agreements.

Snap-on also recognized revenue related to multiple element arrangements, including sales of hardware, software and software-related services. When a sales arrangement contained multiple elements, such as hardware and software products and/or services, Snap on used the relative selling price method to allocate revenues between hardware and software elements. For software elements that were not essential to the hardware's functionality and related software post-contract customer support, vendor specific objective evidence ("VSOE") of fair value was used to further allocate revenue to each element based on its relative fair value and, when necessary, the residual method was used to assign value to the delivered elements when VSOE only existed for the undelivered elements. The amount assigned to the products or services was recognized when the product was delivered and/or when the services were performed. In instances where the product and/or services were performed over an extended period, as is the case with subscription agreements or the providing of ongoing support, revenue was generally recognized on a straight-line basis over the term of the agreement, which generally ranged from 12 months to 60 months.

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Franchise fee revenue, including nominal, non-refundable initial fees, was recognized upon the granting of a franchise, which was when the company performed substantially all initial services required by the franchise agreement. Franchise fee revenue also included ongoing monthly fees (primarily for sales and business training as well as marketing and product promotion programs) that were recognized as the fees were earned. Franchise fee revenue totaled \$4.3 million and \$11.2 million for the three and nine month periods ended September 30, 2017, respectively.

Note 3: Acquisitions

On January 31, 2018, Snap-on acquired substantially all of the assets of George A. Sturdevant, Inc. (d/b/a Fastorq) for a cash purchase price of \$3.0 million. Fastorq, based in New Caney, Texas, designs, assembles and distributes hydraulic torque and hydraulic tensioning products for use in critical industries. In the second quarter of 2018, the company completed the purchase accounting valuations for the acquired net assets of Fastorq. The \$2.6 million excess of the purchase price over the fair value of the net assets acquired was recorded in “Goodwill” on the accompanying Condensed Consolidated Balance Sheets.

On July 28, 2017, Snap-on acquired Torque Control Specialists Pty Ltd (“TCS”) for a cash purchase price of \$3.6 million (or \$3.5 million, net of cash acquired). TCS distributes a full range of torque products, including wrenches, multipliers and calibrators for use in critical industries. In the second quarter of 2018, the company completed the purchase accounting valuations for the acquired net assets of TCS. The \$2.0 million excess of purchase price over the fair value of the net assets acquired was recorded in “Goodwill” on the accompanying Condensed Consolidated Balance Sheets.

On May 4, 2017, Snap-on acquired Norbar Torque Tools Holdings Limited, along with its U.S. and Chinese joint ventures (“Norbar”) for a cash purchase price of \$71.6 million (or \$69.9 million, net of cash acquired). Norbar designs and manufactures a full range of torque products, including wrenches, multipliers and calibrators for use in critical industries. In the second quarter of 2018, the company completed the purchase accounting valuations for the acquired net assets of Norbar, including intangible assets. The \$25.1 million excess of purchase price over the fair value of the net assets acquired was recorded in “Goodwill” on the accompanying Condensed Consolidated Balance Sheets.

On January 30, 2017, Snap-on acquired BTC Global Limited (“BTC”) for a cash purchase price of \$9.2 million. BTC designs and implements automotive vehicle inspection and management software for OEM franchise repair shops. In the second quarter of 2017, the company completed the purchase accounting valuations for the acquired net assets of BTC, including intangible assets. The \$5.9 million excess of purchase price over the fair value of the net assets acquired was recorded in “Goodwill” on the accompanying Condensed Consolidated Balance Sheets.

For segment reporting purposes, the results of operations and assets of Fastorq, TCS and Norbar have been included in the Commercial & Industrial Group since the acquisition date, and the results of operations and assets of BTC have been included in the Repair Systems and Information Group since the acquisition date.

Pro forma financial information has not been presented for any of these acquisitions as the net effects, individually and collectively, were neither significant nor material to Snap-on’s results of operations or financial position. See Note 6 for further information on goodwill and other intangible assets.

Note 4: Receivables

Trade and Other Accounts Receivable

Snap-on’s trade and other accounts receivable primarily arise from the sale of tools and diagnostic and equipment products to a broad range of industrial and commercial customers and to Snap-on’s independent franchise van channel on a non-extended-term basis with payment terms generally ranging from 30 to 120 days.

Edgar Filing: SNAP-ON Inc - Form 10-Q

The components of Snap-on's trade and other accounts receivable as of September 29, 2018, and December 30, 2017, are as follows:

(Amounts in millions)	September 29, 2018	December 30, 2017
Trade and other accounts receivable	\$ 696.3	\$ 690.2
Allowances for doubtful accounts	(17.6)	(14.6)
Total trade and other accounts receivable – net	\$ 678.7	\$ 675.6

19

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Finance and Contract Receivables

Snap-on Credit LLC (“SOC”), the company’s financial services operation in the United States, originates extended-term finance and contract receivables on sales of Snap-on’s products sold through the U.S. franchisee and customer network and to certain other customers of Snap-on; Snap-on’s foreign finance subsidiaries provide similar financing internationally. Interest income on finance and contract receivables is included in “Financial services revenue” on the accompanying Condensed Consolidated Statements of Earnings.

Snap-on’s finance receivables are comprised of extended-term installment payment contracts to both technicians and independent shop owners (i.e., franchisees’ customers) to enable them to purchase tools and diagnostic and equipment products on an extended-term payment plan, generally with average payment terms approaching four years. Contract receivables, with payment terms of up to 10 years, are comprised of extended-term installment payment contracts to a broad base of customers worldwide, including shop owners, both independents and national chains, for their purchase of tools and diagnostic and equipment products. Contract receivables also include extended-term installment loans to franchisees to meet a number of financing needs, including working capital loans, loans to enable new franchisees to fund the purchase of the franchise and van leases. Finance and contract receivables are generally secured by the underlying tools and/or diagnostic or equipment products financed and, for installment loans to franchisees, other franchisee assets.

The components of Snap-on’s current finance and contract receivables as of September 29, 2018, and December 30, 2017, are as follows:

(Amounts in millions)	September 29, 2018	December 30, 2017
Finance receivables, net of unearned finance charges of \$21.4 million and \$21.0 million, respectively	\$ 538.2	\$ 523.1
Contract receivables, net of unearned finance charges of \$19.2 million and \$17.6 million, respectively	106.9	98.1
Total	645.1	621.2
Allowances for doubtful accounts:		
Finance receivables	(19.2)	(17.7)
Contract receivables	(1.3)	(1.3)
Total	(20.5)	(19.0)
Total current finance and contract receivables – net	\$ 624.6	\$ 602.2
Finance receivables – net	\$ 519.0	\$ 505.4
Contract receivables – net	105.6	96.8
Total current finance and contract receivables – net	\$ 624.6	\$ 602.2

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The components of Snap-on's finance and contract receivables with payment terms beyond one year as of September 29, 2018, and December 30, 2017, are as follows:

(Amounts in millions)	September 29, 2018	December 30, 2017
Finance receivables, net of unearned finance charges of \$17.3 million and \$16.7 million, respectively	\$ 1,098.7	\$ 1,078.0
Contract receivables, net of unearned finance charges of \$28.5 million and \$25.5 million, respectively	341.4	325.9
Total	1,440.1	1,403.9
Allowances for doubtful accounts:		
Finance receivables	(40.4) (38.8
Contract receivables	(3.3) (3.3
Total	(43.7) (42.1
Total long-term finance and contract receivables – net	\$ 1,396.4	\$ 1,361.8
Finance receivables – net	\$ 1,058.3	\$ 1,039.2
Contract receivables – net	338.1	322.6
Total long-term finance and contract receivables – net	\$ 1,396.4	\$ 1,361.8

Delinquency is the primary indicator of credit quality for finance and contract receivables. The entire receivable balance of a contract is considered delinquent when contractual payments become 30 days past due. Depending on the contract, payments for finance and contract receivables are due on a monthly or weekly basis. Weekly payments are converted into a monthly equivalent for purposes of calculating delinquency. Delinquencies are assessed at the end of each month following the monthly equivalent due date. Removal from delinquent status occurs when the cumulative number of monthly payments due has been received by the company.

Finance receivables are generally placed on nonaccrual status (nonaccrual of interest and other fees): (i) when a customer is placed on repossession status; (ii) upon receipt of notification of bankruptcy; (iii) upon notification of the death of a customer; or (iv) in other instances in which management concludes collectability is not reasonably assured. Finance receivables that are considered nonperforming include receivables that are on nonaccrual status and receivables that are generally more than 90 days past due.

Contract receivables are generally placed on nonaccrual status: (i) when a receivable is more than 90 days past due or at the point a customer's account is placed on terminated status regardless of its delinquency status; (ii) upon notification of the death of a customer; or (iii) in other instances in which management concludes collectability is not reasonably assured. Contract receivables that are considered nonperforming include receivables that are on nonaccrual status and receivables that are generally more than 90 days past due.

The accrual of interest and other fees is resumed when the finance or contract receivable becomes contractually current and collection of all remaining contractual amounts due is reasonably assured. Finance and contract receivables are evaluated for impairment on a collective basis. A receivable is impaired when it is probable that all amounts related to the receivable will not be collected according to the contractual terms of the applicable agreement. Impaired finance and contract receivables are covered by the company's respective allowances for doubtful accounts and are charged-off against the allowances when appropriate. As of September 29, 2018, and December 30, 2017, there were \$27.8 million and \$28.0 million, respectively, of impaired finance receivables, and there were \$4.7 million and \$2.3 million, respectively, of impaired contract receivables.

It is the general practice of Snap-on's financial services business to not engage in contract or loan modifications. In limited instances, Snap-on's financial services business may modify certain impaired receivables in troubled debt restructurings. The amount and number of restructured finance and contract receivables as of September 29, 2018, and

December 30, 2017, were immaterial to both the financial services portfolio and the company's results of operations and financial position.

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The aging of finance and contract receivables as of September 29, 2018, and December 30, 2017, is as follows:

(Amounts in millions)	30-59 Days Past Due	60-90 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Total Not Past Due	Total	Greater Than 90 Days Past Due and Accruing
September 29, 2018:							
Finance receivables	\$ 17.6	\$ 12.1	\$ 19.4	\$ 49.1	\$ 1,587.8	\$ 1,636.9	\$ 15.4
Contract receivables	1.8	1.4	3.8	7.0	441.3	448.3	0.2

December 30, 2017:

Finance receivables	\$ 19.3	\$ 13.9	\$ 20.1	\$ 53.3	\$ 1,547.8	\$ 1,601.1	\$ 15.4
Contract receivables	1.2	0.6	1.9	3.7	420.3	424.0	0.6

The amount of performing and nonperforming finance and contract receivables based on payment activity as of September 29, 2018, and December 30, 2017, is as follows:

(Amounts in millions)	September 29, 2018		December 30, 2017	
	Finance Receivables	Contract Receivables	Finance Receivables	Contract Receivables
Performing	\$1,609.1	\$ 443.6	\$1,573.1	\$ 421.7
Nonperforming	27.8	4.7	28.0	2.3
Total	\$1,636.9	\$ 448.3	\$1,601.1	\$ 424.0

The amount of finance and contract receivables on nonaccrual status as of September 29, 2018, and December 30, 2017, is as follows:

(Amounts in millions)	September 29, 2018	December 30, 2017
Finance receivables	\$ 12.4	\$ 12.6
Contract receivables	4.5	1.7

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The following is a rollforward of the allowances for doubtful accounts for finance and contract receivables for the three and nine months ended September 29, 2018, and September 30, 2017:

(Amounts in millions)	Three Months Ended September 29, 2018		Nine Months Ended September 29, 2018	
	Finance Receivables	Contract Receivables	Finance Receivables	Contract Receivables
Allowances for doubtful accounts:				
Beginning of period	\$ 59.0	\$ 4.8	\$ 56.5	\$ 4.6
Provision	12.1	0.4	41.5	1.5
Charge-offs	(13.3)	(0.7)	(43.7)	(1.8)
Recoveries	1.7	0.1	5.3	0.3
Currency translation	0.1	—	—	—
End of period	\$ 59.6	\$ 4.6	\$ 59.6	\$ 4.6

(Amounts in millions)	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Finance Receivables	Contract Receivables	Finance Receivables	Contract Receivables
Allowances for doubtful accounts:				
Beginning of period	\$ 52.5	\$ 4.8	\$ 48.6	\$ 3.9
Provision	12.8	0.8	38.6	2.7
Charge-offs	(12.6)	(0.7)	(38.0)	(1.9)
Recoveries	1.5	0.2	4.9	0.3
Currency translation	—	—	0.1	0.1
End of period	\$ 54.2	\$ 5.1	\$ 54.2	\$ 5.1

Note 5: Inventories

Inventories by major classification are as follows:

(Amounts in millions)	September 29, 2018	December 30, 2017
Finished goods	\$ 585.2	\$ 541.9
Work in progress	53.4	49.3
Raw materials	129.4	122.7
Total FIFO value	768.0	713.9
Excess of current cost over LIFO cost	(77.4)	(75.1)
Total inventories – net	\$ 690.6	\$ 638.8

Inventories accounted for using the first-in, first-out (“FIFO”) method approximated 61% of total inventories as of both September 29, 2018, and December 30, 2017. The company accounts for its non-U.S. inventory on the FIFO method. As of September 29, 2018, approximately 35% of the company’s U.S. inventory was accounted for using the FIFO method and 65% was accounted for using the last-in, first-out (“LIFO”) method. There were no LIFO inventory liquidations in the three and nine months ended September 29, 2018, or September 30, 2017.

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 6: Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill by segment for the nine months ended September 29, 2018, are as follows:

(Amounts in millions)	Commercial & Industrial Group	Snap-on Tools Group	Repair Systems & Information Group	Total
Balance as of December 30, 2017	\$ 298.4	\$ 12.5	\$ 613.2	\$924.1
Currency translation	(8.8)	—	(5.5)	(14.3)
Acquisitions and related adjustments	4.1	—	—	4.1
Balance as of September 29, 2018	\$ 293.7	\$ 12.5	\$ 607.7	\$913.9

Goodwill of \$913.9 million as of September 29, 2018, includes: (i) \$25.1 million from the acquisition of Norbar, (ii) \$2.6 million from the acquisition of Fastorq, and (iii) \$2.0 million from the acquisition of TCS. The goodwill from the Norbar, Fastorq and TCS acquisitions is included in the Commercial & Industrial Group. See Note 3 for additional information on acquisitions.

Additional disclosures related to other intangible assets are as follows:

(Amounts in millions)	September 29, 2018		December 30, 2017	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Amortized other intangible assets:				
Customer relationships	\$173.5	\$ (105.6)	\$175.2	\$ (98.2)
Developed technology	18.8	(18.5)	18.9	(18.4)
Internally developed software	182.9	(142.9)	177.0	(133.4)
Patents	35.0	(22.9)	34.1	(22.7)
Trademarks	3.1	(1.9)	3.0	(2.0)
Other	7.4	(2.9)	7.7	(2.7)
Total	420.7	(294.7)	415.9	(277.4)
Non-amortized trademarks	111.8	—	115.2	—
Total other intangible assets	\$532.5	\$ (294.7)	\$531.1	\$ (277.4)

Snap-on completed its annual impairment testing of goodwill and other indefinite-lived intangible assets in the second quarter of 2018, the results of which did not result in any impairment. Significant and unanticipated changes in circumstances, such as declines in profitability and cash flow due to significant and long-term deterioration in macroeconomic, industry and market conditions, the loss of key customers, changes in technology or markets, significant changes in key personnel or litigation, a significant and sustained decrease in share price and/or other events, including effects from the sale or disposal of a reporting unit, could require a provision for impairment of goodwill and/or other intangible assets in a future period. As of September 29, 2018, the company had no accumulated impairment losses.

The weighted-average amortization periods related to other intangible assets are as follows:

	In Years
Customer relationships	15
Developed technology	3
Internally developed software	4
Patents	8
Trademarks	6

Other 39

24

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Snap-on is amortizing its customer relationships on both an accelerated and straight-line basis over a 15-year weighted-average life; the remaining intangibles are amortized on a straight-line basis. The weighted-average amortization period for all amortizable intangibles on a combined basis is 11 years.

The company's customer relationships generally have contractual terms of three to five years and are typically renewed without significant cost to the company. The weighted-average 15-year life for customer relationships is based on the company's historical renewal experience. Intangible asset renewal costs are expensed as incurred.

The aggregate amortization expense was \$6.2 million and \$19.2 million for the respective three and nine months ended September 29, 2018, and \$7.1 million and \$20.7 million for the respective three and nine months ended September 30, 2017. Based on current levels of amortizable intangible assets and estimated weighted-average useful lives, estimated annual amortization expense is expected to be \$25.4 million in 2018, \$23.2 million in 2019, \$19.3 million in 2020, \$16.0 million in 2021, \$14.4 million in 2022, and \$12.5 million in 2023.

Note 7: Income Taxes

Snap-on's effective income tax rate on earnings attributable to Snap-on was 24.6% and 30.5% in the first nine months of 2018 and 2017, respectively. The effective tax rate for 2018 includes the net tax benefits attributable to the Tax Act, which was signed into law on December 22, 2017.

The Tax Act made broad and complex changes to the U.S. tax code, including, but not limited to, (i) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; and (ii) requiring companies to pay a one-time transition tax on certain unremitted earnings of foreign subsidiaries.

The Tax Act also established new tax laws that affect 2018, including, but not limited to: (i) the reduction of the U.S. federal corporate tax rate discussed above; (ii) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (iii) a new provision designed to tax global intangible low-taxed income ("GILTI"); (iv) the repeal of the domestic production activity deductions; (v) limitations on the deductibility of certain executive compensation; (vi) limitations on the use of foreign tax credits to reduce the U.S. income tax liability; and (vii) a new provision that allows a domestic corporation an immediate deduction for a portion of its foreign derived intangible income ("FDII").

The Securities and Exchange Commission staff issued Staff Accounting Bulletin ("SAB") 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the related accounting under ASC 740, Accounting for Income Taxes. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for a certain income tax effect of the Tax Act is incomplete, but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

The company's accounting for the certain elements of the Tax Act was incomplete as of the period ended December 30, 2017, and remains incomplete as of September 29, 2018. However, the company was able to make reasonable estimates of the effects and, therefore, recorded provisional estimates for these items. In connection with its initial analysis of the impact of the Tax Act, the company recorded a provisional discrete net tax expense of \$7.0 million in the period ended December 30, 2017. This provisional estimate consists of a net expense of \$13.7 million for the one-time transition tax and a net benefit of \$6.7 million related to revaluation of deferred tax assets and liabilities, caused by the new lower corporate tax rate. To determine the transition tax, the company must determine the amount of post-1986 accumulated earnings and profits of the relevant subsidiaries, as well as the amount of

non-U.S. income taxes paid on such earnings. While the company was able to make a reasonable estimate of the transition tax, it is continuing to gather additional information to more precisely compute the final amount. Likewise, while the company was able to make a reasonable estimate of the impact of the reduction to the corporate tax rate, its rate may be affected by other analyses related to the Tax Act, including, but not limited to, the state tax effect of adjustments made to federal temporary differences. Due to the complexity of the new GILTI tax rules, the company is continuing to evaluate this provision of the Tax Act and the application of ASC 740. Under GAAP, the company is allowed to make an accounting policy choice to either (i) treat taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the “period cost method”); or (ii) factor in such amounts into a company’s measurement of its deferred taxes (the “deferred method”). The company’s selection of an accounting policy with respect to the new GILTI tax rules is dependent on additional analysis and potential future modifications to existing structures, which are not currently known. The company has not made a policy decision regarding

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

whether to record deferred taxes on GILTI. The company will continue to analyze the full effects of the Tax Act on its consolidated financial statements.

During the first nine months of 2018, the Internal Revenue Service issued new guidance affecting the computation of the company's 2017 federal income tax liability. As a result of this new guidance and additional analysis of the impacts of the Tax Act, the company revised its prior estimates and recorded \$1.8 million and \$3.9 million of net tax expense related to the Tax Act during the respective three and nine months ended September 29, 2018. The ultimate impact of the Tax Act may differ from the current estimates, possibly materially, due to changes in interpretations and assumptions the company has made, future guidance that may be issued and actions the company may take as a result of the law.

Snap-on and its subsidiaries file income tax returns in the United States and in various state, local and foreign jurisdictions. It is reasonably possible that certain unrecognized tax benefits may either be settled with taxing authorities or the statutes of limitations for such items may lapse within the next 12 months, causing Snap-on's gross unrecognized tax benefits to decrease by a range of zero to \$0.8 million. Over the next 12 months, Snap-on anticipates taking certain tax positions on various tax returns for which the related tax benefit does not meet the recognition threshold. Accordingly, Snap-on's gross unrecognized tax benefits may increase by a range of zero to \$1.5 million over the next 12 months for uncertain tax positions expected to be taken in future tax filings.

Note 8: Short-term and Long-term Debt

Short-term and long-term debt as of September 29, 2018, and December 30, 2017, consisted of the following:

(Amounts in millions)	September 29, December 30,	
	2018	2017
4.25% unsecured notes due 2018	\$ —	\$ 250.0
6.70% unsecured notes due 2019	—	200.0
6.125% unsecured notes due 2021	250.0	250.0
3.25% unsecured notes due 2027	300.0	300.0
4.10% unsecured notes due 2048	400.0	—
Other debt*	159.3	186.8
	1,109.3	1,186.8
Less: notes payable and current maturities of long-term debt:		
Current maturities of long-term debt	—	(250.0)
Commercial paper borrowings	(154.0)	(151.0)
Other notes	(10.5)	(32.2)
	(164.5)	(433.2)
Total long-term debt	\$ 944.8	\$ 753.6

*Includes fair value adjustments related to interest rate swaps, debt discounts and debt issuance

costs.

Notes payable and current maturities of long-term debt of \$164.5 million as of September 29, 2018, included \$154.0 million of commercial paper borrowings and \$10.5 million of other notes. As of 2017 year end, notes payable and current maturities of long-term debt of \$433.2 million included \$250 million of unsecured 4.25% notes due on January 16, 2018 (the "2018 Notes"), that were repaid upon maturity in accordance with their terms, \$151.0 million of commercial paper borrowings and \$32.2 million of other notes. As of 2017 year end, \$200 million of unsecured 6.70% notes due March 1, 2019 (the "2019 Notes") were included in "Long-term debt" on the accompanying Condensed Consolidated Balance Sheets as their scheduled maturity was in excess of one year of the 2017 year-end balance sheet date.

On February 20, 2018, Snap-on commenced a tender offer to repurchase the 2019 Notes with \$26.1 million of the 2019 Notes tendered and repaid on February 27, 2018. On February 20, 2018, Snap-on also issued a notice of redemption for remaining outstanding 2019 Notes not tendered, with the redemption completed on March 22, 2018. The total cash cost for this tender and redemption was \$209.1 million, including accrued interest of \$1.5 million. Snap-on recorded \$7.8 million for the loss on the early extinguishment of debt related to the 2019 Notes, which included the redemption premium and other issuance costs associated with this debt in "Other income (expense) - net" on the accompanying Condensed Consolidated Statement of Earnings. See Note 15 for additional information on Other income (expense) - net.

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

On February 20, 2018, Snap-on sold, at a discount, \$400 million of unsecured 4.10% long-term notes that mature on March 1, 2048 (the “2048 Notes”). Interest on the 2048 Notes is payable semi-annually beginning September 1, 2018. Snap-on used a portion of the \$395.4 million of net proceeds from the sale of the 2048 Notes, reflecting \$3.5 million of transaction costs, to repay the 2019 Notes. The remaining net proceeds were used to repay a portion of its then-outstanding commercial paper borrowings and for general corporate purposes.

Snap-on has a five-year, \$700 million multi-currency revolving credit facility that terminates on December 15, 2020 (the “Credit Facility”); no amounts were outstanding under the Credit Facility as of September 29, 2018. Borrowings under the Credit Facility bear interest at varying rates based on Snap-on’s then-current, long-term debt ratings. The Credit Facility’s financial covenant requires that Snap-on maintain, as of each fiscal quarter end, either (i) a ratio not greater than 0.60 to 1.00 of consolidated net debt (consolidated debt net of certain cash adjustments) to the sum of such consolidated net debt plus total equity and less accumulated other comprehensive income or loss (the “Debt Ratio”); or (ii) a ratio not greater than 3.50 to 1.00 of such consolidated net debt to earnings before interest, taxes, depreciation, amortization and certain other adjustments for the preceding four fiscal quarters then ended (the “Debt to EBITDA Ratio”). Snap-on may, up to two times during any five-year period during the term of the Credit Facility (including any extensions thereof), increase the maximum Debt Ratio to 0.65 to 1.00 and/or increase the maximum Debt to EBITDA Ratio to 3.75 to 1.00 for four consecutive fiscal quarters in connection with certain material acquisitions (as defined in the related credit agreement). As of September 29, 2018, the company’s actual ratios of 0.23 and 1.00, respectively, were both within the permitted ranges set forth in this financial covenant. Snap-on generally issues commercial paper to fund its financing needs on a short-term basis and uses the Credit Facility as back-up liquidity to support such commercial paper issuances.

Note 9: Financial Instruments

Derivatives: All derivative instruments are reported in the Condensed Consolidated Financial Statements at fair value. Changes in the fair value of derivatives are recorded each period in earnings or on the accompanying Condensed Consolidated Balance Sheets, depending on whether the derivative is designated and effective as part of a hedged transaction. Gains or losses on derivative instruments recorded in Accumulated other comprehensive income (loss) (“Accumulated OCI”) must be reclassified to earnings in the period in which earnings are affected by the underlying hedged item and the ineffective portion of all hedges must be recognized in earnings in the period that such portion is determined to be ineffective.

The criteria used to determine if hedge accounting treatment is appropriate are: (i) the designation of the hedge to an underlying exposure; (ii) whether or not overall risk is being reduced; and (iii) if there is a correlation between the value of the derivative instrument and the underlying hedged item. On the date a derivative contract is entered into, Snap-on designates the derivative as a fair value hedge, a cash flow hedge, a hedge of a net investment in a foreign operation, or a natural hedging instrument whose change in fair value is recognized as an economic hedge against changes in the value of the hedged item. Snap-on does not use derivative instruments for speculative or trading purposes.

The company is exposed to global market risks, including the effects of changes in foreign currency exchange rates, interest rates, and the company’s stock price, and therefore uses derivatives to manage financial exposures that occur in the normal course of business. The primary risks managed by using derivative instruments are foreign currency risk, interest rate risk and stock-based deferred compensation risk.

Foreign Currency Risk Management: Snap-on has significant international operations and is subject to certain risks inherent with foreign operations that include currency fluctuations. Foreign currency exchange risk exists to the extent that Snap-on has payment obligations or receipts denominated in currencies other than the functional currency, including intercompany loans denominated in foreign currencies. To manage these exposures, Snap-on identifies naturally offsetting positions and then purchases hedging instruments to protect the residual net exposures. Snap-on

manages most of these exposures on a consolidated basis, which allows for netting of certain exposures to take advantage of natural offsets. Foreign currency forward contracts (“foreign currency forwards”) are used to hedge the net exposures. Gains or losses on net foreign currency hedges are intended to offset losses or gains on the underlying net exposures in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates. Snap-on’s foreign currency forwards are typically not designated as hedges. The fair value changes of these contracts are reported in earnings as foreign exchange gain or loss, which is included in “Other income (expense) – net” on the accompanying Condensed Consolidated Statements of Earnings.

Interest Rate Risk Management: Snap-on aims to control funding costs by managing the exposure created by the differing maturities and interest rate structures of Snap-on’s borrowings through the use of interest rate swap agreements (“interest rate swaps”) and treasury lock agreements (“treasury locks”).

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Snap-on enters into interest rate swaps to manage risks associated with changing interest rates related to the company's fixed rate borrowings. Interest rate swaps are accounted for as fair value hedges. The differentials paid or received on interest rate swaps are recognized as adjustments to "Interest expense" on the accompanying Condensed Consolidated Statements of Earnings. The effective portion of the change in fair value of the derivative is recorded in "Long-term debt" on the accompanying Condensed Consolidated Balance Sheets, while any ineffective portion is recorded as an adjustment to "Interest expense" on the accompanying Condensed Consolidated Statements of Earnings. The notional amount of interest rate swaps outstanding and designated as fair value hedges was \$100 million as of both September 29, 2018, and December 30, 2017.

Snap-on entered into a \$300 million treasury lock in the fourth quarter of 2017 to manage the potential change in interest rates in anticipation of the possible issuance of fixed rate debt in the first quarter of 2018. Treasury locks are accounted for as cash flow hedges. The effective differentials to be paid or received on treasury locks related to the anticipated issuance of fixed rate debt are initially recorded in Accumulated OCI, net of tax effect.

In the first quarter of 2018, Snap-on settled the outstanding \$300 million treasury lock after it was deemed to be an ineffective hedge related to the 2048 Notes which were issued in February 2018. The \$13.3 million gain on the settlement of the treasury lock was recorded in "Other income (expense) - net" on the accompanying Condensed Consolidated Statements of Earnings. As of September 29, 2018, no treasury locks were outstanding. The notional amount of treasury locks outstanding and designated as cash flow hedges as of December 30, 2017, was \$300 million. See Note 15 for additional information on Other income (expense) - net.

In first quarter of 2017, Snap-on settled the \$250 million treasury lock in conjunction with the February 2017 issuance of the 2027 Notes. The \$14.9 million gain on the settlement of the treasury lock was recorded in Accumulated OCI and is being amortized over the term of the 2027 Notes and recognized as an adjustment to interest expense on the Condensed Consolidated Statements of Earnings.

Stock-based Deferred Compensation Risk Management: Snap-on aims to manage market risk associated with the stock-based portion of its deferred compensation plans through the use of prepaid equity forward agreements ("equity forwards"). Equity forwards are used to aid in offsetting the potential mark-to-market effect on stock-based deferred compensation from changes in Snap-on's stock price. Since stock-based deferred compensation liabilities increase as the company's stock price rises and decrease as the company's stock price declines, the equity forwards are intended to mitigate the potential impact on deferred compensation expense that may result from such mark-to-market changes. As of September 29, 2018, Snap-on had equity forwards in place intended to manage market risk with respect to 95,300 shares of Snap-on common stock associated with its deferred compensation plans.

Counterparty Risk: Snap-on is exposed to credit losses in the event of non-performance by the counterparties to its various financial agreements, including its foreign currency forward contracts, interest rate swap agreements, treasury lock agreements and prepaid equity forward agreements. Snap-on does not obtain collateral or other security to support financial instruments subject to credit risk, but monitors the credit standing of the counterparties and generally enters into agreements with financial institution counterparties with a credit rating of A- or better. Snap-on does not anticipate non-performance by its counterparties, but cannot provide assurances.

Fair Value of Financial Instruments: The fair values of financial instruments that do not approximate the carrying values in the financial statements are as follows:

	September 29, 2018		December 30, 2017	
(Amounts in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Finance receivables – net	\$1,577.3	\$1,820.7	\$1,544.6	\$1,791.5
Contract receivables – net	443.7	481.1	419.4	459.1
Long-term debt, notes payable and current maturities of long-term debt	1,109.3	1,112.1	1,186.8	1,235.6

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The following methods and assumptions were used in estimating the fair value of financial instruments:

Finance and contract receivables include both short-term and long-term receivables. The fair value estimates of finance and contract receivables are derived utilizing discounted cash flow analyses performed on groupings of receivables that are similar in terms of loan type and characteristics. The cash flow analyses consider recent prepayment trends where applicable. The cash flows are discounted over the average life of the receivables using a current market discount rate of a similar term adjusted for credit quality. Significant inputs to the fair value measurements of the receivables are unobservable and, as such, are classified as Level 3.

Fair value of long-term debt and current maturities of long-term debt were estimated, using Level 2 fair value measurements, based on quoted market values of Snap-on's publicly traded senior debt. The carrying value of long-term debt includes adjustments related to fair value hedges. The fair value of notes payable approximates such instruments' carrying value due to their short-term nature.

The fair value of financial instruments, including trade and other accounts receivable, accounts payable and other financial instruments, approximates such instruments' carrying value due to their short-term nature.

Note 10: Pension Plans

Snap-on's net periodic pension cost included the following components:

(Amounts in millions)	Three Months Ended		Nine Months Ended	
	September 2018	September 2017	September 2018	September 2017
Service cost	\$ 6.3	\$ 5.6	\$ 18.9	\$ 16.8
Interest cost	13.2	13.9	39.6	41.8
Expected return on plan assets	(22.6)	(21.2)	(66.5)	(62.2)
Amortization of unrecognized loss	8.2	6.9	24.6	20.8
Amortization of prior service credit	(0.3)	(0.2)	(0.9)	(0.8)
Net periodic pension cost	\$ 4.8	\$ 5.0	\$ 15.7	\$ 16.4

The components of net periodic pension cost, other than the service cost component, are included in "Other income (expense) - net" on the accompanying Condensed Consolidated Statements of Earnings. See Note 15 for additional information on Other income (expense) - net.

Snap-on intends to make contributions totaling \$9.7 million to its foreign pension plans and \$2.4 million to its domestic pension plans in 2018, as required by law. In the first nine months of 2018, Snap-on made \$51.3 million of cash contributions to its domestic pension plans consisting of (i) \$50.0 million of discretionary contributions and (ii) \$1.3 million of required contributions. Depending on market and other conditions, Snap-on may make additional discretionary cash contributions to its pension plans in 2018.

Note 11: Postretirement Health Care Plans

Snap-on's net periodic postretirement health care cost included the following components:

(Amounts in millions)	Three Months Ended		Nine Months Ended	
	September 2018	September 2017	September 2018	September 2017
Interest cost	\$ 0.5	\$ 0.5	\$ 1.4	\$ 1.5
Expected return on plan assets	(0.2)	(0.2)	(0.6)	(0.6)
Amortization of unrecognized gain	(0.1)	(0.1)	(0.3)	(0.2)
Net periodic postretirement health care cost	\$ 0.2	\$ 0.2	\$ 0.5	\$ 0.7

The components of net periodic postretirement health care cost, other than the service cost component, are included in “Other income (expense) - net” on the accompanying Condensed Consolidated Statements of Earnings. See Note 15 for additional information on Other income (expense) - net.

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 12: Stock-based Compensation and Other Stock Plans

The 2011 Incentive Stock and Awards Plan (the “2011 Plan”) provides for the grant of stock options, performance awards, stock appreciation rights (“SARs”) and restricted stock awards (which may be designated as “restricted stock units” or “RSUs”). No further grants are being made under its predecessor, the 2001 Incentive Stock and Awards Plan (the “2001 Plan”), although outstanding awards under the 2001 Plan continue in accordance with their terms. As of September 29, 2018, the 2011 Plan had 2,638,001 shares available for future grants. The company uses treasury stock to deliver shares under both the 2001 and 2011 Plans.

Net stock-based compensation expense was \$8.0 million and \$22.6 million for the respective three and nine months ended September 29, 2018, and \$7.0 million and \$21.4 million for the respective three and nine months ended September 30, 2017. Cash received from stock purchase and option plan exercises during the respective three and nine months ended September 29, 2018, totaled \$25.8 million and \$54.1 million. Cash received from stock purchase and option plan exercises during the respective three and nine months ended September 30, 2017, totaled \$1.6 million and \$36.2 million. The tax benefit realized from both the exercise and vesting of share-based payment arrangements was \$4.5 million and \$12.1 million for the respective three and nine months ended September 29, 2018, and \$0.8 million and \$12.9 million for the respective three and nine months ended September 30, 2017.

Stock Options

Stock options are granted with an exercise price equal to the market value of a share of Snap-on’s common stock on the date of grant and have a contractual term of ten years. Stock option grants vest ratably on the first, second and third anniversaries of the date of grant.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes valuation model. The company uses historical data regarding stock option exercise and forfeiture behaviors for different participating groups to estimate the period of time that options granted are expected to be outstanding. Expected volatility is based on the historical volatility of the company’s stock for the length of time corresponding to the expected term of the option. The expected dividend yield is based on the company’s historical dividend payments. The risk-free interest rate is based on the U.S. treasury yield curve on the grant date for the expected term of the option.

The following weighted-average assumptions were used in calculating the fair value of stock options granted during the nine months ended September 29, 2018, and September 30, 2017, using the Black-Scholes valuation model; there were no stock options granted during the three months ended September 29, 2018, or September 30, 2017:

	Nine Months Ended	
	September 29, 2018	September 30, 2017
Expected term of option (in years)	5.35	5.15
Expected volatility factor	20.08%	22.01%
Expected dividend yield	1.68%	1.63%
Risk-free interest rate	2.71%	1.78%

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

A summary of stock option activity as of and for the nine months ended September 29, 2018, is presented below:

	Shares (in thousands)	Exercise Price Per Share*	Remaining Contractual Term* (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 30, 2017	3,198	\$ 115.30		
Granted	515	161.18		
Exercised	(496)) 88.30		
Forfeited or expired	(34)) 159.17		
Outstanding at September 29, 2018	3,183	126.45	6.4	\$ 181.9
Exercisable at September 29, 2018	2,089	108.93	5.3	156.0

***Weighted-average**

The weighted-average grant date fair value of options granted during the nine months ended September 29, 2018, and September 30, 2017, was \$30.21 and \$31.13, respectively. The intrinsic value of options exercised was \$18.1 million and \$39.3 million during the respective three and nine months ended September 29, 2018, and \$2.0 million and \$23.4 million during the respective three and nine months ended September 30, 2017. The fair value of stock options vested was \$16.0 million and \$14.0 million during the respective nine months ended September 29, 2018, and September 30, 2017.

As of September 29, 2018, there was \$22.1 million of unrecognized compensation cost related to non-vested stock options that is expected to be recognized as a charge to earnings over a weighted-average period of 1.7 years.

Performance Awards

Performance awards, which are granted as performance share units (“PSUs”) and performance-based RSUs, are earned and expensed using the fair value of the award over a contractual term of three years based on the company’s performance. Vesting of the performance awards is dependent upon performance relative to pre-defined goals for revenue growth and return on net assets for the applicable performance period. For performance achieved above specified levels, the recipient may earn additional shares of stock, not to exceed 100% of the number of performance awards initially granted.

The PSUs have a three-year performance period based on the results of the consolidated financial metrics of the company. The performance-based RSUs have a one-year performance period based on the results of the consolidated financial metrics of the company followed by a two-year cliff vesting schedule, assuming continued employment. The fair value of performance awards is calculated using the market value of a share of Snap-on’s common stock on the date of grant and assumed forfeitures based on recent historical experience; in recent years, forfeitures have not been significant. The weighted-average grant date fair value of performance awards granted during the nine months ended September 29, 2018, and September 30, 2017, was \$161.18 and \$168.70, respectively. PSUs related to 50,182 shares and 60,980 shares were paid out during the respective nine months ended September 29, 2018, and September 30, 2017. Earned PSUs are generally paid out following the conclusion of the applicable performance period upon approval by the Organization and Executive Compensation Committee of the company’s Board of Directors (the “Board”).

Based on the company’s 2017 performance, 13,648 RSUs granted in 2017 were earned; assuming continued employment, these RSUs will vest at the end of fiscal 2019. Based on the company’s 2016 performance, 45,502 RSUs granted in 2016 were earned; assuming continued employment, these RSUs will vest at the end of fiscal 2018. Based on the company’s 2015 performance, 64,327 RSUs granted in 2015 were earned; these RSUs vested as of fiscal 2017

year end and were paid out shortly thereafter.

31

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Changes to the company's non-vested performance awards during the nine months ended September 29, 2018, are as follows:

	Shares (in thousands)	Fair Value Price per Share*
Non-vested performance awards at December 30, 2017	132	\$ 149.93
Granted	87	161.18
Vested	—	—
Cancellations and other	(15)	160.21
Non-vested performance awards at September 29, 2018	204	153.99

*Weighted-average

As of September 29, 2018, there was \$13.5 million of unrecognized compensation cost related to non-vested performance awards that is expected to be recognized as a charge to earnings over a weighted-average period of 1.9 years.

Stock Appreciation Rights ("SARs")

The company also issues stock-settled and cash-settled SARs to certain key non-U.S. employees. SARs have a contractual term of ten years and vest ratably on the first, second and third anniversaries of the date of grant. SARs are granted with an exercise price equal to the market value of a share of Snap-on's common stock on the date of grant. Stock-settled SARs are accounted for as equity instruments and provide for the issuance of Snap-on common stock equal to the amount by which the company's stock has appreciated over the exercise price. Stock-settled SARs have an effect on dilutive shares and shares outstanding as any appreciation of Snap-on's common stock value over the exercise price will be settled in shares of common stock. Cash-settled SARs provide for the cash payment of the excess of the fair market value of Snap-on's common stock price on the date of exercise over the grant price. Cash-settled SARs have no effect on dilutive shares or shares outstanding as any appreciation of Snap-on's common stock over the grant price is paid in cash and not in common stock.

The fair value of stock-settled SARs is estimated on the date of grant using the Black-Scholes valuation model. The fair value of cash-settled SARs is revalued (mark-to-market) each reporting period using the Black-Scholes valuation model based on Snap-on's period-end stock price. The company uses historical data regarding SARs exercise and forfeiture behaviors for different participating groups to estimate the expected term of the SARs granted based on the period of time that similar instruments granted are expected to be outstanding. Expected volatility is based on the historical volatility of the company's stock for the length of time corresponding to the expected term of the SARs. The expected dividend yield is based on the company's historical dividend payments. The risk-free interest rate is based on the U.S. treasury yield curve in effect as of the grant date (for stock-settled SARs) or reporting date (for cash-settled SARs) for the length of time corresponding to the expected term of the SARs.

The following weighted-average assumptions were used in calculating the fair value of stock-settled SARs granted during the nine months ended September 29, 2018, and September 30, 2017, using the Black-Scholes valuation model; there were no stock-settled SARs granted during the three months ended September 29, 2018, or September 30, 2017:

	Nine Months Ended	
	September 29, 2018	September 30, 2017
Expected term of stock-settled SARs (in years)	3.58	3.99
Expected volatility factor	20.08%	19.39%

Expected dividend yield	1.63%	1.46%
Risk-free interest rate	2.40%	1.55%

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Changes to the company's stock-settled SARs during the nine months ended September 29, 2018, are as follows:

	Stock-settled SARs (in thousands)	Exercise Price Per Share*	Remaining Contractual Term* (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 30, 2017	360	\$ 138.63		
Granted	89	161.18		
Exercised	(24)	105.55		
Forfeited or expired	(53)	129.40		
Outstanding at September 29, 2018	372	147.41	7.6	\$ 13.5
Exercisable at September 29, 2018	191	135.42	6.6	9.2

*Weighted-average

The weighted-average grant date fair value of stock-settled SARs granted during the nine months ended September 29, 2018, and September 30, 2017, was \$24.71 and \$24.13, respectively. The intrinsic value of stock-settled SARs exercised was \$1.2 million and \$1.8 million during the respective three and nine months ended September 29, 2018, and zero and \$0.5 million during the respective three and nine months ended September 30, 2017. The fair value of stock-settled SARs vested was \$2.2 million and \$2.1 million during the respective nine months ended September 29, 2018, and September 30, 2017.

As of September 29, 2018, there was \$3.0 million of unrecognized compensation cost related to non-vested stock-settled SARs that is expected to be recognized as a charge to earnings over a weighted-average period of 1.7 years.

The following weighted-average assumptions were used in calculating the fair value of cash-settled SARs granted during the nine months ended September 29, 2018, and September 30, 2017, using the Black-Scholes valuation model; no cash-settled SARs were granted during the three months ended September 29, 2018, or September 30, 2017:

	Nine Months Ended	
	September 29, 2018	September 30, 2017
Expected term of cash-settled SARs (in years)	3.01	3.38
Expected volatility factor	21.22%	19.58%
Expected dividend yield	1.70%	1.57%
Risk-free interest rate	2.88%	1.62%

The intrinsic value of cash-settled SARs exercised was \$1.1 million and \$3.2 million during the respective three and nine months ended September 29, 2018, and zero and \$0.8 million during the respective three and nine months ended September 30, 2017. The fair value of cash-settled SARs vested was \$0.1 million during both the nine months ended September 29, 2018, and September 30, 2017.

Changes to the company's non-vested cash-settled SARs during the nine months ended September 29, 2018, are as follows:

	Cash-settled SARs (in thousands)	Fair Value Price per Share*
Non-vested cash-settled SARs at December 30, 2017	5	\$ 35.41
Granted	1	39.15

Vested	(3)	42.69
Non-vested cash-settled SARs at September 29, 2018	3		40.19

*Weighted-average

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

As of September 29, 2018, there was \$0.1 million of unrecognized compensation cost related to non-vested cash-settled SARs that is expected to be recognized as a charge to earnings over a weighted-average period of 1.4 years.

Restricted Stock Awards – Non-employee Directors

The company awarded 6,975 shares and 6,966 shares of restricted stock to non-employee directors in the first nine months of 2018 and 2017, respectively. The fair value of the restricted stock awards is expensed over a one-year vesting period based on the fair value on the date of grant. All restrictions for the restricted stock generally lapse upon the earlier of the first anniversary of the grant date, the recipient's death or disability or in the event of a change in control, as defined in the 2011 Plan. If termination of the recipient's service occurs prior to the first anniversary of the grant date for any reason other than death or disability, the shares of restricted stock would be forfeited, unless otherwise determined by the Board.

Note 13: Earnings Per Share

The shares used in the computation of the company's basic and diluted earnings per common share are as follows:

	Three Months Ended		Nine Months Ended	
	September 29, 2018		September 30, 2017	
	2018	2017	2018	2017
Weighted-average common shares outstanding	56,260,432	57,200,880	56,447,218	57,643,948
Effect of dilutive securities	1,073,501	1,054,360	1,033,190	1,220,575
Weighted-average common shares outstanding, assuming dilution	57,333,933	58,255,240	57,480,408	58,864,523

The dilutive effect of the potential exercise of outstanding options and stock-settled SARs to purchase common shares is calculated using the treasury stock method. As of September 29, 2018, there were 689,665 awards outstanding that were anti-dilutive; as of September 30, 2017, there were 723,215 awards outstanding that were anti-dilutive. Performance-based equity awards are included in the diluted earnings per share calculation based on the attainment of the applicable performance metrics to date.

Note 14: Commitments and Contingencies

Snap-on provides product warranties for specific product lines and accrues for estimated future warranty cost in the period in which the sale is recorded. Snap-on calculates its accrual requirements based on historic warranty loss experience that is periodically adjusted for recent actual experience, including the timing of claims during the warranty period and actual costs incurred.

Snap on's product warranty accrual activity for the three and nine months ended September 29, 2018, and September 30, 2017, is as follows:

	Three Months Ended		Nine Months Ended	
(Amounts in millions)	September 29, 2018		September 30, 2017	
	2018	2017	2018	2017
Warranty reserve:				
Beginning of period	\$ 17.5	\$ 18.9	\$ 17.2	\$ 16.0
Additions	3.0	1.1	10.9	10.4
Usage	(3.3)	(2.2)	(10.9)	(8.6)
End of period	\$ 17.2	\$ 17.8	\$ 17.2	\$ 17.8

Snap-on is involved in various legal matters that are being litigated and/or settled in the ordinary course of business. The Condensed Consolidated Balance Sheets as of September 29, 2018, and December 30, 2017, included fiscal 2017 accruals of \$30.9 million related to a judgment in a patent-related litigation matter, as well as \$15.0 million related to

a judgment in an employment-related litigation matter brought by an individual; both judgments are being appealed. Although it is not possible to predict the outcome of these legal matters, management believes that the results of all legal matters will not have a material impact on Snap-on's consolidated financial position, results of operations or cash flows.

Note 15: Other Income (Expense) – Net

34

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

“Other income (expense) – net” on the accompanying Condensed Consolidated Statements of Earnings consists of the following:

(Amounts in millions)	Three Months Ended		Nine Months Ended	
	September 2018	September 30, 2017	September 2018	September 30, 2017
Interest income	\$0.1	\$ —	\$0.4	\$ 0.2
Net foreign exchange loss	(1.8)	(2.0)	(4.2)	(5.7)
Net periodic pension and postretirement benefits (costs) – non-service	1.3	0.4	2.7	(0.3)
Settlement of treasury lock	—	—	13.3	—
Loss on early extinguishment of debt	—	—	(7.8)	—
Other	(0.6)	(0.1)	(3.2)	(0.2)
Total other income (expense) – net	\$(1.0)	\$ (1.7)	\$ 1.2	\$ (6.0)

Note 16: Accumulated Other Comprehensive Income (Loss)

The following is a summary of net changes in Accumulated OCI by component and net of tax for the three months ended September 29, 2018:

(Amounts in millions)	Foreign Currency Translation	Cash Flow Hedges	Defined Benefit Pension and Postretirement Plans	Total
Balance as of June 30, 2018	\$ (141.0)	\$ 12.9	\$ (249.2)	\$(377.3)
Other comprehensive income before reclassifications	2.0	—	—	2.0
Amounts reclassified from Accumulated OCI	—	(0.4)	6.0	5.6
Net other comprehensive income (loss)	2.0	(0.4)	6.0	7.6
Balance as of September 29, 2018	\$ (139.0)	\$ 12.5	\$ (243.2)	\$(369.7)

The following is a summary of net changes in Accumulated OCI by component and net of tax for the nine months ended September 29, 2018:

(Amounts in millions)	Foreign Currency Translation	Cash Flow Hedges	Defined Benefit Pension and Postretirement Plans	Total
Balance as of December 30, 2017	\$ (82.5)	\$ 14.5	\$ (261.0)	\$(329.0)
Other comprehensive loss before reclassifications	(56.5)	(0.8)	—	(57.3)
Amounts reclassified from Accumulated OCI	—	(1.2)	17.8	16.6
Net other comprehensive income (loss)	(56.5)	(2.0)	17.8	(40.7)
Balance as of September 29, 2018	\$ (139.0)	\$ 12.5	\$ (243.2)	\$(369.7)

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The following is a summary of net changes in Accumulated OCI by component and net of tax for the three months ended September 30, 2017:

(Amounts in millions)	Foreign Currency Translation	Cash Flow Hedges	Defined Benefit Pension and Postretirement Plans	Total
Balance as of July 1, 2017	\$ (130.2)	\$ 14.6	\$ (281.4)	\$ (397.0)
Other comprehensive income before reclassifications	51.4	—	—	51.4
Amounts reclassified from Accumulated OCI	—	(0.5)	4.3	3.8
Net other comprehensive income (loss)	51.4	(0.5)	4.3	55.2
Balance as of September 30, 2017	\$ (78.8)	\$ 14.1	\$ (277.1)	\$ (341.8)

The following is a summary of net changes in Accumulated OCI by component and net of tax for the nine months ended September 30, 2017:

(Amounts in millions)	Foreign Currency Translation	Cash Flow Hedges	Defined Benefit Pension and Postretirement Plans	Total
Balance as of December 31, 2016	\$ (217.7)	\$ 9.2	\$ (290.0)	\$ (498.5)
Other comprehensive income before reclassifications	138.9	6.1	—	145.0
Amounts reclassified from Accumulated OCI	—	(1.2)	12.9	11.7
Net other comprehensive income	138.9	4.9	12.9	156.7
Balance as of September 30, 2017	\$ (78.8)	\$ 14.1	\$ (277.1)	\$ (341.8)

The reclassifications out of Accumulated OCI for the three and nine month periods ended September 29, 2018, and September 30, 2017, are as follows:

(Amounts in millions)	Amount Reclassified from Accumulated OCI				Statement of Earnings Presentation
	Three Months Ended		Nine Months Ended		
	September 2018	September 30, 2017	September 2018	September 30, 2017	
Gains on cash flow hedges:					
Treasury locks	\$0.4	\$ 0.5	\$1.2	\$ 1.2	Interest expense
Income tax expense	—	—	—	—	Income tax expense
Net of tax	0.4	0.5	1.2	1.2	
Amortization of net unrecognized losses and prior service credits	(7.8)	(6.6)	(23.4)	(19.8)	See footnote below*
Income tax benefit	1.8	2.3	5.6	6.9	Income tax expense

Edgar Filing: SNAP-ON Inc - Form 10-Q

Net of tax	(6.0)	(4.3)	(17.8)	(12.9)
Total reclassifications for the period, net of tax	\$(5.6)	\$(3.8)	\$(16.6)	\$(11.7)

These Accumulated OCI components are included in the computation of *net periodic pension and postretirement health care costs; see Note 10 and Note 11 for further information.

Note 17: Segments

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Snap-on's business segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. Snap-on's reportable business segments are: (i) the Commercial & Industrial Group; (ii) the Snap-on Tools Group; (iii) the Repair Systems & Information Group; and (iv) Financial Services. The Commercial & Industrial Group consists of business operations serving a broad range of industrial and commercial customers worldwide, including customers in the aerospace, natural resources, government, power generation, transportation and technical education market segments (collectively, "critical industries"), primarily through direct and distributor channels. The Snap-on Tools Group consists of business operations primarily serving vehicle service and repair technicians through the company's worldwide mobile tool distribution channel. The Repair Systems & Information Group consists of business operations serving other professional vehicle repair customers worldwide, primarily owners and managers of independent repair shops and OEM dealerships, through direct and distributor channels. Financial Services consists of the business operations of Snap-on's finance subsidiaries. Snap-on evaluates the performance of its operating segments based on segment revenues, including both external and intersegment net sales, and segment operating earnings. Snap-on accounts for intersegment sales and transfers based primarily on standard costs with reasonable mark-ups established between the segments. Identifiable assets by segment are those assets used in the respective reportable segment's operations. Corporate assets consist of cash and cash equivalents (excluding cash held at Financial Services), deferred income taxes and certain other assets. All significant intersegment amounts are eliminated to arrive at Snap-on's consolidated financial results. See Note 1 for additional information on the retrospective adoption of ASU No. 2017-07 for the three and nine months ended September 30, 2017.

Financial Data by Segment:

(Amounts in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net sales:				
Commercial & Industrial Group	\$330.2	\$ 314.6	\$999.6	\$ 923.3
Snap-on Tools Group	389.8	392.7	1,206.4	1,215.9
Repair Systems & Information Group	314.4	333.5	994.5	990.4
Segment net sales	1,034.4	1,040.8	3,200.5	3,129.6
Intersegment eliminations	(136.3)	(137.0)	(412.3)	(417.3)
Total net sales	\$898.1	\$ 903.8	\$2,788.2	\$ 2,712.3
Financial Services revenue	82.0	79.0	247.0	233.5
Total revenues	\$980.1	\$ 982.8	\$3,035.2	\$ 2,945.8
Operating earnings:				
Commercial & Industrial Group	\$53.0	\$ 50.3	\$148.5	\$ 135.2
Snap-on Tools Group	59.3	56.4	207.2	207.4
Repair Systems & Information Group	80.7	83.8	255.2	245.1
Financial Services	59.3	56.0	174.0	163.1
Segment operating earnings	252.3	246.5	784.9	750.8
Corporate	(19.9)	(37.8)	(67.0)	(81.1)
Operating earnings	\$232.4	\$ 208.7	\$717.9	\$ 669.7
Interest expense	(12.4)	(13.1)	(38.0)	(38.8)
Other income (expense) – net	(1.0)	(1.7)	1.2	(6.0)
Earnings before income taxes and equity earnings	\$219.0	\$ 193.9	\$681.1	\$ 624.9

Table of Contents

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

(Amounts in millions)	September 29, 2018	December 30, 2017
Assets:		
Commercial & Industrial Group	\$ 1,096.8	\$ 1,113.9
Snap-on Tools Group	773.2	714.3
Repair Systems & Information Group	1,297.7	1,314.3
Financial Services	2,024.0	1,971.8
Total assets from reportable segments	\$ 5,191.7	\$ 5,114.3
Corporate	229.7	200.6
Elimination of intersegment receivables	(66.6)	(65.8)
Total assets	\$ 5,354.8	\$ 5,249.1

38

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Caution Regarding Forward-Looking Statements:

Statements in this document that are not historical facts, including statements that (i) are in the future tense; (ii) include the words "expects," "plans," "targets," "estimates," "believes," "anticipates," or similar words that reference Snap Incorporated ("Snap-on" or "the company") or its management; (iii) are specifically identified as forward-looking; or (iv) describe Snap-on's or management's future outlook, plans, estimates, objectives or goals, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Snap-on cautions the reader that any forward-looking statements included in this document that are based upon assumptions and estimates were developed by management in good faith and are subject to risks, uncertainties or other factors that could cause (and in some cases have caused) actual results to differ materially from those described in any such statement. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results or regarded as a representation by the company or its management that the projected results will be achieved. For those forward-looking statements, Snap-on cautions the reader that numerous important factors, such as those listed below, as well as those factors discussed in its Annual Report on Form 10-K for the fiscal year ended December 30, 2017, which are incorporated herein by reference, could affect the company's actual results and could cause its actual consolidated results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, Snap-on.

These risks and uncertainties include, without limitation, uncertainties related to estimates, statements, assumptions and projections generally, and the timing and progress with which Snap-on can attain value through its Snap-on Value Creation Processes, including its ability to realize efficiencies and savings from its rapid continuous improvement and other cost reduction initiatives, improve workforce productivity, achieve improvements in the company's manufacturing footprint and greater efficiencies in its supply chain, and enhance machine maintenance, plant productivity and manufacturing line set-up and change-over practices, any or all of which could result in production inefficiencies, higher costs and/or lost revenues. These risks also include uncertainties related to Snap-on's capability to implement future strategies with respect to its existing businesses, its ability to refine its brand and franchise strategies, retain and attract franchisees, further enhance service and value to franchisees and thereby help improve their sales and profitability, introduce successful new products, successfully pursue, complete and integrate acquisitions, as well as its ability to withstand disruption arising from natural disasters, planned facility closures or other labor interruptions, the effects of external negative factors, including adverse developments in world financial markets, developments related to tariffs and other trade issues or disputes, weakness in certain areas of the global economy (including as a result of the United Kingdom's pending exit from the European Union), and significant changes in the current competitive environment, inflation, interest rates and other monetary and market fluctuations, changes in tax rates, laws and regulations, and the impact of energy and raw material supply and pricing, including steel (as a result of recently imposed U.S. tariffs on certain steel imports or otherwise) and gasoline, the amount, rate and growth of Snap-on's general and administrative expenses, including health care and postretirement costs (resulting from, among other matters, U.S. health care legislation and its ongoing implementation or reform), continuing and potentially increasing required contributions to pension and postretirement plans, the impacts of non-strategic business and/or product line rationalizations, and the effects on business as a result of new legislation, regulations or government-related developments or issues, risks associated with data security and technological systems and protections, potential reputational damages and costs related to litigation as well as an inability to assure that costs will be reduced or eliminated on appeal, and other world or local events outside Snap-on's control, including terrorist disruptions. Snap-on disclaims any responsibility to update any forward-looking statement provided in this document, except as required by law.

In addition, investors should be aware that generally accepted accounting principles in the United States of America ("GAAP") prescribe when a company should reserve for particular risks, including litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when a reserve is established for a major

contingency. Reported results, therefore, may appear to be volatile in certain accounting periods.

Recent Acquisitions

On January 31, 2018, Snap-on acquired substantially all of the assets of George A. Sturdevant, Inc. (d/b/a Fastorq) for a cash purchase price of \$3.0 million. Fastorq, based in New Caney, Texas, designs, assembles and distributes hydraulic torque and hydraulic tensioning products for use in critical industries. The acquisition of the Fastorq product line complemented and increased Snap-on's existing torque product offering and broadened its established capabilities in serving critical industries.

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

On July 28, 2017, Snap-on acquired Torque Control Specialists Pty Ltd ("TCS") for a cash purchase price of \$3.6 million (or \$3.5 million, net of cash acquired). TCS distributes a full range of torque products, including wrenches, multipliers and calibrators for use in critical industries.

On May 4, 2017, Snap-on acquired Norbar Torque Tools Holdings Limited, along with its U.S. and Chinese joint ventures ("Norbar") for a cash purchase price of \$71.6 million (or \$69.9 million, net of cash acquired). Norbar designs and manufactures a full range of torque products, including wrenches, multipliers and calibrators for use in critical industries.

On January 30, 2017, Snap-on acquired BTC Global Limited ("BTC") for a cash purchase price of \$9.2 million. BTC designs and implements automotive vehicle inspection and management software for original equipment manufacturer ("OEM") franchise repair shops.

For segment reporting purposes, the results of operations and assets of Fastorq, TCS and Norbar have been included in the Commercial & Industrial Group since the acquisition date and the results of operations and assets of BTC have been included in the Repair Systems and Information Group since the acquisition date.

Pro forma financial information has not been presented for any of these acquisitions as the net effects, individually and collectively, were neither significant nor material to Snap-on's results of operations or financial position.

Impact of the Tax Act

The effective tax rate for 2018 includes the net tax benefits attributable to the Tax Cuts and Jobs Act (the "Tax Act"), which was signed into law on December 22, 2017.

The Tax Act made broad and complex changes to the U.S. tax code, including, but not limited to: (i) reducing the future U.S. federal corporate tax rate from 35 percent to 21 percent; and (ii) requiring companies to pay a one-time transition tax on certain unremitted earnings of foreign subsidiaries.

The Tax Act also established new tax laws that affect 2018, including, but not limited to: (i) the reduction of the U.S. federal corporate tax rate discussed above; (ii) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (iii) a new provision designed to tax global intangible low-taxed income ("GILTI"); (iv) the repeal of the domestic production activity deductions; (v) limitations on the deductibility of certain executive compensation; (vi) limitations on the use of foreign tax credits to reduce the U.S. income tax liability; and (vii) a new provision that allows a domestic corporation an immediate deduction for a portion of its foreign derived intangible income ("FDII").

The Securities and Exchange Commission staff issued Staff Accounting Bulletin ("SAB") 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the related accounting under ASC 740, Accounting for Income Taxes. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for a certain income tax effect of the Tax Act is incomplete, but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

The company's accounting for the certain elements of the Tax Act was incomplete as of the period ended December 30, 2017, and remains incomplete as of September 29, 2018. However, the company was able to make reasonable estimates of the effects and, therefore, recorded provisional estimates for these items. In connection with its initial analysis of the impact of the Tax Act, the company recorded a provisional discrete net tax expense of \$7.0 million in

the period ended December 30, 2017. This provisional estimate consists of a net expense of \$13.7 million for the one-time transition tax and a net benefit of \$6.7 million related to revaluation of deferred tax assets and liabilities, caused by the new lower corporate tax rate. To determine the transition tax, the company must determine the amount of post-1986 accumulated earnings and profits of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. While the company was able to make a reasonable estimate of the transition tax, it is continuing to gather additional information to more precisely compute the final amount. Likewise, while the company was able to make a reasonable estimate of the impact of the reduction to the corporate tax rate, its rate may be affected by other analyses related to the Tax Act, including, but not limited to, the state tax effect of adjustments made to federal temporary differences. Due to the complexity of the new GILTI tax rules, the company is continuing to evaluate this provision of the Tax Act

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
OF OPERATIONS

(continued)

and the application of ASC 740. Under GAAP, the company is allowed to make an accounting policy choice to either (i) treat taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method"); or (ii) factor in such amounts into a company's measurement of its deferred taxes (the "deferred method"). The company's selection of an accounting policy with respect to the new GILTI tax rules is dependent on additional analysis and potential future modifications to existing structures, which are not currently known. The company has not made a policy decision regarding whether to record deferred taxes on GILTI. The company will continue to analyze the full effects of the Tax Act on its consolidated financial statements.

During the first nine months of 2018, the Internal Revenue Service issued new guidance affecting the computation of the company's 2017 federal income tax liability. As a result of this new guidance and additional analysis of the impacts of the Tax Act, the company revised its prior estimates and recorded \$1.8 million and \$3.9 million of net tax expense related to the Tax Act during the respective three and nine months ended September 29, 2018. The ultimate impact of the Tax Act may differ from the current estimates, possibly materially, due to changes in interpretations and assumptions the company has made, future guidance that may be issued and actions the company may take as a result of the law.

Impact of ASU No. 2017-07

At the beginning of fiscal 2018, Snap-on adopted ASU No. 2017-07, Compensation – Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU requires changes to be applied retrospectively; as such, prior periods have been adjusted to reflect this adoption. See Note 1 to the Condensed Consolidated Financial Statements for further information on the effects of adoption of this ASU on the Company's Condensed Consolidated Financial Statements.

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

RESULTS OF OPERATIONS

Results of operations for the three months ended September 29, 2018, and September 30, 2017, are as follows:

(Amounts in millions)	Three Months Ended				Change	
	September 29, 2018		September 30, 2017			
Net sales	\$898.1	100.0 %	\$903.8	100.0 %	\$(5.7)	(0.6) %
Cost of goods sold	(444.2)	(49.5) %	(455.0)	(50.3) %	10.8	2.4 %
Gross profit	453.9	50.5 %	448.8	49.7 %	5.1	1.1 %
Operating expenses	(280.8)	(31.2) %	(296.1)	(32.8) %	15.3	5.2 %
Operating earnings before financial services	173.1	19.3 %	152.7	16.9 %	20.4	13.4 %
Financial services revenue	82.0	100.0 %	79.0	100.0 %	3.0	3.8 %
Financial services expenses	(22.7)	(27.7) %	(23.0)	(29.1) %	0.3	1.3 %
Operating earnings from financial services	59.3	72.3 %	56.0	70.9 %	3.3	5.9 %
Operating earnings	232.4	23.7 %	208.7	21.2 %	23.7	11.4 %
Interest expense	(12.4)	(1.3) %	(13.1)	(1.4) %	0.7	5.3 %
Other income (expense) – net	(1.0)	(0.1) %	(1.7)	(0.1) %	0.7	NM
Earnings before income taxes and equity earnings	219.0	22.3 %	193.9	19.7 %	25.1	12.9 %
Income tax expense	(51.5)	(5.2) %	(57.2)	(5.8) %	5.7	10.0 %
Earnings before equity earnings (loss)	167.5	17.1 %	136.7	13.9 %	30.8	22.5 %
Equity earnings (loss), net of tax	(0.1)	—	0.4	—	(0.5)	NM
Net earnings	167.4	17.1 %	137.1	13.9 %	30.3	22.1 %
Net earnings attributable to noncontrolling interests	(4.2)	(0.4) %	(3.7)	(0.3) %	(0.5)	(13.5) %
Net earnings attributable to Snap-on Inc.	\$163.2	16.7 %	\$133.4	13.6 %	\$29.8	22.3 %

NM: Not meaningful

Percentage

Disclosure: All income statement line item percentages below "Operating earnings from financial services" are calculated as a percentage of the sum of Net sales and Financial services revenue.

Net sales of \$898.1 million in the third quarter of 2018 were down \$5.7 million, or 0.6%, from 2017 levels, reflecting a \$5.4 million, or 0.6%, increase in organic sales (a non-GAAP financial measure that excludes acquisition-related sales and the impact of foreign currency translation), \$1.4 million of acquisition-related sales, and \$12.5 million of unfavorable foreign currency translation. Snap on has significant international operations and is subject to risks inherent with foreign operations, including foreign currency translation fluctuations.

References in this report to “organic sales” refer to sales from continuing operations calculated in accordance with GAAP, excluding acquisition-related sales and the impact of foreign currency translation. Management evaluates the company’s sales performance based on organic sales growth, which primarily reflects growth from the company’s existing businesses as a result of increased output, customer base and geographic expansion, new product development and/or pricing, and excludes sales contributions from acquired operations the company did not own as of the comparable prior-year reporting period. The company’s organic sales disclosures also exclude the effects of foreign currency translation as foreign currency translation is subject to volatility that can obscure underlying business trends. Management believes that the non-GAAP financial measure of organic sales is meaningful to investors as it provides them with useful information to aid in identifying underlying growth trends in our businesses and facilitating comparisons of our sales performance with prior periods.

Gross profit of \$453.9 million in the third quarter of 2018 compared to \$448.8 million last year. Gross margin (gross profit as a percentage of net sales) of 50.5% in the quarter improved 80 basis points (100 basis points (“bps”) equals 1.0 percent) from 49.7% last year primarily as a result of a shift in sales mix, savings from the company’s “Rapid Continuous Improvement” or “RCI” initiatives and 30 bps of favorable foreign currency effects, partially offset by higher material and other costs.

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

Snap-on's RCI initiatives employ a structured set of tools and processes across multiple businesses and geographies intended to eliminate waste and improve operations. Savings from Snap-on's RCI initiatives reflect benefits from a wide variety of ongoing efficiency, productivity and process improvements, including savings generated from product design cost reductions, improved manufacturing line set-up and change-over practices, lower-cost sourcing initiatives and facility optimization. Unless individually significant, it is not practicable to disclose each RCI activity that generated savings and/or segregate RCI savings embedded in sales volume increases.

Operating expenses of \$280.8 million in the third quarter of 2018 compared to \$296.1 million last year, as 2017 included a \$15.0 million charge related to a judgment in an employment-related litigation matter that is being appealed (the "legal charge"). The operating expense margin (operating expenses as a percentage of net sales) of 31.2% improved 160 bps from 32.8% last year, which included 170 bps from the legal charge.

Operating earnings before financial services of \$173.1 million in the third quarter of 2018, including \$0.4 million of favorable foreign currency effects, increased \$20.4 million, or 13.4%, as compared to \$152.7 million last year, which included \$15.0 million for the legal charge. As a percentage of net sales, operating earnings before financial services of 19.3% compared to 16.9% last year.

Financial services revenue of \$82.0 million in the third quarter of 2018 compared to revenue of \$79.0 million last year. Financial services operating earnings of \$59.3 million in the third quarter of 2018, including \$0.2 million of unfavorable foreign currency effects, increased \$3.3 million, or 5.9%, as compared to \$56.0 million last year. The year-over-year increases in both revenue and operating earnings primarily reflect continued growth of the company's financial services portfolio.

Operating earnings of \$232.4 million in the third quarter of 2018, including \$0.2 million of favorable foreign currency effects, increased \$23.7 million, or 11.4%, from \$208.7 million last year, which included \$15.0 million for the legal charge. As a percentage of revenues (net sales plus financial services revenue), operating earnings of 23.7% in the quarter compared to 21.2% last year.

Interest expense was \$12.4 million and \$13.1 million in the respective third quarters of 2018 and 2017. See Note 8 to the Condensed Consolidated Financial Statements for information on Snap-on's debt and credit facilities.

Other income (expense) – net was expense of \$1.0 million and \$1.7 million in the respective third quarters of 2018 and 2017. Other income (expense) – net includes net gains and losses associated with hedging and currency exchange rate transactions, non-service components of net periodic benefit costs, and interest income. See Note 15 to the Condensed Consolidated Financial Statements for information on other income (expense) – net.

Snap-on's 2018 third quarter effective income tax rate on earnings attributable to Snap-on was 24.0%, including a 90 bps charge related to newly issued guidance associated with the Tax Act (the "tax charge"), as compared to 30.1% in 2017, which included a 60 bps benefit from the legal charge. See Note 7 to the Condensed Consolidated Financial Statements for information on income taxes.

Net earnings attributable to Snap-on of \$163.2 million, or \$2.85 per diluted share, in the third quarter of 2018, including \$1.8 million, or \$0.03 per diluted share, for the tax charge, increased \$29.8 million, or \$0.56 per diluted share, from 2017 levels. Net earnings attributable to Snap-on in the third quarter of 2017 were \$133.4 million, or \$2.29 per diluted share, which included \$9.3 million, or \$0.16 per diluted share, for the after-tax legal charge.

Table of Contents

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

(Amounts in millions)	Nine Months Ended					
	September 29, 2018		September 30, 2017		Change	
Net sales	\$2,788.2	100.0 %	\$2,712.3	100.0 %	\$75.9	2.8 %
Cost of goods sold	(1,375.6)	(49.3)%	(1,352.0)	(49.8)%	(23.6)	(1.7)%
Gross profit	1,412.6	50.7 %	1,360.3	50.2 %	52.3	3.8 %
Operating expenses	(868.7)	(31.2)%	(853.7)	(31.5)%	(15.0)	(1.8)%
Operating earnings before financial services	543.9	19.5 %	506.6	18.7 %	37.3	7.4 %
Financial services revenue	247.0	100.0 %	233.5	100.0 %	13.5	5.8 %
Financial services expenses	(73.0)	(29.6)%	(70.4)	(30.1)%	(2.6)	(3.7)%
Operating earnings from financial services	174.0	70.4 %	163.1	69.9 %	10.9	6.7 %
Operating earnings	717.9	23.7 %	669.7	22.7 %	48.2	7.2 %
Interest expense	(38.0)	(1.3)%	(38.8)	(1.3)%	0.8	2.1 %
Other income (expense) – net	1.2	—	(6.0)	(0.2)%	7.2	NM
Earnings before income taxes and equity earnings	681.1	22.4 %	624.9	21.2 %	56.2	9.0 %
Income tax expense	(164.9)	(5.4)%	(187.1)	(6.3)%	22.2	11.9 %
Earnings before equity earnings	516.2	17.0 %	437.8	14.9 %	78.4	17.9 %
Equity earnings, net of tax						