SNAP-ON Inc
Form 10-Q
April 18, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark one)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 30, 2019
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 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 April 12, 2019
Common Stock, $1.00 par value	55,404,447 shares

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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	
	March 30, 2019	March 31, 2018
Net sales	$921.7	$935.5
Cost of goods sold	(450.1)	(463.9)
Gross profit	471.6	471.6
Operating expenses	(284.2)	(293.9)
Operating earnings before financial services	187.4	177.7
Financial services revenue	85.6	83.0
Financial services expenses	(23.5)	(26.1)
Operating earnings from financial services	62.1	56.9
Operating earnings	249.5	234.6
Interest expense	(12.5)	(13.6)
Other income (expense) – net	1.5	2.8
Earnings before income taxes and equity earnings	238.5	223.8
Income tax expense	(56.9)	(57.6)
Earnings before equity earnings	181.6	166.2
Equity earnings, net of tax	0.5	0.6
Net earnings	182.1	166.8
Net earnings attributable to noncontrolling interests	(4.2)	(3.8)
Net earnings attributable to Snap-on Incorporated	$177.9	$163.0
Net earnings per share attributable to Snap-on Incorporated:		
Basic	$3.21	$2.87
Diluted	3.16	2.82
Weighted-average shares outstanding:		
Basic	55.5	56.7
Effect of dilutive securities	0.8	1.1
Diluted	56.3	57.8
Dividends declared per common share	$0.95	$0.82

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	March 30, 2019	March 31, 2018
Comprehensive income (loss):		
Net earnings	$182.1	$166.8
Other comprehensive income (loss):		
Foreign currency translation*	7.6	39.1
Unrealized cash flow hedges, net of tax:		
Other comprehensive loss before reclassifications	—	(0.8)
Reclassification of cash flow hedges to net earnings	(0.4)	(0.5)
Defined benefit pension and postretirement plans:		
Amortization of net unrecognized losses and prior service credits included in net periodic benefit cost	5.8	7.6
Income tax expense	(1.3)	(1.8)
Net of tax	4.5	5.8
Total comprehensive income	$193.8	$210.4
Comprehensive income attributable to noncontrolling interests	(4.2)	(3.8)
Comprehensive income attributable to Snap-on Incorporated	$189.6	$206.6

* 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.

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

	March 30, 2019	December 29, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$156.4	$140.9
Trade and other accounts receivable – net	675.3	692.6
Finance receivables – net	525.9	518.5
Contract receivables – net	92.9	98.3
Inventories – net	707.0	673.8
Prepaid expenses and other assets	107.8	92.8
Total current assets	2,265.3	2,216.9
Property and equipment:		
Land	31.8	31.7
Buildings and improvements	385.8	368.6
Machinery, equipment and computer software	948.5	944.4
	1,366.1	1,344.7
Accumulated depreciation and amortization	(869.1)	(849.6)
Property and equipment – net	497.0	495.1
Operating lease right-of-use assets	55.4	—
Deferred income tax assets	71.3	64.7
Long-term finance receivables – net	1,077.1	1,074.4
Long-term contract receivables – net	345.1	344.9
Goodwill	900.9	902.2
Other intangibles – net	230.5	232.9
Other assets	48.3	42.0
Total assets	$5,490.9	$5,373.1

See Notes to Condensed Consolidated Financial Statements.

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

	March 30, 2019	December 29, 2018
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	$142.5	$186.3
Accounts payable	200.4	201.1
Accrued benefits	53.8	52.0
Accrued compensation	61.8	71.5
Franchisee deposits	68.5	67.5
Other accrued liabilities	409.0	373.6
Total current liabilities	936.0	952.0
Long-term debt	946.7	946.0
Deferred income tax liabilities	55.1	41.4
Retiree health care benefits	31.2	31.8
Pension liabilities	156.5	171.3
Operating lease liabilities	36.6	—
Other long-term liabilities	111.0	112.0
Total liabilities	2,273.1	2,254.5
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 67,422,771 and 67,415,091 shares, respectively)	67.4	67.4
Additional paid-in capital	361.3	359.4
Retained earnings	4,428.4	4,257.6
Accumulated other comprehensive loss	(496.4)	(462.2)
Treasury stock at cost (12,019,713 and 11,804,310 shares, respectively)	(1,163.1)	(1,123.4)
Total shareholders' equity attributable to Snap-on Incorporated	3,197.6	3,098.8
Noncontrolling interests	20.2	19.8
Total equity	3,217.8	3,118.6
Total liabilities and equity	$5,490.9	$5,373.1

See Notes to Condensed Consolidated Financial Statements.

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SNAP-ON INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Amounts in millions, except share data)
(Unaudited)

The following summarizes the changes in total equity for the three month period ended March 30, 2019:

	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 29, 2018	$67.4	$ 359.4	$4,257.6	$ (462.2)	$(1,123.4)	$ 19.8	$3,118.6
Impact of the Tax Act on Accumulated Other Comprehensive Income (ASU No. 2018-02)	—	—	45.9	(45.9)	—	—	—
Balance at December 30, 2018	67.4	359.4	4,303.5	(508.1)	(1,123.4)	19.8	3,118.6
Net Earnings for the three months ended March 30, 2019	—	—	177.9	—	—	4.2	182.1
Other comprehensive income	—	—	—	11.7	—	—	11.7
Cash dividends – $0.95 per share	—	—	(52.8)	—	—	—	(52.8)
Stock compensation plans	—	1.9	—	—	7.7	—	9.6
Share repurchases – 295,000 shares	—	—	—	—	(47.4)	—	(47.4)
Other	—	—	(0.2)	—	—	(3.8)	(4.0)
Balance at March 30, 2019	$67.4	$ 361.3	$4,428.4	$ (496.4)	$(1,163.1)	$ 20.2	$3,217.8

The following summarizes the changes in total equity for the three month period ended March 31, 2018:

	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 30, 2017	$67.4	$ 343.2	$3,772.3	$ (329.0)	$(900.0)	$ 18.4	$2,972.3
Net Earnings for the three months ended March 31, 2018	—	—	163.0	—	—	3.8	166.8
Other comprehensive income	—	—	—	43.6	—	—	43.6
Cash dividends – $0.82 per share	—	—	(46.5)	—	—	—	(46.5)
Stock compensation plans	—	0.7	—	—	14.8	—	15.5
Share repurchases – 275,000 shares	—	—	—	—	(43.5)	—	(43.5)
Other	—	—	(2.1)	—	—	(3.8)	(5.9)
Balance at March 31, 2018	$67.4	$ 343.9	$3,886.7	$ (285.4)	$(928.7)	$ 18.4	$3,102.3

See Notes to Condensed Consolidated Financial Statements.

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SNAP-ON INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in millions)
(Unaudited)

	Three Months Ended	
	March 30, 2019	March 31, 2018
Operating activities:		
Net earnings	$182.1	$ 166.8
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	17.2	17.4
Amortization of other intangibles	5.4	6.6
Provision for losses on finance receivables	12.5	15.8
Provision for losses on non-finance receivables	5.0	2.0
Stock-based compensation expense	7.3	6.7
Deferred income tax provision	5.4	0.4
Loss (gain) on sales of assets	0.3	(0.1)
Loss on early extinguishment of debt	—	7.8
Changes in operating assets and liabilities, net of effects of acquisitions:		
Decrease in trade and other accounts receivable	14.8	1.6
Decrease in contract receivables	6.1	2.2
Increase in inventories	(33.2)	(10.2)
Increase in prepaid and other assets	(19.7)	—
Increase in accounts payable	1.8	9.5
Increase (decrease) in accruals and other liabilities	(3.7)	5.4
Net cash provided by operating activities	201.3	231.9
Investing activities:		
Additions to finance receivables	(210.5)	(205.6)
Collections of finance receivables	191.9	189.1
Capital expenditures	(20.2)	(18.0)
Acquisitions of businesses, net of cash acquired	(1.3)	(3.0)
Disposals of property and equipment	0.2	0.4
Other	1.2	—
Net cash used by investing activities	(38.7)	(37.1)
Financing activities:		
Proceeds from issuance of long-term debt	—	395.4
Repayments of long-term debt	—	(457.8)
Repayment of notes payable	—	(16.8)
Net decrease in other short-term borrowings	(43.8)	(21.1)
Cash dividends paid	(52.8)	(46.5)
Purchases of treasury stock	(47.4)	(43.5)
Proceeds from stock purchase and option plans	4.8	11.5
Other	(8.4)	(11.7)
Net cash used by financing activities	(147.6)	(190.5)
Effect of exchange rate changes on cash and cash equivalents	0.5	1.2
Increase in cash and cash equivalents	15.5	5.5
Cash and cash equivalents at beginning of year	140.9	92.0

Cash and cash equivalents at end of period	$156.4	$ 97.5
Supplemental cash flow disclosures:		
Cash paid for interest	$(21.6)	$ (26.3)
Net cash paid for income taxes	(18.4)	(11.4)

See Notes to Condensed Consolidated Financial Statements.

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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 2018 Annual Report on Form 10-K for the fiscal year ended December 29, 2018 ("2018 year end"). The company's 2019 fiscal first quarter ended on March 30, 2019; the 2018 fiscal first quarter ended on March 31, 2018. The company's 2019 and 2018 fiscal first quarters each contained 13 weeks of operating results. Snap-on's Condensed Consolidated Financial Statements are prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP").

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 month periods ended March 30, 2019, and March 31, 2018, 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 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 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 months ended March 30, 2019.

New Accounting Standards

The following new accounting pronouncements were adopted in fiscal year 2019:

On December 30, 2018, the beginning of Snap-on's 2019 fiscal year, Snap-on adopted 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. The adoption of this ASU did not have a significant impact on the company's Condensed Consolidated Financial Statements.

On December 30, 2018, the beginning of Snap-on's 2019 fiscal year, Snap-on adopted 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 the U.S. Tax Cuts and Jobs Act (the "Tax Act"). The adoption of this ASU resulted in an increase of $45.9 million to Retained Earnings on the company's Condensed Consolidated Statements of Equity with an offsetting decrease in Accumulated Other Comprehensive Income (Loss).

On December 30, 2018, the beginning of Snap-on's 2019 fiscal year, Snap-on adopted ASU No. 2016-02, Leases (Topic 842), which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Topic 842 is intended to represent an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. Topic 842, which supersedes most current lease guidance, affects any entity that enters into a lease with some specified scope exemptions. Snap-on adopted Topic 842 using the modified retrospective approach, using a date of initial application of December 30, 2018. Snap-on elected the package of practical expedients permitted under the standard, which also allowed the company to carry forward historical lease classifications. The company also elected the practical expedient related to treating lease and non-lease components as a single lease component for all equipment leases as well as electing a policy exclusion permitting leases with an original lease term of less than one year to be excluded from the Right-of-Use ("ROU") assets and lease liabilities. The adoption of this ASU did not have a significant impact on the company's Condensed Consolidated Financial Statements. See note 15 for further information on leases.
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 adoption of this ASU is not expected to have a significant impact on the company's 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 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 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.

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.

Revenue Disaggregation

The following table shows the consolidated revenues by revenue source:

(Amounts in millions)	Three Months Ended March 30, 2019	Three Months Ended March 31, 2018
Revenue from contracts with customers	$ 916.4	$ 930.4
Other revenues	5.3	5.1
Total net sales	921.7	935.5
Financial services revenue	85.6	83.0
Total revenues	$ 1,007.3	$ 1,018.5

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.

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

	For the Three Months Ended March 30, 2019					
(Amounts in millions)	Commercial & Industrial Group	Snap-on Tools Group	Repair Systems & Information Group	Financial Services	Eliminations	Snap-on Incorporated
Net sales by geographic region:						
North America*	$ 108.9	$ 351.6	$ 185.1	$ —	$ —	$ 645.6
Europe	77.4	36.9	59.5	—	—	173.8
All other	63.2	21.7	17.4	—	—	102.3
External net sales	249.5	410.2	262.0	—	—	921.7
Intersegment net sales	73.0	—	65.9	—	(138.9)	—
Total net sales	322.5	410.2	327.9	—	(138.9)	921.7
Financial services revenue	—	—	—	85.6	—	85.6
Total revenue	$ 322.5	$ 410.2	$ 327.9	$ 85.6	$ (138.9)	$ 1,007.3

	For the Three Months Ended March 31, 2018					
(Amounts in millions)	Commercial & Industrial Group	Snap-on Tools Group	Repair Systems & Information Group	Financial Services	Eliminations	Snap-on Incorporated
Net sales by geographic region:						
North America*	$ 107.5	$ 338.9	$ 185.3	$ —	$ —	$ 631.7
Europe	82.9	41.5	67.0	—	—	191.4
All other	68.4	24.3	19.7	—	—	112.4
External net sales	258.8	404.7	272.0	—	—	935.5
Intersegment net sales	72.8	—	65.0	—	(137.8)	—
Total net sales	331.6	404.7	337.0	—	(137.8)	935.5
Financial services revenue	—	—	—	83.0	—	83.0
Total revenue	$ 331.6	$ 404.7	$ 337.0	$ 83.0	$ (137.8)	$ 1,018.5

* North America is comprised

of the
United
States,
Canada
and
Mexico.

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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 March 30, 2019					
(Amounts in millions)	Commercial & Industrial Group	Snap-on Tools Group	Repair Systems & Information Group	Financial Services	Eliminations	Snap-on Incorporated
Net sales:						
Vehicle service professionals	$ 20.0	$ 410.2	$ 262.0	$ —	$ —	$ 692.2
All other professionals	229.5	—	—	—	—	229.5
External net sales	249.5	410.2	262.0	—	—	921.7
Intersegment net sales	73.0	—	65.9	—	(138.9)	—
Total net sales	322.5	410.2	327.9	—	(138.9)	921.7
Financial services revenue	—	—	—	85.6	—	85.6
Total revenue	$ 322.5	$ 410.2	$ 327.9	$ 85.6	$ (138.9)	$ 1,007.3

	For the Three Months Ended March 31, 2018					
(Amounts in millions)	Commercial & Industrial Group	Snap-on Tools Group	Repair Systems & Information Group	Financial Services	Eliminations	Snap-on Incorporated
Net sales:						
Vehicle service professionals	$ 22.5	$ 404.7	$ 272.0	$ —	$ —	$ 699.2
All other professionals	236.3	—	—	—	—	236.3
External net sales	258.8	404.7	272.0	—	—	935.5
Intersegment net sales	72.8	—	65.0	—	(137.8)	—
Total net sales	331.6	404.7	337.0	—	(137.8)	935.5
Financial services revenue	—	—	—	83.0	—	83.0
Total revenue	$ 331.6	$ 404.7	$ 337.0	$ 83.0	$ (137.8)	$ 1,018.5

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 Snap-on's 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 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.

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.

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 $238.0 million of long-term contracts that have fixed consideration that extends beyond one year as of March 30, 2019. Snap-on expects to recognize approximately 65% of these contracts as revenue by the end of fiscal 2020, an additional 25% by the end of fiscal 2022 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 March 30, 2019 was $70.4 million and $63.8 million at December 29, 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. During the three months ended March 30, 2019, Snap-on recognized revenue of $27.0 million that was included in the contract liability balance at the beginning of the period, which was primarily from the amortization of software subscriptions, extended warranties and other subscription agreements.

Note 3: Acquisitions

On January 25, 2019, Snap-on acquired substantially all of the assets of TMB GeoMarketing Limited (“TMB”) for a cash purchase price of $1.3 million. TMB, based in Dorking, United Kingdom, designs planning software used by OEMs to optimize dealer locations and manage the performance of dealer outlets. The company completed the purchase accounting valuations for the acquired net assets of TMB. Substantially all 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 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. As of 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.

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

Pro forma financial information has not been presented for these acquisitions as the net effects 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.

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The components of Snap-on's trade and other accounts receivable as of March 30, 2019, and December 29, 2018, are as follows:

(Amounts in millions)	March 30, 2019	December 29, 2018
Trade and other accounts receivable	$694.1	$ 710.1
Allowances for doubtful accounts	(18.8)	(17.5)
Total trade and other accounts receivable – net	$675.3	$ 692.6

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 of approximately four years. Finance receivables are generally secured by the underlying tools and/or diagnostic or equipment products financed.

Snap-on's 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, or the expansion of an existing franchise. 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 March 30, 2019, and December 29, 2018, are as follows:

(Amounts in millions)	March 30, 2019	December 29, 2018
Finance receivables	$545.5	$ 538.1
Contract receivables	94.2	99.5
Total	639.7	637.6
Allowances for doubtful accounts:		
Finance receivables	(19.6)	(19.6)
Contract receivables	(1.3)	(1.2)
Total	(20.9)	(20.8)
Total current finance and contract receivables – net	$618.8	$ 616.8
Finance receivables – net	$525.9	$ 518.5
Contract receivables – net	92.9	98.3
Total current finance and contract receivables – net	$618.8	$ 616.8

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The components of Snap-on's finance and contract receivables with payment terms beyond one year as of March 30, 2019, and December 29, 2018, are as follows:

(Amounts in millions)	March 30, 2019	December 29, 2018
Finance receivables	$1,118.5	$1,116.2
Contract receivables	348.5	348.0
Total	1,467.0	1,464.2
Allowances for doubtful accounts:		
Finance receivables	(41.4)	(41.8)
Contract receivables	(3.4)	(3.1)
Total	(44.8)	(44.9)
Total long-term finance and contract receivables – net	$1,422.2	$1,419.3
Finance receivables – net	$1,077.1	$1,074.4
Contract receivables – net	345.1	344.9
Total long-term finance and contract receivables – net	$1,422.2	$1,419.3

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 March 30, 2019, and December 29, 2018, there were $27.3 million and $27.9 million, respectively, of impaired finance receivables, and there were $2.2 million and $6.0 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 March 30, 2019, and December 29, 2018, were immaterial to both the financial services portfolio and the company's results of operations and financial position.

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The aging of finance and contract receivables as of March 30, 2019, and December 29, 2018, 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
March 30, 2019:							
Finance receivables	$ 14.1	$ 9.7	$ 19.4	$ 43.2	$ 1,620.8	$ 1,664.0	$ 15.0
Contract receivables	1.3	0.9	1.4	3.6	439.1	442.7	0.4
December 29, 2018:							
Finance receivables	$ 19.4	$ 12.1	$ 20.3	$ 51.8	$ 1,602.5	$ 1,654.3	$ 15.9
Contract receivables	1.7	1.2	5.2	8.1	439.4	447.5	0.2

The amount of performing and nonperforming finance and contract receivables based on payment activity as of March 30, 2019, and December 29, 2018, is as follows:

(Amounts in millions)	March 30, 2019		December 29, 2018	
	Finance Receivables	Contract Receivables	Finance Receivables	Contract Receivables
Performing	$ 1,636.7	$ 440.5	$ 1,626.4	$ 441.5
Nonperforming	27.3	2.2	27.9	6.0
Total	$ 1,664.0	$ 442.7	$ 1,654.3	$ 447.5

The amount of finance and contract receivables on nonaccrual status as of March 30, 2019, and December 29, 2018, is as follows:

(Amounts in millions)	March 30, 2019	December 29, 2018
Finance receivables	$ 12.3	$ 12.0
Contract receivables	1.8	5.8

The following is a rollforward of the allowances for doubtful accounts for finance and contract receivables for the three months ended March 30, 2019, and March 31, 2018:

(Amounts in millions)	Three Months Ended March 30, 2019		Three Months Ended March 31, 2018	
	Finance Receivables	Contract Receivables	Finance Receivables	Contract Receivables
Allowances for doubtful accounts:				
Beginning of period	$ 61.4	$ 4.3	$ 56.5	$ 4.6
Provision	12.5	0.9	15.8	0.5
Charge-offs	(15.0)	(0.7)	(15.8)	(0.6)
Recoveries	2.0	0.1	1.9	0.1
Currency translation	0.1	0.1	(0.1)	—
End of period	$ 61.0	$ 4.7	$ 58.3	$ 4.6

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Note 5: Inventories
Inventories by major classification are as follows:

(Amounts in millions)	March 30, 2019	December 29, 2018
Finished goods	$604.3	$ 577.0
Work in progress	55.0	51.7
Raw materials	127.6	123.5
Total FIFO value	786.9	752.2
Excess of current cost over LIFO cost	(79.9)	(78.4)
Total inventories – net	$707.0	$ 673.8

Inventories accounted for using the first-in, first-out (“FIFO”) method approximated 59% and 61% of total inventories as of March 30, 2019, and December 29, 2018, respectively. The company accounts for its non-U.S. inventory on the FIFO method. As of March 30, 2019, approximately 33% of the company’s U.S. inventory was accounted for using the FIFO method and 67% was accounted for using the last-in, first-out (“LIFO”) method. There were no LIFO inventory liquidations in the three months ended March 30, 2019, or March 31, 2018.
Note 6: Goodwill and Other Intangible Assets
The changes in the carrying amount of goodwill by segment for the three months ended March 30, 2019, are as follows:

(Amounts in millions)	Commercial & Industrial Group	Snap-on Tools Group	Repair Systems & Information Group	Total
Balance as of December 29, 2018	$ 286.2	$ 12.5	$ 603.5	$902.2
Currency translation	(2.1)	—	(0.5)	(2.6)
Acquisitions and related adjustments	—	—	1.3	1.3
Balance as of March 30, 2019	$ 284.1	$ 12.5	$ 604.3	$900.9

Goodwill of $900.9 million as of March 30, 2019, includes $1.3 million from the acquisition of TMB. The goodwill from TMB is included in the Repair Systems and Information Group. See Note 3 for additional information on acquisitions.
Additional disclosures related to other intangible assets are as follows:

(Amounts in millions)	March 30, 2019 Gross Carrying Value	March 30, 2019 Accumulated Amortization	December 29, 2018 Gross Carrying Value	December 29, 2018 Accumulated Amortization
Amortized other intangible assets:				
Customer relationships	$172.6	$ (110.5)	$172.2	$ (107.6)
Developed technology	18.8	(18.6)	18.5	(18.3)
Internally developed software	158.0	(117.9)	156.6	(116.6)
Patents	35.9	(23.1)	35.7	(22.9)
Trademarks	3.2	(2.0)	3.2	(2.0)
Other	7.5	(3.0)	7.3	(2.9)
Total	396.0	(275.1)	393.5	(270.3)
Non-amortized trademarks	109.6	—	109.7	—
Total other intangible assets	$505.6	$ (275.1)	$503.2	$ (270.3)

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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 March 30, 2019, 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	6
Patents	8
Trademarks	6
Other	39

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 12 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 $5.4 million and $6.6 million for the respective three months ended March 30, 2019, and March 31, 2018. Based on current levels of amortizable intangible assets and estimated weighted-average useful lives, estimated annual amortization expense is expected to be $20.7 million in 2019, $17.7 million in 2020, $15.4 million in 2021, $13.1 million in 2022, $12.0 million in 2023, and $10.0 million in 2024.

Note 7: Income Taxes

Snap-on's effective income tax rate on earnings attributable to Snap-on was 24.3% and 26.2% in the first three months of 2019 and 2018, respectively. During the first three 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 $2.6 million of additional tax expense during the 2018 period. The additional $2.6 million tax provision during the first three months of 2018 increased the effective tax rate for the period by 120 basis points. The ultimate impact of the Tax Act may differ from the current estimates, possibly materially, due to changes in interpretations and assumption 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 $2.4 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 $1.0 million over the next 12 months for uncertain tax positions expected to be taken in future tax filings.

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Note 8: Short-term and Long-term Debt
Short-term and long-term debt as of March 30, 2019, and December 29, 2018, consisted of the following:

(Amounts in millions)	March 30, 2019	December 29, 2018
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	400.0
Other debt*	139.2	182.3
	1,089.2	1,132.3
Less: notes payable		
Commercial paper borrowings	(131.5)	(177.1)
Other notes	(11.0)	(9.2)
	(142.5)	(186.3)
Total long-term debt	$946.7	$ 946.0

* Includes fair value adjustments related to interest rate swaps.

Notes payable and current maturities of long-term debt of $142.5 million as of March 30, 2019, included $131.5 million of commercial paper borrowings and $11.0 million of other notes. As of 2018 year end, notes payable and current maturities of long-term debt of $186.3 million included $177.1 million of commercial paper borrowings and $9.2 million of other notes.

On February 20, 2018, Snap-on commenced a tender offer to repurchase $200 million in principal amount of its unsecured 6.70% notes that were scheduled to mature on March 1, 2019 (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 any 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 16 for additional information on Other income (expense) - net.

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 accrues at a rate of 4.10% per year and is paid semi-annually. 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 March 30, 2019. 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 March 30, 2019, the company’s actual ratios of 0.21 and 0.93 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 as part of a hedged transaction. Gains or losses on derivative instruments recorded in earnings are presented in the same Condensed Consolidated Statement of Earnings line that is used to present the earnings effect of the hedged item. Gains or losses on derivative instruments in accumulated other comprehensive income (loss) ("Accumulated OCI") are reclassified to earnings in the period in which earnings are affected by the underlying hedged item.

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. Once a derivative contract is entered into, Snap-on has until the end of the quarter to designate 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").

Interest Rate Swaps: 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 change in fair value of the designated and qualifying derivative is recorded in "Long-term debt" on the accompanying Condensed Consolidated Balance Sheets. The notional amount of interest rate swaps outstanding and designated as fair value hedges was $100 million as of both March 30, 2019, and December 29, 2018.

Treasury locks: Snap-on uses treasury locks to manage the potential change in interest rates in anticipation of the issuance of fixed rate debt. Treasury locks are accounted for as cash flow hedges. The differentials to be paid or received on treasury locks related to the anticipated issuance of fixed rate debt are initially recorded in Accumulated OCI for derivative instruments that are designated and qualify as cash flow hedges. Upon the issuance of debt, the related amount in Accumulated OCI is released over the term of the debt and recognized as an adjustment to interest expense on the Condensed Consolidated Statements of Earnings.

Snap-on entered into a $300 million treasury lock in the fourth quarter of 2017 to manage changes in interest rates in anticipation of the issuance of fixed rate debt in the first quarter of 2018.

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. There were no treasury locks outstanding as of both March 30, 2019 and December 29, 2018. See Note 16 for additional information on Other income (expense) - net.

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 March 30, 2019, Snap-on had equity forwards in place intended to manage market risk with respect to 91,400 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:

	March 30, 2019		December 29, 2018	
(Amounts in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Finance receivables – net	$1,603.0	$1,860.0	$1,592.9	$1,845.4
Contract receivables – net	438.0	477.0	443.2	481.2
Long-term debt, notes payable and current maturities of long-term debt	1,089.2	1,130.7	1,132.3	1,136.0

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 all other 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.

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Note 10: Pension Plans

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

(Amounts in millions)	Three Months Ended March 30, 2019	March 31, 2018
Service cost	$6.0	$6.5
Interest cost	14.1	13.2
Expected return on plan assets	(22.4)	(21.7)
Amortization of unrecognized loss	6.2	8.0
Amortization of prior service credit	(0.2)	(0.3)
Net periodic pension cost	$3.7	$5.7

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 16 for additional information on other income (expense) - net.

Snap-on intends to make contributions of $9.4 million to its foreign pension plans and $2.0 million to its domestic pension plans in 2019, as required by law. In the first three months of 2019, Snap-on made $10.4 million of cash contributions to its domestic pension plans consisting of (i) $10.0 million of discretionary contributions and (ii) $0.4 million of required contributions. Depending on market and other conditions, Snap-on may make additional discretionary cash contributions to its pension plans in 2019.

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 March 30, 2019	March 31, 2018
Interest cost	$0.5	$0.5
Expected return on plan assets	(0.2)	(0.2)
Amortization of unrecognized gain	(0.2)	(0.1)
Net periodic postretirement health care cost	$0.1	$0.2

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 16 for additional information on other income (expense) - net.

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 will continue in accordance with their terms. As of March 30, 2019, the 2011 Plan had 1,991,625 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 $7.3 million and $6.7 million for the respective three months ended March 30, 2019, and March 31, 2018. Cash received from stock purchase and option plan exercises during the respective three months ended March 30, 2019, and March 31, 2018, totaled $4.8 million and $11.5 million. The tax benefit realized from both the exercise and vesting of share-based payment arrangements was $2.7 million and $5.1 million for the respective three months ended March 30, 2019, and March 31, 2018.

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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 three months ended March 30, 2019, and March 31, 2018, using the Black-Scholes valuation model:

	Three Months Ended	
	March 30, 2019	March 31, 2018
Expected term of option (in years)	5.53	5.35
Expected volatility factor	21.30%	20.08%
Expected dividend yield	1.79%	1.68%
Risk-free interest rate	2.54%	2.71%

A summary of stock option activity as of and for the three months ended March 30, 2019, is presented below:

	Shares (in thousands)	Exercise Price Per Share*	Remaining Contractual Term* (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 29, 2018	3,130	$ 127.57		
Granted	462	155.93		
Exercised	(61)	78.77		
Forfeited or expired	(36)	164.26		
Outstanding at March 30, 2019	3,495	131.79	6.5	$ 95.7
Exercisable at March 30, 2019	2,540	121.15	5.6	95.4

*Weighted-average
The weighted-average grant date fair value of options granted during the three months ended March 30, 2019, and March 31, 2018, was $29.98 and $30.21, respectively. The intrinsic value of options exercised was $4.9 million and $11.0 million during the respective three months ended March 30, 2019, and March 31, 2018. The fair value of stock options vested was $15.7 million and $16.0 million during the respective three months ended March 30, 2019, and March 31, 2018.

As of March 30, 2019, there was $26.9 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 2.2 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.

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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 three months ended March 30, 2019, and March 31, 2018, was $155.92 and $160.22, respectively. PSUs related to 32,114 shares and 50,182 shares were paid out during the respective three months ended March 30, 2019, and March 31, 2018.
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 2018 performance, 33,170 RSUs granted in 2018 were earned; assuming continued employment, these RSUs will vest at the end of fiscal 2020. 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; these RSUs vested as of fiscal 2018 year end and were paid out shortly thereafter.
Changes to the company's non-vested performance awards during the three months ended March 30, 2019, are as follows:

	Shares (in thousands)	Fair Value Price per Share*
Non-vested performance awards at December 29, 2018	120	$ 164.00
Granted	84	155.92
Vested	—	—
Cancellations and other	(6)	162.55
Non-vested performance awards at March 30, 2019	198	160.61

*Weighted-average
As of March 30, 2019, there was $20.5 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 2.2 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.

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The following weighted-average assumptions were used in calculating the fair value of stock-settled SARs granted during the three months ended March 30, 2019, and March 31, 2018, using the Black-Scholes valuation model:

	Three Months Ended	
	March 30, 2019	March 31, 2018
Expected term of stock-settled SARs (in years)	3.65	3.58
Expected volatility factor	22.60%	20.08%
Expected dividend yield	1.81%	1.63%
Risk-free interest rate	2.48%	2.40%

Changes to the company's stock-settled SARs during the three months ended March 30, 2019, 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 29, 2018	372	$ 147.41		
Granted	92	155.95		
Exercised	—	—		
Forfeited or expired	(2)	159.06		
Outstanding at March 30, 2019	462	149.04	7.7	$ 5.0
Exercisable at March 30, 2019	281	142.09	6.7	4.9

*Weighted-average

The weighted-average grant date fair value of stock-settled SARs granted during the three months ended March 30, 2019, and March 31, 2018, was $26.45 and $24.71, respectively. The intrinsic value of stock-settled SARs exercised was zero and $0.6 million during the respective three months ended March 30, 2019, and March 31, 2018. The fair value of stock-settled SARs vested was $2.1 million and $2.2 million during the respective three months ended March 30, 2019, and March 31, 2018.

As of March 30, 2019, there was $4.3 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 2.2 years.

The following weighted-average assumptions were used in calculating the fair value of cash-settled SARs granted during the three months ended March 30, 2019, and March 31, 2018, using the Black-Scholes valuation model:

	Three Months Ended	
	March 30, 2019	March 31, 2018
Expected term of cash-settled SARs (in years)	3.58	3.50
Expected volatility factor	22.55%	20.41%
Expected dividend yield	1.81%	1.63%
Risk-free interest rate	2.21%	2.39%

The intrinsic value of cash-settled SARs exercised was $0.3 million and $2.0 million during the respective three months ended March 30, 2019, and March 31, 2018. The fair value of cash-settled SARs vested was zero during both the three months ended March 30, 2019, and March 31, 2018.

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Changes to the company's non-vested cash-settled SARs during the three months ended March 30, 2019, are as follows:

	Cash-settled SARs (in thousands)	Fair Value Price per Share*
Non-vested cash-settled SARs at December 29, 2018	3	$ 14.89
Granted	1	25.89
Vested	(2)	23.01
Non-vested cash-settled SARs at March 30, 2019	2	22.24

*Weighted-average

As of March 30, 2019, 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 2.2 years.

Restricted Stock Awards – Non-employee Directors

The company awarded 7,605 shares and 6,975 shares of restricted stock to non-employee directors for the respective three months ended March 30, 2019 and March 31, 2018. 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	
	March 30, 2019	March 31, 2018
Weighted-average common shares outstanding	55,514,520	56,651,508
Effect of dilutive securities	790,637	1,113,721
Weighted-average common shares outstanding, assuming dilution	56,305,157	57,765,229

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 March 30, 2019, there were 1,233,467 awards outstanding that were anti-dilutive; as of March 31, 2018, there were 715,083 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 months ended March 30, 2019, and March 31, 2018, is as follows:

(Amounts in millions)	Three Months Ended March 30, 2019	March 31, 2018
Warranty reserve:		
Beginning of period	$17.1	$17.2
Additions	4.0	3.8
Usage	(3.8)	(3.5)
End of period	$17.3	$17.5

The Condensed Consolidated Balance Sheets as of December 29, 2018 included an accrual of $30.9 million related to a judgment, in the fourth quarter of 2017, for a patent-related litigation matter that was being appealed. During the first three months of 2019, that matter was settled and the company recognized an $11.6 million benefit in "Operating expenses" on the Condensed Consolidated Statements of Earnings as of March 30, 2019, as a result of the settlement.
Snap-on is involved in various legal matters that are being litigated and/or settled in the ordinary course of business. 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: Leases

At the beginning of fiscal 2019, Snap-on adopted ASU No. 2016-02, Leases (Topic 842). The adoption of Topic 842 did not have a significant impact on the company's consolidated financial statements. Finance leases and lessor accounting remained substantially unchanged. The adoption of Topic 842 impacted our previously reported results as follows:

(Amounts in millions)	Classification	Balance at December 29, 2018	Topic 842 Adjustments	Opening Balance at December 30, 2018
Assets				
Finance lease assets	Property and equipment - net	$ 7.8	$ —	$ 7.8
Operating lease assets	Operating lease right-of-use assets	—	60.5	60.5
Liabilities				
Current:				
Finance lease liabilities	Other accrued liabilities	$ 1.2	$ —	$ 1.2
Operating lease liabilities	Other accrued liabilities	—	20.2	20.2
Non-current:				

Finance lease liabilities	Other long-term liabilities	$ 6.6	$ —	$ 6.6
Operating lease liabilities	Operating lease liabilities	—	40.4	40.4

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Lessee Accounting

Snap-on determines if an arrangement is a lease at inception. Snap-on has operating and finance leases for manufacturing plants, distribution centers, software development facilities, financial services offices, data centers, company store vans and certain equipment. Snap-on's leases have lease terms of one year to 20 years, some of which include options to extend and/or terminate the lease. The exercise of lease renewal options is at the company's sole discretion. Certain leases also include options to purchase the leased property. When deemed reasonably certain of exercise, the renewal and purchase options are included in the determination of the lease term and lease payment obligation, respectively. The depreciable life of assets and leasehold improvements are limited to the expected term, unless there is a transfer of title or purchase option reasonably certain of exercise. The company's lease agreements do not contain any material variable lease payments, material residual value guarantees or any material restrictive covenants.

ROU assets represent Snap-on's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date of the lease based on the present value of lease payments over the lease term. When readily determinable, Snap-on uses the implicit rate in determining the present value of lease payments. When leases do not provide an implicit rate, Snap-on uses its country specific incremental borrowing rate based on the information available at the lease commencement date, including the lease term. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Snap-on has lease agreements with lease and non-lease components, which are generally accounted for separately. For all equipment leases, including vehicles, Snap-on accounts for the lease and non-lease components as a single lease component.

Total lease cost consists of the following:

(Amounts in millions)	Three Months Ended March 30, 2019
Finance lease costs:	
Amortization of ROU assets	$ 0.3
Interest on lease liabilities	0.1
Operating lease costs*	6.2
Total lease costs	$ 6.6

* Includes short-term leases, variable lease costs and sublease income, which are immaterial.

Supplemental cash flow information related to leases is as follows:

(Amounts in millions)	Three Months Ended March 30, 2019

Cash paid for amounts included in the measurement of lease liabilities:	
Financing cash flows from finance leases	$ 0.3
Operating cash flows from finance leases	0.1
Operating cash flows from operating leases	5.9

	March 30, 2019
ROU assets obtained in exchange for new lease obligations:	
Finance lease liabilities	$ 0.6
Operating lease liabilities	1.1

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Supplemental balance sheet information related to leases is as follows:

(Amounts in millions)	March 30, 2019
Finance leases:	
Property and equipment - gross	$ 8.3
Accumulated depreciation and amortization	(0.3)
Property and equipment - net	$ 8.0
Other accrued liabilities	$ 1.3
Other long-term liabilities	6.9
Total finance lease liabilities	$ 8.2
Operating leases:	
Operating lease ROU assets	$ 55.4
Other accrued liabilities	$ 19.8
Operating lease liabilities	36.6
Total operating lease liabilities	$ 56.4

Weighted-average lease terms and discount rates are as follows:

(Amounts in millions)	March 30, 2019
Weighted-average remaining lease terms:	
Finance leases	5.8 years
Operating leases	3.7 years
Weighted-average discount rates:	
Finance leases	3.2%
Operating leases	3.0%

Maturities of lease liabilities as of March 30, 2019, are as follows:

(Amounts in millions)	Operating Leases	Finance Leases
Year:		
2019 (excluding the three months ended March 30, 2019)	$ 15.8	$ 1.2
2020	16.6	1.6
2021	12.0	1.6
2022	8.1	1.5
2023	3.7	1.5
2024 and thereafter	3.4	1.6
Total lease payments	59.6	9.0

Less: amount representing interest	(3.2)	(0.8)
Total lease liabilities	$ 56.4	$ 8.2

As of March 30, 2019, Snap-on does not have any significant additional operating or finance leases that have not yet commenced.

Snap-on’s future minimum lease commitments, net of sub-lease rental income, as of December 29, 2018, under Accounting Standard Codification Topic 840, the predecessor to Topic 842, are as follows:

(Amounts in millions)	Operating Leases	Capital Leases
Year:		
2019	$ 25.6	$ 3.3
2020	18.4	3.2
2021	13.9	2.9
2022	9.8	2.5
2023	4.9	2.2
2024 and thereafter	4.4	1.9
Total minimum lease payments	$ 77.0	16.0
Less: amount representing interest		(0.9)
Total present value of minimum capital lease payments		$ 15.1

Amounts included in the accompanying Condensed Consolidated Balance Sheets for the present value of minimum capital lease payments as of 2018 year end are as follows:

(Amounts in millions)	2018
Other accrued liabilities	$ 3.0
Other long-term liabilities	12.1
Total present value of minimum capital lease payments	$ 15.1

Rent expense for worldwide facilities, office equipment and vehicles, net of sub-lease rental income, was $33.0 million in 2018.

Lessor Accounting

Snap-on’s Financial Services business offers its customers lease financing for the lease of tools, diagnostics and equipment products and to franchisees who require financing for vehicle leases. Snap-on accounts for its financial services leases as sales-type leases. In certain circumstances, the lessee has the option to terminate the lease. In the event of the lessee’s deteriorated financial condition or default, Snap-on has the right to terminate the lease. The leases contain an end of term purchase option that is generally insignificant and is reasonably certain to be exercised by the lessee.

The company recognizes the net investment in the lease as the sum of the lease receivable and the unguaranteed residual value, both of which are measured at the present value using the interest rate implicit in the lease. The difference between the undiscounted lease payments received over the lease term and the related net investment in the lease is reported as unearned finance charges. Unearned finance charges are amortized to income over the life of the contract and are included as a component of “Financial services revenue” on the accompanying Condensed Consolidated Statements of Earnings.

Sales-type leases included in both “Finance receivables - net” and “Long-term finance receivables - net” on the accompanying Condensed Consolidated Balance Sheets as of March 30, 2019, have future minimum lease payments, including unguaranteed residual value, of $98.1 million and unearned finance charges of $19.0 million, with lease terms of up to five years.

Sales-type leases included in both “Contract receivables - net” and “Long-term contract receivables - net” on the accompanying Condensed Consolidated Balance Sheets as of March 30, 2019, have future minimum lease payments, including unguaranteed residual value, of $251.2 million and unearned finance charges of $45.4 million, with lease terms of up to seven years.

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Future minimum lease payments as of March 30, 2019, consisted of the following:

(Amounts in millions)	Lease Receivables
Year:	
2019 (excluding the three months ended March 30, 2019)	$ 91.3
2020	95.9
2021	67.3
2022	43.8
2023	29.2
2024 and thereafter	21.8
Total lease payments	349.3
Less: unearned finance charges	(64.4)
Net investment in leases	$ 284.9

See Note 4 for further information on finance and contract receivables.

Note 16: Other Income (Expense) – Net

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

(Amounts in millions)	Three Months Ended March 30, 2019	March 31, 2018
Interest income	$0.4	$0.1
Net foreign exchange loss	(1.5)	(2.1)
Net periodic pension and postretirement benefits – non-service	2.2	0.6
Settlement of treasury lock	—	13.3
Loss on early extinguishment of debt	—	(7.8)
Other	0.4	(1.3)
Total other income (expense) – net	$1.5	$2.8

Note 17: 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 March 30, 2019:

(Amounts in millions)	Foreign Currency Translation	Cash Flow Hedges	Defined Benefit Pension and Postretirement Plans	Total
Balance as of December 29, 2018	$ (177.9)	$ 12.2	$ (296.5)	$ (462.2)
Impact of the Tax Act on Accumulated Other Comprehensive Income (ASU No. 2018-02)	—	—	(45.9)	(45.9)
Balance at December 30, 2018	(177.9)	12.2	(342.4)	(508.1)

Other comprehensive income before reclassifications	7.6	—	—	7.6
Amounts reclassified from Accumulated OCI	—	(0.4)	4.5	4.1
Net other comprehensive income (loss)	7.6	(0.4)	4.5	11.7
Balance as of March 30, 2019	$ (170.3)	$ 11.8	$ (337.9)	$(496.4)

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The following is a summary of net changes in Accumulated OCI by component and net of tax for the three months ended March 31, 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 income (loss) before reclassifications	39.1	(0.8)	—	38.3
Amounts reclassified from Accumulated OCI	—	(0.5)	5.8	5.3
Net other comprehensive income (loss)	39.1	(1.3)	5.8	43.6
Balance as of March 31, 2018	$ (43.4)	$ 13.2	$ (255.2)	$(285.4)

The reclassifications out of Accumulated OCI for the three month periods ended March 30, 2019, and March 31, 2018, are as follows:

(Amounts in millions)	Amount Reclassified from Accumulated OCI Three Months Ended March 30, 2019	March 31, 2018	Statement of Earnings Presentation
Gains on cash flow hedges:			
Treasury locks	$0.4	$ 0.5	Interest expense
Income tax expense	—	—	Income tax expense
Net of tax	0.4	0.5	
Amortization of net unrecognized losses and prior service credits	(5.8)	(7.6)	See footnote below*
Income tax benefit	1.3	1.8	Income tax expense
Net of tax	(4.5)	(5.8)	
Total reclassifications for the period, net of tax	$(4.1)	$ (5.3)	

* 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 18: Segments

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 dealership service and repair shops (“OEM dealerships”), through direct and distributor channels. Financial Services consists of the business operations of Snap-on’s finance subsidiaries.

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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.
Financial Data by Segment:

(Amounts in millions)	Three Months Ended March 30, 2019	Three Months Ended March 31, 2018
Net sales:		
Commercial & Industrial Group	$322.5	$331.6
Snap-on Tools Group	410.2	404.7
Repair Systems & Information Group	327.9	337.0
Segment net sales	1,060.6	1,073.3
Intersegment eliminations	(138.9)	(137.8)
Total net sales	$921.7	$935.5
Financial Services revenue	85.6	83.0
Total revenues	$1,007.3	$1,018.5
Operating earnings:		
Commercial & Industrial Group	$46.5	$46.5
Snap-on Tools Group	67.2	68.9
Repair Systems & Information Group	83.6	85.8
Financial Services	62.1	56.9
Segment operating earnings	259.4	258.1
Corporate	(9.9)	(23.5)
Operating earnings	$249.5	$234.6
Interest expense	(12.5)	(13.6)
Other income (expense) – net	1.5	2.8
Earnings before income taxes and equity earnings	$238.5	$223.8

(Amounts in millions)	March 30, 2019	December 29, 2018
Assets:		
Commercial & Industrial Group	$1,099.1	$ 1,087.9
Snap-on Tools Group	796.8	752.7
Repair Systems & Information Group	1,337.9	1,306.3
Financial Services	2,052.9	2,039.6
Total assets from reportable segments	$5,286.7	$ 5,186.5
Corporate	267.8	249.2
Elimination of intersegment receivables	(63.6)	(62.6)
Total assets	$5,490.9	$ 5,373.1

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SNAP-ON INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 19: Subsequent Event
On April 2, 2019, Snap-on acquired Power Hawk Technologies, Inc. (“Power Hawk”) for a cash purchase price of $8.0 million. Power Hawk, based in Rockaway, New Jersey, designs, manufactures and distributes rescue tools and related equipment for a variety of military, governmental, and fire, rescue and emergency operations. For segment reporting purposes, the results of operations and assets of Power Hawk have been included in the Commercial & Industrial Group since the acquisition date, which occurred subsequent to the end of the first quarter of 2019.

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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-on 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 29, 2018, 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 25, 2019, Snap-on acquired substantially all of the assets of TMB GeoMarketing Limited ("TMB") for a cash purchase price of $1.3 million. TMB, based in Dorking, United Kingdom, designs planning software used by Original Equipment Manufacturers ("OEM") to optimize dealer locations and manage the performance of dealer outlets. The acquisition extended Snap-on's product line in its core dealer network solutions business.

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SNAP-ON INCORPORATED
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(continued)

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 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.

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

Pro forma financial information has not been presented for these acquisitions as the net effects 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.

RESULTS OF OPERATIONS

Results of operations for the three months ended March 30, 2019, and March 31, 2018, are as follows:

	Three Months Ended					
(Amounts in millions)	March 30, 2019		March 31, 2018		Change	
Net sales	$921.7	100.0 %	$935.5	100.0 %	$(13.8)	(1.5)%
Cost of goods sold	(450.1)	(48.8)%	(463.9)	(49.6)%	13.8	3.0 %
Gross profit	471.6	51.2 %	471.6	50.4 %	—	— %
Operating expenses	(284.2)	(30.9)%	(293.9)	(31.4)%	9.7	3.3 %
Operating earnings before financial services	187.4	20.3 %	177.7	19.0 %	9.7	5.5 %
Financial services revenue	85.6	100.0 %	83.0	100.0 %	2.6	3.1 %
Financial services expenses	(23.5)	(27.5)%	(26.1)	(31.4)%	2.6	10.0 %
Operating earnings from financial services	62.1	72.5 %	56.9	68.6 %	5.2	9.1 %
Operating earnings	249.5	24.8 %	234.6	23.0 %	14.9	6.4 %
Interest expense	(12.5)	(1.2)%	(13.6)	(1.3)%	1.1	8.1 %
Other income (expense) – net	1.5	0.1 %	2.8	0.3 %	(1.3)	NM
Earnings before income taxes and equity earnings	238.5	23.7 %	223.8	22.0 %	14.7	6.6 %
Income tax expense	(56.9)	(5.7)%	(57.6)	(5.7)%	0.7	1.2 %
Earnings before equity earnings	181.6	18.0 %	166.2	16.3 %	15.4	9.3 %
Equity earnings, net of tax	0.5	0.1 %	0.6	0.1 %	(0.1)	NM
Net earnings	182.1	18.1 %	166.8	16.4 %	15.3	9.2 %
Net earnings attributable to noncontrolling interests	(4.2)	(0.4)%	(3.8)	(0.4)%	(0.4)	(10.5)%
Net earnings attributable to Snap-on Inc.	$177.9	17.7 %	$163.0	16.0 %	$14.9	9.1 %

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 $921.7 million in the first quarter of 2019 decreased $13.8 million, or 1.5%, from 2018 levels, reflecting a $12.3 million, or 1.4%, increase in organic sales (a non-GAAP financial measure that excludes the impact of foreign currency translation; there were no acquisition-related sales in the first quarter of 2019), more than offset by $26.1 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 $471.6 million in the first quarter of 2019 was unchanged from 2018. Gross margin (gross profit as a percentage of net sales) of 51.2% in the quarter improved 80 basis points (100 basis points ("bps") equals 1.0 percent) from 50.4% last year primarily due to the higher organic sales volume, savings from the company's "Rapid Continuous Improvement" or "RCI" initiatives and 10 bps of favorable foreign currency effects.

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 $284.2 million in the first quarter of 2019, including an $11.6 million benefit from the settlement of a patent-related litigation matter that was being appealed (the "legal settlement"), compared to $293.9 million last year. The operating expense margin (operating expenses as a percentage of net sales) of 30.9% improved from 31.4% last year as a 120 bps benefit from the legal settlement was partially offset by 20 bps of unfavorable foreign currency effects and higher costs.

Operating earnings before financial services of $187.4 million in the first quarter of 2019, including an $11.6 million benefit from the legal settlement and $5.7 million of unfavorable foreign currency effects, increased $9.7 million, or 5.5%, as compared to $177.7 million last year. As a percentage of net sales, operating earnings before financial services of 20.3%, including 120 bps of benefit from the legal settlement, compared to 19.0% last year.

Financial services revenue of $85.6 million in the first quarter of 2019 compared to revenue of $83.0 million last year. Financial services operating earnings of $62.1 million in the first quarter of 2019, including $0.5 million of unfavorable foreign currency effects, increased $5.2 million, or 9.1%, as compared to $56.9 million last year. The year-over-year increases in both revenue and operating earnings primarily reflect the continued growth of the company's financial services portfolio.

Operating earnings of $249.5 million in the first quarter of 2019, including an $11.6 million benefit from the legal settlement and $6.2 million of unfavorable foreign currency effects, increased $14.9 million, or 6.4%, from $234.6 million last year. As a percentage of revenues (net sales plus financial services revenue), operating earnings of 24.8% in the quarter compared to 23.0% last year.

Interest expense was $12.5 million and $13.6 million in the respective first quarters of 2019 and 2018. See Note 8 to the Condensed Consolidated Financial Statements for information on Snap-on's debt and credit facilities.

Other income (expense) – net was income of $1.5 million and $2.8 million in the respective first quarters of 2019 and 2018. 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. Other income (expense) – net in the first quarter of 2018 included a net gain of $5.5 million associated with a treasury lock settlement gain of $13.3

million related to the issuance of debt, partially offset by $7.8 million of expense related to the early extinguishment of debt (collectively, the “net debt items”). See Note 16 to the Condensed Consolidated Financial Statements for information on Other income (expense) – net.

Snap-on’s 2019 first quarter effective income tax rate on earnings attributable to Snap-on was 24.3%, which included 10 bps related to the legal settlement. The 2018 effective income tax rate was 26.2%, which included 120 bps related to a charge associated with the implementation of U.S. tax legislation (“tax charge”). See Note 7 to the Condensed Consolidated Financial Statements for information on income taxes.

Net earnings attributable to Snap-on of $177.9 million, or $3.16 per diluted share, in the first quarter of 2019, including an $8.7 million, or $0.15 per diluted share, benefit from the after-tax legal settlement, increased $14.9 million, or $0.34 per diluted share, from 2018 levels. Net earnings attributable to Snap-on in the first quarter of 2018 were $163.0 million, or $2.82 per diluted share, including a $4.1 million, or $0.07 per diluted share, benefit from the after-tax net debt items, and $2.6 million, or $0.04 per diluted share, for the tax charge.

Segment Results

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 dealership service and repair shops ("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.

Commercial & Industrial Group

	Three Months Ended					
(Amounts in millions)	March 30, 2019		March 31, 2018		Change	
External net sales	$249.5	77.4 %	$258.8	78.0 %	$(9.3)	(3.6)%
Intersegment net sales	73.0	22.6 %	72.8	22.0 %	0.2	0.3 %
Segment net sales	322.5	100.0 %	331.6	100.0 %	(9.1)	(2.7)%
Cost of goods sold	(192.2)	(59.6)%	(202.3)	(61.0)%	10.1	5.0 %
Gross profit	130.3	40.4 %	129.3	39.0 %	1.0	0.8 %
Operating expenses	(83.8)	(26.0)%	(82.8)	(25.0)%	(1.0)	(1.2)%
Segment operating earnings	$46.5	14.4 %	$46.5	14.0 %	$—	— %

Segment net sales of $322.5 million in the first quarter of 2019 decreased $9.1 million, or 2.7%, from 2018 levels, reflecting a $4.7 million, or 1.5%, organic sales gain, more than offset by $13.8 million of unfavorable foreign currency translation. The organic sales increase primarily includes a high single-digit gain in the specialty tools business and a low single-digit gain in sales to customers in critical industries. These increases were partially offset by a low single-digit decline in sales in the segment's Asia Pacific operations.

Segment gross profit of $130.3 million in the first quarter of 2019 compared to $129.3 million last year. First quarter gross margin of 40.4% in 2019 improved 140 bps from 39.0% in 2018 primarily due to 40 bps of favorable foreign currency effects, benefits from the higher organic sales volumes and savings from the company's RCI initiatives.

Segment operating expenses of $83.8 million in the first quarter of 2019 compared to $82.8 million last year. The operating expense margin of 26.0% in 2019 increased 100 bps from 25.0% in 2018, primarily due to 10 bps of unfavorable foreign currency effects, higher sales-related spending and other costs.

As a result of these factors, segment operating earnings of $46.5 million in the first quarter of 2019, including $1.1 million of unfavorable foreign currency effects, were unchanged from 2018 levels. Operating margin (segment operating earnings as a percentage of segment net sales) for the Commercial & Industrial Group of 14.4% in 2019 increased 40 bps from 14.0% in 2018.

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SNAP-ON INCORPORATED
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(continued)

Snap-on Tools Group

	Three Months Ended					
(Amounts in millions)	March 30, 2019		March 31, 2018		Change	
Segment net sales	$410.2	100.0 %	$404.7	100.0 %	$5.5	1.4 %
Cost of goods sold	(227.1)	(55.4)%	(224.4)	(55.4)%	(2.7)	(1.2)%
Gross profit	183.1	44.6 %	180.3	44.6 %	2.8	1.6 %
Operating expenses	(115.9)	(28.2)%	(111.4)	(27.6)%	(4.5)	(4.0)%
Segment operating earnings	$67.2	16.4 %	$68.9	17.0 %	$(1.7)	(2.5)%

Segment net sales of $410.2 million in the first quarter of 2019 increased $5.5 million, or 1.4%, from 2018 levels, reflecting an $11.7 million, or 2.9%, organic sales increase, partially offset by $6.2 million of unfavorable foreign currency translation. The organic sales increase includes a mid single-digit gain in the company's U.S. franchise operations, partially offset by a low single-digit decline in the company's international operations.

Segment gross profit of $183.1 million in the first quarter of 2019 compared to $180.3 million last year. Gross margin of 44.6%, including 40 bps of unfavorable foreign currency effects, was unchanged from the prior year.

Segment operating expenses of $115.9 million in the first quarter of 2019 compared to $111.4 million last year. The operating expense margin of 28.2% increased 60 bps from 27.6% last year primarily due to 10 bps of unfavorable foreign currency effects and higher other costs.

As a result of these factors, segment operating earnings of $67.2 million in the first quarter of 2019, including $3.1 million of unfavorable foreign currency effects, decreased $1.7 million from 2018 levels. Operating margin for the Snap-on Tools Group of 16.4% in the first quarter of 2019 compared to 17.0% last year.

Repair Systems & Information Group

	Three Months Ended
(Amounts in millions)	