SNAP-ON Inc
Form 10-K
February 14, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 29, 2018, or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
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)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in a definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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
The aggregate market value of voting and non-voting common equity held by non-affiliates (excludes 626,160 shares held by directors and executive officers) computed by reference to the price ($160.72) at which common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2018)

was $9.0 billion.
The number of shares of Common Stock ($1.00 par value) of the registrant outstanding as of February 8, 2019, was 55,616,137 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference certain information that will be set forth in Snap-on's Proxy Statement, which is expected to first be mailed to shareholders on or about March 11, 2019, prepared for the Annual Meeting of Shareholders scheduled for April 25, 2019.

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PART I

Safe Harbor

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 this Annual Report on Form 10-K, particularly those in "Item 1A: Risk Factors," 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, 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 as well as uncertainty surrounding potential changes, and the impact of energy and raw material supply and pricing, including steel and gasoline, as well as tariffs and other trade protection measures put in place by the U.S. or other countries, the amount, rate and growth of Snap-on's general and administrative expenses, including health care and postretirement costs, 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.

Fiscal Year

Snap-on's fiscal year ends on the Saturday that is on or nearest to December 31. Unless otherwise indicated, references in this document to "fiscal 2018" or "2018" refer to the fiscal year ended December 29, 2018; references to "fiscal 2017" or

“2017” refer to the fiscal year ended December 30, 2017; and references to “fiscal 2016” or “2016” refer to the fiscal year ended December 31, 2016. Snap-on’s 2018, 2017 and 2016 fiscal years each contained 52 weeks of operating results. References in this document to 2018, 2017 and 2016 year end refer to December 29, 2018, December 30, 2017, and December 31, 2016, respectively.

Item 1: Business

Snap-on was incorporated under the laws of the state of Wisconsin in 1920 and reincorporated under the laws of the state of Delaware in 1930. Snap-on is a leading global innovator, manufacturer and marketer of tools, equipment, diagnostics, repair information and systems solutions for professional users performing critical tasks. Products and services include hand and power tools, tool storage, diagnostics software, handheld and PC-based diagnostic products, information and management systems, shop equipment and other solutions for vehicle dealerships and repair centers, as well as for customers in industries, such as aviation and aerospace, agriculture, construction, government and military, mining, natural resources, power generation and technical education. Snap-on also derives income from various financing programs designed to facilitate the sales of its products and support its franchise business.

Snap-on markets its products and brands worldwide through multiple sales distribution channels in more than 130 countries. Snap-on's largest geographic markets include the United States, Europe, Canada and Asia Pacific. Snap-on reaches its customers through the company's franchised, company-direct, distributor and internet channels.

The company began with the development of the original Snap-on interchangeable socket set in 1920 and subsequently pioneered mobile tool distribution in the automotive repair market, where well stocked vans sell to professional vehicle technicians at their place of business. Today, Snap-on defines its value proposition more broadly, extending its reach "beyond the garage" to deliver a broad array of unique solutions that make work easier for serious professionals performing critical tasks. The company's "coherent growth" strategy focuses on developing and expanding its professional customer base in its legacy automotive market, as well as in adjacent markets, additional geographies and other areas, including in critical industries, where the cost and penalties for failure can be high. In addition to its coherent growth strategy, Snap-on is committed to its "Value Creation Processes" – a set of strategic principles and processes designed to create value and employed in the areas of (i) safety; (ii) quality; (iii) customer connection; (iv) innovation; and (v) rapid continuous improvement ("RCI"). 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 consolidations.

Snap-on's primary customer segments include: (i) commercial and industrial customers, including professionals in critical industries and emerging markets; (ii) professional vehicle repair technicians who purchase products through the company's mobile tool distribution network; and (iii) other professional customers related to vehicle repair, including owners and managers of independent and original equipment manufacturer ("OEM") dealership service and repair shops ("OEM dealerships"). Snap-on's Financial Services customer segment includes: (i) franchisees' customers, principally serving vehicle repair technicians, and Snap-on customers who require financing for the purchase or lease of tools and diagnostics and equipment products on an extended-term payment plan; and (ii) franchisees who require financing for vehicle leases and business loans.

Snap-on's business segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. Snap-on's reportable business segments are: (i) the Commercial & Industrial Group; (ii) the Snap-on Tools Group; (iii) the Repair Systems & Information Group; and (iv) Financial Services. The Commercial & Industrial Group consists of business operations serving a broad range of industrial and commercial customers worldwide, including customers in the aerospace, natural resources, government, power generation, transportation and technical education market segments (collectively, "critical industries"), primarily through direct and distributor channels. The Snap-on Tools Group consists of business operations primarily serving vehicle service and repair technicians through the company's worldwide mobile tool distribution channel. The Repair Systems & Information Group consists of business operations serving other professional vehicle repair customers worldwide, primarily owners and managers of independent repair shops and OEM dealerships, through direct and distributor channels. Financial Services consists of the business operations of Snap-on Credit LLC ("SOC"), the company's financial services business in the United States, and Snap-on's other financial services subsidiaries in those international markets where Snap-on has franchise operations. See Note 19 to the Consolidated Financial Statements for information on business segments and foreign operations.

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. Intersegment amounts are eliminated to arrive at Snap-on's consolidated financial results.

Recent Acquisitions

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

On July 28, 2017, Snap-on acquired Torque Control Specialists Pty Ltd ("TCS") for a cash purchase price of $3.6 million (or $3.5 million, net of cash acquired). TCS, based in Adelaide, Australia, distributes a full range of torque products, including wrenches, multipliers and calibrators, for use in critical industries. The acquisition of TCS enhanced and expanded Snap-on's capabilities in providing solutions that address torque requirements, which are increasingly essential to critical mechanical performance. For segment reporting purposes, the results of operations and assets of TCS have been included in the Commercial & Industrial Group since the acquisition date.

On May 4, 2017, Snap-on acquired Norbar Torque Tools Holdings Limited, along with its U.S. and Chinese joint ventures ("Norbar"), for a cash purchase price of $71.6 million (or $69.9 million, net of cash acquired). Norbar, based in Banbury, U.K., designs and manufactures a full range of torque products, including wrenches, multipliers and calibrators, for use in critical industries. The acquisition of Norbar enhanced and expanded Snap-on's capabilities in providing solutions that address torque requirements. For segment reporting purposes, the results of operations and assets of Norbar have been included in the Commercial & Industrial Group since the acquisition date.

On January 30, 2017, Snap-on acquired BTC Global Limited ("BTC") for a cash purchase price of $9.2 million. BTC, based in Crewe, U.K., designs and implements automotive vehicle inspection and management software for OEM franchise repair shops. The acquisition of BTC enhanced Snap-on's capabilities to grow enterprise revenues and add increased productivity for repair workshops. For segment reporting purposes, the results of operations and assets of BTC have been included in the Repair Systems & Information Group since the acquisition date.

On November 16, 2016, Snap-on acquired Ryeson Corporation (d/b/a Sturtevant Richmont) for a cash purchase price of $13.0 million (or $12.6 million, net of cash acquired). Sturtevant Richmont, based in Carol Stream, Illinois, designs, manufactures and distributes mechanical and electronic torque wrenches as well as wireless torque error proofing systems for a variety of industrial applications. The acquisition of Sturtevant Richmont enhanced and expanded Snap-on's capabilities in providing solutions that address torque requirements. For segment reporting purposes, the results of operations and assets of Sturtevant Richmont have been included in the Commercial & Industrial Group since the acquisition date.

On October 31, 2016, Snap-on acquired Car-O-Liner Holding AB ("Car-O-Liner") for a cash purchase price of $152.0 million (or $148.1 million, net of cash acquired). Car-O-Liner, based in Gothenburg, Sweden, designs and manufactures collision repair equipment, and information and truck alignment systems. The acquisition of Car-O-Liner complemented and increased Snap-on's existing equipment and repair and service information product offerings, broadened its established capabilities in serving vehicle repair facilities and further expanded the company's presence with repair shop owners and managers. For segment reporting purposes, substantially all of Car-O-Liner's results of operations and assets have been included in the Repair Systems & Information Group since the acquisition date, with the remaining portions included in the Commercial & Industrial Group.

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

Information Available on the Company's Website

Additional information regarding Snap-on and its products is available on the company's website at www.snapon.com. Snap-on is not including the information contained on its website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. Snap-on's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Proxy Statements on Schedule 14A and Current Reports on Form 8-K, as well as any amendments to those reports, are made available to the public at no charge through the Investors section of the company's website at www.snapon.com. Snap-on makes such material available on its website as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission ("SEC"). Copies of any materials the company files with the SEC can also be obtained free of charge through the SEC's website at www.sec.gov. In addition, Snap-on's (i) charters for the Audit, Corporate Governance and Nominating, and Organization and Executive Compensation Committees of the company's Board of Directors; (ii) Corporate Governance Guidelines; and (iii) Code of Business Conduct and Ethics are available on the company's website. Snap-on will also post any amendments to these documents, or information about any waivers granted to directors or executive officers with respect to the Code of Business Conduct and Ethics, on the company's website at www.snapon.com.

Products and Services

Tools; Diagnostics, Information and Management Systems; and Equipment

Snap-on offers a broad line of products and complementary services that are grouped into three product categories: (i) tools; (ii) diagnostics, information and management systems; and (iii) equipment. Further product line information is not presented as it is not practicable to do so. The following table shows the consolidated net sales of these product categories for the last three years:

	Net Sales		
(Amounts in millions)	2018	2017	2016
Product Category:			
Tools	$2,021.2	$1,946.7	$1,899.2
Diagnostics, information and management systems	797.9	800.4	748.2
Equipment	921.6	939.8	783.0
	$3,740.7	$3,686.9	$3,430.4

The tools product category includes hand tools, power tools, tool storage products and other similar products. Hand tools include wrenches, sockets, ratchet wrenches, pliers, screwdrivers, punches and chisels, saws and cutting tools, pruning tools, torque measuring instruments and other similar products. Power tools include cordless (battery), pneumatic (air), hydraulic and corded (electric) tools, such as impact wrenches, ratchets, screwdrivers, drills, sanders, grinders and similar products. Tool storage includes tool chests, roll cabinets and other similar products. For many industrial customers, Snap-on creates specific, engineered solutions, including facility-level tool control and asset management hardware and software, custom kits in a wide range of configurations, and custom-built tools designed to meet customer requirements. The majority of products are manufactured by Snap-on and, in completing the product offering, other items are purchased from external manufacturers.

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, 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. Products include wheel alignment equipment, wheel balancers, tire changers, vehicle lifts, test lane systems, collision repair equipment, vehicle air conditioning service equipment, brake service equipment, fluid exchange equipment, transmission troubleshooting equipment, safety testing equipment, battery chargers and hoists.

Snap-on supports the sale of its diagnostics and vehicle service shop equipment by offering training programs as well as after-sales support for its customers, primarily focusing on the technologies and the application of specific products developed and marketed by Snap-on.

Products are marketed under a number of brand names and trademarks, many of which are well known in the vehicle service and industrial markets served. Some of the major trade names and trademarks and the products and services with which they are associated include the following:

Names	Products and Services
Snap-on	Hand tools, power tools, tool storage products (including tool control software and hardware), diagnostics, certain equipment and related accessories, mobile tool stores, websites, electronic parts catalogs, warranty analytics solutions, business management systems and services, OEM specialty tools and equipment development and distribution, and OEM facilitation services
ATI	Aircraft hand tools and machine tools
autoVHC	Vehicle inspection and training services
BAHCO	Saw blades, cutting tools, pruning tools, hand tools, power tools and tool storage
Blackhawk	Collision repair equipment
Blue-Point	Hand tools, power tools, tool storage, diagnostics, certain equipment and related accessories
Cartec	Safety testing, brake testers, test lane equipment, dynamometers, suspension testers, emission testers and other equipment
Car-O-Liner	Collision repair equipment, and information and truck alignment systems
CDI	Torque tools
Challenger	Vehicle lifts
Ecotechnics	Vehicle air conditioning service equipment
Fastorq	Hydraulic torque and tensioning products
Fish and Hook	Saw blades, cutting tools, pruning tools, hand tools, power tools and tool storage
Hofmann	Wheel balancers, vehicle lifts, tire changers, wheel aligners, brake testers and test lane equipment
Irimo	Saw blades, cutting tools, hand tools, power tools and tool storage
John Bean	Wheel balancers, vehicle lifts, tire changers, wheel aligners, brake testers and test lane equipment
Josam	Heavy duty alignment and collision repair solutions
Lindström	Hand tools
Mitchell1	Repair and service information, shop management systems and business services

Nexiq	Diagnostic tools, information and program distributions for fleet and heavy duty equipment
Norbar	Torque tools
Pro-Cut	On-car brake lathes, related equipment and accessories
Sandflex	Hacksaw blades, bandsaws, saw blades, hole saws and reciprocating saw blades
ShopKey	Repair and service information, shop management systems and business services
Sioux	Power tools
Sturtevant Richmont	Torque tools
Sun	Diagnostic tools, wheel balancers, vehicle lifts, tire changers, wheel aligners, air conditioning products and emission testers
TruckCam	Commercial OEM factory solutions
Williams	Hand tools, tool storage, certain equipment and related accessories

Financial Services

Snap-on also generates revenue from various financing programs that include: (i) installment sales and lease contracts arising from franchisees' customers and Snap-on customers who require financing for the purchase or lease of tools and diagnostic and equipment products on an extended-term payment plan; and (ii) business loans and vehicle leases to franchisees. The decision to finance through Snap-on or another financing source is solely by election of the customer. When assessing customers for potential financing, Snap-on considers various factors regarding ability to pay, including the customers' financial condition, debt-servicing ability, past payment experience, and credit bureau and proprietary Snap-on credit model information, as well as the value of the underlying collateral.

Snap-on offers financing through SOC and the company's international finance subsidiaries in those markets where Snap-on has franchise operations. Financing revenue from contract originations is recognized over the life of the underlying contracts, with interest computed primarily on the average daily balances of the underlying contracts.

Sales and Distribution

Snap-on markets and distributes its products and related services principally to professional tool and equipment users around the world. The two largest market sectors are the vehicle service and repair sector and the industrial sector.

Vehicle Service and Repair Sector

The vehicle service and repair sector has three main customer groups: (i) professional technicians who purchase tools and diagnostic and equipment products for use in their work; (ii) other professional customers related to vehicle repair, including owners and managers of independent repair shops and OEM dealerships who purchase tools and diagnostic and equipment products for use by multiple technicians within a service or repair facility; and (iii) OEMs. Snap-on provides innovative tool, equipment and business solutions, as well as technical sales support and training, designed to meet technicians' evolving needs. Snap-on's mobile tool distribution system offers technicians the convenience of purchasing quality tools at their place of business with minimal disruption of their work routine. Snap-on also provides owners and managers of repair shops, where technicians work, with tools, diagnostic equipment, and repair and service information, including electronic parts catalogs and shop management products. Snap-on's OEM facilitation business provides OEMs with products and services including special and essential tools as well as consulting and facilitation services, which include product procurement, distribution and administrative support to customers for their dealership equipment programs.

The vehicle service and repair sector is characterized by an increasing rate of technological change within motor vehicles, vehicle population growth and increasing vehicle life, and the resulting effects of these changes on the businesses of both our suppliers and customers. Snap-on believes it is a meaningful participant in the vehicle service and repair market sector.

Industrial Sector

Snap-on markets its products and services globally to a broad cross-section of commercial and industrial customers, including maintenance and repair operations; manufacturing and assembly facilities; various government agencies, facilities and operations, including military operations; schools with vocational and technical programs; aviation and aerospace operations; oil and gas developers; mining operations; energy and power generation; equipment fabricators and operators; railroad manufacturing and maintenance; customers in agriculture; infrastructure construction companies; and other customers that require instrumentation, service tools and/or equipment for their products and business needs. The industrial sector for Snap-on focuses on providing value-added products and services to an increasingly expanding global base of customers in critical industries.

The industrial sector is characterized by a highly competitive environment with multiple suppliers offering either a full line or industry specific portfolios for tools and equipment. Industrial customers increasingly require specialized solutions that provide repeatability and reliability in performing tasks of consequence that are specific to the particular end market in which they operate. Snap-on believes it is a meaningful participant in the industrial tools and equipment market sector.

Distribution Channels

Snap-on serves customers primarily through the following channels of distribution: (i) the mobile van channel; (ii) company direct sales; (iii) distributors; and (iv) e-commerce. The following discussion summarizes Snap-on's general approach for each channel and is not intended to be all-inclusive.

Mobile Van Channel

In the United States, a significant portion of sales to the vehicle service and repair sector is conducted through Snap-on's mobile franchise van channel. Snap-on's franchisees primarily serve vehicle repair technicians and vehicle service shop owners, generally providing weekly contact at the customer's place of business. Franchisees' sales are concentrated in hand and power tools, tool storage products, shop equipment, and diagnostic and repair information products, which can easily be transported in a van or trailer and demonstrated during a brief sales call. Franchisees purchase Snap-on's products at a discount from suggested list prices and resell them at prices established by the franchisee. U.S. franchisees are provided a list of calls that serves as the basis of the franchisee's sales route. Snap-on's franchisees also have the opportunity to add a limited number of additional franchises.

Snap-on charges nominal initial and ongoing monthly franchise fees. Franchise fee revenue, including nominal, non-refundable initial and ongoing monthly fees (primarily for sales and business training, and marketing and product promotion programs), is recognized as the fees are earned. Franchise fee revenue totaled \$16.2 million, \$15.2 million and \$13.9 million in fiscal 2018, 2017 and 2016, respectively.

Snap-on also has a company-owned route program that is designed to: (i) provide another pool of potential field organization personnel; (ii) service customers in select new and/or open routes not currently serviced by franchisees; and (iii) allow Snap-on to pilot new sales and promotional ideas prior to introducing them to franchisees. As of 2018 year end, company-owned routes comprised less than 3% of the total route population; Snap-on may elect to increase or reduce the number of company-owned routes in the future.

In addition to its mobile van channel in the United States, Snap-on has replicated its U.S. franchise distribution model in certain other countries, including the United Kingdom, Canada, Japan, Australia, Germany, Netherlands, South Africa, New Zealand, Belgium and Ireland. In many of these markets, as in the United States, purchase decisions are generally made or influenced by professional vehicle service technicians as well as repair shop owners and managers. As of 2018 year end, Snap-on's worldwide route count was approximately 4,800, including approximately 3,450 routes in the United States.

Through SOC, financing is available to U.S. franchisees, including financing for van leases, working capital loans and loans to help enable new franchisees to fund the purchase of the franchise or the expansion of an existing franchise. In many international markets, Snap-on offers a variety of financing options to its franchisees and/or customer networks through its international finance subsidiaries. The decision to finance through Snap-on or another financing source is solely at the customer's election.

Snap-on supports its franchisees with a field organization of regional offices, franchise performance teams, customer care centers and distribution centers. Snap-on also provides sales and business training, and marketing and product promotion programs, as well as customer and franchisee financing programs through SOC and the company's international finance subsidiaries, all of which are designed to strengthen franchisee sales. National Franchise Advisory Councils in the United States, the United Kingdom, Canada and Australia, composed primarily of franchisees that are elected by franchisees, assist Snap-on in identifying and implementing enhancements to the franchise program.

Company Direct Sales

A significant proportion of shop equipment sales in North America under the John Bean, Hofmann, Blackhawk, Car-O-Liner, Challenger and Pro-Cut brands, diagnostic products under the Snap-on brand and information products under the Mitchell1 brand are made by direct and independent sales forces that have responsibility for national and other accounts. As the vehicle service and repair sector consolidates (with more business conducted by national chains and franchised service centers), Snap-on believes these larger organizations can be serviced most effectively by sales people who can demonstrate and sell the full line of diagnostic and equipment products and services. Snap-on also sells these products and services directly to OEMs and their franchised dealers.

Snap-on brand tools and equipment are marketed to industrial and governmental customers worldwide through both industrial sales associates and independent distributors. Selling activities focus on industrial customers whose main purchase criteria are quality and integrated solutions. As of 2018 year end, Snap-on had industrial sales associates and independent distributors primarily in the United States, Canada and in various European, Latin American, Middle Eastern, Asian and African countries, with the United States representing the majority of Snap-on's total industrial sales.

Snap-on also sells software, services and solutions to the automotive, commercial, heavy duty, agriculture, power equipment and power sports segments. Products and services are marketed to targeted groups, including OEMs and their dealerships, fleets and individual repair shops. To effectively reach OEMs, which frequently have a multi-national presence, Snap-on has deployed focused business teams globally.

Distributors

Sales of certain tools and equipment are made through independent distributors who purchase the items from Snap-on and resell them to end users. Hand tools sold under the BAHCO, Fish and Hook, Irimo, Lindström, CDI, ATI, Fastorq, Norbar, Sioux, Sturtevant Richmont and Williams brands and trade names, for example, are sold through distributors worldwide. Wheel service and other vehicle service equipment are sold through distributors primarily under brands including Hofmann, John Bean, Car-O-Liner, Challenger, Pro-Cut, Cartec, Blackhawk and Ecotechnics. Diagnostic and equipment products are marketed through distributors in South America and Asia, and through both a direct sales force and distributors in Europe under the Snap-on, Sun and Blue-Point brands.

E-commerce

Snap-on offers current and prospective customers online access to research and purchase products through its public website at www.snapon.com. The site features an online catalog of Snap-on hand tools, power tools, tool storage units and diagnostic equipment available to customers in the United States, the United Kingdom, Canada and Australia. E-commerce and certain other system enhancement initiatives are designed to improve productivity and further leverage the one-on-one relationships and service Snap-on has with its current and prospective customers. Sales through the company's e-commerce distribution channel were not significant in any of the last three years.

Competition

Snap-on competes on the basis of its product quality and performance, product line breadth and depth, service, brand awareness and imagery, technological innovation and availability of financing (through SOC or its international finance subsidiaries). While Snap-on does not believe that any single company competes with it across all of its product lines and distribution channels, various companies compete in one or more product categories and/or distribution channels.

Snap-on believes it is a leading manufacturer and distributor of professional tools, tool storage, diagnostic and equipment products, and repair software and solutions, offering a broad line of these products to both vehicle service and industrial marketplaces. Various competitors target and sell to professional technicians in the vehicle service and repair sector through the mobile tool distribution channel. Snap-on also competes with companies that sell tools and equipment to vehicle service and repair technicians online and through retail stores, vehicle parts supply outlets and tool supply warehouses/distributorships. Within the power tools category and the industrial sector, Snap-on has various other competitors, including companies with offerings that overlap with other areas discussed herein. Major competitors selling diagnostics, shop equipment and information to vehicle dealerships and independent repair shops include OEMs and their proprietary electronic parts catalogs and diagnostics and information systems, and other companies that offer products serving this sector.

Raw Materials and Purchased Product

Snap-on's supply of raw materials and purchased components are generally and readily available from numerous suppliers. Snap-on believes it has secured an ample supply of both bar and coil steel for the near future to ensure stable supply to meet material demands. The company does not currently anticipate experiencing any significant impact in 2019 from steel pricing or availability issues, though it is continuing to monitor the impact of tariffs and other trade protection measures put in place by the U.S. and other countries.

Patents, Trademarks and Other Intellectual Property

Snap-on vigorously pursues and relies on patent protection to protect its intellectual property and position in its markets. As of 2018 year end, Snap-on and its subsidiaries held approximately 750 active and pending patents in the United States and approximately 2,000 active and pending patents outside of the United States. Sales relating to any single patent did not represent a material portion of Snap-on's revenues in any of the last three years.

Examples of products that have features or designs that benefit from patent protection include hand tools (including sealed ratchets and ratcheting screwdrivers), power tools, wheel alignment systems, wheel balancers, tire changers, vehicle lifts, tool storage, tool control, collision measurement, test lanes, brake lathes, electronic torque instruments, emissions-sensing devices and diagnostic equipment.

Much of the technology used in the manufacture of vehicle service tools and equipment is in the public domain. Snap-on relies primarily on trade secret protection to protect proprietary processes used in manufacturing. Methods and processes are patented when appropriate. Copyright protection is also utilized when appropriate.

Trademarks used by Snap-on are of continuing importance to Snap-on in the marketplace. Trademarks have been registered in the United States and many other countries, and additional applications for trademark registrations are pending. Snap-on vigorously polices proper use of its trademarks. Snap-on's right to manufacture and sell certain products is dependent upon licenses from others; however, these products under license do not represent a material portion of Snap-on's net sales.

Domain names have become a valuable corporate asset for companies around the world, including Snap-on. Domain names often contain a trademark or service mark or even a corporate name and are often considered intellectual property. The recognition and value of the Snap-on name, trademark and domain name are core strengths of the company.

Snap-on strategically licenses the Snap-on brand to carefully selected manufacturing and distribution companies for items such as apparel and a variety of other goods, in order to further build brand awareness and market presence for the company's strongest brand.

Environmental

Snap-on is subject to various environmental laws, ordinances, regulations, and other requirements of government authorities in the United States and other nations. At Snap-on, these environmental liabilities are managed through the Snap-on Environmental, Health and Safety Management System ("EH & SMS"), which is applied worldwide. The system is based upon continual improvement and is certified to ISO 14001:2015 and OHSAS 18001:2007, verified through Det Norske Veritas (DNV) Certification, Inc.

Snap-on believes that it complies with applicable environmental control requirements in its operations. Expenditures on environmental matters through EH & SMS have not had, and Snap-on does not for the foreseeable future expect them to have, a material effect upon Snap-on's capital expenditures, earnings or competitive position.

Employees

Snap-on employed approximately 12,600 people at the end of both January 2019 and January 2018.

Approximately 2,650 employees, or 21% of Snap-on's worldwide workforce, are represented by unions and/or covered under collective bargaining agreements. The number of covered union employees whose contracts expire over the next five years approximates 875 employees in 2019, 975 employees in 2020, 575 employees in 2021, 175 employees in 2022, and 50 employees in 2023. In recent years, Snap-on has not experienced any significant work slowdowns, stoppages or other labor disruptions.

There can be no assurance that these and other future contracts with Snap-on's unions will be renegotiated upon terms acceptable to Snap-on.

Working Capital

Most of Snap-on's businesses are not seasonal and their inventory needs are relatively constant. Snap-on did not have a significant backlog of orders at 2018 year end. In recent years, Snap-on has been using its working capital to fund, in part, the continued growth of the company's financial services portfolio and the acquisitions discussed above.

Snap-on's liquidity and capital resources and use of working capital are discussed herein in "Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations."

As of 2018 year end, neither Snap-on nor any of its segments depend on any single customer, small group of customers or government for any material part of its revenues.

Item 1A: Risk Factors

In evaluating the company, careful consideration should be given to the following risk factors, in addition to the other information included in this Annual Report on Form 10-K, including the Consolidated Financial Statements and the related notes. Each of these risk factors could adversely affect the company's business, operating results, cash flows and/or financial condition, as well as adversely affect the value of an investment in the company's common stock.

Economic conditions and world events could affect our operating results.
We, our franchisees and our customers, may be adversely affected by changing economic conditions, including conditions that may particularly impact specific regions. These conditions may result in reduced consumer and investor confidence, instability in the credit and financial markets, volatile corporate profits, and reduced business and consumer spending. We, our franchisees and our customers, and the economy as a whole, also may be affected by future world or local events outside our control, such as tariffs and other trade protection measures put in place by the United States or other countries, acts of terrorism, developments in the war on terrorism, conflicts in international situations, weather events and natural disasters, as well as government-related developments or issues. These factors may affect our results of operations by reducing our sales, margins and/or net earnings as a result of a slowdown in customer orders or order cancellations, impact the availability and/or pricing of raw materials and/or the supply chain, and could potentially lead to future impairment of our intangible assets. In addition, political and social turmoil related to international conflicts and terrorist acts may put pressure on economic conditions abroad. Unstable political, social and economic conditions may make it difficult for our franchisees, customers, suppliers and us to accurately forecast and plan future business activities. If such conditions persist, our business, financial condition, results of operations and cash flows could be negatively affected.
In 2016, the United Kingdom voted in a referendum to exit the European Union ("Brexit"), which resulted in significant currency exchange rate fluctuations and volatility. Negotiations continue to determine the terms of Brexit. Given the lack of comparable precedent and the status of the negotiations, the implications of Brexit, or how such implications might affect Snap-on, continue to remain unclear at this time. Brexit could, among other impacts, disrupt trade and the movement of goods, services and people between the United Kingdom and the European Union or other countries as well as create legal and global economic uncertainty. These and other potential implications could adversely affect our business and results of operations.
In 2018, Canada, Mexico and the United States negotiated the United States-Mexico-Canada Agreement (the "USMCA"), which is intended to update and replace the North American Free Trade Agreement ("NAFTA"). THE USMCA must be ratified by all three countries before it becomes fully effective and many of its provisions will not take effect until 2020. While the USMCA is somewhat similar to NAFTA, it contains several new compliance obligations addressing such issues as rules of origin, labor standard, certificate of origin documentation and de minimis thresholds, as well as new policies on labor and environmental standards, intellectual property protections and some digital trade provisions. The Company is currently analyzing the expected impact of the USMCA. While certain aspects of the USMCA are expected to be positive, others, including potentially higher regulatory compliance costs, may have an adverse impact on our business.
These and other matters significantly impacting the regulation of trade could adversely affect our business and results of operations.

Raw material and energy price fluctuations and shortages (including steel and various fuel sources) could adversely affect the ability to obtain needed manufacturing materials and could adversely affect our results of operations.
The principal raw material used in the manufacture of our products is steel, which we purchase in competitive, price-sensitive markets. To meet Snap-on's high quality standards, our steel needs range from specialized alloys, which are available only from a limited group of approved suppliers, to common alloys, which are available from multiple suppliers. Some of these materials have been, and in the future may be, in short supply, particularly in the event of mill shutdowns or production cut backs. As some steel alloys require specialized manufacturing procedures, we could experience inventory shortages if we were required to use an alternative manufacturer on short notice. These raw materials exhibit price and demand cyclicality, including tariffs and other trade protection measures enacted in fiscal 2018 and which could continue to in fiscal 2019. Unexpected price increases for raw materials could result in an erosion of the margins on our products or higher prices to our customers.
We believe our ability to sell our products is also dependent on the number of vehicles on the road, the number of miles driven and the general aging of vehicles. These factors affect the frequency, type and amount of service and repair performed on vehicles by technicians, and therefore affect the demand for the number of technicians, the

prosperity of technicians and, consequently, the demand technicians have for our tools, other products and services, and the value technicians place on those products and services. The use of other methods of transportation, including more frequent use of public transportation, could result in a decrease in the use of privately operated vehicles. A decrease in the use of privately operated vehicles may lead to fewer repairs and less demand for our products.

We use various energy sources to transport, produce and distribute products, and some of our products have components that are petroleum based. Petroleum and energy prices have periodically increased significantly over short periods of time; future volatility and changes may be caused by market fluctuations, supply and demand, currency fluctuations, production and transportation disruptions, world events and changes in governmental programs. Energy price increases raise both our operating costs and the costs of our materials, and we may not be able to increase our prices enough to offset these costs. Higher prices also may reduce the level of future customer orders and our profitability.

The performance of Snap-on's mobile tool distribution business depends on the success of its franchisees.

Approximately 40% of our consolidated net revenues in 2018 were generated by the Snap-on Tools Group, which consists of Snap-on's business operations primarily serving vehicle service and repair technicians through the company's worldwide mobile tool distribution channel. Snap-on's success is dependent on its relationships with franchisees, individually and collectively, as they are the primary sales and service link between the company and vehicle service and repair technicians, who are an important class of end users for Snap-on's products and services. If our franchisees are not successful, or if we do not maintain an effective relationship with our franchisees, the delivery of products, the collection of receivables and/or our relationship with end users could be adversely affected and thereby negatively impact our business, financial condition, results of operations and cash flows.

In addition, if we are unable to maintain effective relationships with franchisees, Snap-on or the franchisees may choose to terminate the relationship, which may result in (i) open routes, in which end-user customers are not provided reliable service; (ii) litigation resulting from termination; (iii) reduced collections or increased charge-offs of franchisee receivables owed to Snap-on; and/or (iv) reduced collections or increased charge-offs of finance and contract receivables.

Exposure to credit risks of customers and resellers may make it difficult to collect receivables, and our allowances for credit losses for receivables may prove inadequate, which could adversely affect operating results and financial condition.

Our financial services portfolio represents a significant portion of the company's assets. A decline in industry and/or economic conditions could have the potential to weaken the financial position of some of our customers, including financial services customers. If circumstances surrounding our customers' ability to repay their credit obligations were to deteriorate and result in the write-down or charge-off of such receivables, it would negatively affect our operating results for the period in which they occur and, if large, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We maintain allowances for credit losses for receivables to provide for defaults and nonperformance, which represent an estimate of losses of our receivables portfolios. The determination of the appropriate levels of the allowances for credit losses inherently involves a high degree of subjectivity and judgment, and requires us to make estimates of current credit risks, which may undergo material changes. The allowances may not be adequate to cover actual losses, and future allowances for credit losses could materially and adversely affect our financial condition, results of operations and cash flows.

Our inability to provide acceptable financing alternatives to franchisees and other end-user customers could adversely impact our operating results.

An integral component of our business and profitability is our ability to offer competitive financing alternatives to franchisees and other end-user customers. The lack of our ability to offer such alternatives or obtain capital resources or other financing to support our receivables on terms that we believe are attractive, whether resulting from the state of the financial markets, our own operating performance, or other factors, would negatively affect our operating results and financial condition. Adverse fluctuations in interest rates and/or our ability to provide competitive financing programs could also have an adverse impact on our revenue and profitability.

Adverse developments in the credit and financial markets could negatively impact the availability of credit that we and our customers need to operate our businesses.

We depend upon the availability of credit to operate our business, including the financing of receivables from end-user customers that are originated by our financial services businesses. Our end-user customers, franchisees and suppliers also require access to credit for their businesses. At times, world financial markets have been unstable and subject to uncertainty. Adverse developments in the credit and financial markets, or unfavorable changes in Snap-on's credit rating, could negatively impact the availability of future financing and the terms on which it might be available to Snap-on, its end-user customers, franchisees and suppliers. Inability to access credit or capital markets, or a deterioration in the terms on which financing might be available, could have an adverse impact on our business, financial condition, results of operations and cash flows.

Increasing our financial leverage could affect our operations and profitability.
The maximum available credit under our multi-currency revolving credit facility is $700 million. The company's leverage ratio may affect both our availability of additional capital resources as well as our operations in several ways, including:

- The terms on which credit may be available to us could be less attractive, both in the economic terms of the credit and the covenants stipulated by the credit terms;
- The possible lack of availability of additional credit or access to the commercial paper market;
- The potential for higher levels of interest expense to service or maintain our outstanding debt;
- The possibility of additional borrowings in the future to repay our indebtedness when it comes due; and
- The possible diversion of capital resources from other uses.

While we believe we will have the ability to service our debt and obtain additional resources in the future if and when needed, that will depend upon our results of operations and financial position at the time, the then-current state of the credit and financial markets, and other factors that may be beyond our control. Therefore, we cannot give assurances that credit will be available on terms that we consider attractive, or at all, if and when necessary or beneficial to us.

Data security and information technology infrastructure and security are critical to supporting business objectives; failure of our systems to operate effectively could adversely affect our business and reputation.
We depend heavily on information technology infrastructure to achieve our business objectives and to protect sensitive information, and continually invest in improving such systems. Problems that impair or compromise this infrastructure, including natural disasters, power outages, major network failures, security breaches or malicious attacks, or during system upgrades and/or new system implementations, could impede our ability to record or process orders, manufacture and ship in a timely manner, manage our financial services operations including originating, processing, accounting for and collecting receivables, protect sensitive data of the company, our customers, our suppliers and business partners, or otherwise carry on business in the normal course. Any such events, if significant, could cause us to lose customers and/or revenue and could require us to incur significant expense to remediate, including as a result of legal or regulatory claims, proceedings, fines or penalties, and could also damage our reputation. While we have taken steps to maintain adequate data security and address these risks and uncertainties by implementing security technologies, internal controls, network and data center resiliency, and redundancy and recovery processes, as well as by securing insurance, these measures may be inadequate.
In association with initiatives to better integrate business units, rationalize operating footprint and improve responsiveness to franchisees and customers, Snap-on is continually replacing and enhancing its global Enterprise Resource Planning (ERP) management information systems. As we integrate, implement and deploy new information technology processes and enhance our common information infrastructure across our global operations, we could experience disruptions in our business that could have an adverse effect on our business, financial condition, results of operations and cash flows.
Changes to legislation and regulations may affect our business, reputation, results of operations and financial condition.
Significant changes to legislative and regulatory activity and compliance burdens, including those associated with sales to our government, military and defense contractor customers, as well as the manner in which they are applied, could significantly impact our business and the economy as a whole.
Financial services businesses of all kinds are subject to significant and complex regulations and enforcement. In addition to potentially increasing the costs of doing business due to compliance obligations, new laws and regulations, or changes to existing laws and regulations, as well as the enforcement thereof, may affect the relationships between creditors and debtors, inhibit the rights of creditors to collect amounts owed to them, expand liability for certain actions or inactions, or limit the types of financial products or services offered, any or all of which could have a material adverse effect on our financial condition, results of operations and cash flows. Failure to comply with any of these laws or regulations could also result in civil, criminal, monetary and/or non-monetary penalties, damage to our

reputation, and/or the incurrence of remediation costs.

In fiscal 2018, Snap-on's results of operations were impacted, and in the future could be further affected, by changes in the company's effective tax rate as a result of changes in statutory tax rates, laws and regulations, as well as related guidance. The Tax Cuts and Jobs Act in the United States (the "Tax Act"), which made significant changes to the U.S. Tax Code and affects, among other items, the company's tax rate, previously unremitted foreign earnings and valuations of deferred tax assets and liabilities. If new guidance is issued on the recently enacted tax revisions, depending on the circumstances, this (and other) tax legislation could adversely affect our results of operations.

These developments, and other potential future legislation and regulations, as well as the factors in the strict regulatory environment, including the growing international regulation of privacy rights, may also adversely affect the customers to which, and the markets into which, we sell our products, and increase our costs and otherwise negatively affect our business, reputation, results of operations and financial condition, including in ways that cannot yet be foreseen.

Failure to achieve expected investment returns on pension plan assets, as well as changes in interest rates or plan demographics, could adversely impact our results of operations, financial condition and cash flows.

Snap-on sponsors various defined benefit pension plans (the “pension plans”). The assets of the pension plans are diversified in an attempt to mitigate the risk of a large loss. Required funding for the company’s domestic defined benefit pension plans is determined in accordance with guidelines set forth in the federal Employee Retirement Income Security Act (“ERISA”); foreign defined benefit pension plans are funded in accordance with local statutes or practice. Additional contributions to enhance the funded status of the pension plans can be made at the company’s discretion. However, there can be no assurance that the value of the pension plan assets, or the investment returns on those plan assets, will be sufficient to meet the future benefit obligations of such plans. In addition, during periods of adverse investment market conditions and declining interest rates, the company may be required to make additional cash contributions to the pension plans that could reduce our financial flexibility. Changes in plan demographics, including an increase in the number of retirements or changes in life expectancy assumptions, may also increase the costs and funding requirements of the obligations related to the company’s pension plans.

Our pension plan obligations are affected by changes in market interest rates. Significant fluctuations in market interest rates have added, and may further add, volatility to our pension plan obligations. In periods of declining market interest rates, our pension plan obligations generally increase; in periods of increasing market interest rates, our pension plan obligations generally decrease. While our plan assets are broadly diversified, there are inherent market risks associated with investments; if adverse market conditions occur, our plan assets could incur significant or material losses. Since we may need to make additional contributions to address changes in obligations and/or a loss in plan assets, the combination of declining market interest rates, past or future plan asset investment losses, and/or changes in plan demographics could adversely impact our results of operations, financial condition and cash flows.

The company’s pension plan expense is comprised of the following factors: (i) service cost; (ii) interest on projected benefit obligations; (iii) expected return on plan assets; (iv) the amortization of prior service costs and credits; (v) effects of actuarial gains and losses; and (vi) settlement/curtailment costs, when applicable. The accounting for pensions involves the estimation of a number of factors that are highly uncertain. Certain factors, such as the interest on projected benefit obligations and the expected return on plan assets, are impacted by changes in market interest rates and the value of plan assets. A significant decrease in market interest rates and a decrease in the fair value of plan assets would increase net pension expense and may adversely affect the company’s future results of operations.

See Note 12 to the Consolidated Financial Statements for further information on the company’s pension plans.

Failure to maintain effective distribution of products and services could adversely impact revenue, gross margin and profitability.

We use a variety of distribution methods to sell our products and services. Successfully managing the interaction of our distribution efforts to reach various potential customer segments for our products and services is a complex process. Moreover, since each distribution method has distinct risks, costs and gross margins, our failure to implement the most advantageous balance in the delivery model for our products and services could adversely affect our revenue and gross margins and therefore our profitability.

Risks associated with the disruption of manufacturing operations could adversely affect profitability or competitive position.

We manufacture a significant portion of the products we sell. Any prolonged disruption in the operations of our existing manufacturing facilities, whether due to technical or labor difficulties, facility consolidation or closure actions, lack of raw material or component availability, destruction of or damage to any facility (as a result of natural disasters, weather events, use and storage of hazardous materials, acts of war, sabotage or terrorism, or other events), or other reasons, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The inability to continue to introduce new products that respond to customer needs and achieve market acceptance could result in lower revenues and reduced profitability.
Sales from new products represent a significant portion of our net sales and are expected to continue to represent a significant component of our future net sales. We may not be able to compete effectively unless we continue to enhance existing products or introduce new products to the marketplace in a timely manner. Product improvements and new product introductions require significant financial and other resources, including significant planning, design, development, and testing at the technological, product and manufacturing process levels. Our competitors' new products may beat our products to market, be more effective with more features, be less expensive than our products, and/or render our products obsolete. Any new products that we develop may not receive market acceptance or otherwise generate any meaningful net sales or profits for us relative to our expectations based on, among other things, existing and anticipated investments in manufacturing capacity and commitments to fund advertising, marketing, promotional programs and research and development.

The global tool, equipment, and diagnostics and repair information industries are competitive.
We face strong competition in all of our market segments. Price competition in our various industries is intense and pricing pressures from competitors and customers are increasing. In general, as a manufacturer and marketer of premium products and services, the expectations of Snap-on's customers and its franchisees are high and continue to increase. Any inability to maintain customer satisfaction could diminish Snap-on's premium image and reputation and could result in a lessening of our ability to command premium pricing. We expect that the level of competition will remain high in the future, which could limit our ability to maintain or increase market share or profitability.
Product liability claims and litigation could affect our business, reputation, financial condition, results of operations and cash flows.
The products that we design and/or manufacture, and/or the services we provide, can lead to product liability claims or other legal claims being filed against us. To the extent that plaintiffs are successful in showing that a defect in a product's design, manufacture or warnings led to personal injury or property damage, or that our provision of services resulted in similar injury or damage, we may be subject to claims for damages. Although we are insured for damages above a certain amount, we bear the costs and expenses associated with defending claims, including frivolous lawsuits, and are responsible for damages up to the insurance retention amount. In addition to claims concerning individual products, as a manufacturer, we can be subject to costs, potential negative publicity and lawsuits related to product recalls, which could adversely impact our results of operations and damage our reputation.
Legal disputes could adversely affect our business, reputation, financial condition, results of operations and cash flows.
From time to time we are subject to legal disputes that are being litigated and/or settled in the ordinary course of business. Disputes or future lawsuits could result in the diversion of management's time and attention away from business operations. Additionally, negative developments with respect to legal disputes and the costs incurred in defending ourselves, even if successful, could have an adverse impact on the company and its reputation. Successful outcomes, at trial or on appeal, can never be assured. Adverse outcomes or settlements could also require us to pay damages, potentially in excess of amounts reserved, or incur liability for other remedies that could have a material adverse effect on our business, reputation, financial condition, results of operations and cash flows.
Failure to adequately protect intellectual property, or claims of infringement, could adversely affect our business, reputation, financial condition, results of operations and cash flows.
Intellectual property rights are an important and integral component of our business and failure to obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business. We attempt to protect our intellectual property rights through a combination of patent, trademark, copyright and trade secret laws, as well as licensing agreements and third-party nondisclosure and assignment agreements. In addition, we have been, and in the future may be, subject to claims of intellectual property infringement against us by third parties; whether or not these claims have merit, we could be required to expend significant resources in defense of those claims. Adverse determinations in a judicial or administrative proceeding could prevent us from

manufacturing and selling our products, prevent us from stopping others from manufacturing and selling competing products, and/or result in payments for damages. In the event of an infringement claim, we may also be required to spend significant resources to develop alternatives or obtain licenses which may not be available on reasonable terms or at all, and may reduce our sales and disrupt our production. Failure to obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business.

Foreign operations are subject to political, economic, currency exchange and other risks that could adversely affect our business, financial condition, results of operations and cash flows.

Approximately 33% of our revenues in 2018 were generated outside of the United States. Future growth rates and success of our business depends in large part on continued growth in our non-U.S. operations, including growth in emerging markets and critical industries. Numerous risks and uncertainties affect our non-U.S. operations. These risks and uncertainties include political, economic and social instability, such as acts of war, civil disturbance or acts of terrorism, local labor conditions, changes in government policies and regulations, including imposition or increases in withholding and other taxes on remittances and other payments by international subsidiaries, as well as the exposure to liabilities under anti-corruption laws in various countries, such as the U.S. Foreign Corrupt Practices Act, currency volatility, transportation delays or interruptions, sovereign debt uncertainties and difficulties in enforcement of contract and intellectual property rights, as well as natural disasters. Should the economic environment in our non-U.S. markets deteriorate from current levels, our results of operations and financial position could be materially impacted, including as a result of the effects of potential impairment write-downs of goodwill and/or other intangible assets related to these businesses.

The reporting currency for Snap-on's consolidated financial statements is the U.S. dollar. Certain of the company's assets, liabilities, expenses and revenues are denominated in currencies other than the U.S. dollar. In preparing Snap-on's Consolidated Financial Statements, those assets, liabilities, expenses and revenues are translated into U.S. dollars at applicable exchange rates. Increases or decreases in exchange rates between the U.S. dollar and other currencies affect the U.S. dollar value of those items, as reflected in the Consolidated Financial Statements. Substantial fluctuations in the value of the U.S. dollar could have a significant impact on the company's financial condition and results of operations.

We are also affected by changes in inflation rates and interest rates. Additionally, cash generated in certain non-U.S. jurisdictions may be difficult to repatriate to the United States in a tax-efficient manner. Our foreign operations are also subject to other risks and challenges, such as the need to staff and manage diverse workforces, respond to the needs of multiple national and international marketplaces, and differing business climates and cultures in various countries.

We may not successfully integrate businesses we acquire, which could have an adverse impact on our business, financial condition, results of operations and cash flows.

The pursuit of growth through acquisitions, including participation in joint ventures, involves significant risks that could have a material adverse effect on our business, financial condition, results of operations and cash flows. These risks include:

- Loss of the acquired businesses' customers;
- Inability to integrate successfully the acquired businesses' operations;
- Inability to coordinate management and integrate and retain employees of the acquired businesses;
- Unforeseen or contingent liabilities of the acquired businesses;
- Large write-offs or write-downs, or the impairment of goodwill or other intangible assets;
- Difficulties in implementing and maintaining consistent standards, controls, procedures, policies and information systems;
- Failure to realize anticipated synergies, economies of scale or other anticipated benefits, or to maintain operating margins;
- Strain on our personnel, systems and resources, and diversion of attention from other priorities;
- Incurrence of additional debt and related interest expense; and
- The dilutive effect in the event of the issuance of additional equity securities.

The recognition of impairment charges on goodwill or other intangible assets would adversely impact our future financial condition and results of operations.

We have a substantial amount of goodwill and purchased intangible assets, almost all of which are booked in the Commercial & Industrial Group and in the Repair Systems & Information Group. We are required to perform impairment tests on our goodwill and other intangibles annually or at any time when events occur that could impact the value of our business segments. Our determination of whether impairment has occurred is based on a comparison of each of our reporting units' fair market value with its carrying value.

Significant and unanticipated changes in circumstances, such as significant and long-term adverse changes in business climate, adverse actions by regulators, unanticipated competition, the loss of key customers, and/or changes in technology or markets, could require a provision for impairment in a future period that could substantially impact our reported earnings and reduce our consolidated net worth and shareholders' equity. Should the economic environment in these markets deteriorate, our results of operations and financial position could be materially impacted, including as a result of the effects of potential impairment write-downs of goodwill and/or other intangible assets related to these businesses.

Our operations expose us to the risk of environmental liabilities, costs, litigation and violations that could adversely affect our financial condition, results of operations and reputation.

Certain of our operations are subject to environmental laws and regulations in the jurisdictions in which they operate, which impose limitations on the discharge of pollutants into the ground, air and water and establish standards for the generation, treatment, use, storage and disposal of hazardous wastes. We must also comply with various health and safety regulations in the United States and abroad in connection with our operations. Failure to comply with any of these laws could result in civil and criminal, monetary and non-monetary penalties and damage to our reputation. In addition, we may incur costs related to remedial efforts or alleged environmental damage associated with past or current waste disposal practices. We cannot provide assurance that our costs of complying with current or future environmental protection and health and safety laws will not exceed our estimates.

The inability to successfully defend claims from taxing authorities could adversely affect our financial condition, results of operations and cash flows.

We conduct business in many countries, which requires us to interpret the income tax laws and rulings in each of those taxing jurisdictions. Due to the subjectivity of tax laws between those jurisdictions, as well as the subjectivity of factual interpretations, our estimates of income tax liabilities may differ from actual payments or assessments. Claims from taxing authorities related to these differences could have an adverse impact on our financial condition, results of operations and cash flows.

Failure to attract and retain qualified personnel could lead to a loss of revenue and/or profitability.

Snap-on's success depends, in part, on the efforts and abilities of its senior management team and other key employees. Their skills, experience and industry contacts significantly benefit our operations and administration. The failure to attract and retain members of our senior management team and other key employees could have a negative effect on our operating results. In addition, transitions of important responsibilities to new individuals inherently include the possibility of disruptions to our business and operations, which could negatively affect our business, financial condition, results of operations and cash flows.

The steps taken to restructure operations, rationalize operating footprint, lower operating expenses and achieve greater efficiencies in the supply chain could disrupt business.

We have taken steps in the past, and expect to take additional steps in the future, intended to improve customer service and drive further efficiencies and reduce costs, some of which could be disruptive to our business. These actions, collectively across our operating groups, are focused on the following:

- Continuing to invest in initiatives focused on building a strong sales and operating presence in emerging growth markets;
- Continuing to enhance service and value to our franchisees and customers;
- Continuing to implement efficiency and productivity initiatives throughout the company to drive further efficiencies and reduce costs;
- Continuing on the company's existing path to improve and transform global manufacturing and the supply chain into a market-demand-based replenishment system with lower costs;
- Continuing to invest in developing and marketing new, innovative, higher-value-added products and advanced technologies;
- Extending our products and services into additional and/or adjacent markets or to new customers; and
- Continuing to provide financing for, and grow our portfolio of, receivables within our financial services businesses.

A failure to succeed in the implementation of any or all of these actions could result in an inability to achieve our financial goals and could be disruptive to the business.

In addition, any future reductions to headcount and other cost reduction measures may result in the loss of technical expertise and could adversely affect our research and development efforts as well as our ability to meet product development schedules. Efforts to reduce components of expense could result in the recording of charges for inventory and technology-related write-offs, workforce reduction costs or other charges relating to the consolidation or closure of facilities. If we were to incur a substantial charge to further these efforts, our earnings per share would be adversely affected in such period. If we are unable to effectively manage our cost reduction and restructuring efforts, our business, financial condition, results of operations and cash flows could be negatively affected.

Item 1B: Unresolved Staff Comments

None.

Item 2: Properties

Snap-on maintains leased and owned manufacturing, software development, warehouse, distribution, research and development and office facilities throughout the world. Snap-on believes that its facilities currently in use are suitable and have adequate capacity to meet its present and foreseeable future demand. Snap-on's facilities in the United States occupy approximately 3.5 million square feet, of which 71% is owned, including its corporate and general office facility located in Kenosha, Wisconsin. Snap-on's facilities outside the United States occupy approximately 4.6 million square feet, of which approximately 72% is owned. Certain Snap-on facilities are leased through operating and capital lease agreements. See Note 16 to the Consolidated Financial Statements for information on the company's operating and capital leases. Snap-on management continually monitors the company's capacity needs and makes adjustments as dictated by market and other conditions.

The following table provides information about our corporate headquarters and financial services operations, and each of Snap-on's principal active manufacturing locations, distribution centers and software development locations (exceeding 50,000 square feet) as of 2018 year end:

Location	Principal Property Use	Owned/Leased	Segment*
U.S. Locations:			
Elkmont, Alabama	Manufacturing	Owned	SOT
Conway, Arkansas	Manufacturing and distribution	Owned	RS&I
City of Industry, California	Manufacturing	Leased	C&I
Poway, California	Software development	Leased	RS&I
San Jose, California	Software development	Leased	RS&I
Columbus, Georgia	Distribution	Owned	C&I
Crystal Lake, Illinois	Distribution	Owned and leased	SOT
Libertyville, Illinois	Financial services	Leased	FS
Algona, Iowa	Manufacturing and distribution	Owned and leased	SOT
Louisville, Kentucky	Manufacturing and distribution	Leased	RS&I
Olive Branch, Mississippi	Distribution	Owned	SOT
Carson City, Nevada	Distribution	Owned and leased	SOT
Murphy, North Carolina	Manufacturing and distribution	Owned	C&I
Richfield, Ohio	Software development	Owned	RS&I
Robesonia, Pennsylvania	Distribution	Owned	SOT
Elizabethton, Tennessee	Manufacturing	Owned	SOT
Kenosha, Wisconsin	Distribution and corporate	Owned	SOT, C&I, RS&I
Milwaukee, Wisconsin	Manufacturing	Owned	SOT
Non-U.S. Locations:			
Santo Tome, Argentina	Manufacturing	Owned	C&I
New South Wales, Australia	Distribution and financial services	Leased	SOT, FS
Minsk, Belarus	Manufacturing	Owned	C&I
Santa Bárbara d'Oeste, Brazil	Manufacturing and distribution	Owned	RS&I
Calgary, Canada	Distribution	Leased	SOT
Mississauga, Canada	Distribution	Leased	SOT, RS&I
Beijing, China	Manufacturing and distribution	Leased	C&I
Kunshan, China	Manufacturing	Owned	C&I
Xiaoshan, China	Manufacturing	Owned	C&I
Banbury, England	Manufacturing and distribution	Owned	C&I
Bramley, England	Manufacturing	Owned	C&I
Kettering, England	Distribution and financial services	Owned and leased	SOT, C&I, FS
Sopron, Hungary	Manufacturing	Owned	RS&I
Correggio, Italy	Manufacturing	Owned	RS&I
Tokyo, Japan	Distribution	Leased	C&I
Helmond, Netherlands	Distribution	Owned	C&I
Vila do Conde, Portugal	Manufacturing	Owned	C&I
Irun, Spain	Manufacturing	Owned	C&I
Placencia, Spain	Manufacturing	Owned	C&I
Vitoria, Spain	Manufacturing and distribution	Owned	C&I
Bollnäs, Sweden	Manufacturing	Owned	C&I
Edsbyn, Sweden	Manufacturing	Owned	C&I

Kungsör, Sweden	Manufacturing and distribution	Owned	RS&I
Lidköping, Sweden	Manufacturing	Owned	C&I

* Segment abbreviations:

C&I – Commercial & Industrial Group
SOT – Snap-on Tools Group
RS&I – Repair Systems & Information Group
FS – Financial Services

Item 3: Legal Proceedings

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 these legal matters will not have a material impact on Snap-on's consolidated financial position, results of operations or cash flows.

Item 4: Mine Safety Disclosures

Not applicable.

PART II

Item 5: Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Snap-on had 55,610,781 shares of common stock outstanding as of 2018 year end. Snap-on's stock is listed on the New York Stock Exchange under the ticker symbol "SNA." At February 8, 2019, there were 4,704 registered holders of Snap-on common stock.

Issuer Purchases of Equity Securities

The following chart discloses information regarding the shares of Snap-on's common stock repurchased by the company during the fourth quarter of fiscal 2018, all of which were purchased pursuant to the Board's authorizations that the company has publicly announced. Snap-on has undertaken stock repurchases from time to time to offset dilution created by shares issued for employee and franchisee stock purchase plans, and equity plans, and for other corporate purposes, as well as when the company believes market conditions are favorable. The repurchase of Snap-on common stock is at the company's discretion, subject to prevailing financial and market conditions.

Period	Shares purchased	Average price per share	Shares purchased as part of publicly announced plans or programs	Approximate value of shares that may yet be purchased under publicly announced plans or programs*
09/30/18 to 10/27/18	90,000	$149.28	90,000	$292.4 million
10/28/18 to 11/24/18	335,000	$159.35	335,000	$239.1 million
11/25/18 to 12/29/18	205,000	$160.20	205,000	$215.7 million
Total/Average	630,000	$158.19	630,000	N/A

N/A: Not applicable

* Subject to further adjustment pursuant to the 1996 Authorization described below, as of December 29, 2018, the approximate value of shares that may yet be purchased pursuant to the outstanding Board authorizations discussed below is $215.7 million.

- In 1996, the Board authorized the company to repurchase shares of the company's common stock from time to time in the open market or in privately negotiated transactions ("the 1996 Authorization"). The 1996 Authorization allows the repurchase of up to the number of shares issued or delivered from treasury from time to time under the various plans the company has in place that call for the issuance of the company's common stock. Because the number of shares that are purchased pursuant to the 1996 Authorization will change from time to time as (i) the company issues shares under its various plans; and (ii) shares are repurchased pursuant to this authorization, the number of shares authorized to be repurchased will vary from time to time. The 1996 Authorization will expire when terminated by the Board. When calculating the approximate value of shares that the company may yet purchase under the 1996 Authorization, the company assumed a price of $148.71, $161.00 and $144.25 per share of common stock as of the end of the fiscal 2018 months ended October 27, 2018, November 24, 2018, and December 29, 2018, respectively.

In 2017, the Board authorized the repurchase of an aggregate of up to $500 million of the company’s common stock (“the 2017 Authorization”). The 2017 Authorization will expire when the aggregate repurchase price limit is met, unless terminated earlier by the Board.

Other Purchases or Sales of Equity Securities

The following chart discloses information regarding transactions in shares of Snap-on’s common stock by Citibank, N.A. (“Citibank”) during the fourth quarter of 2018 pursuant to a prepaid equity forward agreement (the “Agreement”) with Citibank that is intended to reduce the impact of market risk associated with the stock-based portion of the company’s deferred compensation plans. The company’s stock-based deferred compensation liabilities, which are impacted by changes in the company’s stock price, increase as the company’s stock price rises and decrease as the company’s stock price declines. Pursuant to the Agreement, Citibank may purchase or sell shares of the company’s common stock (for Citibank’s account) in the market or in privately negotiated transactions. The Agreement has no stated expiration date and does not provide for Snap-on to purchase or repurchase its shares.

Citibank Purchases of Snap-on Stock

Period	Shares purchased	Average price per share
09/30/18 to 10/27/18	2,800	$149.19
10/28/18 to 11/24/18	—	—
11/25/18 to 12/29/18	1,000	$152.45
Total/Average	3,800	$150.05

Five-year Stock Performance Graph

The graph below illustrates the cumulative total shareholder return on Snap-on common stock since December 31, 2013, of a $100 investment, assuming that dividends were reinvested quarterly. The graph compares Snap-on's performance to that of the Standard & Poor's 500 Industrials Index ("S&P 500 Industrials") and Standard & Poor's 500 Stock Index ("S&P 500").

Fiscal Year Ended (1)	Snap-on Incorporated	S&P 500 Industrials	S&P 500
December 31, 2013	$100.00	$100.00	$100.00
December 31, 2014	126.77	109.83	113.69
December 31, 2015	161.15	107.04	115.26
December 31, 2016	163.63	127.23	129.05
December 31, 2017	169.61	153.99	157.22
December 31, 2018	144.41	133.53	150.33

(1) The company's fiscal year ends on the Saturday that is on or nearest to December 31 of each year; for ease of calculation, the fiscal year end is assumed to be December 31.

Item 6: Selected Financial Data

The selected financial data presented below has been derived from, and should be read in conjunction with, the respective historical consolidated financial statements of the company, including the notes thereto, and "Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations."

Impact of Accounting Standards Update ("ASU") No. 2017-07

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

Five-year Data					
(Amounts in millions, except per share data)	2018	2017	2016	2015	2014
Results of Operations					
Net sales	$3,740.7	$3,686.9	$3,430.4	$3,352.8	$3,277.7
Gross profit	1,870.0	1,825.9	1,710.4	1,649.3	1,585.3
Operating expenses	1,144.0	1,161.3	1,048.0	1,041.3	1,042.3
Operating earnings before financial services	726.0	664.6	662.4	608.0	543.0
Financial services revenue	329.7	313.4	281.4	240.3	214.9
Financial services expenses	99.6	95.9	82.7	70.1	65.8
Operating earnings from financial services	230.1	217.5	198.7	170.2	149.1
Operating earnings	956.1	882.1	861.1	778.2	692.1
Interest expense	50.4	52.4	52.2	51.9	52.9
Earnings before income taxes and equity earnings	909.9	821.9	801.4	710.5	630.9
Income tax expense	214.4	250.9	244.3	221.2	199.5
Earnings before equity earnings	695.5	571.0	557.1	489.3	431.4
Equity earnings, net of tax	0.7	1.2	2.5	1.3	0.7
Net earnings	696.2	572.2	559.6	490.6	432.1
Net earnings attributable to noncontrolling interests	(16.3)	(14.5)	(13.2)	(11.9)	(10.2)
Net earnings attributable to Snap-on	679.9	557.7	546.4	478.7	421.9
Financial Position					
Cash and cash equivalents	$140.9	$92.0	$77.6	$92.8	$132.9
Trade and other accounts receivable – net	692.6	675.6	598.8	562.5	550.8
Finance receivables – net (current)	518.5	505.4	472.5	447.3	402.4
Contract receivables – net (current)	98.3	96.8	88.1	82.1	74.5
Inventories – net	673.8	638.8	530.5	497.8	475.5
Property and equipment – net	495.1	484.4	425.2	413.5	404.5
Long-term finance receivables – net	1,074.4	1,039.2	934.5	772.7	650.5
Long-term contract receivables – net	344.9	322.6	286.7	266.6	242.0
Total assets	5,373.1	5,249.1	4,723.2	4,331.1	4,162.0
Notes payable and current maturities of long-term debt	186.3	433.2	301.4	18.4	56.6
Accounts payable	201.1	178.2	170.9	148.3	145.0
Long-term debt	946.0	753.6	708.8	861.7	862.7
Total debt	1,132.3	1,186.8	1,010.2	880.1	919.3
Total shareholders’ equity attributable to Snap-on	3,098.8	2,953.9	2,617.2	2,412.7	2,207.8
Common Share Summary					
Weighted-average shares outstanding – diluted	57.3	58.6	59.4	59.1	59.1
Net earnings per share attributable to Snap-on:					
Basic	$12.08	$9.72	$9.40	$8.24	$7.26
Diluted	11.87	9.52	9.20	8.10	7.14
Cash dividends paid per share	3.41	2.95	2.54	2.20	1.85
Shareholders’ equity per basic share	55.04	51.46	45.05	41.53	38.00

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations
Management Overview
References in this Management's Discussion and Analysis of Financial Condition and Results of Operations to "organic sales" refer to sales from continuing operations calculated in accordance with generally accepted accounting principles in the United States of America ("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.
We believe our 2018 operating results demonstrate our commitment in providing repeatability and reliability to a wide range of professional customers performing critical tasks in workplaces of consequence. Leveraging capabilities already demonstrated in the automotive repair arena, our "coherent growth" strategy focuses on developing and expanding our professional customer base, not only in automotive repair, but in adjacent markets, additional geographies and other areas, including in critical industries, where the cost and penalties for failure can be high. Snap-on's value proposition of making work easier for serious professionals in workplaces of consequence is an ongoing strength as we move forward along our runways for coherent growth:

- Enhancing the franchise network, where we continued to focus on helping our franchisees extend their reach through innovative selling processes and productivity initiatives that break the traditional time and space barriers inherent in a mobile van;
- Expanding in the vehicle repair garage, where we continued to make progress in connecting with customers and translating the resulting insights into innovation that solves specific challenges in the repair facility;
- Further extending in critical industries, where we continued to grow our lines of products customized for specific industries, including through acquisitions; and
- Building in emerging markets, where we continued to build manufacturing capacity, focused product lines and distribution capability.

Our strategic priorities and plans for 2019 will continue to build on our Snap-on Value Creation Processes – our suite of strategic principles and processes we employ every day designed to create value, and employed in the areas of safety, quality, customer connection, innovation and rapid continuous improvement ("Rapid Continuous Improvement" or "RCI"). We expect to continue to deploy these processes in our existing operations as well as into our recently acquired businesses.
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 consolidations. 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.

Our global financial services operations continue to serve a significant strategic role in offering financing options to our franchisees, to their customers, and to customers in other parts of our business. We expect that our global financial services business, which includes both Snap-on Credit LLC (“SOC”) in the United States and our other international finance subsidiaries, will continue to be a meaningful contributor to our operating earnings going forward.

Snap-on has significant international operations and is subject to risks inherent with foreign operations, including foreign currency translation fluctuations.

Recent Acquisitions

On January 31, 2018, Snap-on acquired substantially all of the assets of George A. Sturdevant, Inc. (d/b/a Fastorq) for a cash purchase price of $3.0 million. Fastorq, based in New Caney, Texas, designs, assembles and distributes hydraulic torque and hydraulic tensioning products for use in critical industries. The acquisition of the Fastorq product line complemented and increased Snap-on’s existing torque product offering and broadened its established capabilities in serving in critical industries. For segment reporting purposes, the results of operations and assets of Fastorq have been included in the Commercial & Industrial Group since the acquisition date.

On July 28, 2017, Snap-on acquired Torque Control Specialists Pty Ltd (“TCS”) for a cash purchase price of $3.6 million (or $3.5 million, net of cash acquired). TCS, based in Adelaide, Australia, distributes a full range of torque products, including wrenches, multipliers and calibrators, for use in critical industries. The acquisition of TCS enhanced and expanded Snap-on’s capabilities in providing solutions that address torque requirements, which are increasingly essential to critical mechanical performance. For segment reporting purposes, the results of operations and assets of TCS have been included in the Commercial & Industrial Group since the acquisition date.

On May 4, 2017, Snap-on acquired Norbar Torque Tools Holdings Limited, along with its U.S. and Chinese joint ventures (“Norbar”), for a cash purchase price of $71.6 million (or $69.9 million, net of cash acquired). Norbar, based in Banbury, U.K., designs and manufactures a full range of torque products, including wrenches, multipliers and calibrators, for use in critical industries. The acquisition of Norbar enhanced and expanded Snap-on’s capabilities in providing solutions that address torque requirements. For segment reporting purposes, the results of operations and assets of Norbar have been included in the Commercial & Industrial Group since the acquisition date.

On January 30, 2017, Snap-on acquired BTC Global Limited (“BTC”) for a cash purchase price of $9.2 million. BTC, based in Crewe, U.K., designs and implements automotive vehicle inspection and management software for original equipment manufacturer (“OEM”) franchise repair shops. The acquisition of BTC enhanced Snap-on’s capabilities to grow enterprise revenues and add increased productivity for repair workshops. For segment reporting purposes, the results of operations and assets of BTC have been included in the Repair Systems & Information Group since the acquisition date.

On November 16, 2016, Snap-on acquired Ryeson Corporation (d/b/a Sturtevant Richmont) for a cash purchase price of $13.0 million (or $12.6 million, net of cash acquired). Sturtevant Richmont, based in Carol Stream, Illinois, designs, manufactures and distributes mechanical and electronic torque wrenches as well as wireless torque error proofing systems for a variety of industrial applications. The acquisition of Sturtevant Richmont enhanced and expanded Snap-on’s capabilities in providing solutions that address torque requirements. For segment reporting purposes, the results of operations and assets of Sturtevant Richmont have been included in the Commercial & Industrial Group since the acquisition date.

On October 31, 2016, Snap-on acquired Car-O-Liner Holding AB (“Car-O-Liner”) for a cash purchase price of $152.0 million (or $148.1 million, net of cash acquired). Car-O-Liner, based in Gothenburg, Sweden, designs and manufactures collision repair equipment, and information and truck alignment systems. The acquisition of Car-O-Liner complemented and increased Snap-on’s existing equipment and repair and service information product offerings, broadened its established capabilities in serving vehicle repair facilities and further expanded the company’s presence with repair shop owners and managers. For segment reporting purposes, substantially all of Car-O-Liner’s results of operations and assets have been included in the Repair Systems & Information Group since the acquisition date, with the remaining portions included in the Commercial & Industrial Group.

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

Impact of Accounting Standards Update No. 2017-07

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

Management's
Discussion
and
Analysis
of
Financial
Condition
and
Results
of
Operations
(continued)

Summary of Consolidated Performance

Consolidated net sales of $3,740.7 million in 2018 increased $53.8 million, or 1.5%, from 2017 levels, reflecting a $19.3 million, or 0.5%, increase in organic sales (a non-GAAP financial measure that excludes acquisition-related sales and the impact of foreign currency translation), $24.2 million of acquisition-related sales and $10.3 million of favorable foreign currency translation.
Operating earnings before financial services of $726.0 million in 2018, including $4.4 million of favorable foreign currency effects, increased $61.4 million, or 9.2%, as compared to $664.6 million last year. Fiscal 2018 results included a $4.3 million benefit related to a settlement in an employment-related litigation matter that was being appealed (the "legal settlement"). Fiscal 2017 results included $45.9 million of charges related to the judgment that was the subject of the legal settlement and a judgment in a patent-related litigation matter that is being appealed (collectively the "legal charges"). The company can provide no assurance as to the result of the appeal. As a percentage of net sales, operating earnings before financial services of 19.4% in 2018 compared to 18.0% last year.
Operating earnings of $956.1 million in 2018, including the $4.3 million benefit for the legal settlement and $4.7 million of favorable foreign currency effects, increased $74.0 million, or 8.4% from $882.1 million last year. In 2017, operating earnings included $45.9 million of expense for the legal charges. As a percentage of revenues, operating earnings of 23.5% compared to 22.1% last year.
In 2018, net earnings attributable to Snap-on were $679.9 million, or $11.87 per diluted share, increased $122.2 million, or $2.35 per diluted share, from $557.7 million, or $9.52 per diluted share, in 2017. In 2018, net earnings attributable to Snap-on included a $4.1 million, or $0.07 per diluted share, benefit from an after-tax net gain of $4.1 million associated with a treasury lock settlement of $10.0 million related to the issuance of debt, partially offset by $5.9 million of expense related to the early extinguishment of debt (collectively, the "net debt items"), as well as $3.2 million, or $0.06 per diluted share, for the after-tax benefit related to the legal settlement, partially offset by $3.9 million, or $0.07 per diluted share, of tax expense for newly issued guidance associated with the U.S. Tax Cuts and Jobs Act (the "Tax Act") or ("tax charge"). Net earnings attributable to Snap-on in 2017 included $28.4 million, or $0.48 per diluted share, for the after-tax expense related to the legal charges, and $7.0 million, or $0.12 per diluted share, of tax expense as a result of the implementation of the Tax Act.
Impact of the Tax Act
On December 22, 2017, the U.S. government passed the Tax Act. The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to: (i) reducing the future U.S. federal corporate tax rate from 35 percent to 21 percent; (ii) requiring companies to pay a one-time transition tax on certain unremitted earnings of foreign subsidiaries; and (iii) bonus depreciation that will allow for full expensing of qualified property.
The Tax Act also established new tax laws that affected 2018, including, but not limited to: (i) the reduction of the U.S. federal corporate tax rate discussed above; (ii) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (iii) a new provision designed to tax global intangible low-taxed income ("GILTI"); (iv) the repeal of the domestic production activity deductions; (v) limitations on the deductibility of certain executive compensation; (vi) limitations on the use of foreign tax credits to reduce the U.S. income tax liability; and (vii) a new

provision that allows a domestic corporation an immediate deduction for a portion of its foreign derived intangible income ("FDII").

The Securities and Exchange Commission staff issued Staff Accounting Bulletin ("SAB") 118, which provides guidance on accounting for the tax effects of the Tax Act, for the company's year ended December 30, 2017. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the related accounting under Accounting Standards Codification ("ASC") 740, Accounting for Income Taxes. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for a certain income tax effect of the Tax Act is incomplete, but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

The company's accounting for certain elements of the Tax Act was incomplete as of December 30, 2017. However, the company was able to make reasonable estimates of the effects and, therefore, recorded provisional estimates for these items. In connection with its initial analysis of the impact of the Tax Act, the company recorded a provisional discrete net tax expense of $7.0 million in the fiscal year ended December 29, 2017. This provisional estimate consists of a net expense of $13.7 million for the one-time transition tax and a net benefit of $6.7 million related to revaluation of deferred tax assets and liabilities, caused by the new lower corporate tax rate. To determine the transition tax, the company must determine the amount of post-1986 accumulated earnings and profits of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. While the company was able to make a reasonable estimate of the transition tax for 2017, it continued to gather additional information to more precisely compute the final amount reported on its 2017 U.S. federal tax return which was filed in October 2018. The actual transition tax reported was $8.3 million greater than the company's initial estimate and was included in income tax expense for 2018. Likewise, while the company was able to make a reasonable estimate of the impact of the reduction to the corporate tax rate, it was affected by other analyses related to the Tax Act, including, but not limited to, the state tax effect of adjustments made to federal temporary differences. During 2018, the company recorded additional net tax benefits of $4.4 million attributable to pension contributions made in 2018 that were deductible for 2017 at the higher 35% federal tax rate and other changes to the 2017 tax provision related to the Tax Act and subsequently issued tax guidance. Due to the complexity of the new GILTI tax rules, the company continued to evaluate this provision of the Tax Act and the application of ASC 740 throughout 2018. Under GAAP, the company is allowed to make an accounting policy choice to either: (i) treat taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method"); or (ii) factor in such amounts into a company's measurement of its deferred taxes (the "deferred method"). The company selected to apply the "period cost method" to account for the new GILTI tax, and treated it as a current-period expense for 2018. The company will continue to analyze the full effects of the Tax Act on its financial statements in 2019 as additional guidance is issued and interpretations evolve.

Summary of Segment Performance

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. Segment net sales of $1,343.3 million in 2018 increased $78.3 million, or 6.2%, from 2017 levels, reflecting a $52.1 million, or 4.1%, organic sales gain, $23.5 million of acquisition-related sales and $2.7 million of favorable foreign currency translation. The organic sales increase includes higher sales to customers in critical industries, in the Asia Pacific operations, in power tools operations and in the European-based hand tools business. Operating earnings of $199.3 million in 2018, increased $12.8 million, or 6.9%, from 2017 levels, primarily due to increased organic sales volume and acquisitions, partially offset by $2.5 million of unfavorable foreign currency effects.

The Commercial & Industrial Group intends to continue building on the following strategic priorities in 2019:

- Continuing to invest in emerging market growth initiatives;
- Expanding our business with existing customers and reaching new customers in critical industries and other market segments;
- Broadening our product offering designed particularly for critical industry segments;
- Increasing our customer-connection-driven understanding of work across multiple industries;
- Investing in innovation that, guided by that understanding of work, delivers an ongoing stream of productivity-enhancing custom engineered solutions; and
- Continuing to reduce structural and operating costs, as well as improve efficiencies, through RCI initiatives.

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. Segment net sales of $1,613.8 million in 2018 decreased $11.3 million, or 0.7%, from 2017 levels, reflecting a $15.6 million, or 1.0%, organic sales decrease, partially offset by $4.3 million of favorable foreign currency translation. The organic sales decrease includes a decline in the company's international franchise operations while sales in the U.S. franchise operations were essentially flat. Operating earnings of $264.2 million in 2018 decreased $10.5 million, or 3.8%, from 2017 levels primarily due to the impact of lower sales volumes and higher costs, partially offset by $7.7 million of favorable foreign currency effects and benefits from the company's RCI initiatives.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Despite the sales challenges in 2018, the Snap-on Tools Group remained focused on its fundamental, strategic initiatives to strengthen the franchise network and enhance franchisee profitability. In 2019, the Snap-on Tools Group intends to continue these initiatives, with specific focus on the following:

- Continuing to improve franchisee satisfaction, productivity, profitability and commercial health;
- Developing new programs and products to expand market coverage, reaching new technician customers and increasing penetration with existing customers;
- Increasing investment in new product innovation and development; and
- Increasing customer service levels and productivity in back office support functions, manufacturing and the supply chain through RCI initiatives and investment.

By focusing on these areas, we believe that Snap-on, as well as its franchisees, will have the opportunity to continue to serve customers more effectively, more profitably and with improved satisfaction.

The Repair Systems & Information Group consists of business operations serving other professional vehicle repair customers worldwide, primarily owners and managers of independent repair shops and OEM dealerships through direct and distributor channels. Segment net sales of $1,334.4 million in 2018 decreased $12.8 million, or 1.0%, from 2017 levels, reflecting a $19.6 million, or 1.4%, organic sales decline, partially offset by $0.7 million of acquisition-related sales and $6.1 million of favorable foreign currency translation. The organic sales decrease primarily reflects lower sales to OEM dealerships and in sales of undercar equipment, partially offset by increased sales of diagnostic and repair information products to independent repair shop owners and managers. Operating earnings of $342.6 million in 2018 increased $7.3 million, or 2.2%, from 2017 levels, primarily due to benefits from the company's RCI initiatives, partially offset by $0.8 million of unfavorable foreign currency effects.

The Repair Systems & Information Group intends to focus on the following strategic priorities in 2019:

- Expanding the product offering with new products and services, thereby providing more to sell to repair shop owners and managers;
- Continuing software and hardware upgrades to further improve functionality, performance and efficiency;
- Leveraging integration of software solutions;
- Continuing productivity advancements through RCI initiatives and leveraging of resources; and
- Increasing penetration in geographic markets, including emerging markets.

Financial Services revenue was $329.7 million in 2018 and $313.4 million in 2017; originations of $1,057.5 million in 2018 decreased $14.5 million, or 1.4%, from 2017 levels. In 2018, operating earnings from financial services of $230.1 million, including $0.3 million of favorable foreign currency effects, increased $12.6 million, or 5.8%, from $217.5 million last year. In recent years, Snap-on has steadily grown its financial services portfolio by providing financing for new finance and contract receivables originated by our global financial services operations.

Financial Services intends to focus on the following strategic priorities in 2019:

- Delivering financial products and services that attract and sustain profitable franchisees and support Snap-on's strategies for expanding market coverage and penetration;
- Improving productivity levels and ensuring high quality in all financial products and processes through the use of RCI initiatives; and
- Maintaining healthy portfolio performance levels.

Cash Flows

Net cash provided by operating activities of $764.5 million in 2018 increased $156.0 million from $608.5 million in 2017. The $156.0 million increase is primarily due to $124.0 million of higher net earnings and $34.0 million from net changes in operating assets and liabilities. Net cash provided by operating activities was $576.1 million in 2016.

Net cash used by investing activities of $210.2 million in 2018 included additions to finance receivables of $865.6 million, partially offset by collections of $747.7 million, as well as $3.0 million for the acquisition of Fastorq. Net cash used by investing activities of $341.4 million in 2017 included additions to finance receivables of $892.0 million, partially offset by collections of $712.7 million, as well as a total of $82.9 million (net of $1.8 million of cash acquired) for the acquisitions of BTC, Norbar, and TCS, and working capital adjustments for the Car-O-Liner and Sturtevant Richmont acquisitions. Net cash used by investing activities of $473.4 million in 2016 included additions to finance receivables of $915.0 million, partially offset by collections of $671.7 million, as well as, on a preliminary basis, $160.4 million (net of $4.3 million of cash acquired) for the acquisitions of Car-O-Liner and Sturtevant Richmont. Capital expenditures in 2018, 2017 and 2016 totaled $90.9 million, $82.0 million and $74.3 million, respectively. Capital expenditures in all three years included investments to support the company's execution of its strategic growth initiatives and Value Creation Processes around safety, quality, customer connection, innovation and RCI.

Net cash used by financing activities of $502.2 million in 2018 included repayments of $250 million of the unsecured 4.25% notes, due January 16, 2018 (the "2018 Notes"), at maturity, and $200 million of the unsecured 6.70% notes that were scheduled to mature on March 1, 2019 (the "2019 Notes"), and a $7.8 million loss on early extinguishment of debt. These amounts were partially offset by Snap-on's sale, on February 20, 2018, of $400 million of unsecured 4.10% notes that mature on March 1, 2048 (the "2048 Notes") at a discount, from which Snap-on received $395.4 million of net proceeds, reflecting $3.5 million of transaction costs. Net cash used by financing activities in 2018 also included $284.1 million for the repurchase of 1,769,000 shares of Snap-on's common stock and $192.0 million for dividend payments to shareholders, partially offset by $55.5 million of proceeds from stock purchase and option plan exercises and $4.9 million of proceeds from a net increase in notes payable and other short-term borrowings. Net cash used by financing activities of $256.1 million in 2017 included the January 2017 repayment of $150 million of 5.5% unsecured notes upon maturity (the "2017 Notes"). These amounts were partially offset by Snap-on's sale, on February 15, 2017, of $300 million of unsecured 3.25% notes that mature on March 1, 2027 (the "2027 Notes") at a discount, from which Snap-on received $297.8 million of net proceeds, reflecting $1.9 million of transaction costs. Net cash used by financing activities in 2017 also included $287.9 million for the repurchase of 1,820,000 shares of Snap-on's common stock, and $169.4 million for dividend payments to shareholders, partially offset by $46.2 million of proceeds from stock purchase and option plan exercises and $30.6 million of proceeds from a net increase in notes payable and other short-term borrowings. Net cash used by financing activities of $116.0 million in 2016 included $147.5 million for dividend payments to shareholders and $120.4 million for the repurchase of 758,000 shares of Snap-on's common stock, partially offset by $134.2 million of proceeds from a net increase in notes payable and other short-term borrowings and $41.8 million of proceeds from stock purchase and option plan exercises.

Fiscal Year

Snap-on's fiscal year ends on the Saturday that is on or nearest to December 31. Unless otherwise indicated, references in this Management's Discussion and Analysis of Financial Condition and Results of Operations to "fiscal 2018" or "2018" refer to the fiscal year ended December 29, 2018; references to "fiscal 2017" or "2017" refer to the fiscal year ended December 30, 2017; and references to "fiscal 2016" or "2016" refer to the fiscal year ended December 31, 2016. References in this document to 2018, 2017 and 2016 year end refer to December 29, 2018, December 30, 2017, and December 31, 2016, respectively.

Snap-on's 2018, 2017 and 2016 fiscal years each contained 52 weeks of operating results.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Results of Operations
2018 vs. 2017
Results of operations for 2018 and 2017 are as follows:

(Amounts in millions)	2018		2017		Change	
Net sales	$3,740.7	100.0 %	$3,686.9	100.0 %	$53.8	1.5 %
Cost of goods sold	(1,870.7)	(50.0)%	(1,861.0)	(50.5)%	(9.7)	(0.5)%
Gross profit	1,870.0	50.0 %	1,825.9	49.5 %	44.1	2.4 %
Operating expenses	(1,144.0)	(30.6)%	(1,161.3)	(31.5)%	17.3	1.5 %
Operating earnings before financial services	726.0	19.4 %	664.6	18.0 %	61.4	9.2 %
Financial services revenue	329.7	100.0 %	313.4	100.0 %	16.3	5.2 %
Financial services expenses	(99.6)	(30.2)%	(95.9)	(30.6)%	(3.7)	(3.9)%
Operating earnings from financial services	230.1	69.8 %	217.5	69.4 %	12.6	5.8 %
Operating earnings	956.1	23.5 %	882.1	22.1 %	74.0	8.4 %
Interest expense	(50.4)	(1.2)%	(52.4)	(1.3)%	2.0	3.8 %
Other income (expense) – net	4.2	0.1 %	(7.8)	(0.3)%	12.0	NM
Earnings before income taxes and equity earnings	909.9	22.4 %	821.9	20.5 %	88.0	10.7 %
Income tax expense	(214.4)	(5.3)%	(250.9)	(6.2)%	36.5	14.5 %
Earnings before equity earnings	695.5	17.1 %	571.0	14.3 %	124.5	21.8 %
Equity earnings, net of tax	0.7	—	1.2	—	(0.5)	(41.7)%
Net earnings	696.2	17.1 %	572.2	14.3 %	124.0	21.7 %
Net earnings attributable to noncontrolling interests	(16.3)	(0.4)%	(14.5)	(0.4)%	(1.8)	(12.4)%
Net earnings attributable to Snap-on Inc.	$679.9	16.7 %	$557.7	13.9 %	$122.2	21.9 %

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 $3,740.7 million in 2018 increased $53.8 million, or 1.5%, from 2017 levels, reflecting a $19.3 million, or 0.5%, organic sales gain, $24.2 million of acquisition-related sales and $10.3 million of favorable foreign currency translation.

Gross profit of $1,870.0 million in 2018 compared to $1,825.9 million last year. Gross margin (gross profit as a percentage of net sales) of 50.0% in 2018 improved 50 basis points (100 basis points ("bps") equals 1.0 percent) from 49.5% last year primarily due to a shift in sales that included increased volumes of higher gross margin products and savings from the company's RCI initiatives, partially offset by higher material and other costs.

Operating expenses of $1,144.0 million in 2018, including a $4.3 million benefit for the legal settlement, compared to $1,161.3 million, including $45.9 million for the legal charges, in 2017. The operating expense margin (operating expenses as a percentage of net sales) of 30.6% in 2018 improved 90 bps from 31.5% last year primarily due to 130 bps for the legal charges that occurred in 2017 and 10 bps for the legal settlement, partially offset by 10 bps of operating expenses from acquisitions and higher costs.

Operating earnings before financial services of $726.0 million in 2018, including $4.4 million of favorable foreign currency effects, increased $61.4 million, or 9.2%, as compared to $664.6 million last year. Fiscal 2018 results included a $4.3 million benefit for the legal settlement. Fiscal 2017 results included $45.9 million for the legal charges. As a percentage of net sales, operating earnings before financial services, including the legal settlement, of 19.4% compared to 18.0% last year, which included the legal charges.

Financial services revenue of $329.7 million in 2018 compared to revenue of $313.4 million last year. Financial services operating earnings of $230.1 million, including $0.3 million of favorable foreign currency effects in 2018, increased $12.6 million, or 5.8%, as compared to $217.5 million last year. The year-over-year increases in both revenue and operating earnings primarily reflect continued growth of the company's financial services portfolio.

Operating earnings of $956.1 million in 2018, including $4.7 million of favorable foreign currency effects, increased $74.0 million, or 8.4%, from $882.1 million last year. Fiscal 2018 results included a $4.3 million benefit for the legal settlement. Fiscal 2017 included $45.9 million of expense for the legal charges. As a percentage of revenues, operating earnings of 23.5% compared to 22.1% last year.

Interest expense of $50.4 million in 2018 decreased $2.0 million from $52.4 million last year. See Note 10 to the Consolidated Financial Statements for information on Snap-on's debt and credit facilities.

Other income (expense) – net was income of $4.2 million in 2018 and expense of $7.8 million in 2017. Other income (expense) – net in fiscal 2018 includes a net gain of $5.5 million for the net debt items. Other income (expense) - net also includes net gains and losses associated with hedging and currency exchange rate transactions, non-service components of net periodic benefit costs, and interest income. See Note 17 to the Consolidated Financial Statements for information on other income (expense) – net.

Snap-on's effective income tax rate on earnings attributable to Snap-on was 24.0% in 2018, including a 50 bps charge related to the newly issued guidance associated with the Tax Act, as compared to 31.1% in 2017, which included a 40 bps benefit from the legal charges, and a net $7.0 million charge, or 90 bps impact, from the implementation of the Tax Act. See Note 9 to the Consolidated Financial Statements for information on income taxes.

Net earnings attributable to Snap-on in 2018 of $679.9 million, or $11.87 per diluted share, increased $122.2 million, or $2.35 per diluted share, from $557.7 million, or $9.52 per diluted share, in 2017. In 2018, net earnings attributable to Snap-on included a $4.1 million, or $0.07 per diluted share, benefit from the after-tax net debt items, as well as a $3.2 million, or $0.06 per diluted share, after-tax benefit related to the legal settlement, and $3.9 million, or $0.07 per diluted share, for the tax charge. Net earnings attributable to Snap-on in 2017 included $28.4 million, or $0.48 per diluted share, of after-tax legal charges, and $7.0 million, or $0.12 per diluted share, of tax expense as a result of the implementation of the Tax Act.

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, primarily through direct and distributor channels. The Snap-on Tools Group consists of business operations primarily serving vehicle service and repair technicians through the company's worldwide mobile tool distribution channel. The Repair Systems & Information Group consists of business operations serving other professional vehicle repair customers worldwide, primarily owners and managers of independent repair shops and OEM dealerships through direct and distributor channels. Financial Services consists of the business operations of Snap-on's finance subsidiaries.

Snap-on evaluates the performance of its operating segments based on segment revenues, including both external and intersegment net sales, and segment operating earnings. Snap-on accounts for intersegment sales and transfers based primarily on standard costs with reasonable mark-ups established between the segments. Identifiable assets by segment are those assets used in the respective reportable segment's operations. Corporate assets consist of cash and cash equivalents (excluding cash held at Financial Services), deferred income taxes and certain other assets. All significant intersegment amounts are eliminated to arrive at Snap-on's consolidated financial results.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Commercial & Industrial Group

(Amounts in millions)	2018		2017		Change	
External net sales	$1,051.6	78.3 %	$986.1	78.0 %	$65.5	6.6 %
Intersegment net sales	291.7	21.7 %	278.9	22.0 %	12.8	4.6 %
Segment net sales	1,343.3	100.0 %	1,265.0	100.0 %	78.3	6.2 %
Cost of goods sold	(817.7)	(60.9)%	(766.4)	(60.6)%	(51.3)	(6.7)%
Gross profit	525.6	39.1 %	498.6	39.4 %	27.0	5.4 %
Operating expenses	(326.3)	(24.3)%	(312.1)	(24.7)%	(14.2)	(4.5)%
Segment operating earnings	$199.3	14.8 %	$186.5	14.7 %	$12.8	6.9 %

Segment net sales of $1,343.3 million in 2018 increased $78.3 million, or 6.2%, from 2017 levels, reflecting a $52.1 million or 4.1%, organic sales gain, $23.5 million of acquisition-related sales and $2.7 million of favorable foreign currency translation. The organic sales increase primarily includes mid single-digit gains in sales to customers in both critical industries and in the segment's Asia Pacific operations, as well as low single-digit gains in sales in the power tools operations and in the European-based hand tools business.

Segment gross profit of $525.6 million in 2018 compared to $498.6 million last year. Gross margin of 39.1% in 2018 declined 30 bps from 39.4% last year primarily due to 10 bps of unfavorable foreign currency effects and higher material and other costs, partially offset by benefits from the company's RCI initiatives.

Segment operating expenses of $326.3 million in 2018 compared to $312.1 million last year. The operating expense margin of 24.3% in 2018 improved 40 bps from 24.7% last year as benefits from higher sales volumes were partially offset by 10 bps of unfavorable foreign currency effects.

As a result of these factors, segment operating earnings of $199.3 million in 2018, including $2.5 million of unfavorable foreign currency effects, increased $12.8 million from 2017 levels. Operating margin (segment operating earnings as a percentage of segment net sales) for the Commercial & Industrial Group was 14.8% and 14.7%, in 2018 and 2017, respectively.

Snap-on Tools Group

(Amounts in millions)	2018		2017		Change	
Segment net sales	$1,613.8	100.0 %	$1,625.1	100.0 %	$(11.3)	(0.7)%
Cost of goods sold	(910.8)	(56.4)%	(930.9)	(57.3)%	20.1	2.2 %
Gross profit	703.0	43.6 %	694.2	42.7 %	8.8	1.3 %
Operating expenses	(438.8)	(27.2)%	(419.5)	(25.8)%	(19.3)	(4.6)%
Segment operating earnings	$264.2	16.4 %	$274.7	16.9 %	$(10.5)	(3.8)%

Segment net sales of $1,613.8 million in 2018 decreased $11.3 million, or 0.7%, from 2017 levels, reflecting a $15.6 million, or 1.0% organic sales decrease, partially offset by $4.3 million of favorable foreign currency translation. The organic sales decline reflects a low single-digit decline in the company's international franchise operations while sales in the U.S. operations were essentially flat.

Segment gross profit of $703.0 million in 2018 compared to $694.2 million last year. Gross margin of 43.6% in 2018 improved from 42.7% last year primarily due to increased sales of higher gross margin products, benefits from the

company's RCI initiatives and 40 bps of favorable foreign currency effects.
Segment operating expenses of $438.8 million in 2018 compared to $419.5 million last year. The operating expense margin of 27.2% in 2018 increased 140 bps from 25.8% last year primarily due to higher costs.
As a result of these factors, segment operating earnings of $264.2 million in 2018, including $7.7 million of favorable foreign currency effects, decreased $10.5 million from 2017 levels. Operating margin for the Snap-on Tools Group of 16.4% in 2018 compared to 16.9% last year.

Repair Systems & Information Group

(Amounts in millions)	2018		2017		Change	
External net sales	$1,075.3	80.6 %	$1,075.7	79.8 %	$(0.4)	—
Intersegment net sales	259.1	19.4 %	271.5	20.2 %	(12.4)	(4.6)%
Segment net sales	1,334.4	100.0 %	1,347.2	100.0 %	(12.8)	(1.0)%
Cost of goods sold	(693.0)	(51.9)%	(714.1)	(53.0)%	21.1	3.0 %
Gross profit	641.4	48.1 %	633.1	47.0 %	8.3	1.3 %
Operating expenses	(298.8)	(22.4)%	(297.8)	(22.1)%	(1.0)	(0.3)%
Segment operating earnings	$342.6	25.7 %	$335.3	24.9 %	$7.3	2.2 %

Segment net sales of $1,334.4 million in 2018 decreased $12.8 million, or 1.0%, from 2017 levels, reflecting a $19.6 million, or 1.4%, organic sales decline, partially offset by $0.7 million of acquisition-related sales and $6.1 million of favorable foreign currency translation. The organic sales decrease includes low single-digit decreases in sales to OEM dealerships and in sales of undercar equipment, partially offset by a low single-digit increase in sales of diagnostic and repair information products to independent repair shop owners and managers.

Segment gross profit of $641.4 million in 2018 compared to $633.1 million last year. Gross margin of 48.1% in 2018 improved 110 bps from 47.0% last year, primarily as a result of a shift in sales that included lower volumes of lower gross margin products and savings from the company's RCI initiatives, partially offset by 20 bps of unfavorable foreign currency effects.

Segment operating expenses of $298.8 million in 2018 compared to $297.8 million last year. The operating expense margin of 22.4% in 2018 increased 30 bps from 22.1% last year primarily due to the effect of lower sales volumes, partially offset by benefits from the company's RCI initiatives.

As a result of these factors, segment operating earnings of $342.6 million in 2018, including $0.8 million of unfavorable foreign currency effects, increased $7.3 million from 2017 levels. Operating margin for the Repair Systems & Information Group of 25.7% in 2018 compared to 24.9% last year.

Financial Services

(Amounts in millions)	2018		2017		Change	
Financial services revenue	$329.7	100.0 %	$313.4	100.0 %	$16.3	5.2 %
Financial services expenses	(99.6)	(30.2)%	(95.9)	(30.6)%	(3.7)	(3.9)%
Segment operating earnings	$230.1	69.8 %	$217.5	69.4 %	$12.6	5.8 %

Financial services revenue of $329.7 million in 2018 increased $16.3 million, or 5.2%, from $313.4 million last year primarily reflecting $18.9 million of higher revenue as a result of continued growth of the company's financial services portfolio, partially offset by $2.6 million of decreased revenue from lower average yields on finance receivables. In 2018 and 2017, the respective average yields on finance receivables were 17.7% and 17.9%, and the average yield on contract receivables was 9.2% in both years. Originations of $1,057.5 million in 2018 decreased $14.5 million, or 1.4%, from 2017 levels.

Financial services expenses primarily include personnel-related and other general and administrative costs, as well as provisions for credit losses. These expenses are generally more dependent on changes in the financial services portfolio than they are on the revenue of the segment. Financial services expenses of $99.6 million in 2018 increased from $95.9 million last year primarily due to increases in both the provisions for credit losses and in the size of the portfolio. As a percentage of the average financial services portfolio, financial services expenses were 4.9% and 5.0% in 2018 and 2017, respectively.

Financial services operating earnings of $230.1 million in 2018, including $0.3 million of favorable foreign currency effects, increased $12.6 million, or 5.8%, from 2017 levels.

See Note 1 and Note 4 to the Consolidated Financial Statements for further information on financial services.

Management's
Discussion
and
Analysis
of
Financial
Condition
and
Results
of
Operations
(continued)

Corporate

Snap-on's general corporate expenses in 2018 of $80.1 million decreased $51.8 million from $131.9 million last year. The year-over-year decrease in general corporate expenses primarily reflects a $4.3 million benefit in 2018 from the legal settlement and $45.9 million in 2017 for the legal charges.

Fourth Quarter

Results of operations for the fourth quarters of 2018 and 2017 are as follows:

	Fourth Quarter	
(Amounts in millions)	2018	2017