

Altra Industrial (AIMC)

\$42.00 (As of 08/10/20)

Price Target (6-12 Months): **\$48.00**

Long Term: 6-12 Months

Zacks Recommendation: Outperform

(Since: 06/07/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: C

Summary

In the past three months, Altra Industrial's shares have outperformed the industry. In second-quarter 2020, its earnings and sales surpassed estimates by 76.47% and 6.71%, respectively. Amid the pandemic-induced challenges, it is poised to gain from a robust liquidity position, with \$220 million of cash and \$295 million liquidity under credit line at the second-quarter end. Its optimized supply chain, diversified businesses and shareholder-friendly policies are beneficial too. Also, deleveraging actions and cost-saving efforts might aid. For 2020, the company increased its earnings per share projection from \$1.67-\$2.03 to \$2.05-\$2.30, while expects revenues to be \$1,580-\$1,640 million versus the previously mentioned \$1,540-\$1,620 million. Further, the company's earnings estimates have been raised for 2020 and 2021 in the past 30 days.

Data Overview

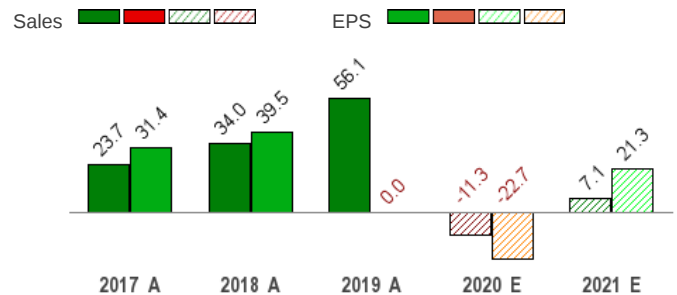
52 Week High-Low	\$42.15 - \$12.00
20 Day Average Volume (sh)	359,470
Market Cap	\$2.7 B
YTD Price Change	16.0%
Beta	2.52
Dividend / Div Yld	\$0.16 / 0.4%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 29% (180 out of 253)

Last EPS Surprise	76.5%
Last Sales Surprise	6.7%
EPS F1 Est- 4 week change	18.8%
Expected Report Date	10/22/2020
Earnings ESP	0.0%
P/E TTM	16.2
P/E F1	19.0
PEG F1	1.3
P/S TTM	1.6

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,743 E
2020	434 A	401 A	390 E	402 E	1,627 E
2019	483 A	467 A	443 A	442 A	1,834 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.68 E
2020	\$0.65 A	\$0.60 A	\$0.46 E	\$0.50 E	\$2.21 E
2019	\$0.80 A	\$0.71 A	\$0.69 A	\$0.66 A	\$2.86 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

Overview

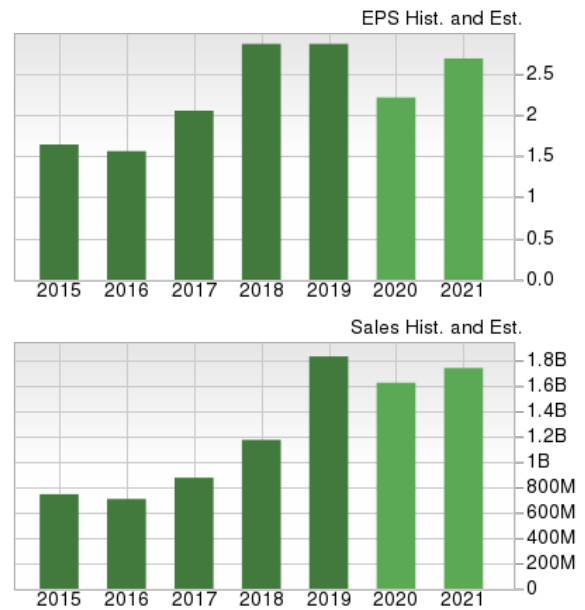
Altra Industrial Motion Corp., incorporated in 2004, is currently headquartered in Braintree, MA. The company is one of the leading manufacturers and distributors of a diversified range of motion control, electromechanical power transmission and automation products. Its product line includes clutches & brakes, couplings, gears, motion control products, and others. It has production facilities in 16 countries.

The company caters to customers in the energy, general industrial, material handling, food processing, mining, industrial automation, transportation, turf & garden, and other industries.

In the fourth quarter of 2018, Altra Industrial completed the combination of its business operations with four companies of the Automation and Specialty business of Fortive Corporation. Effective from the fourth quarter, the company started reporting revenues under the following heads/segments — Automation & Specialty, and Power Transmission Technologies. The segments are briefly discussed below.

- **Power Transmission Technologies (PTT)** segment primarily offers electromagnetic clutches & brakes; couplings, clutches & brakes; and gearings. While electromagnetic clutches & brakes are mainly used in material handling, agricultural machinery, turf & garden, and motion control markets, couplings, clutches & brakes are used in energy and heavy industrial markets. Gearings are used in industrial markets.
- **Automation & Specialty (A&S)** segment includes the results of the majority of product brands, including Kollmorgen, Thomson, Portescap and Jacobs Vehicle Systems, acquired as part of the business collaboration with Fortive.

It is worth mentioning that Kollmorgen-branded products are mainly used in aerospace and defense, medical, material handling, packaging, factory automation, semiconductor, robotics, printing and other markets. Portescap-branded products are used in general industrial, medical and industrial power tool markets while Thomson products are used in material handling, medical, food processing, factory automation, mobile off-highway and others. In addition, Jacobs Vehicle Systems-branded products are used in heavy-duty Class 8 trucks.



Reasons To Buy:

- ▲ In the past three months, Altra Industrial's shares have gained 61.2% compared with the industry's growth of 25.9%. In second-quarter 2020, the company's earnings and sales surpassed the Zacks Consensus Estimate by 76.47% and 6.71%, respectively. The company noted that workers' safety, providing services to customers, solid liquidity position, debt reduction, cost-management and a healthy supply chain are its priorities in the present difficult environment. For 2020, the company expected non-GAAP earnings to be \$2.05-\$2.30, up from \$1.67-\$2.03 per share stated earlier on healthy sales generation (explained below). Notably, the company's earnings estimates have been raised by 17.9% for third-quarter 2020, 18.8% for 2020 and 7.2% for 2021 in the past 30 days.
- ▲ Altra Industrial's exposure in multiple end markets has been benefiting it over time. Despite the pandemic-led downturns in multiple end markets (including aerospace & defense, transportation, distribution and others), the company experienced gains in renewable energy, factory automation & specialty machinery, and agriculture markets. In the post-pandemic period, the company expects healthy growth opportunities in factory automation, food processing, robotics and medical equipment markets. For 2020, the company anticipates generating revenues of \$1,580-\$1,640 million, higher than the previously mentioned \$1,540-\$1,620 million.
- ▲ Over the long term, Altra Industrial believes that solid product portfolio, diversified businesses, pricing actions, cross-selling programs and supply-chain initiatives will be beneficial. Further, its technological expertise, e-commerce capabilities and working capital improvement program are expected to aid. In addition to these, synergistic gains from acquired assets/or business combinations will work for it in the years ahead. In this regard, the business combination of Altra Industrial with four companies of Fortive's Automation and Specialty business in October 2018 is worth mentioning here. The combined business, a global leader in motion control and power transmission, has greater access to end markets, solid product offering for customers and better technological expertise. Also, synergies, including value engineering, development of business system, optimization of supply chain and facility consolidations, might be beneficial.
- ▲ Altra Industrial seems to be working hard for deleveraging its balance sheet in the range of 30-35% in 2020. It believes that strong free cash flow generation will help it pay down debts. In second-quarter 2020, it repaid \$24 million of borrowing under its term-loan facility and \$100 million on revolving credit facility. Further, a healthy cash balance places the company well to pay its financial obligations. Exiting the second quarter of 2020, it had \$220 million cash available and \$295 million of liquidity under its credit line. The company's adjusted free cash flow generation increased 38% year over year to \$64.4 million in the second quarter. Further, a 75% reduction in quarterly dividend rate (announced in April 2020) and restricted capital spending (\$40-\$45 million for 2020) will likely enhance its liquidity position.

Altra Industrial's deleveraging actions, diversified end-market exposure, cost-reduction efforts and healthy liquidity might aid, going forward. It raised earnings and sales projections for 2020.

Risks

- For the third quarter of 2020, Altra Industrial predicts modest decline in revenues compared with the second quarter of 2020. The fall is likely to stem from sequentially lower sales in China. In addition, the company expects sequential increase in its selling, general and administrative expenses.
 - Altra Industrial expects weakness in commercial aerospace markets as well as in distribution markets — which is likely to follow the trend in general industrial market — in the quarters ahead. Also, it believes that business in metals market will be soft for the rest of 2020, while that in mining market will face headwinds in new equipment OEM and aftermarket businesses. Business in turf and garden markets too are expected to be weak in the second half of 2020. The oil & gas business will likely suffer from lower prices, and a fall in demand due to trade tension and the pandemic impact.
 - With operations across multiple continents, Altra Industrial's performance is exposed to the adverse impacts of macroeconomic cycles in the United States and international markets. Given its international presence, the company also faces unfavorable foreign currency movements, impacting bottom-line growth. In second-quarter 2020, forex woes had an adverse 1.6% impact on sales. In addition, despite a healthy liquidity position and efforts to deleverage the balance sheet, the company's huge debt level is concerning. Exiting second-quarter 2020, its long-term debt was at \$1,535.6 million.
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Last Earnings Report

Altra Industrial Beats on Q2 Earnings, Raises View

Altra Industrial reported impressive results for the second quarter of 2020, with earnings surpassing estimates by 76.47%. Also, sales beat estimates by 6.71%.

The machinery company's non-GAAP earnings in the reported quarter were 60 cents per share, surpassing the Zacks Consensus Estimate of 34 cents. However, the bottom line decreased 15.5% from the year-ago quarter figure of 71 cents.

The company noted that it benefited from healthy demand in wind energy and Class 8 truck markets in China in the second quarter. Along with this, its cost-reduction measures and healthy cash-flow generation in the quarter were encouraging, especially amid the pandemic scare.

Quarter Ending **06/2020**

Report Date	Jul 24, 2020
Sales Surprise	6.71%
EPS Surprise	76.47%
Quarterly EPS	0.60
Annual EPS (TTM)	2.60

Revenue Details

In the reported quarter, Altra Industrial's revenues were \$400.8 million, reflecting a decline of 14.1% from the year-ago number.

Forex woes had an adverse impact of 1.6% on the quarter's sales. Also, organic sales declined 12.5% year over year due to weakness in several end markets — including aerospace & defense, transportation, distribution, metals, mining, turf & garden, medical equipment, and oil & gas. Notably, business in renewable energy, factory automation & specialty machinery, and agriculture markets improved in the quarter.

However, the company's revenues surpassed the Zacks Consensus Estimate of \$376 million.

Altra Industrial reports revenues under two heads — Automation & Specialty, and Power Transmission Technologies. A brief snapshot of the segmental sales is provided below:

Revenues generated from **Power Transmission Technologies** amounted to \$196.3 million, declining 16.4% year over year.

Automation & Specialty's sales were \$205.8 million in the second quarter, down 11.8% from the last reported quarter.

Margin Profile

In the reported quarter, Altra Industrial's cost of sales decreased 14.1% year over year to \$257.4 million. Notably, cost of sales represented 64.2% of net sales. Non-GAAP gross profit was \$143.4 million, down 14.1% year over year. Gross margin remained stable year over year at 35.8%.

Non-GAAP selling, general and administrative expenses decreased 21% year over year to \$58 million and represented 14.5% of net sales. Research and development expenses were \$14 million versus \$14.7 million in the year-ago quarter.

Non-GAAP adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) were \$88.9 million, the margin being 22.2%. Non-GAAP operating income in the reported quarter declined 9.5% year over year to \$71.4 million, with non-GAAP operating margin increasing 90 basis points to 17.8%.

Net interest expenses totaled \$18.8 million in the reported quarter, reflecting an increase of 1.1% from the year-ago quarter.

Balance Sheet & Cash Flow

Exiting the second quarter, Altra Industrial's cash and cash equivalents were \$220.1 million, decreasing 32.7% from \$326.9 million recorded in the last reported quarter. Long-term debt was \$1,535.6 million, reflecting a 7.4% decrease from \$1,658.5 million in the last reported quarter.

During the first half of 2020, the company repaid \$30 million of borrowing under its term-loan facility and \$100 million under its revolving credit facility. Additional borrowing under its revolving facility totaled \$100 million.

In the first half of 2020, the company generated net cash of \$73.7 million from operating activities, down 23.3% from the year-ago comparable period. Capital invested for purchasing property, plant and equipment totaled \$17.3 million, decreasing 28.2% year over year. Non-GAAP free cash flow was \$56.4 million versus \$72 million in the year-ago period.

Dividends

In the first half of 2020, the company paid out dividends amounting to \$22.3 million, slightly above \$22 million distributed in the prior-year comparable period.

Outlook

Altra Industrial noted that workers' safety, providing services to customers, solid liquidity position, debt reduction and a healthy supply chain are its priorities at present. Also, it expects growth opportunities to be healthy in robotics, factory automation, food processing and medical equipment markets post pandemic.

For 2020, the company anticipates sales of \$1,580-\$1,640 million, higher from the previously mentioned \$1,540-\$1,620 million.

Non-GAAP earnings are expected to be \$2.05-\$2.30, up from \$1.67-\$2.03 per share stated earlier. Also, non-GAAP adjusted EBITDA is likely to

be \$305-\$330 million (up from the earlier mentioned \$281-\$317 million). The tax rate is still anticipated to be 21-23%. Capital spending is expected to be \$40-\$45 million.

Recent News

Dividend

On **Jul 22, 2020**, Altra Industrial announced that its board of directors approved the payment of a quarterly dividend of 4 cents per share. The payment will be made on Oct 2 to shareholders of record as of Sep 18, 2020.

Valuation

Altra Industrial shares are up 16% in the year-to-date period and 69.9% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are down 5.2% and 3.6%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 9% and 12.2%, respectively.

The S&P 500 index has increased 3.8% year to date and 16.3% in the past year.

The stock is currently trading at 16.81X forward 12-month earnings per share, which compares to 27.11X for the Zacks sub-industry, 21.8X for the Zacks sector and 22.77X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.37X and as low as 4.89X, with a 5-year median of 15.85X. Our Outperform recommendation indicates that the stock will perform better than the market. Our price target of \$48 reflects 19.33X forward 12-month earnings per share.

The table below shows summary valuation data for AIMC.

Valuation Multiples - AIMC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.81	27.11	21.8	22.77
	5-Year High	25.37	27.11	21.8	22.77
	5-Year Low	4.89	15.6	12.55	15.25
	5-Year Median	15.85	19.7	17.48	17.58
P/S F12M	Current	1.6	3.44	2.9	3.66
	5-Year High	1.72	3.44	2.9	3.66
	5-Year Low	0.48	1.58	1.52	2.53
	5-Year Median	1.18	2.25	2.04	3.05

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (180 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Rexnord Corporation (RXN)	Outperform	1
AMETEK, Inc. (AME)	Neutral	3
Fortive Corporation (FTV)	Neutral	3
Graco Inc. (GGG)	Neutral	2
IDEX Corporation (IEX)	Neutral	3
Nordson Corporation (NDSN)	Neutral	2
Rockwell Automation, Inc. (ROK)	Neutral	3
RBC Bearings Incorporated (ROLL)	Underperform	4

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	AIMC	X Industry	S&P 500	GGG	IEX	NDSN
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	2	3	2
VGM Score	B	-	-	C	B	D
Market Cap	2.72 B	1.30 B	23.56 B	9.17 B	12.93 B	11.63 B
# of Analysts	3	3	14	6	7	6
Dividend Yield	0.38%	0.00%	1.71%	1.27%	1.17%	0.75%
Value Score	A	-	-	D	D	D
Cash/Price	0.09	0.10	0.07	0.05	0.06	0.03
EV/EBITDA	11.42	13.12	13.39	19.53	20.18	21.36
PEG Ratio	1.27	3.30	2.92	4.38	3.57	2.88
Price/Book (P/B)	1.50	1.94	3.18	8.93	5.72	7.04
Price/Cash Flow (P/CF)	8.53	11.72	12.69	24.51	24.93	25.65
P/E (F1)	19.00	29.93	22.16	35.08	35.72	37.50
Price/Sales (P/S)	1.58	1.31	2.55	5.90	5.42	5.36
Earnings Yield	5.26%	3.03%	4.33%	2.85%	2.80%	2.67%
Debt/Equity	0.87	0.51	0.77	0.39	0.46	0.76
Cash Flow (\$/share)	4.92	2.49	6.94	2.24	6.87	7.86
Growth Score	C	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	16.23%	10.21%	10.41%	13.64%	13.05%	NA
Proj. EPS Growth (F1/F0)	-22.73%	-23.37%	-6.51%	-17.46%	-17.36%	-8.40%
Curr. Cash Flow Growth	74.66%	0.16%	5.26%	0.13%	4.80%	-1.46%
Hist. Cash Flow Growth (3-5 yrs)	29.14%	7.19%	8.55%	7.47%	7.29%	7.90%
Current Ratio	2.27	2.06	1.34	3.35	3.48	3.17
Debt/Capital	46.41%	34.34%	44.59%	28.03%	31.60%	43.03%
Net Margin	-1.85%	4.34%	10.13%	17.42%	15.71%	15.70%
Return on Equity	9.13%	10.81%	14.59%	28.29%	18.15%	21.32%
Sales/Assets	0.41	0.76	0.51	0.86	0.61	0.61
Proj. Sales Growth (F1/F0)	-11.30%	-7.25%	-1.54%	-8.10%	-9.11%	-5.92%
Momentum Score	C	-	-	C	B	D
Daily Price Chg	12.33%	1.34%	0.91%	0.51%	2.19%	1.10%
1 Week Price Chg	9.23%	4.95%	2.30%	2.80%	1.65%	3.01%
4 Week Price Chg	34.81%	10.36%	8.54%	13.07%	7.38%	8.99%
12 Week Price Chg	50.65%	20.62%	13.68%	18.99%	10.72%	16.55%
52 Week Price Chg	69.90%	0.86%	3.71%	20.98%	5.55%	48.04%
20 Day Average Volume	359,470	59,993	2,015,804	641,204	380,929	258,341
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	18.82%	2.82%	1.67%	17.48%	2.82%	0.28%
(F1) EPS Est 12 week change	20.44%	3.13%	2.27%	16.46%	2.82%	0.81%
(Q1) EPS Est Mthly Chg	19.48%	3.49%	0.67%	18.50%	1.42%	0.64%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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