

Altra Industrial (AIMC)

\$25.11 (As of 05/15/20)

Price Target (6-12 Months): **\$26.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: A

Summary

Altra Industrial's first-quarter 2020 earnings and sales surpassed estimates by 47.7% and 5.5%, respectively. Going forward, it might benefit from the pandemic-induced demand for some products, diversified businesses, and solid product portfolio. Also, its deleveraging actions and cost-reduction efforts might aid. However, the company lowered its 2020 projections due to the pandemic-related headwinds. Earnings are expected to be \$1.67-\$2.03 per share, down from \$2.40-\$2.60 mentioned earlier. Sales are predicted to be \$1,540-\$1,620 million (down from the previously stated \$1,720-\$1,770 million) for 2020. A sequential decline is predicted in the second quarter. In the past three months, the company's shares have underperformed the industry. Its earnings estimates have increased for 2020 and 2021 in the past 30 days.

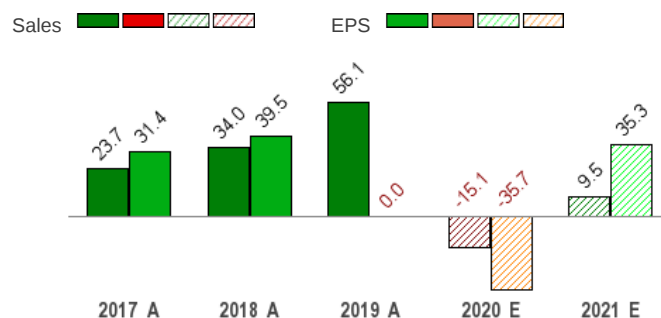
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$38.43 - \$12.00
20 Day Average Volume (sh)	642,610
Market Cap	\$1.6 B
YTD Price Change	-30.7%
Beta	2.53
Dividend / Div Yld	\$0.16 / 2.7%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 13% (220 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	47.7%
Last Sales Surprise	5.5%
EPS F1 Est- 4 week change	25.7%
Expected Report Date	07/23/2020
Earnings ESP	0.0%
P/E TTM	9.3
P/E F1	13.7
PEG F1	NA
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,705 E
2020	434 A	370 E	368 E	386 E	1,557 E
2019	483 A	467 A	443 A	442 A	1,834 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.49 E
2020	\$0.65 A	\$0.29 E	\$0.37 E	\$0.45 E	\$1.84 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 05/15/2020. The reports text is as of 05/18/2020.

Overview

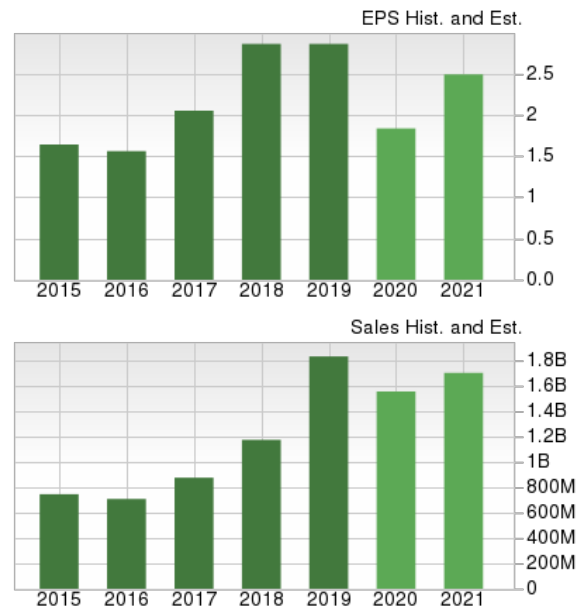
Altra Industrial Motion Corp., incorporated in 2004, is currently headquartered in Braintree, MA. The company is one of the leading manufacturers and distributors of a diversified range of motion control, electromechanical power transmission and automation products. Its product line includes clutches & 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):** This 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):** The 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 first-quarter 2020, the company's earnings and sales surpassed the Zacks Consensus Estimate by 47.7% and 5.5%, respectively. The company noted that workers' safety, providing services to customers, cash generation, solid liquidity position, cost-management initiatives and a healthy supply chain are its priorities in the present difficult environment. Also, it has boosted the production of critical components required in infusion systems, CT scanners, ventilators and other products. Further, it expects to see gains in factory automation and medical equipment markets, going forward. Over the long term, it 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 the past 30 days, the company's earnings estimates for 2020 increased by 26% to \$1.84 for 2020 and grew by 1.6% to \$2.49 for 2021.
- ▲ We believe that acquisition will remain Altra Industrial's preferred mode for enhancing profitability. In October 2018, the company completed the combination of its operations with four companies of the Automation and Specialty business of Fortive. 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 realized going forward.
- ▲ The company seems to be working hard for deleveraging its balance sheet. It believes that strong free cash flow generation will help it pay down debts. In the first quarter of 2020, it repaid \$6 million of borrowing under its term-loan facility. Further, a healthy cash balance places the company well to pay its financial obligations. Exiting the first quarter, it had \$327 million cash available and \$195 million of liquidity under its credit line. Further, a 75% reduction in quarterly dividend rate and capital expenditure of \$40-\$45 million (revised down from \$45-\$50 million stated previously) for 2020 will likely enhance its liquidity position.

Altra Industrial's deleveraging actions, solid product offerings, cost-reduction efforts, diversified operations and healthy liquidity might aid, going forward.

Reasons To Sell:

- ▼ Over the past three months, Altra Industrial's shares have moved down 32.6% compared with the industry's decline of 25.9%. In first-quarter 2020, the company's earnings declined 18.8% year over year on weak sales generation (decline of 10.1% in the quarter) and a fall in margins. For 2020, it is wary about the impacts of the pandemic on its financial performance. It now expects earnings (non-GAAP) of \$1.67-\$2.03 per share, down from \$2.40-\$2.60 mentioned earlier. Also, sales are predicted to be \$1,540-\$1,620 million versus the previously mentioned \$1,720-\$1,770 million. In the second quarter, the company expects sales to decline from the previous quarter.
- ▼ Altra Industrial operates in a number of end-markets, including construction, general industrial, mining, wind, water infrastructure and aerospace. Though end-market diversification proves to be a boon, a downturn in one or more of these markets might adversely impact the company's financials. Its transportation, distribution, mining, metals, agriculture, turf & garden, medical equipment, and oil & gas markets reported weak results in the first quarter of 2020. The company believes that difficult end-market conditions in the commercial aerospace, wind, general industrial, transportation, mining, turf and garden, and oil & gas in the wake of the coronavirus outbreak will affect its performance in 2020. Further, it believes that the Class A truck business will be weak in 2020.
- ▼ 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 first-quarter 2020, forex woes had an adverse 1.45% 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 first-quarter 2020, its long-term debt was at \$1,658.5 million, reflecting a sequential increase of 6.1%. Also, its total-debt to total-capital was 49.4% at the first-quarter end, up from 45.7% at the end of the fourth quarter of 2019. Also, the fall in times interest earned from 3.0x in the fourth quarter of 2019 to 0.8x in the first quarter of 2020 is more concerning.

The impacts of the coronavirus outbreak can be felt on Altra Industrial's operations, as evident from lowered 2020 projections. Also, forex woes and high debts might prove detrimental to the company, going forward.

Last Earnings Report

Altra Industrial Beats on Q1 Earnings, Lowers View

Altra Industrial reported better-than-expected results for first-quarter 2020. Its earnings surpassed estimates by 47.7% and sales topped the same by 5.5%.

The company noted that the coronavirus outbreak modestly impacted its first-quarter results.

The machinery company's non-GAAP earnings in the reported quarter were 65 cents per share, surpassing the Zacks Consensus Estimate of 44 cents. However, the bottom line decreased 18.8% from the year-ago quarter figure of 80 cents.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	5.46%
EPS Surprise	47.73%
Quarterly EPS	0.65
Annual EPS (TTM)	2.71

Revenue Details

In the reported quarter, Altra Industrial's revenues decreased 10.1% year over year to \$434.2 million.

Forex woes had an adverse impact of 1.45% on the quarter's sales. Also, organic sales declined 8.6% year over year due to weakness in several end markets — including transportation, distribution, mining, metals, agriculture, turf & garden, medical equipment, and oil & gas. Notably, business in renewable energy, factory automation & specialty machinery, and aerospace & defense markets improved in the quarter.

However, the company's revenues surpassed the Zacks Consensus Estimate of \$411.7 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 \$216.7 million, declining 7.7% year over year.

Automation & Specialty's sales were \$218.6 million in the first quarter, down 12.2% from the last reported quarter.

Margin Profile

In the reported quarter, Altra Industrial's cost of sales decreased 8.7% year over year to \$281.2 million. Notably, cost of sales represented 64.8% of net sales versus 63.8% in the year-ago quarter. Non-GAAP gross profit was \$153 million, down 12.5% year over year. Also, gross margin decreased 80 basis points (bps) to 35.2%.

Non-GAAP selling, general and administrative expenses decreased 3.4% year over year to \$69.1 million and represented 15.9% of net sales. Research and development expenses were \$14.8 million versus \$15.3 million in the year-ago quarter.

Non-GAAP adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) were \$85.9 million, the margin being 19.8%. However, non-GAAP operating income in the reported quarter declined 21.6% year over year to \$69.1 million, with non-GAAP operating margin decreasing 230 bps to 15.9%.

Net interest expenses totaled \$17.4 million in the reported quarter versus \$19.8 million in the year-ago quarter.

Balance Sheet & Cash Flow

Exiting the first quarter, Altra Industrial's cash and cash equivalents were \$326.9 million, increasing 95.4% from \$167.3 million recorded in the last reported quarter. Long-term debt was \$1,658.5 million, reflecting a 6.1% increase from \$1,563.8 million in the last reported quarter.

During the quarter, the company repaid \$6 million of borrowing under its term-loan facility, while additional borrowing under its revolving facility totaled \$100 million.

In the first quarter of 2020, it generated net cash of \$34.9 million from operating activities, down 91.3% from the year-ago quarter. Capital invested for purchasing property, plant and equipment totaled \$8.2 million, decreasing 41.4% year over year. Free cash flow was \$26.7 million versus \$25.3 million in the year-ago period.

In the quarter, the company paid out dividends amounting to \$11.3 million, slightly above \$11.1 million distributed in the prior-year quarter.

Outlook

Altra Industrial noted that cash generation, workers' safety, providing services to customers, solid liquidity position and a healthy supply chain are its priorities at present. Despite this, it predicts the pandemic to affect its performance in 2020, as is visible from the revised projections for the year.

It expects sales of \$1,540-\$1,620 million versus the previously mentioned \$1,720-\$1,770 million for the year.

Non-GAAP earnings are expected to be \$1.67-\$2.03, down from \$2.40-\$2.60 per share stated earlier. Also, non-GAAP adjusted EBITDA is likely to be \$281-\$317 million (down from the earlier mentioned \$340-\$360 million). The tax rate is anticipated to be 21-23% (versus the previously stated 22-24%). Capital spending is expected to be down to \$40-\$45 million from \$45-\$50 million stated previously.

Recent News

Dividend

On **Apr 30, 2020**, Altra Industrial announced that its board of directors approved a 75% or 13 cents per share reduction in the quarterly dividend rate. The new payout rate is at 4 cents per share as compared with the previous rate of 17 cents. The payment will be made on Jul 6 to shareholders of record as of Jun 18, 2020.

It believes that the dividend reduction will help it save \$30 million (annualized) in cash, enhancing its liquidity in the present uncertain environment.

Valuation

Altra Industrial shares are down 32.2% in the year-to-date period and 29.7% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are down 22.2% and 25.8%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 15% and 20.5%, respectively.

The S&P 500 index has moved down 12.5% year to date and 2.3% in the past year.

The stock is currently trading at 11.83x forward 12-month earnings per share, which compares to 22.86x for the Zacks sub-industry, 17.94x for the Zacks sector and 20.44x 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 16.11x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$26 reflects 12.42x 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	11.83	22.86	17.94	20.44
	5-Year High	25.37	23.5	19.93	20.79
	5-Year Low	4.89	15.6	12.55	15.19
	5-Year Median	16.11	19.46	16.65	17.45
EV/EBITDA F12M	Current	7.42	10.89	16.39	12.29
	5-Year High	12.5	11.34	18.05	12.65
	5-Year Low	2.21	7.64	10.56	9.09
	5-Year Median	9.19	9.71	14.08	10.82
EV/Sales F12M	Current	1.99	2.9	2.31	3.07
	5-Year High	2.16	3.28	3.12	3.51
	5-Year Low	0.47	1.81	1.76	2.3
	5-Year Median	1.61	2.59	2.3	2.82

As of 05/14/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (220 out of 254)



Top Peers

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

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	AIMC	X Industry	S&P 500	GGG	IEX	NDSN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	4	3
VGM Score	A	-	-	D	C	B
Market Cap	1.62 B	1.01 B	18.98 B	7.37 B	11.19 B	9.40 B
# of Analysts	2	4	14	6	8	6
Dividend Yield	2.71%	0.00%	2.21%	1.58%	1.35%	0.94%
Value Score	B	-	-	F	F	D
Cash/Price	0.18	0.08	0.06	0.06	0.05	0.01
EV/EBITDA	8.39	9.92	11.60	15.62	17.73	17.62
PEG Ratio	NA	2.90	2.58	4.10	3.11	2.34
Price/Book (P/B)	0.92	1.74	2.59	7.23	5.02	5.74
Price/Cash Flow (P/CF)	5.10	8.06	10.28	19.70	21.61	20.67
P/E (F1)	13.65	20.45	19.01	32.83	31.06	30.46
Price/Sales (P/S)	0.91	0.91	1.92	4.56	4.54	4.29
Earnings Yield	7.33%	4.67%	5.06%	3.05%	3.22%	3.28%
Debt/Equity	0.96	0.48	0.75	0.39	0.45	0.66
Cash Flow (\$/share)	4.92	2.24	7.01	2.24	6.87	7.86
Growth Score	A	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	16.10%	11.57%	10.82%	14.61%	13.62%	NA
Proj. EPS Growth (F1/F0)	-35.84%	-29.02%	-10.48%	-29.12%	-17.61%	-9.14%
Curr. Cash Flow Growth	74.66%	4.08%	5.68%	0.13%	4.80%	-1.46%
Hist. Cash Flow Growth (3-5 yrs)	29.14%	4.95%	8.52%	7.47%	7.29%	7.90%
Current Ratio	2.48	2.19	1.27	3.36	3.51	2.71
Debt/Capital	48.99%	33.00%	44.25%	28.20%	30.94%	39.89%
Net Margin	-1.38%	4.33%	10.54%	20.43%	16.92%	15.54%
Return on Equity	9.41%	10.81%	16.29%	31.40%	19.89%	21.78%
Sales/Assets	0.42	0.74	0.54	0.93	0.65	0.62
Proj. Sales Growth (F1/F0)	-15.08%	-8.96%	-2.55%	-13.99%	-9.48%	-4.26%
Momentum Score	A	-	-	C	A	B
Daily Price Chg	2.20%	0.00%	0.20%	0.52%	-0.41%	0.06%
1 Week Price Chg	10.06%	2.58%	3.23%	3.46%	2.25%	5.37%
4 Week Price Chg	42.75%	5.73%	0.88%	-4.51%	1.08%	11.07%
12 Week Price Chg	-28.05%	-28.63%	-23.26%	-21.93%	-14.49%	-5.60%
52 Week Price Chg	-28.18%	-24.17%	-12.56%	-10.32%	-3.28%	17.51%
20 Day Average Volume	642,610	74,536	2,553,422	839,516	500,684	253,790
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	25.68%	-6.90%	-5.57%	-18.45%	-4.28%	-0.31%
(F1) EPS Est 12 week change	-28.18%	-32.76%	-16.22%	-32.04%	-16.77%	-15.48%
(Q1) EPS Est Mthly Chg	163.64%	-26.65%	-11.63%	-26.65%	-6.45%	-2.44%

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	B
Growth Score	A
Momentum Score	A
VGM Score	A

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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