# Altra Industrial (AIMC)

**$36.65** (As of 01/17/20)

Price Target (6-12 Months): **$31.00**

| | | |
|---|---|---|
| Long Term: 6-12 Months | **Zacks Recommendation:** (Since: 03/04/19) Prior Recommendation: Neutral | **Underperform** |
| Short Term: 1-3 Months | **Zacks Rank:** (1-5) | **4-Sell** |
| | Zacks Style Scores: | VGM:A |
| | Value: B \| Growth: A \| Momentum: C | |

## Summary

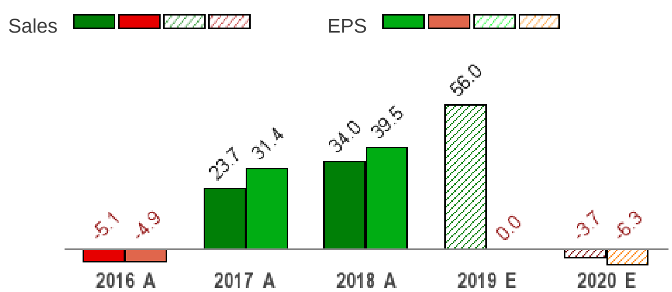
Over the past year, Altra Industrial's shares have underperformed the industry. The company believes that difficult end-market conditions and global economy-related concerns will adversely impact results in 2019 and 2020. For 2019 (results are awaited), it predicts sales of $1,827-$1,837 million, down from $1,850-$1,880 million mentioned earlier. Non-GAAP earnings are expected to be $2.77-$2.83 per share, down from $2.81-$2.97 stated previously. Unfavorable movements in foreign currencies are predicted to be headwinds in the fourth quarter of 2019. Further, high costs and expenses (due to commodity inflation, tariffs and others), and rising debts might hamper profitability in the quarters ahead. For 2020, sales are predicted to decline 2-4% year over year. Weakness in the Class 8 truck business is expected to hurt sales by 2.2% in 2020.

## Price, Consensus & Surprise


## Data Overview

| | |
|---|---|
| 52 Week High-Low | **$38.15 - $23.89** |
| 20 Day Average Volume (sh) | **276,220** |
| Market Cap | **$2.4 B** |
| YTD Price Change | **1.2%** |
| Beta | **1.97** |
| Dividend / Div Yld | **$0.68 / 1.9%** |
| Industry | **Manufacturing - General Industrial** |
| Zacks Industry Rank | **Bottom 25% (190 out of 254)** |
| Last EPS Surprise | **3.0%** |
| Last Sales Surprise | **0.9%** |
| EPS F1 Est- 4 week change | **-0.2%** |
| Expected Report Date | **02/20/2020** |
| Earnings ESP | **0.0%** |
| P/E TTM | **12.9** |
| P/E F1 | **13.7** |
| PEG F1 | **NA** |
| P/S TTM | **1.3** |

## Sales and EPS Growth Rates (Y/Y %)




## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2020 | | | | | 1,765 E |
| 2019 | 483 A | 467 A | 443 A | 441 E | 1,833 E |
| 2018 | 240 A | 237 A | 228 A | 469 A | 1,175 A |

## EPS Estimates

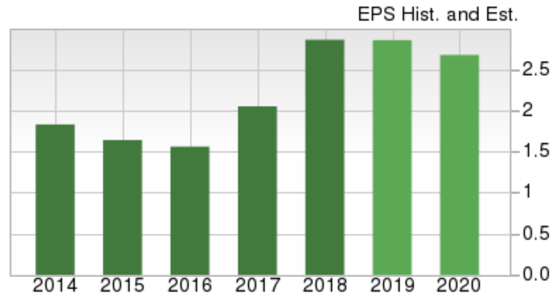
| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2020 | | | | | $2.68 E |
| 2019 | $0.80 A | $0.71 A | $0.69 A | $0.67 E | $2.86 E |
| 2018 | $0.66 A | $0.71 A | $0.64 A | $0.65 A | $2.86 A |

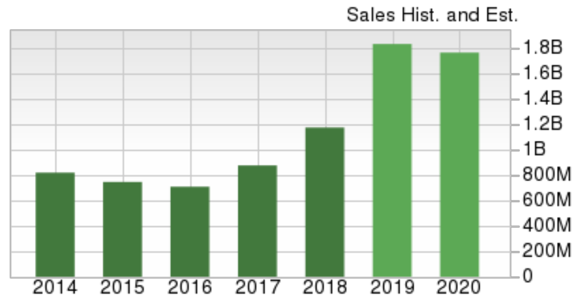
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/17/2020. The reports text is as of 01/20/2020.

## 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 mechanical power transmission or MPT components and motion control products. Its product line includes clutches & brakes, couplings, gears, motion control products, and others. It has production facilities in 17 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 Sell:

- Over the past year, Altra Industrial's shares have increased 26.2% against the industry's growth of 28.4%. In the third quarter of 2019, the company's earnings declined 2.8% year over year due to weakness in organic sales, and rise in costs and expenses. Weakness in many end markets, and lower demand in Germany and China adversely impacted organic sales. The company is concerned about difficult end-market conditions and softness in the global industrial economy. Hence, it revised down its sales and earnings projection for 2019. Sales are now predicted to be $1,827-$1,837 million, down from the previously stated $1,850-$1,880 million (organic sales for the year are likely to decline 2.3%), while non-GAAP earnings are expected to be $2.77-$2.83 per share, lower than $2.81-$2.97 mentioned earlier.

Softness in end markets, debt-related financial obligations and headwinds from unfavorable movements in foreign currencies might prove detrimental to Altra Industrial, going forward.

- In the third quarter of 2019, Altra Industrial recorded an 82.7% increase in the cost of sales, and an 83.9% elevation in selling, general and administrative expenses. Research and development expenses grew 152.6% year over year. Notably, rise in costs and expenses has been affecting Altra Industrial over the past few years. We believe, if unchecked, rising costs (related to tariffs and high input costs) and operating expenses might prove detrimental to the company's margins and profitability going forward. However, effective pricing actions are likely to come in as a relief.
- 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 the third quarter of 2019, forex woes had an adverse 1.75% impact on sales. The company believes that unfavorable movements in foreign currencies will continue to be a headwind in the fourth quarter of 2019.
- 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, downturn in one or more of these markets might adversely impact the company's financials. Its transportation, metals, factory automation & specialty machinery, agriculture, distribution, and turf & garden markets reported weak results in the third quarter. The company believes that difficult end-market conditions will affect its performance in the near term. In addition to lowering its 2019 projections, it expects a year-over-year sales decline of 2-4% for 2020. Notably, the company believes that weakness in the Class 8 truck business will hurt sales by 2.2% in 2020.
- A highly leveraged balance sheet can inflate Altra Industrial's financial obligations and subsequently hurt profitability. In three years (2016-2018), the company's long-term debt increased 73.1% (CAGR). Long-term debt balance at the end of the third quarter of 2019 was $1,602.8 million. Net interest expenses totaled $18.2 million in the third quarter of 2019 versus $2 million recorded in the year-ago comparable quarter. It is worth mentioning here that the company is currently working hard to deleverage its balance sheet.

## Risks

- Altra Industrial is poised to benefit from a solid product portfolio, including various well-recognized brands. Also, the company has production facilities in 17 countries. Over the long term, the company believes that pricing actions, cross-selling programs (likely to bring in $10 million worth new orders by 2020), supply-chain initiatives and working capital improvement program will be beneficial.

- 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. The collaboration is anticipated to yield synergies of $15 million (higher than $10-$12 million expected earlier) in 2019 and $52 million by 2022. Also, 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. During the first three quarters of 2019, it repaid long-term debt of $90 million. It expects to repay another $40 million in the fourth quarter of 2019. Exiting 2019, it targets net debt/adjusted EBITDA ratio of 3.8, suggesting a decline from 3.9 recorded in 2018, while anticipates achieving 2-3.0 in 2020.

- At its Investor Day 2019, Altra Industrial provided five-year targets from 2018 till 2022. Over the period, the company anticipates that adjusted earnings before interest, tax, depreciation and amortization (EBITDA) margin will improve from 20.3% in 2017 to 24.6% in 2022. The improvement of 425 basis points is anticipated to be driven by positive impacts of volume/leverage mix and cost improvement, mainly based on collaborations with Fortive's businesses. The cost-improvement actions include consolidation of Kollmorgen's operations in Brazil, relocation of Kollmorgen & Thomson businesses in China, and restructuring of overlapping product lines.

## Last Earnings Report

**Altra Industrial Beats on Q3 Earnings, Lowers ’19 View**

| Quarter Ending | 09/2019 |
|---|---|
| Report Date | Oct 24, 2019 |
| Sales Surprise | 0.94% |
| EPS Surprise | 2.99% |
| Quarterly EPS | 0.69 |
| Annual EPS (TTM) | 2.85 |

Altra Industrial reported better-than-expected results for third-quarter 2019. Its earnings surpassed estimates by 2.99% while sales topped the same by 0.94%.

The machinery company’s non-GAAP earnings in the reported quarter were 69 cents per share, surpassing the Zacks Consensus Estimate of 67 cents. However, the bottom line declined 2.8% from the year-ago quarter figure of 71 cents due to weakness in organic sales, and rise in costs and expenses.

**Organic Sales Fall Y/Y**

In the reported quarter, Altra Industrial’s net sales surged 93.8% year over year to $442.9 million, driven by collaboration with four companies of the Automation and Specialty business of Fortive Corporation. The collaboration was completed in the fourth quarter of 2018. The integration of Fortive’s businesses was completed in the first quarter of 2019.

Forex woes had an adverse impact of 1.75% on the quarter’s sales. Also, organic sales declined 3.6% year over year due to lower demand in China and Germany as well as weakness in several end markets — including transportation, metals, factory automation & specialty machinery, distribution, turf & garden, and agriculture. Notably, business in medical, energy (including oil & gas, and renewable), mining, and aerospace & defense improved in the quarter.

The company’s revenues surpassed the Zacks Consensus Estimate of $438.8 million.

Effective from the fourth quarter of 2018, Altra Industrial started reporting revenues under the following segments — Automation & Specialty, and Power Transmission Technologies. A brief snapshot of the segmental sales is provided below:

Revenues generated from Power Transmission Technologies amounted to $218.7 million, declining 4.3% year over year and 6.9% sequentially.

Automation & Specialty’s sales were roughly $224.8 million in the third quarter, down 3.6% from the last reported quarter.

**Margins Improve Y/Y**

In the reported quarter, Altra Industrial’s cost of sales surged 82.7% year over year to $285.9 million. Notably, cost of sales represented 64.6% of net sales versus 68.5% in the year-ago quarter. Non-GAAP gross profit was $157 million, up 118.1% year over year. Also, gross margin improved 390 basis points (bps) to 35.4%. The company noted that adverse impacts of high input costs and tariffs were offset by effective pricing actions and supply-chain management.

Non-GAAP selling, general and administrative expenses rose 83.9% year over year to $69.7 million and represented 15.7% of net sales. Research and development expenses were $14.4 million versus $5.7 million in the year-ago quarter.

Non-GAAP adjusted EBITDA were $89 million, the margin being 20.1%. Conversely, non-GAAP operating income in the reported quarter grew 156.7% year over year to $72.9 million, with non-GAAP operating margin increasing 410 bps to 16.5%.

Net interest expenses totaled $18.2 million in the reported quarter versus $2 million recorded in the year-ago comparable quarter.

**Balance Sheet & Cash Flow**

Exiting the third quarter, Altra Industrial’s cash and cash equivalents were approximately $168 million, up 9.4% from $153.6 million recorded in the last reported quarter. Long-term debt was roughly $1,602.8 million, reflecting a 2.4% decline from $1,642.5 million in the last reported quarter. During the first nine months of 2019, the company repaid long-term debt of $90 million.

In the first nine months of 2019, it generated net cash of $180.4 million from operating activities, significantly above $59 million recorded in the year-ago period. Capital invested for purchasing property, plant and equipment totaled $36.9 million, up 74.9% year over year. Free cash flow was $71.5 million versus $23.7 million in the year-ago period.

During the first three quarters of 2019, the company paid out dividends amounting to $33.1 million, above $15 million distributed in the year-ago comparable period. No shares were repurchased during the period.

**Outlook**

For 2019, Altra Industrial anticipates benefiting from efforts to optimize supply chain and program related to sales collaboration, and measures to lower debt profile. Also, the collaboration with Fortive’s Automation and Specialty business will be beneficial, with synergies of $15 million (higher than $10-$12 million mentioned earlier) anticipated in 2019 and $52 million by the fourth year.

However, the company believes that difficult end-market conditions will affect its performance in the near term. Also, it remains wary about the softness in the global industrial economy. To lower the adverse impacts of these headwinds, the company is working on cost reduction and margin-improvement actions. For 2020, the company expects these uncertainties to remain. Sales in the year are predicted to decline 2-4% year over year.

The company revised its projection for 2019 on prevailing headwinds. Its sales are now predicted to be $1,827-$1,837 million, down from previously mentioned $1,850-$1,880 million.

Non-GAAP earnings are expected to be $2.77-$2.83 per share, lower than $2.81-$2.97 stated earlier and non-GAAP adjusted EBITDA is anticipated to be $375-$381 million (down from $385-$400 million mentioned previously).

The tax rate is anticipated to be around 23.5-25%. Capital spending is expected to be approximately $50-$55.

## Recent News

**Dividend**

On **Jan 3, 2020**, Altra Industrial paid a quarterly cash dividend of 17 cents per share to shareholders of record as of Dec 18, 2019.

## Valuation

Altra Industrial shares are up 26.2% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are up 28.4% and 15.5%, respectively, in the past year.

The S&P 500 index has moved up 23.8% over the trailing 12 months.

The stock is currently trading at 13.56x forward 12-month earnings per share, which compares to 21.53x for the Zacks sub-industry, 18.41x for the Zacks sector and 19.2x for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.37x and as low as 7.74x, with a 5-year median of 16.13x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our price target of $31 reflects 11.53x 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 | 13.56 | 21.53 | 18.41 | 19.2 |
| | 5-Year High | 25.37 | 22.58 | 19.91 | 19.34 |
| | 5-Year Low | 7.74 | 15.2 | 12.6 | 15.17 |
| | 5-Year Median | 16.13 | 18.95 | 16.54 | 17.44 |
| EV/EBITDA F12M | Current | 10.66 | 12.81 | 17.82 | 12.66 |
| | 5-Year High | 12.5 | 12.81 | 18.22 | 12.66 |
| | 5-Year Low | 8.3 | 8.3 | 10.69 | 9.08 |
| | 5-Year Median | 10.69 | 10.69 | 14.03 | 10.78 |
| EV/Sales F12M | Current | 2.18 | 2.78 | 3.14 | 3.26 |
| | 5-Year High | 2.18 | 2.78 | 3.14 | 3.37 |
| | 5-Year Low | 0.47 | 1.67 | 1.76 | 2.3 |
| | 5-Year Median | 1.58 | 2.31 | 2.28 | 2.79 |

As of 01/17/2020

## Industry Analysis **Zacks Industry Rank:** Bottom 25% (190 out of 254)


## Top Peers

| | |
|---|---|
| AMETEK, Inc. **(AME)** | Neutral |
| Fortive Corporation **(FTV)** | Neutral |
| Graco Inc. **(GGG)** | Neutral |
| IDEX Corporation **(IEX)** | Neutral |
| Nordson Corporation **(NDSN)** | Neutral |
| Rockwell Automation, Inc. **(ROK)** | Neutral |
| RBC Bearings Incorporated **(ROLL)** | Neutral |
| Rexnord Corporation **(RXN)** | Neutral |

## Industry Comparison Industry: Manufacturing - General Industrial

| | AIMC Underperform | X Industry | S&P 500 | GGG Neutral | IEX Neutral | NDSN Neutral |
|---|---|---|---|---|---|---|
| | | | | Industry Peers | | |
| **VGM Score** | A | - | - | D | D | C |
| Market Cap | 2.37 B | 2.02 B | 24.65 B | 8.87 B | 13.38 B | 9.78 B |
| # of Analysts | 2 | 4 | 13 | 6 | 6 | 5 |
| Dividend Yield | 1.86% | 0.00% | 1.73% | 1.20% | 1.14% | 0.90% |
| **Value Score** | B | - | - | D | D | D |
| Cash/Price | 0.07 | 0.05 | 0.04 | 0.02 | 0.04 | 0.02 |
| EV/EBITDA | 24.56 | 13.98 | 14.11 | 18.79 | 21.03 | 18.21 |
| PEG Ratio | NA | 2.18 | 2.08 | 2.48 | 2.93 | 1.65 |
| Price/Book (P/B) | 1.27 | 2.80 | 3.39 | 9.02 | 6.18 | 6.16 |
| Price/Cash Flow (P/CF) | 12.98 | 12.98 | 13.81 | 23.69 | 27.06 | 21.56 |
| P/E (F1) | 13.73 | 18.98 | 19.19 | 28.49 | 29.26 | 27.15 |
| Price/Sales (P/S) | 1.27 | 1.42 | 2.69 | 5.41 | 5.34 | 4.46 |
| Earnings Yield | 7.29% | 5.24% | 5.21% | 3.52% | 3.42% | 3.68% |
| Debt/Equity | 0.87 | 0.57 | 0.72 | 0.20 | 0.39 | 0.69 |
| Cash Flow ($/share) | 2.82 | 2.51 | 6.94 | 2.25 | 6.50 | 7.86 |
| **Growth Score** | A | - | - | C | C | B |
| Hist. EPS Growth (3-5 yrs) | 13.39% | 5.37% | 10.56% | 13.95% | 12.58% | NA |
| Proj. EPS Growth (F1/F0) | -6.30% | 7.58% | 7.57% | 3.15% | 3.26% | 6.37% |
| Curr. Cash Flow Growth | 84.71% | 15.81% | 14.73% | 26.72% | 18.92% | -1.46% |
| Hist. Cash Flow Growth (3-5 yrs) | 19.13% | 7.16% | 9.00% | 8.54% | 8.19% | 7.90% |
| Current Ratio | 2.09 | 2.04 | 1.24 | 2.69 | 3.21 | 2.12 |
| Debt/Capital | 46.59% | 37.08% | 42.99% | 16.34% | 28.18% | 40.69% |
| Net Margin | 4.56% | 6.55% | 11.14% | 20.29% | 17.05% | 15.36% |
| Return on Equity | 9.83% | 13.61% | 17.16% | 36.17% | 21.28% | 22.74% |
| Sales/Assets | 0.43 | 0.83 | 0.55 | 1.04 | 0.70 | 0.63 |
| Proj. Sales Growth (F1/F0) | -3.71% | 1.94% | 4.16% | 0.73% | 1.58% | 1.94% |
| **Momentum Score** | C | - | - | F | D | D |
| Daily Price Chg | -0.03% | 0.00% | 0.27% | -0.54% | 0.10% | 0.70% |
| 1 Week Price Chg | -1.21% | -0.25% | 0.39% | 0.52% | -0.40% | -0.27% |
| 4 Week Price Chg | 4.51% | 1.86% | 2.95% | 3.36% | 4.67% | 3.57% |
| 12 Week Price Chg | 24.87% | 8.61% | 7.76% | 15.45% | 11.42% | 9.49% |
| 52 Week Price Chg | 29.87% | 13.65% | 22.29% | 24.39% | 27.58% | 35.52% |
| 20 Day Average Volume | 276,220 | 45,262 | 1,536,375 | 499,781 | 297,347 | 239,258 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.02% | 0.00% |
| (F1) EPS Est 4 week change | -0.19% | 0.00% | 0.00% | 0.15% | 0.06% | -0.10% |
| (F1) EPS Est 12 week change | -1.11% | -1.11% | -0.40% | -5.97% | -0.95% | -3.89% |
| (Q1) EPS Est Mthly Chg | NA% | 0.00% | 0.00% | 0.00% | 0.00% | -0.43% |

## 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 | C |
| 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.

## Disclosures

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