

Altra Industrial (AIMC)

\$30.90 (As of 02/27/20)

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

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/19/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: D

Summary

Over the past month, Altra Industrial's shares have underperformed the industry. For 2020, the company expects difficult end-market conditions to affect its performance, especially in the first half. It noted that first-quarter sales will likely decline sequentially due to the adverse impacts of supply chain and manufacturing disturbances caused by the outbreak of coronavirus in China. Full-year impact of the virus will likely be \$10-\$50 million. Also, forex woes will likely play spoilsport. For the year, sales will likely be \$1,720-\$1,770 million, suggesting a dip from \$1.83 billion reported in 2019. Non-GAAP earnings are expected to be \$2.40-\$2.60 per share compared with \$2.86 in 2019. Analysts have become increasingly bearish on it in the past 30 days, as evident from downward revision in earnings estimates for 2020.

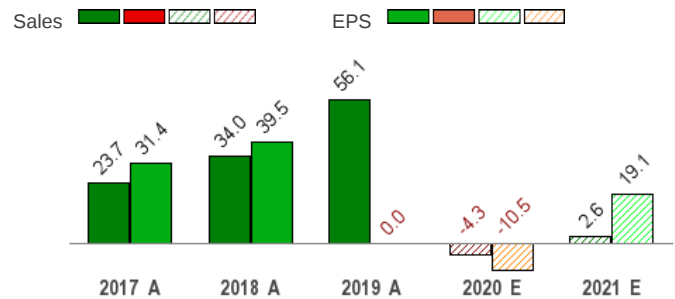
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$38.43 - \$23.89
20 Day Average Volume (sh)	319,457
Market Cap	\$2.0 B
YTD Price Change	-14.7%
Beta	1.96
Dividend / Div Yld	\$0.68 / 2.2%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 20% (202 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.5%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	-4.5%
Expected Report Date	04/24/2020
Earnings ESP	0.0%
P/E TTM	10.8
P/E F1	12.1
PEG F1	NA
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,800 E
2020	437 E	442 E	431 E	444 E	1,755 E
2019	483 A	467 A	443 A	442 A	1,834 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.05 E
2020	\$0.63 E	\$0.66 E	\$0.62 E	\$0.66 E	\$2.56 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 02/27/2020. The reports text is as of 02/28/2020.

Overview

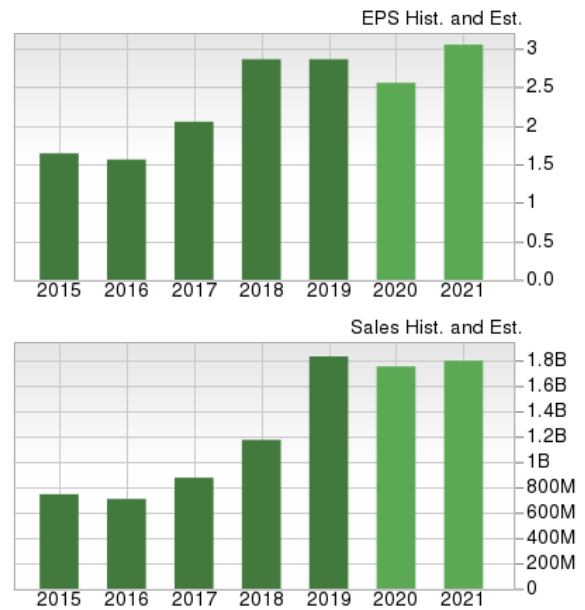
Altra Industrial Motion Corp., incorporated in 2004, is currently headquartered in Braintree, MA. The company is one of the leading manufacturers and distributors of a diversified range of mechanical power transmission or MPT components and motion control products. Its product line includes clutches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

- ▼ Over the past month, Altra Industrial's shares have decreased 9.5% compared with the industry's decline of 6.7%. In fourth-quarter 2019, the company's earnings lagged the Zacks Consensus Estimate by 1.5%. Sales in the quarter declined 5.8% year over year due to weakness in several end markets and forex woes. For 2020, the company expects sales of \$1,720-\$1,770 million, suggesting a decline from \$1.83 billion reported in 2019. Non-GAAP earnings are expected to be \$2.40-\$2.60 per share, whereas it reported \$2.86 in 2019. Also, in the past 30 days, the company's earnings estimates have been lowered by 4.5% to \$2.56 for 2020.
- ▼ 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, metals, factory automation & specialty machinery, distribution, turf & garden, and agriculture markets reported weak results in the fourth quarter. The company believes that difficult end-market conditions will affect its performance in 2020, especially in the first half. Notably, it believes that the Class 8 truck business will be weak in 2020, with sales down \$40 million or 20% year over year. The distribution market will likely be weak in the first half.
- ▼ Altra Industrial believes that its performance is exposed to headwinds arising from uncertainties related to the U.S.-China trade war, impacts of tariffs and the recent outbreak of coronavirus. The company predicts a sequential decline in first-quarter sales due to adverse impacts of supply chain and manufacturing disturbances caused by the virus. Earlier, the company predicted sequential improvement in first-quarter sales. For 2020, it believes that the impact of the virus will be \$10-\$50 million.
- ▼ 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 fourth quarter of 2019, forex woes had an adverse 1% impact on sales. The company believes that unfavorable movements in foreign currencies will continue to be a headwind in 2020.

Softness in end markets, issues-related to the coronavirus outbreak in China and headwinds from unfavorable movements in foreign currencies might prove detrimental to Altra Industrial, going forward.

Risks

- Altra Industrial is poised to benefit from a solid product portfolio, including various well-recognized brands. Also, the company has production facilities in 16 countries. Over the long term, it believes that pricing actions, cross-selling programs, supply-chain initiatives, technological expertise, e-commerce capabilities 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 yielded synergies of \$15 million in 2019, while the same is anticipated to amount to \$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. In 2019, it repaid long-term debt of \$130 million. For 2020, the company expects to repay debt of \$150 million. Exiting 2019, the company's net debt/adjusted EBITDA ratio was 3.8, while it anticipates achieving 3.5-3.7 in 2020.
 - At its Investor Day 2019, Altra Industrial provided long-term financial targets. It anticipates adjusted earnings before interest, tax, depreciation and amortization (EBITDA) margin to 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. Also, it predicts generating free cash flow of \$1 billion by 2023-end.
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Last Earnings Report

Altra Industrial Q4 Earnings Miss Estimates, Up Y/Y

Altra Industrial reported weaker-than-expected results for fourth-quarter 2019. Its earnings lagged estimates by 1.5%, while sales topped the same by a marginal 0.1%.

The machinery company's non-GAAP earnings in the reported quarter were 66 cents per share, lagging the Zacks Consensus Estimate of 67 cents. However, the bottom line increased 1.5% from the year-ago quarter figure of 65 cents.

For 2019, the company's non-GAAP earnings were \$2.86, in line with both the year-ago figure and the Zacks Consensus Estimate.

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	0.15%
EPS Surprise	-1.49%
Quarterly EPS	0.66
Annual EPS (TTM)	2.86

Segmental Sales

In the reported quarter, Altra Industrial's revenues decreased 5.8% year over year to \$441.9 million. Forex woes had an adverse impact of 1% on the quarter's sales. Also, organic sales declined 4.8% year over year due to 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 marginally surpassed the Zacks Consensus Estimate of \$441.3 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 \$219.1 million, declining 4.2% year over year.

Automation & Specialty's sales were \$223.8 million in the fourth quarter, down 7.4% from the last reported quarter.

For 2019, the company's net sales totaled \$1.83 billion, increasing 56% from the previous year and meeting the Zacks Consensus Estimate. Notably, it realized \$15 million in synergies from its collaboration with four companies of the Automation and Specialty business of Fortive Corporation. The collaboration was completed in the fourth quarter of 2018, while the integration was completed in the first quarter of 2019.

Margin Profile

In the reported quarter, Altra Industrial's cost of sales decreased 6.2% year over year to \$284.5 million. Notably, cost of sales represented 64.4% of net sales versus 64.6% in the year-ago quarter. Non-GAAP gross profit was \$157.4 million, down 5.1% year over year. Also, gross margin improved 20 basis points (bps) to 35.6%.

Non-GAAP selling, general and administrative expenses decreased 3.2% year over year to \$70.1 million and represented 15.9% of net sales. Research and development expenses were \$14.7 million versus \$14.6 million in the year-ago quarter.

Non-GAAP adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) were \$89.4 million, the margin being 20.2%. However, non-GAAP operating income in the reported quarter declined 8% year over year to \$72.6 million, with non-GAAP operating margin decreasing 40 bps to 16.4%.

Net interest expenses totaled \$17.2 million in the reported quarter versus \$22.7 million in the year-ago comparable quarter.

Balance Sheet & Cash Flow

Exiting the fourth quarter, Altra Industrial's cash and cash equivalents were \$167.3 million, down 0.4% from \$168 million recorded in the last reported quarter. Long-term debt was \$1,563.8 million, reflecting a 2.4% decline from \$1,602.8 million in the last reported quarter. During 2019, the company repaid long-term debt of \$130 million.

In the fourth quarter of 2019, it generated net cash of \$73 million from operating activities, up 27.4% from the year-ago period. Capital invested for purchasing property, plant and equipment totaled \$14.8 million, decreasing 9.8% year over year. Free cash flow was \$58 million versus \$40.9 million in the year-ago period.

In 2019, the company paid out dividends amounting to \$44.3 million, above \$20 million distributed in the previous year.

Outlook

Altra Industrial plans to continue working on lowering debts and reducing costs. Also, it anticipates realizing \$52 million in synergies from the collaboration with Fortive's Automation and Specialty business by the fourth year of the completion of the transaction.

However, the company anticipates difficult end-market conditions to affect its performance in 2020, especially in the first half. It expects sales of \$1,720-\$1,770 million for the year, down from \$1.83 billion in 2019. Unfavorable movements in foreign currencies and coronavirus-related woes (to the tune of \$10-\$50 million) are predicted to adversely impact results.

Non-GAAP earnings are expected to be \$2.40-\$2.60 per share and non-GAAP adjusted EBITDA is anticipated to be \$340-\$360 million. The tax rate is anticipated to be 22-24%. Capital spending is expected to be \$45-\$50 million.

The company expects to repay debts of \$150 million during the year, with leverage expected to be 3.5-3.7x at the year-end.

Recent News

Dividend

On **Feb 11, 2020**, Altra Industrial announced that its board of directors approved a quarterly cash dividend payout of 17 cents per share to shareholders of record as of Mar 18, 2020. The disbursement of dividends will be made on Apr 2, 2020.

Valuation

Altra Industrial's shares are down 14.7% in the year-to-date period and 2.6% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are down 5.7% and 9.9%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry is up 8.6%, while the sector is down 3.9%.

The S&P 500 index is down 7.6% in the year-to-date period, while increased 5.4% in the past year.

The stock is currently trading at 11.73x forward 12-month earnings per share, which compares to 19.81x for the Zacks sub-industry, 16.5x for the Zacks sector and 17.03x 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 \$26 reflects 9.87x 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	11.73	19.81	16.5	17.03
	5-Year High	25.37	22.58	19.89	19.34
	5-Year Low	7.74	15.2	12.6	15.18
	5-Year Median	16.13	19	16.54	17.45
EV/EBITDA F12M	Current	10.66	12.81	17.81	13.54
	5-Year High	12.5	12.81	18.2	13.72
	5-Year Low	2.21	8.3	10.68	9.08
	5-Year Median	9.07	10.76	14.04	10.81
EV/Sales F12M	Current	2.12	2.78	3.14	3.32
	5-Year High	2.16	2.78	3.14	3.39
	5-Year Low	0.47	1.67	1.76	2.3
	5-Year Median	1.59	2.32	2.28	2.8

As of 02/27/2020

Industry Analysis Zacks Industry Rank: Bottom 20% (202 out of 254)



Top Peers

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

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	AIMC Underperform	X Industry	S&P 500	GGG Neutral	IEX Underperform	NDSN Neutral
VGM Score	B	-	-	C	C	D
Market Cap	2.00 B	1.70 B	21.35 B	8.55 B	11.59 B	8.63 B
# of Analysts	2	4	13	7	8	5
Dividend Yield	2.20%	0.00%	2.02%	1.38%	1.31%	1.02%
Value Score	C	-	-	F	F	C
Cash/Price	0.08	0.05	0.04	0.02	0.05	0.01
EV/EBITDA	22.18	11.61	12.70	18.15	18.02	16.29
PEG Ratio	NA	2.05	1.84	3.21	2.65	1.47
Price/Book (P/B)	1.07	2.19	2.92	8.28	5.11	5.28
Price/Cash Flow (P/CF)	10.94	11.35	11.89	22.68	22.15	19.01
P/E (F1)	11.75	18.04	16.90	25.69	26.50	24.26
Price/Sales (P/S)	1.09	1.35	2.39	5.19	4.65	3.94
Earnings Yield	8.28%	5.50%	5.90%	3.89%	3.77%	4.12%
Debt/Equity	0.87	0.52	0.70	0.16	0.38	0.66
Cash Flow (\$/share)	2.82	2.74	6.94	2.24	6.87	7.86
Growth Score	B	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	15.19%	7.79%	10.85%	14.76%	13.39%	NA
Proj. EPS Growth (F1/F0)	-10.66%	4.26%	6.79%	4.28%	-1.01%	4.94%
Curr. Cash Flow Growth	84.71%	10.41%	5.92%	0.13%	4.80%	-1.46%
Hist. Cash Flow Growth (3-5 yrs)	19.13%	6.52%	8.38%	7.47%	7.29%	7.90%
Current Ratio	2.09	2.01	1.23	2.77	3.52	2.71
Debt/Capital	46.59%	34.45%	42.53%	13.82%	27.28%	39.66%
Net Margin	6.94%	6.24%	11.57%	20.89%	17.06%	15.54%
Return on Equity	9.83%	12.91%	16.80%	34.45%	20.68%	21.78%
Sales/Assets	0.42	0.79	0.54	1.01	0.68	0.62
Proj. Sales Growth (F1/F0)	-4.32%	0.00%	4.07%	1.99%	0.21%	2.00%
Momentum Score	D	-	-	C	B	F
Daily Price Chg	-3.26%	-2.67%	-3.99%	-5.18%	-4.49%	-3.83%
1 Week Price Chg	-4.78%	-0.49%	-0.94%	0.55%	-0.82%	-4.11%
4 Week Price Chg	-9.78%	-8.83%	-9.83%	-6.95%	-8.30%	-13.39%
12 Week Price Chg	-6.34%	-5.27%	-6.79%	5.19%	-5.07%	-9.95%
52 Week Price Chg	-2.86%	-6.63%	2.79%	8.41%	5.59%	10.09%
20 Day Average Volume	319,457	48,519	2,169,477	814,457	385,530	225,528
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.37%
(F1) EPS Est 4 week change	-4.49%	-0.48%	-0.09%	0.00%	-4.76%	-2.38%
(F1) EPS Est 12 week change	-4.66%	-1.10%	-0.24%	6.28%	-4.28%	-3.84%
(Q1) EPS Est Mthly Chg	NA%	-4.42%	-0.72%	0.00%	-10.79%	-5.08%

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	C
Growth Score	B
Momentum Score	D
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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