# Ametek Inc.(AME)

**$98.30** (As of 02/07/20)

Price Target (6-12 Months): **$103.00**

Long Term: 6-12 Months | **Zacks Recommendation:** **Neutral**
(Since: 06/10/19)
Prior Recommendation: Outperform

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **3-Hold**
Zacks Style Scores: VGM:C
Value: C | Growth: B | Momentum: D

## Summary

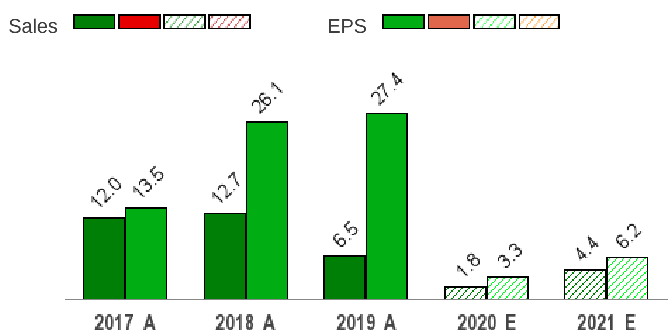
AMETEK reported fourth-quarter results wherein both earnings and sales improved year over year on the back of positive contributions from acquisitions. Notably, the buyouts of Gatan, Telular and Spectro Scientific drove sales in the company's Electronic Instruments segment. Further, Electromechanical unit delivered solid operational performance. We believe proper execution of core growth strategies like operational excellence, global market expansion, investments in product development and strategic acquisitions will continue to aid AMETEK's top line. Notably, the stock has outperformed the industry over a year. However, ongoing softness in the automation market does not bode well for Electromechanical unit. Further, foreign exchange fluctuations and high goodwill associated with aggressive acquisition strategy remain risks.

## Price, Consensus & Surprise


## Data Overview

| | |
|---|---|
| 52 Week High-Low | **$102.31 - $75.71** |
| 20 Day Average Volume (sh) | **1,186,428** |
| Market Cap | **$22.5 B** |
| YTD Price Change | **-1.4%** |
| Beta | **1.20** |
| Dividend / Div Yld | **$0.56 / 0.6%** |
| Industry | **Electronics - Testing Equipment** |
| Zacks Industry Rank | **Top 6% (15 out of 254)** |
| Last EPS Surprise | **4.9%** |
| Last Sales Surprise | **-2.7%** |
| EPS F1 Est- 4 week change | **-2.0%** |
| Expected Report Date | **NA** |
| Earnings ESP | **0.0%** |
| P/E TTM | **23.5** |
| P/E F1 | **22.7** |
| PEG F1 | **2.4** |
| P/S TTM | **4.4** |

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




## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | | | | | 5,485 E |
| 2020 | | 1,343 E | 1,328 E | 1,371 E | 5,254 E |
| 2019 | 1,288 A | 1,289 A | 1,277 A | 1,305 A | 5,159 A |

## EPS Estimates

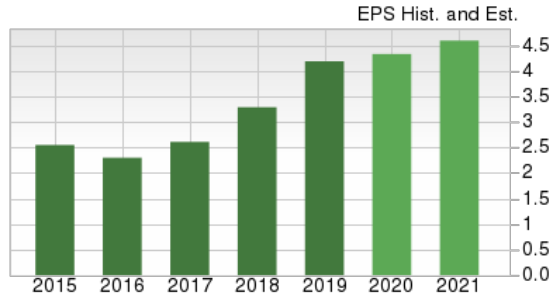
| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | $1.09 E | $1.14 E | $1.16 E | $1.15 E | $4.60 E |
| 2020 | $1.03 E | $1.09 E | $1.11 E | $1.10 E | $4.33 E |
| 2019 | $1.00 A | $1.05 A | $1.06 A | $1.08 A | $4.19 A |

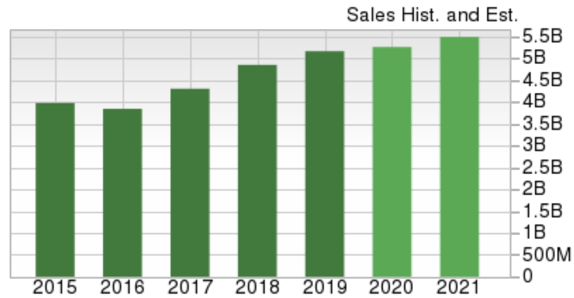
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/07/2020. The reports text is as of 02/10/2020.

## Overview

AMETEK, located in Berwyn, PA, is one of the leading manufacturers of electronic appliances and electromechanical devices. AMETEK has more than 120 operating sites all over the world.




The company operates over 80 sales and service stations in North America, Europe, Asia and South America to support these operations.

AMETEK sells its products globally through two operating groups, the Electronic Instruments Group ("EIG") and the Electromechanical Group ("EMG").

The Electronic Instruments Group ("EIG") (64.4% of total revenue in 2019) specializes in manufacturing instruments employed for monitoring, examining, calibration and display purposes in the aerospace, power and industrial instrumentation markets. The segment is one of the leaders in many of the markets it serves, including airframe and aircraft engine sensors; process and analytical instruments; electric power generation, distribution and transmission instruments; and heavy-vehicle instrument panels.

The Electromechanical Group ("EMG") (35.6% of total revenue in 2019) produces engineered electrical connectors and electronics packaging for electronic applications in aerospace, defense, medical and industrial markets. In addition, it manufactures advanced technical motor and motion control products used in electronic data storage, medical appliances, company equipment, robotics and many other applications. It is also engaged in the production of precision motion control solutions, specialty metals and alloys; electric motors, blowers and heat exchangers.

The target customers are aerospace and defense industries, commercial and fitness equipment makers, food and beverage machine builders, and manufacturers of hydraulic pumps, industrial blowers and vacuum cleaners.

AMETEK revenues increased 6% to $5.2 billion in 2019.

The company uses a direct sales model for the distribution of its products, which is supplemented by distributors and sales representatives as necessary. Given the scale of operations, the company has a host of competitors, including Agilent Technologies, Emerson Electric and Cognex.

## Reasons To Buy:

▲ Considering its size and scale, AMETEK has seen pretty **strong growth** rates in the last few years due to the managements strategy of productivity improvements; increasing organic sales through global market expansion and new product development; and synergies from strategic acquisitions. This has helped Ametek build an excellent backlog that has resulted in solid performance quarter after quarter. One of the key growth strategies of AMETEK is operational excellence. AMETEK has been focusing on operational improvements and efficiencies, which will help aid both competitive and financial growth. Steps taken to implement this strategy include global sourcing, strategic procurement, lean manufacturing, value engineering, value analysis and realignment actions. In low-growth environments, Operational Excellence initiatives help the company drive significant margin expansion while also allowing it to continue to invest in key growth initiatives. Additionally, AMETEK's diversified geographic and industrial operations coupled with its highly differentiated product line indicate healthy growth prospects for the company. Both these factors cushion it against unfavorable developments in any one industry or country at a given time. With the core business remaining steady, growth initiatives are reflected quickly in top and bottom line performance.

The company excels in making strategic acquisitions, driving operational efficiencies, introducing new products and taking core competencies to the global marketplace.

▲ AMETEK supplements organic growth with **strategic acquisitions**. For this purpose, it generally looks for niche players that complement one of its many product lines or round out its portfolio. Therefore, acquisitions have mostly been small and well-managed, and incorporation issues negligible. In 2016, the company deployed around $391.4 million in capital on five acquisitions — Brookfield Engineering Laboratories, ESP/SurgeX, Nu Instruments, HS Foils and Laserage. In 2017, AMETEK deployed around $520 million in capital and garnered approximately $225 million in revenues from two acquisitions – MOCON and Rauland. In early 2018, the company completed two acquisitions – FMH Aerospace and Arizona Instrument by deploying approximately $273 million of capital. Further, AMETEK's acquisitions of Soundcom and Motec have already started aiding its top-line growth. Additionally, the company has deployed $565 million in its recent acquisitions of Telular and Forza Silicon which are likely to strengthen its EIG division. Further, the company's latest buyouts of Spectro Scientific and Gatan are aiding sales growth in its EIG unit. Further, the Pacific Design Technologies buyout is contributing well to the performance of the company's EMG unit.

▲ The company has consistently introduced **new and improved products** that added to its vastly differentiated product pipeline. Recently, Mocon launched AQUATRAN Model 3 WVTR measurement instrument. It measures the water vapor transition rate of ultra-high barrier materials. Also, Rauland launched Responder 5000 'nurse call' system. Recently, AMETEK's Zygo business launched two next-generation 3D optical profilers named - Nexview NX2 and NewView 9000 profiling instruments. The consistent product introductions generate customer loyalty and facilitate market share gains, thereby boosting revenues. New products introduced over the last three years comprised 24% of revenues. This indicates that the company is not only good at developing products but also at marketing them.

## Reasons To Sell:

A weak balance sheet, foreign exchange headwinds and vulnerability to integration issues due to an extremely aggressive acquisition strategy remain major concerns.

- AMETEK has a **weak balance sheet**. Total debt at the end of December 2019 was $2.3 billion. Such high debt levels may impede sufficient cash flow generation, which is needed to meet future debt obligations. Moreover, this may keep the company from accessing the debt market and refinancing at suitable rates.

- Acquisitions are a part of AMETEK's growth strategy to supplement the top line. However, the company's inability to identify suitable acquisition candidates, unsuccessful execution and integration of new acquisitions and an increase in acquisition costs due to stiff competition could negatively impact its sales/margin performance. The large number of acquisitions increases the chances of **integration issues**.

- Its nature of business makes AMETEK vulnerable to **foreign exchange headwinds**. The company has manufacturing operations in 17 countries outside the United States and more than 50% of international sales come from these operations. Thus, appreciation or depreciation of the U.S. dollar versus foreign currencies could impact the company's financial results.

## Last Earnings Report

**AMETEK Beats Q4 Earnings Estimates, Lags Revenues**

| Quarter Ending | 12/2019 |
|---|---|
| Report Date | **Feb 05, 2020** |
| Sales Surprise | **-2.73%** |
| EPS Surprise | **4.85%** |
| Quarterly EPS | **1.08** |
| Annual EPS (TTM) | **4.19** |

AMETEK reported fourth-quarter 2019 adjusted earnings of $1.08 per share, which beat the Zacks Consensus Estimate by 4.8% and also surpassed management's guidance of $1.01-$1.03. The figure improved 13% from the year-ago quarter and 1.9% sequentially.

Net sales improved 3% on a year-over-year basis and 2.2% sequentially to $1.30 billion.

Strong performance by the company's Electronic Instruments Group (EIG) segment drove sales growth during the reported quarter. Further, positive contributions from strategic acquisitions remain a positive. Additionally, improved operational activities drove the results.

However, the top line figure fell short of the Zacks Consensus Estimate of $1.34 billion.

Notably, the company faced weakness in its Electromechanical Group (EMG) segment during the fourth quarter, which remains a concern.

Nevertheless, the company's proper execution of the four core growth strategies of operational excellence, global market expansion, investments in product development and acquisitions are expected to continue benefiting business growth in the near term as well as the long haul.

**Segments in Detail**

**EIG (67.5% of total sales):** The company generated $880.2 million of sales from this segment, reflecting growth of 7% from the year-ago quarter. The benefits from acquisitions of Gatan, Telular and Spectro Scientific drove year-over-year sales within this segment.

**EMG (32.5% of sales):** This segment generated $424.7 million of sales in the fourth quarter, which decreased 5% on a year-over-year basis. Nevertheless, the company witnessed strong operational performance within the segment.

**Operating Details**

For the fourth quarter, operating expenses were $1.01 billion, up 1.8% year over year. However, the figure contracted 60 basis points (bps) from the year-ago quarter as a percentage of net sales.

Consequently, operating margin was 22.8%, which expanded 60 bps from the year-ago reported figure.

Segment wise, operating margins for EIG and EMG were 26.1% and 19.9%, expanding 10 bps and 60 bps, respectively, on a year-over-year basis.

**Balance Sheet**

As of Dec 31, 2019, cash and cash equivalents were $393.03 million, down from $735.4 million as of Sep 30, 2019.

Further, inventories amounted to $624.6 million at the end of the fourth quarter compared with $623.8 million at the end of the prior quarter.

Long-term debt was $2.3 billion, up from $2.2 billion in the previous quarter.

**Guidance**

For first-quarter 2020, AMETEK expects sales to improve by a low-single digit on a year-over-year basis.

Adjusted earnings are anticipated to be $1.01-$1.04 per diluted share, reflecting year-over-year growth of 1-4%.

For 2020, the company anticipates total sales to improve by low-single digit from 2019.

Further, AMETEK expects adjusted earnings per share in the range of $4.24-$4.38 per share, reflecting growth of 1-5% from 2019.

## Recent News

On **Jan 7, 2020**, AMETEK entered into a definitive agreement to divest its Reading Alloys business to Kymera International.

On **Oct 31, 2019**, AMETEK acquired Gatan which is a manufacturer of instrumentation and software used to enhance and extend the operation and performance of electron microscopes. This will strengthen AMETEK's Electronic Instruments Group.

On **Sep 4, 2019**, AMETEK acquired Pacific Design Technologies which offers advanced, mission-critical thermal management solutions. This buyout will strengthen Electromechanical Group of the company.

## Valuation

AMETEK shares are up 15.6% in the past six-month period and 29.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 19.3% and 21.9% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 16.9% and 29.4%, respectively.

The S&P 500 index is up 15.9% in the past six-month period and 21.9% in the past year.

The stock is currently trading at 22.57X forward 12-month earnings, which compares to 23.72X for the Zacks sub-industry, 22.82X for the Zacks sector and 19.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.65X and as low as 16.53X, with a 5-year median of 20.57X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $103 price target reflects 23.68X forward 12-month earnings.

The table below shows summary valuation data for AME

**Valuation Multiples - AME**

| | | Stock | Sub-Industry | Sector | S&P 500 |
|---|---|---|---|---|---|
| P/E F 12M | Current | 22.57 | 23.72 | 22.82 | 19.12 |
| | 5-Year High | 28.65 | 26.26 | 22.82 | 19.34 |
| | 5-Year Low | 16.53 | 18.3 | 16.87 | 15.18 |
| | 5-Year Median | 20.57 | 22.05 | 19.32 | 17.47 |
| EV/Sales TTM | Current | 4.72 | 4.3 | 4.42 | 3.06 |
| | 5-Year High | 4.88 | 4.64 | 4.42 | 3.27 |
| | 5-Year Low | 2.91 | 2.45 | 2.56 | 2.15 |
| | 5-Year Median | 3.88 | 3.81 | 3.46 | 2.77 |
| EV/EBITDA TTM | Current | 16.55 | 17.6 | 12.74 | 11.36 |
| | 5-Year High | 19.52 | 19.05 | 12.74 | 12.85 |
| | 5-Year Low | 11.41 | 9.04 | 7.68 | 8.47 |
| | 5-Year Median | 15.34 | 14.82 | 10.53 | 10.7 |

As of 02/07/2020

## Industry Analysis **Zacks Industry Rank:** Top 6% (15 out of 254)


## Top Peers

| | |
|---|---|
| Advanced Energy Industries, Inc. **(AEIS)** | Outperform |
| Itron, Inc. **(ITRI)** | Outperform |
| Agilent Technologies, Inc. **(A)** | Neutral |
| Cognex Corporation **(CGNX)** | Neutral |
| Emerson Electric Co. **(EMR)** | Neutral |
| Jabil, Inc. **(JBL)** | Neutral |
| Kemet Corporation **(KEM)** | Neutral |
| Methode Electronics, Inc. **(MEI)** | Neutral |

## Industry Comparison Industry: Electronics - Testing Equipment

Industry Peers

| | AME Neutral | X Industry | S&P 500 | A Neutral | AEIS Outperform | ITRI Outperform |
|---|---|---|---|---|---|---|
| **VGM Score** | C | - | - | D | D | C |
| Market Cap | 22.47 B | 10.30 B | 24.00 B | 25.80 B | 2.72 B | 3.25 B |
| # of Analysts | 9 | 5 | 13 | 9 | 5 | 5 |
| Dividend Yield | 0.57% | 0.47% | 1.78% | 0.87% | 0.00% | 0.00% |
| **Value Score** | C | - | - | D | C | D |
| Cash/Price | 0.03 | 0.05 | 0.04 | 0.05 | 0.13 | 0.04 |
| EV/EBITDA | 18.91 | 21.33 | 14.07 | 21.29 | 15.07 | 52.23 |
| PEG Ratio | 2.34 | 1.95 | 2.04 | 1.95 | NA | 0.91 |
| Price/Book (P/B) | 4.39 | 5.02 | 3.28 | 5.42 | 4.11 | 4.25 |
| Price/Cash Flow (P/CF) | 23.63 | 22.16 | 13.58 | 20.98 | 15.38 | 13.75 |
| P/E (F1) | 22.63 | 22.72 | 18.86 | 24.37 | 21.39 | 22.72 |
| Price/Sales (P/S) | 4.36 | 4.37 | 2.65 | 5.00 | 4.50 | 1.32 |
| Earnings Yield | 4.40% | 4.40% | 5.30% | 4.10% | 4.67% | 4.40% |
| Debt/Equity | 0.44 | 0.38 | 0.71 | 0.38 | 0.64 | 1.31 |
| Cash Flow ($/share) | 4.16 | 3.96 | 6.89 | 3.96 | 4.62 | 5.97 |
| **Growth Score** | B | - | - | C | F | C |
| Hist. EPS Growth (3-5 yrs) | 9.46% | 12.80% | 10.80% | 9.28% | 20.12% | 36.85% |
| Proj. EPS Growth (F1/F0) | 3.42% | 10.67% | 7.23% | 9.72% | 45.87% | 15.02% |
| Curr. Cash Flow Growth | 22.35% | 9.85% | 9.51% | 9.85% | -0.85% | 27.33% |
| Hist. Cash Flow Growth (3-5 yrs) | 8.72% | 6.16% | 8.55% | -2.46% | 20.48% | -7.65% |
| Current Ratio | 1.42 | 1.53 | 1.20 | 1.53 | 2.47 | 1.41 |
| Debt/Capital | 30.75% | 27.39% | 42.90% | 27.39% | 38.93% | 56.69% |
| Net Margin | 16.70% | 16.70% | 11.76% | 20.74% | 12.25% | 2.37% |
| Return on Equity | 20.14% | 18.69% | 16.98% | 20.13% | 13.00% | 18.69% |
| Sales/Assets | 0.56 | 0.57 | 0.54 | 0.57 | 0.59 | 0.92 |
| Proj. Sales Growth (F1/F0) | 4.12% | 6.29% | 4.15% | 7.08% | 69.14% | 2.12% |
| **Momentum Score** | D | - | - | D | B | D |
| Daily Price Chg | -0.39% | -1.49% | -0.64% | -1.95% | -2.91% | -1.04% |
| 1 Week Price Chg | -2.43% | -3.91% | -2.60% | -6.46% | -7.07% | -5.24% |
| 4 Week Price Chg | -3.02% | -1.51% | 0.72% | -4.70% | -0.67% | -3.75% |
| 12 Week Price Chg | 1.34% | 5.32% | 4.69% | 8.35% | 10.85% | 7.80% |
| 52 Week Price Chg | 30.88% | 10.62% | 16.01% | 10.41% | 42.01% | 44.26% |
| 20 Day Average Volume | 1,186,428 | 1,347,243 | 1,961,054 | 1,786,410 | 239,172 | 246,447 |
| (F1) EPS Est 1 week change | -0.84% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | -2.04% | 0.00% | -0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 12 week change | -1.84% | 0.84% | -0.16% | -0.26% | 2.69% | 0.95% |
| (Q1) EPS Est Mthly Chg | -2.76% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

## 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 | C |

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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