Aug 10, 2020

Ametek Inc.(AME)

$97.52 (As of 08/07/20)

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

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/10/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: C | Momentum: A	

Summary

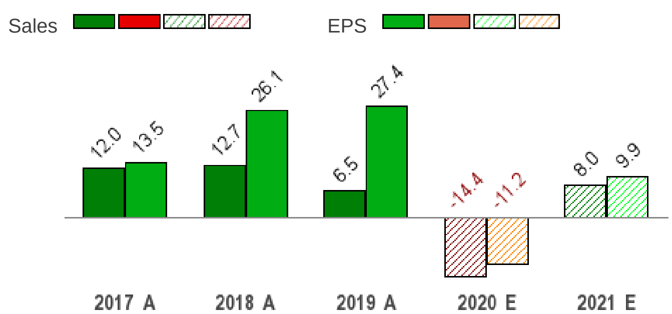
AMETEK reported second quarter results wherein both earnings and revenues topped the estimates. The Gatan and IntelliPower buyouts contributed well which benefited the Electronic Instruments segment. Further, Electromechanical unit delivered solid operational performance which was a major positive. Also, strong momentum across defense and medical markets was a tailwind. We believe proper execution of core growth strategies like operational excellence, global market expansion, investments in product development and strategic acquisitions will continue to drive AMETEK's top-line. However, disruptions caused by the coronavirus pandemic remain major headwinds. Further, foreign exchange fluctuations and high goodwill associated with aggressive acquisition strategy remain risks. The stock has underperformed its industry on a year-to-date basis.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$102.31 - $54.82**
20 Day Average Volume (sh)	**1,215,582**
Market Cap	**$22.5 B**
YTD Price Change	**-2.0%**
Beta	**1.24**
Dividend / Div Yld	**$0.72 / 0.7%**
Industry	**Electronics - Testing Equipment**
Zacks Industry Rank	**Top 38% (97 out of 252)**
Last EPS Surprise	**16.7%**
Last Sales Surprise	**3.8%**
EPS F1 Est- 4 week change	**2.5%**
Expected Report Date	**NA**
Earnings ESP	**0.0%**
P/E TTM	**24.5**
P/E F1	**26.2**
PEG F1	**2.7**
P/S TTM	**4.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,243 E	1,119 E	1,177 E	1,250 E	4,771 E
2020	1,202 A	1,012 A	1,076 E	1,151 E	4,418 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	$1.04 E	$1.02 E	$1.01 E	$1.03 E	$4.09 E
2020	$1.02 A	$0.84 A	$0.91 E	$0.93 E	$3.72 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.

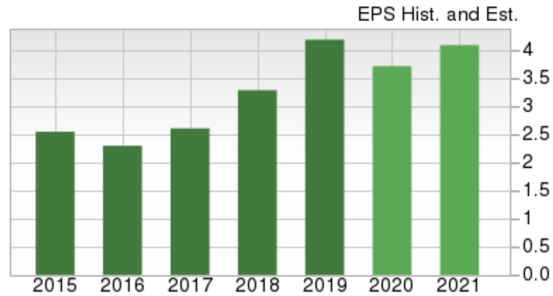
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/07/2020. The reports text is as of 08/10/2020.

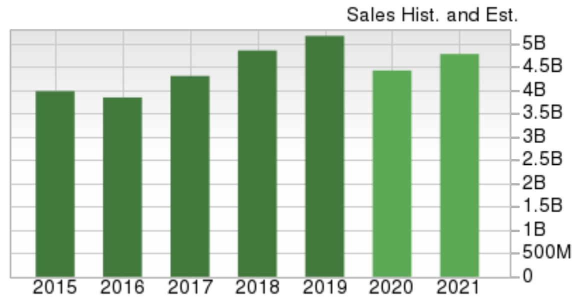
Overview

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 company had approximately 18,100 employees worldwide as of Dec 31, 2019.





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:

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

- 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.

- 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, Spectro Scientific and Motec have 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 buyout of Gatan is 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. In 2019, AMETEK spent $1.1 billion on acquisitions.

- 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's balance sheet remains leveraged. As of Jun 30, 2020, the company's net debt amounted to $2.5 billion compared with $2 billion as of Mar 31, 2020. Accumulating 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. Further, the debt-to-total capital was 34.3% as of Jun 30, 2020 which decreased from 35.1% as of Mar 31, 2020. Although declining ratio is a positive, the presence of current debt worth current debt of $115.9 million as of Jun 30, 2020 is a negative

- 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 48% of total 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 Q2 Earnings & Revenues Estimates

Quarter Ending	06/2020
Report Date	Aug 04, 2020
Sales Surprise	3.83%
EPS Surprise	16.67%
Quarterly EPS	0.84
Annual EPS (TTM)	4.00

AMETEK reported second-quarter 2020 adjusted earnings of 84 cents per share, which beat the Zacks Consensus Estimate by 16.7%.

However, the bottom line declined 20% from the year-ago quarter and 17.6% from the previous quarter.

Net sales of $1.01 billion surpassed the Zacks Consensus Estimate of $974.6 million. Notably, the top line was down 22% year over year and 15.8% sequentially.

Disruptions caused by the COVID-19 pandemic led to decline in the company's top line. The coronavirus crisis affected both Electronic Instruments Group (EIG) and Electromechanical Group (EMG) segments during the reported quarter.

Nevertheless, the company delivered strong operational performance during the second quarter.

We believe AMETEK's proper execution of the four core growth strategies — operational excellence, global market expansion, investments in product development and acquisitions are expected to continue aiding its financial growth in the near term and the long haul. Moreover, the AMETEK Growth Model is likely to continue driving the company's business performance.

Segments in Detail

EIG (64% of total sales): The company generated sales of $647.9 million from this segment, reflecting a decline of 21% from the year-ago quarter. This can primarily be attributed to the coronavirus pandemic. Nevertheless, the segment witnessed strong operating performance during the reported quarter.

EMG (36% of sales): This segment generated $364.04 million of sales in the second quarter, which declined 22% on a year-over-year basis. Coronavirus-induced headwinds were major negatives. Nevertheless, the segment delivered strong operational results on the back of proper execution of operational excellence initiatives.

Operating Details

For the second quarter, operating expenses were $784.9 billion, down 21% year over year. However, the figure expanded 50 basis points (bps) from the year-ago quarter as a percentage of net sales.

Consequently, operating margin was 22.4%, which contracted 50 bps from the year-ago reported figure.

Although operating margin for EIG contracted 130 bps year over year to 24.6%, the same for EMG expanded 170 bps from the year-ago quarter to 23.2%.

Balance Sheet& Cash Flow

As of Jun 30, 2020, cash and cash equivalents were $1.13 billion, significantly down from $1.25 billion as of Mar 31, 2020.

Further, inventories amounted to $621.5 million at the end of the second quarter compared with $654.3 million at the end of the prior quarter.

Long-term debt was $2.75 billion in the reported quarter, up from $2.74 billion in the prior quarter.

The company generated $314.6 million of cash from operation during the second quarter compared with $271 million in the previous quarter.

Further, AMETEK generated free cash flow of $304.5 million in the reported quarter.

Recent News

On **May 7, 2020**, AMETEK's Board of Directors approved a quarterly dividend of 18 cents per share for the shareholders of the record as of Jun 12 payable on Jun 30.

On **Mar 23, 2020**, AMETEK completed the sale of the Reading Alloys business to Kymera International in an all-cash transaction valued at $250 million.

On **Feb 24, 2020**, AMETEK revealed that it is gaining traction among health researchers on the back of its Gatan buyout. Notably, K3 camera of Gatan is being used by the researchers at the University of Texas at Austin and the National Institutes of Health to map a part of the novel coronavirus called the spike protein.

On **Feb 12, 2020**, AMETEK's Board of Directors approved a hike of 29% in the quarterly dividend which now stands at 18 cents per share. Notably, the dividend is applicable for the shareholders of the record as for Mar 13, 2020 which will be paid on Mar 31, 2020.

On **Feb 5, 2020**, AMETEK acquired IntelliPower which offers ruggedized solutions including uninterruptible power systems, external battery packs, power distribution units and power conditioners. The latest buyout expands the company's Electronic Instruments Group (EIG) segment.

Valuation

AMETEK shares are down 1.9% in the year-to-date period but up 15% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 5.4% and 20.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 26% and 37.3%, respectively.

The S&P 500 index is up 3.9% in the year-to-date period and 16.4% in the past year.

The stock is currently trading at 24.78X forward 12-month earnings, which compares to 26.58X for the Zacks sub-industry, 26.31X 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 28.65X and as low as 13.45X, with a 5-year median of 20.98X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $103 price target reflects 26.1X 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 F12M	Current	24.78	26.58	26.31	22.77
	5-Year High	28.65	26.58	26.31	22.77
	5-Year Low	13.45	18.3	16.72	15.25
	5-Year Median	20.98	22.09	19.61	17.58
EV/Sales TTM	Current	5.02	4.78	4.68	3.25
	5-Year High	5.02	4.92	4.68	3.46
	5-Year Low	2.91	2.44	2.58	2.14
	5-Year Median	3.99	4.12	3.65	2.86
EV/EBITDA TTM	Current	18.52	17.58	13.36	12.62
	5-Year High	19.52	19.06	13.51	12.84
	5-Year Low	10.37	8.83	7.59	8.24
	5-Year Median	15.72	15.16	10.9	10.9

As of 08/07/2020

Industry Analysis **Zacks Industry Rank:** Top 38% (97 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Agilent Technologies, Inc. **(A)**	Neutral	2
Advanced Energy Industries, Inc. **(AEIS)**	Neutral	3
Cognex Corporation **(CGNX)**	Neutral	3
Emerson Electric Co. **(EMR)**	Neutral	3
Fortive Corporation **(FTV)**	Neutral	3
Methode Electronics, Inc. **(MEI)**	Neutral	NA
Itron, Inc. **(ITRI)**	Underperform	5
Jabil, Inc. **(JBL)**	Underperform	5

Industry Comparison Industry: Electronics - Testing Equipment

				Industry Peers		
	AME	**X Industry**	**S&P 500**	**A**	**FTV**	**ITRI**
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	2	3	5
VGM Score	B	-	-	C	B	C
Market Cap	22.46 B	13.08 B	23.30 B	30.19 B	24.35 B	2.70 B
# of Analysts	8	7	14	6	6	4
Dividend Yield	0.74%	0.42%	1.76%	0.74%	0.39%	0.00%
Value Score	C	-	-	C	C	C
Cash/Price	0.06	0.06	0.07	0.04	0.04	0.20
EV/EBITDA	17.21	19.21	13.32	24.90	19.21	14.42
PEG Ratio	2.74	3.14	2.94	3.14	4.26	2.21
Price/Book (P/B)	4.09	4.09	3.19	6.33	3.29	3.37
Price/Cash Flow (P/CF)	18.69	19.15	12.51	24.66	14.48	10.50
P/E (F1)	26.49	31.37	22.02	31.37	22.89	55.31
Price/Sales (P/S)	4.68	4.68	2.53	5.77	3.41	1.15
Earnings Yield	3.80%	3.19%	4.37%	3.19%	4.36%	1.80%
Debt/Equity	0.50	0.38	0.77	0.38	0.65	1.73
Cash Flow ($/share)	5.23	3.96	6.94	3.96	4.99	6.39
Growth Score	C	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	13.12%	14.42%	10.46%	14.42%	9.31%	40.69%
Proj. EPS Growth (F1/F0)	-15.48%	-9.13%	-6.80%	0.22%	-9.34%	-63.48%
Curr. Cash Flow Growth	23.89%	9.31%	5.39%	9.85%	22.89%	7.46%
Hist. Cash Flow Growth (3-5 yrs)	10.17%	9.18%	8.55%	-2.46%	9.55%	9.18%
Current Ratio	2.47	2.47	1.33	1.63	1.13	2.25
Debt/Capital	33.42%	27.27%	44.50%	27.27%	39.57%	63.38%
Net Margin	18.52%	18.52%	10.13%	13.04%	8.00%	-0.96%
Return on Equity	17.13%	16.22%	14.39%	20.76%	16.22%	11.97%
Sales/Assets	0.48	0.57	0.51	0.57	0.42	0.82
Proj. Sales Growth (F1/F0)	-14.35%	-4.82%	-1.51%	0.82%	-4.82%	-6.91%
Momentum Score	A	-	-	F	A	D
Daily Price Chg	0.28%	0.17%	0.90%	0.34%	2.16%	2.21%
1 Week Price Chg	0.38%	0.99%	0.14%	1.60%	-1.14%	2.73%
4 Week Price Chg	13.37%	5.77%	8.95%	8.74%	7.36%	4.18%
12 Week Price Chg	24.18%	19.63%	18.90%	19.77%	29.54%	19.49%
52 Week Price Chg	12.49%	6.52%	1.18%	40.71%	0.54%	-2.88%
20 Day Average Volume	1,215,582	1,344,784	2,057,775	1,473,986	2,269,051	235,344
(F1) EPS Est 1 week change	2.33%	0.00%	0.00%	0.00%	0.00%	-18.90%
(F1) EPS Est 4 week change	2.55%	2.55%	1.36%	0.11%	10.34%	-18.90%
(F1) EPS Est 12 week change	2.27%	5.21%	1.57%	5.56%	5.21%	-40.74%
(Q1) EPS Est Mthly Chg	2.50%	2.50%	0.54%	0.00%	13.76%	-45.61%

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	C
Growth Score	C
Momentum Score	A
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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