

Badger Meter, Inc. (BMI)

\$64.33 (As of 06/03/20)

Price Target (6-12 Months): **\$68.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/16/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: C

Summary

Badger Meter products are known for accuracy, durability and for providing valuable as well as timely measurement data. Driven by a favorable mix of high-end products and services, the company is continuously prioritizing its presence in select regional markets outside the United States that offer attractive growth prospects. In light of the COVID-19 pandemic, Badger Meter has undertaken several cost-saving initiatives to ensure smooth functioning of its business operations. However, high R&D expenses are expected to strain the bottom line. Its Flow Instrumentation business faces sluggish demand for industrial products, particularly in international markets. Cargo capacity constraints and supply chain disruptions are concerns. With the overall activity in end markets slowing down amid COVID-19 pandemic, its near-term outlook appears murky

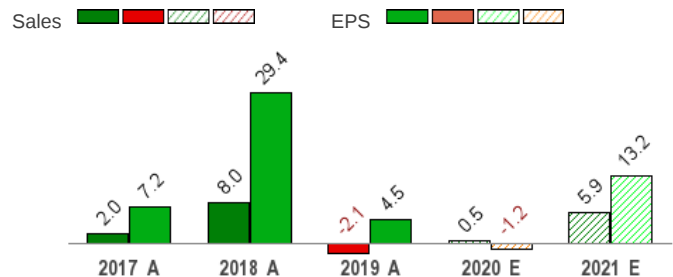
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$70.84 - \$41.50
20 Day Average Volume (sh)	137,800
Market Cap	\$1.9 B
YTD Price Change	-0.9%
Beta	0.82
Dividend / Div Yld	\$0.68 / 1.1%
Industry	Instruments - Control
Zacks Industry Rank	Bottom 1% (252 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.5%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/16/2020
Earnings ESP	0.0%
P/E TTM	38.8
P/E F1	40.5
PEG F1	NA
P/S TTM	4.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					452 E
2020	109 A	100 E	105 E	107 E	427 E
2019	105 A	104 A	109 A	108 A	425 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.80 E
2020	\$0.41 A	\$0.36 E	\$0.40 E	\$0.42 E	\$1.59 E
2019	\$0.37 A	\$0.39 A	\$0.44 A	\$0.42 A	\$1.61 A

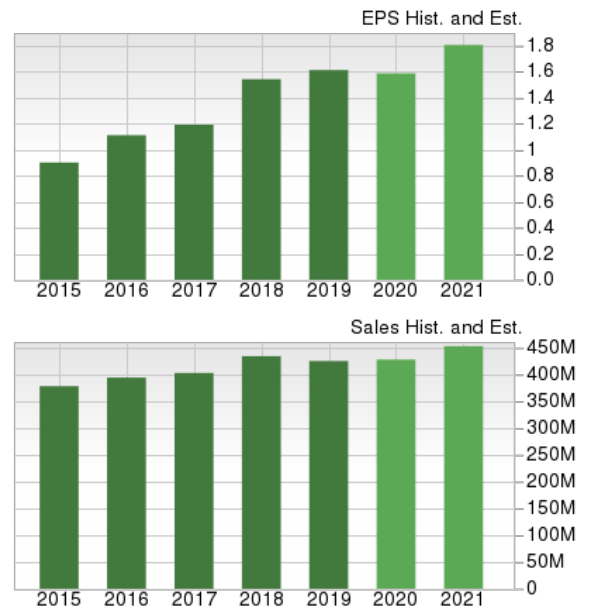
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/03/2020. The reports text is as of 06/04/2020.

Overview

Incorporated in 1905 and headquartered in Milwaukee, WI, Badger Meter, Inc. provides flow measurement, control and communications solutions, serving water and gas utilities, municipalities and industrial customers worldwide. The company's products measure water, oil, chemicals, and other fluids, and are known for accuracy, long-lasting durability and for providing valuable and timely measurement data.

Its product lines fall into two categories — sales of water meters, radios and related technologies to municipal water utilities (municipal water) and sales of meters, valves and other products for industrial applications in water, wastewater and other industries (flow instrumentation). Badger Meter estimates that more than 85% of its products are used in water related applications. Its products are sold throughout the world through employees, resellers and representatives. The company reports financial results under a single operating segment.



Reasons To Buy:

- ▲ Badger Meter has announced technology wins with Columbia, SC and Aurora, CO, which highlight the increasing market acceptance for cellular products as the standard Advanced Metering Infrastructure solution for water utilities. The state-of-the-art products will help to reduce water loss, promote conservation and improve water delivery. Badger Meter's BEACON software-as-a-service offering would also facilitate to collect and analyze data within the distribution network to improve operational awareness. Management remains optimistic about the company's prospects, supported by a number of reasons like solid backlog and customer acceptance of its new products. It is poised to gain from strong order rates for innovative water solutions, including newly launched E-Series Ultrasonic meters and ORION Cellular LTE-M radios. It aims to enhance shareholder value through organic and inorganic investments.
- ▲ Badger Meter's products are known for accuracy, durability and for providing valuable and timely measurement data. Its opportunities include Phyn — a joint venture between Belkin International and Uponor Corporation — which utilizes its D-Flow ultrasonic technology in a smart water monitoring system for residential use. Moreover, inclusion in AT&T's Smart City Alliance, a framework created by AT&T Inc., will allow Badger Meter to explore new ways for its smart water solutions to join forces with industry-leading cellular networks.
- ▲ Net sales in first-quarter 2020 increased 3.5% year over year to \$108.5 million, driven by a favorable mix of high-end products and services coupled with higher BEACON service revenues as well robust sales performance of mechanical meters. In addition, municipal water sales were up 6% owing to robust demand for smart metering solutions like ORION LTE-M and E-Series commercial meters. Badger Meter is continuously prioritizing and enhancing its presence in select regional markets outside the United States that offer healthy growth potential. The company is likely to benefit from the launch of innovative products such as the 3-inch and 4-inch E-Series commercial meters and ORION LTE-M cellular radio endpoints. With smart alarms, pressure and temperature data, the products offer early detection of any anomaly in the system, thereby lowering maintenance and operating costs for utility firms. In addition, Badger Meter is likely to immensely benefit from a strong cash position driven by solid working capital management. The company exited the first three quarters of 2020 with a robust free cash flow of \$28.6 million. Also, it generated \$30.5 million of net cash from operations compared with \$17.8 million in the prior-year quarter on the back of strong earnings conversion. Badger Meter aims to utilize this cash flow to reinvest in the business, both organically through R&D and via strategic tuck-in acquisitions.
- ▲ In light of the COVID-19 pandemic, Badger Meter has undertaken temporary cost-saving initiatives to ensure smooth functioning of its business operations. Markedly, the company reduced its work schedule to 32 hours, four days a week. To avoid layoffs, the company's executives have incurred a 20% pay reduction. Moreover, with discretionary spend controls, Badger Meter continues to deliver critical products and services to customers during this hour of crisis. The company is well positioned to emerge from this unprecedented calamity owing to robust liquidity position and strong bid pipeline. With a revolving credit facility of \$125 million, Badger Meter is confident about rewarding its shareholders with quarterly dividend payouts. As of Mar 31, Badger Meter had \$70.4 million in cash and equivalents with \$4.4 million of short-term debt. The times interest earned has improved steadily over the past few quarters to 4.10 at present relative to 4.2 for the sub-industry. This shows that the company is more likely to clear its debt. It has a dividend payout rate of 39.8%. The rate has increased steadily over the past few quarters, indicating that the company is sharing more of its earnings with shareholders. It remains to be seen whether Badger Meter can maintain this momentum in the near future due to disruptions caused by COVID-19 pandemic.

Badger Meter is poised to benefit from the increasing demand for E-Series meters and ORION cellular endpoints. It aims to enhance shareholder value through organic and inorganic investments.

Reasons To Sell:

- ▼ Badger Meter has terminated its frozen pension plan while incurring a one-time charge, which is adversely affecting its profitability. In addition, when the assets are distributed, there will be a one-time non-cash charge for amounts already included as part of equity in its balance sheet, which might affect earnings.
- ▼ Flow instrumentation declined 4% due to a sluggish demand for industrial products, particularly in international markets in the aftermath of COVID-19 outbreak. The oil and gas market witnessed a significant slowdown in the reported quarter, which was partially offset by higher HVAC (heating, ventilation and air conditioning) revenues.
- ▼ With the overall activity in end markets slowing down amid COVID-19 pandemic, Badger Meter's near-term outlook is murky. Factors like cargo capacity constraints and supply chain disruptions are expected to dent profitability over the next few months. High R&D costs for technology-driven products are further expected to strain the bottom line. Selling, administrative and R&D expenses have increased at a CAGR of 6.4% from 2010-2019. In the past 60 days, earnings estimates for 2020 and 2021 have decreased 6.8% and 4.3%, respectively, signifying negative analyst outlook.

Order deferrals and lack of concrete order visibility have clouded the revenue-generating capabilities of Badger Meter. High R&D costs are further likely to strain the bottom line.

Last Earnings Report

Badger Meter Q1 Earnings Beat Estimates, Revenues Up

Badger Meter reported impressive first-quarter 2020 results, with net earnings and revenues increasing year over year.

Net Income

Quarterly net earnings for the reported quarter were \$11.9 million or 41 cents per share compared with \$10.8 million or 37 cents per share in the year-ago quarter. The year-over-year improvement in the bottom line can be primarily attributed to higher revenues. The bottom line surpassed the Zacks Consensus Estimate by a penny.

Revenues

Despite the worldwide mayhem caused by the coronavirus outbreak, net sales increased to \$108.5 million from \$104.9 million in the year-ago quarter. The upside was driven by a favorable mix of high-end products and services coupled with higher BEACON service revenues and robust sales performance of mechanical meters. The top line met the consensus estimate of \$109 million.

Municipal water sales were up 6%, primarily on robust demand for smart metering solutions like ORION LTE-M and E-Series commercial meters. Flow instrumentation declined 4% due to a sluggish demand for industrial products, particularly in international markets in the aftermath of COVID-19 outbreak. The oil and gas market witnessed a significant slowdown in the reported quarter, which was partially offset by higher HVAC (heating, ventilation and air conditioning) revenues.

Other Details

Gross profit was \$43.3 million, up 7.1% from \$40.5 million in the year-earlier quarter. First-quarter gross margin was 39.9%, primarily driven by favorable sales mix and lower commodity costs coupled with moderating price as well as cost dynamics. Operating earnings were \$16 million or 14.8% of sales compared with respective tallies of \$14.3 million and 13.7% in the year-earlier quarter.

Selling, engineering and administration expenses came in at \$27.3 million compared with \$26.1 million in the prior-year quarter, which was primarily caused by increased personnel and higher R&D expenditures.

Cash Flow & Liquidity

During the quarter, Badger Meter generated \$30.5 million of net cash from operations compared with \$17.8 million in the prior-year quarter, driven by strong earnings conversion. Free cash flow came in at \$28.6 million, up 82.2% from the prior-year quarter's figure. The year-over-year rise was primarily driven by efficient working capital management. As of Mar 31, the company had \$70.4 million in cash and equivalents with \$4.4 million of short-term debt.

Moving Forward

With the overall activity in end markets slowing down amid COVID-19 pandemic, Badger Meter's near-term outlook is murky. Factors like cargo capacity constraints and supply chain disruptions are expected to dent profitability over the next few months. However, the Milwaukee, WI-based controls products manufacturer has undertaken temporary cost-saving initiatives to ensure smooth functioning of its business operations. Markedly, the company reduced its work schedule to 32 hours, four days a week. To avoid laying off employees, company executives have incurred a 20% pay reduction. Moreover, with discretionary spend controls, Badger Meter continues to deliver critical products and services to customers to during this hour of crisis.

Nevertheless, Badger Meter is well positioned to emerge from this unprecedented calamity owing to robust liquidity position and strong bid pipeline. With a revolving credit facility of \$125 million, the company is confident about rewarding its shareholders with quarterly dividend payouts. Customer demand is anticipated to be the crux of product and technology roadmap, with positive municipal spending trends as well as competitive share and positioning. The company is focused on launching new products in 2020. Continued R&D investments and probable M&A opportunities with inventory and operations planning capabilities are likely to provide potential technology extensions as well as opportunities in the future.

Quarter Ending **03/2020**

Report Date	Apr 16, 2020
Sales Surprise	-0.09%
EPS Surprise	2.50%
Quarterly EPS	0.41
Annual EPS (TTM)	1.66

Valuation

Badger Meter shares are up 16.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 15.1% over the past year, but stocks in the Zacks Computer and Technology sector are up 26.5% in the same time frame.

The S&P 500 Index is up 10.5% in the past year.

The stock is currently trading at 20.49X trailing 12-month EV/EBITDA, which compares to 9.19X for the Zacks sub-industry, 12.19X for the Zacks sector and 11.4X for the S&P 500 Index.

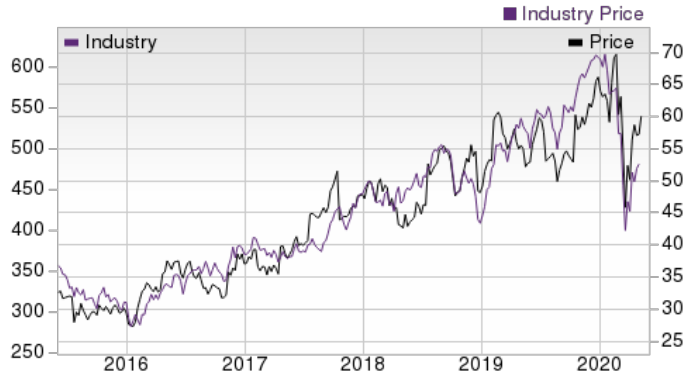
Over the past five years, the stock has traded as high as 23.26X and as low as 12.03X, with a 5-year median of 15.53X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$68 price target reflects 1.77X forward 12-month earnings.

The table below shows summary valuation data for BMI

Valuation Multiples - BMI					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	20.49	9.19	12.19	11.4
	5-Year High	23.26	13.17	12.71	12.86
	5-Year Low	12.03	6.78	7.57	8.26
	5-Year Median	15.53	11.46	10.72	10.81
P/E F12M	Current	38.34	22.08	24.88	22.56
	5-Year High	40.67	22.08	24.88	22.56
	5-Year Low	21.95	12.28	16.72	15.23
	5-Year Median	30.57	15.7	19.26	17.49
P/S F12M	Current	4.28	2.1	3.78	3.47
	5-Year High	4.6	2.42	3.78	3.47
	5-Year Low	1.97	1.53	2.32	2.53
	5-Year Median	3.06	2.03	3.11	3.02

As of 06/03/2020

Industry Analysis Zacks Industry Rank: Bottom 1% (252 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Roper Technologies, Inc. (ROP)	Neutral	3
Thermon Group Holdings, Inc. (THR)	Neutral	3
Allied Motion Technologies, Inc. (AMOT)	Underperform	5
Sensata Technologies Holding N.V. (ST)	Underperform	5
Transcat, Inc. (TRNS)	Underperform	5
Watts Water Technologies, Inc. (WTS)	Underperform	4
Woodward, Inc. (WWD)	Underperform	5
Xylem Inc. (XYL)	Underperform	5

Industry Comparison Industry: Instruments - Control				Industry Peers		
	BMI	X Industry	S&P 500	AMOT	THR	TRNS
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	5	3	5
VGM Score	B	-	-	D	A	B
Market Cap	1.87 B	360.47 M	22.50 B	360.47 M	515.17 M	186.13 M
# of Analysts	2	2	14	2	1	2
Dividend Yield	1.06%	0.00%	1.88%	0.32%	0.00%	0.00%
Value Score	D	-	-	F	B	B
Cash/Price	0.04	0.08	0.06	0.06	0.07	0.00
EV/EBITDA	20.96	10.86	12.98	10.82	8.10	12.72
PEG Ratio	NA	3.77	3.05	4.18	NA	4.04
Price/Book (P/B)	5.58	2.49	3.11	2.92	1.48	2.86
Price/Cash Flow (P/CF)	26.26	14.22	12.18	10.79	9.35	13.46
P/E (F1)	40.72	32.33	22.19	41.84	41.13	32.33
Price/Sales (P/S)	4.37	1.52	2.40	0.98	1.34	1.08
Earnings Yield	2.47%	3.09%	4.31%	2.38%	2.43%	3.09%
Debt/Equity	0.00	0.35	0.76	1.12	0.51	0.39
Cash Flow (\$/share)	2.45	2.16	7.01	3.43	1.67	1.87
Growth Score	A	-	-	D	B	A
Hist. EPS Growth (3-5 yrs)	13.64%	12.72%	10.87%	11.80%	1.41%	16.38%
Proj. EPS Growth (F1/F0)	-1.55%	-29.17%	-10.74%	-53.17%	-49.33%	-27.78%
Curr. Cash Flow Growth	3.00%	4.02%	5.48%	19.18%	-22.68%	20.77%
Hist. Cash Flow Growth (3-5 yrs)	8.54%	6.08%	8.55%	9.30%	4.39%	14.30%
Current Ratio	3.50	3.34	1.29	2.64	3.59	2.26
Debt/Capital	0.00%	25.69%	44.75%	52.82%	33.69%	27.91%
Net Margin	11.26%	4.58%	10.59%	4.49%	3.11%	4.66%
Return on Equity	14.76%	13.73%	16.29%	15.13%	6.80%	12.86%
Sales/Assets	1.02	0.83	0.55	1.17	0.59	1.52
Proj. Sales Growth (F1/F0)	0.64%	-5.82%	-2.65%	-5.82%	-21.25%	2.66%
Momentum Score	C	-	-	B	A	F
Daily Price Chg	2.88%	2.39%	2.42%	3.12%	9.76%	0.52%
1 Week Price Chg	0.15%	0.51%	4.60%	6.19%	2.89%	-1.42%
4 Week Price Chg	12.29%	7.20%	13.40%	34.75%	7.79%	-9.02%
12 Week Price Chg	13.24%	-1.19%	12.78%	16.59%	9.45%	-9.38%
52 Week Price Chg	16.88%	-0.97%	0.89%	8.34%	-30.60%	0.88%
20 Day Average Volume	137,800	94,665	2,528,787	51,531	153,368	33,475
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-4.94%	-0.14%	-46.85%	0.00%	-33.90%
(F1) EPS Est 12 week change	-9.77%	-34.69%	-16.00%	-58.84%	-69.60%	-33.90%
(Q1) EPS Est Mthly Chg	0.00%	-25.56%	-0.02%	-87.88%	0.00%	NA

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	D
Growth Score	A
Momentum Score	C
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.

Disclosures

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