

## Badger Meter, Inc. (BMI)

**\$63.53** (As of 01/13/20)

Price Target (6-12 Months): **\$67.00**

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: B

Momentum: A

## Summary

Badger Meter's products are known for accuracy, durability and for providing valuable and timely measurement data. 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. The company is continuously prioritizing and enhancing its presence in select regional markets outside the United States that offer attractive growth prospects. However, Badger Meter expects to face order headwinds from the Middle East while lack of visibility for concrete future orders is likely to affect revenues. High R&D expenses for technology driven products are also expected to strain the bottom line. It is currently witnessing a declining revenue trend as customers are deferring orders, awaiting next-generation large static meters and LTE-M radio products.

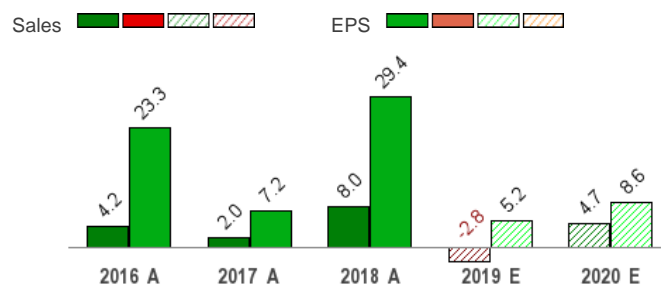
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$66.64 - \$49.66
20 Day Average Volume (sh)	156,500
Market Cap	\$1.8 B
YTD Price Change	-2.2%
Beta	0.83
Dividend / Div Yld	\$0.68 / 1.1%
Industry	<a href="#">Instruments - Control</a>
Zacks Industry Rank	Bottom 15% (215 out of 254)

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



Last EPS Surprise	4.8%
Last Sales Surprise	-0.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/05/2020
Earnings ESP	0.0%

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					442 E
2019	105 A	104 A	109 A	107 E	422 E
2018	105 A	114 A	111 A	104 A	434 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$1.76 E
2019	\$0.37 A	\$0.39 A	\$0.44 A	\$0.42 E	\$1.62 E
2018	\$0.26 A	\$0.42 A	\$0.46 A	\$0.40 A	\$1.54 A

\*Quarterly figures may not add up to annual.

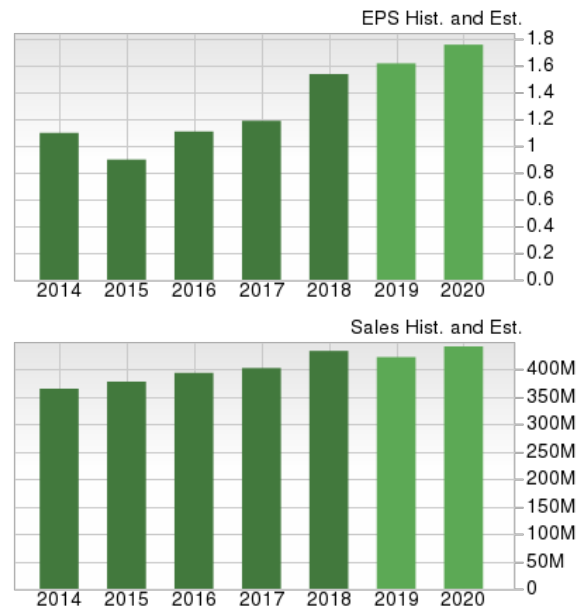
P/E TTM	39.7
P/E F1	36.1
PEG F1	NA
P/S TTM	4.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/13/2020. The reports text is as of 01/14/2020.

## 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.



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## 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.
- ▲ 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.

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.

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## 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.
- ▼ Net sales for third-quarter 2019 were \$108.6 million compared with \$110.6 million in the year-ago quarter as customers largely deferred orders awaiting the company's next generation large static meters and LTE-M radio products. Global municipal water sales declined 3% year over year as new product order deferrals more than offset favorable product mix of higher technology products and services.
- ▼ The company expects to face order headwinds from the Middle East and lack of visibility for concrete future orders is likely to affect its revenues. High R&D costs for technology-driven products are further expected to strain the bottom line. A debt-laden balance sheet remains another concern for Badger Meter. In addition, its stretched valuation is worrisome. The company's trailing 12-month Enterprise Value/EBITDA ratio is 19.69 for the past year, whereas the industry's tally is at 12.84. This implies that the stock is currently overvalued and investors should ideally wait for a better entry point.

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 Q3 Earnings Beat Estimates, Revenues Fall

Badger Meter reported mixed third-quarter 2019 results as net earnings increased year over year but revenues declined.

#### Net Income

GAAP earnings for the reported quarter were \$12.7 million or 44 cents per share compared with \$2.9 million or 10 cents per share in the year-ago quarter. The healthy year-over-year improvement in the bottom line, despite lower revenues, was primarily driven by efficient working capital management.

Adjusted earnings were 44 cents per share compared with 46 cents in the year-earlier quarter. The bottom line surpassed the Zacks Consensus Estimate by 2 cents.

#### Revenues

Net sales declined to \$108.6 million from \$110.6 million in the year-ago quarter as customers largely deferred orders awaiting the company's next-gen technologies, notably ORION and LTE-M radio products. The top line was on par with the consensus estimate of \$109 million.

Municipal water utility domestic market was up 2%, driven by adoption of smart metering solutions. International municipal water utility sales declined as there were no repeat orders from Middle East as exhibited in the prior-year quarter. Global municipal water sales declined 3% and flow instrumentation witnessed growth of 1% due to a broad lineup of industrial products across various markets.

#### Other Details

Gross profit was \$41.7 million, down from \$43.9 million in the year-earlier quarter. Third-quarter gross margin was 38.4%, primarily driven by positive product and regional sales mix, as well as moderating price dynamics and discrete warranty provision outside North America, with favorable brass input costs. Operating earnings were \$16.4 million or 15.1% of sales compared with respective tallies of \$15.7 million or 14.2% of sales in the year-earlier quarter.

Selling, engineering and administration expenses were \$25.2 million compared with \$28.2 million in the prior year, primarily due to lower incentive compensation and effective cost-control measures.

#### Cash Flow & Liquidity

During the quarter, Badger Meter generated \$20.2 million of net cash from operations compared with \$14.7 million a year-ago. This raised net cash flow for the first nine months of 2019 to \$61.1 million from \$39.9 million in the prior-year period, primarily due to improved working capital management. Free cash flow was about \$19.1 million, up 50% from the prior-year quarter. As of Sep 30, 2019, the company had a cash balance of \$37.7 million with \$4.4 million of short-term debt.

#### Moving Forward

Badger Meter continues to witness strong momentum in its business as profit margins continue to benefit from positive sales mix and continuous improvement activities across all aspects — global operations and supply chain, working capital and inventory management. This is supported by the ample capacity to execute disciplined and strategic acquisitions.

Customer demand is anticipated to be the crux of product and technology roadmap, with positive municipal spending trends and competitive share and positioning. Mergers and acquisitions and Sales, Inventory and Operations Planning capabilities are likely to provide potential technology extensions and opportunities in the future.

Quarter Ending **09/2019**

Report Date	<b>Oct 17, 2019</b>
Sales Surprise	<b>-0.03%</b>
EPS Surprise	<b>4.76%</b>
Quarterly EPS	<b>0.44</b>
Annual EPS (TTM)	<b>1.60</b>

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## Recent News

On Nov 8, 2019, Badger Meter announced that its board of directors has declared a quarterly cash dividend of 17 cents per share. The dividend was paid on Dec 13, 2019 to shareholders of record as of Nov 29, 2019.

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## Valuation

Badger Meter shares are up 23.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are up 34.9% and 33.7% over the past year, respectively.

The S&P 500 index is up 25.1% in the past year.

The stock is currently trading at 21.18X trailing 12-month EV/EBITDA, which compares to 12.73X for the Zacks sub-industry, 12.41X for the Zacks sector and 12.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.2X and as low as 12.4X, with a 5-year median of 15.1X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$67 price target reflects 1.86X 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	21.18	12.73	12.41	12.12
	5-Year High	22.23	14.12	12.6	12.86
	5-Year Low	12.39	9.77	7.68	8.48
	5-Year Median	15.08	11.65	10.52	10.67
P/E F12M	Current	36	18.4	22.94	19
	5-Year High	40.67	18.4	22.94	19.34
	5-Year Low	21.95	13.12	16.87	15.17
	5-Year Median	29.99	15.74	19.24	17.44
P/S F12M	Current	4.18	2.47	3.7	3.52
	5-Year High	4.47	2.47	3.7	3.52
	5-Year Low	1.97	1.53	2.3	2.54
	5-Year Median	2.81	2.03	3.01	3

As of 01/13/2020

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## Industry Analysis Zacks Industry Rank: Bottom 15% (215 out of 254)



## Top Peers

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

Industry Comparison Industry: Instruments - Control				Industry Peers		
	BMI Neutral	X Industry	S&P 500	AMOT Neutral	THR Neutral	TRNS Neutral
<b>VGM Score</b>	<b>B</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Market Cap	1.85 B	464.16 M	24.31 B	464.16 M	865.28 M	231.81 M
# of Analysts	2	2	13	1	1	2
Dividend Yield	1.07%	0.00%	1.76%	0.25%	0.00%	0.00%
<b>Value Score</b>	<b>D</b>	-	-	<b>C</b>	<b>B</b>	<b>C</b>
Cash/Price	0.02	0.05	0.04	0.02	0.05	0.00
EV/EBITDA	29.54	15.03	14.12	16.30	12.71	15.64
PEG Ratio	NA	2.10	2.05	2.10	NA	3.61
Price/Book (P/B)	5.71	3.39	3.34	4.08	2.44	3.67
Price/Cash Flow (P/CF)	26.71	17.07	13.66	16.59	12.12	16.81
P/E (F1)	35.93	23.24	18.82	21.02	19.57	28.90
Price/Sales (P/S)	4.39	1.96	2.64	1.30	2.02	1.37
Earnings Yield	2.77%	4.30%	5.29%	4.76%	5.11%	3.46%
Debt/Equity	0.00	0.36	0.72	1.02	0.57	0.46
Cash Flow (\$/share)	2.38	2.28	6.94	2.91	2.18	1.87
<b>Growth Score</b>	<b>B</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	11.40%	10.56%	10.56%	5.37%	-2.97%	14.19%
Proj. EPS Growth (F1/F0)	8.64%	10.44%	7.49%	32.95%	13.45%	14.74%
Curr. Cash Flow Growth	17.43%	18.54%	14.83%	27.29%	19.66%	20.77%
Hist. Cash Flow Growth (3-5 yrs)	12.69%	7.68%	9.00%	27.14%	4.39%	14.30%
Current Ratio	3.26	3.20	1.23	2.49	3.41	2.39
Debt/Capital	0.00%	25.79%	42.99%	50.58%	36.12%	31.37%
Net Margin	10.95%	6.96%	11.08%	4.53%	5.81%	4.91%
Return on Equity	14.85%	14.78%	17.16%	15.67%	10.91%	13.91%
Sales/Assets	1.04	0.84	0.55	1.17	0.65	1.56
Proj. Sales Growth (F1/F0)	4.61%	2.91%	4.23%	NA	2.91%	6.78%
<b>Momentum Score</b>	<b>A</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Daily Price Chg	0.83%	1.21%	0.73%	0.79%	1.30%	1.12%
1 Week Price Chg	-1.35%	-1.04%	0.39%	1.27%	-2.29%	-0.80%
4 Week Price Chg	-0.08%	0.73%	1.84%	2.05%	-2.15%	-2.51%
12 Week Price Chg	9.12%	7.97%	6.48%	29.69%	13.93%	18.24%
52 Week Price Chg	25.06%	16.50%	23.15%	10.36%	18.00%	51.59%
20 Day Average Volume	156,500	50,481	1,578,594	29,430	71,532	13,028
(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%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	7.10%	0.32%	-0.48%	0.00%	5.47%	18.48%
(Q1) EPS Est Mthly Chg	NA%	-0.50%	0.00%	NA	0.00%	0.00%

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## 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.

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### 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	B
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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