

Badger Meter, Inc. (BMI)

\$54.77 (As of 03/13/20)

Price Target (6-12 Months): **\$58.00**

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:C

Value: D

Growth: A

Momentum: C

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.

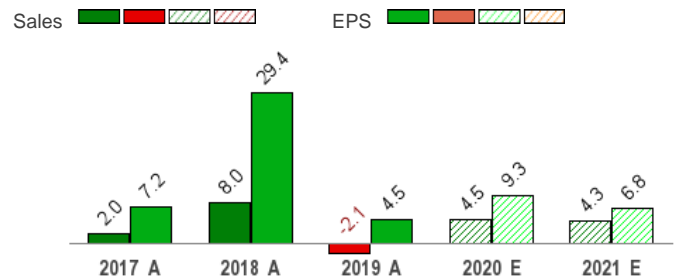
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$70.83 - \$48.34
20 Day Average Volume (sh)	237,985
Market Cap	\$1.6 B
YTD Price Change	-15.7%
Beta	0.80
Dividend / Div Yld	\$0.68 / 1.2%
Industry	Instruments - Control
Zacks Industry Rank	Bottom 9% (231 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/15/2020
Earnings ESP	0.0%
P/E TTM	33.8
P/E F1	31.1
PEG F1	NA
P/S TTM	3.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					463 E
2020	109 E	113 E	113 E	110 E	444 E
2019	105 A	104 A	109 A	108 A	425 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.88 E
2020	\$0.40 E	\$0.47 E	\$0.46 E	\$0.43 E	\$1.76 E
2019	\$0.37 A	\$0.39 A	\$0.44 A	\$0.42 A	\$1.61 A

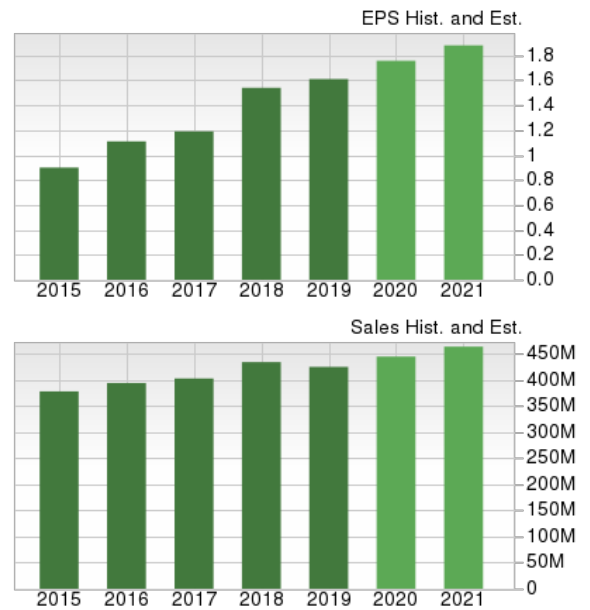
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/13/2020. The reports text is as of 03/16/2020.

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.
- ▲ 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 ended 2019 with a robust free-cash-flow-to-net-earnings conversion of 155%. Badger Meter aims to utilize this cash flow to reinvest in the business, both organically through R&D and via strategic tuck-in acquisitions.

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.
- ▼ Net sales for 2019 declined 2.1% year over year to \$424.6 million owing to the absence of significant revenues from Middle East projects. In addition, customers largely deferred orders awaiting the company's next generation large static meters and LTE-M radio products. Flow instrumentation also witnessed a decline of 11% in fourth-quarter 2019 due to a sluggish demand of industrial products, particularly in international markets.
- ▼ 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. Selling, administrative and R&D expenses have increased at a CAGR of 6.4% from 2010-2019. Earnings estimates for 2020 and 2021 have decreased 9.3% and 11.3%, respectively, over the past year, signifying negative investor sentiment.

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 Q4 Earnings Match Estimates, Revenues Up

Badger Meter reported healthy fourth-quarter 2019 results wherein net earnings and revenues increased year over year.

Net Income

GAAP earnings for the reported quarter were \$12.3 million or 42 cents per share compared with \$11.2 million or 39 cents per share in the year-ago quarter. The healthy year-over-year improvement in the bottom line was primarily attributable to higher revenues. In 2019, GAAP earnings improved to \$47.2 million or \$1.61 per share from \$27.8 million or 95 cents per share in 2018 on lower pension and post-retirement costs.

Quarterly non-GAAP net earnings were \$12.3 million or 42 cents per share compared with \$11.6 million or 40 cents per share in the year-earlier quarter. The bottom line matched the Zacks Consensus Estimate.

Non-GAAP net earnings in 2019 improved to \$47.2 million or \$1.61 per share from \$44.9 million or \$1.54 per share a year ago. The improvement was mainly driven by higher executive retirement charges and pension termination settlement charges a year ago.

Revenues

Net sales increased to \$107.6 million from \$104.4 million in the year-ago quarter, driven by a favorable mix of high-end products and services with robust sales performance of mechanical meters and domestic municipal water. The top line surpassed the consensus estimate of \$107 million. However, full-year 2019 revenues declined 2.1% to \$424.6 million due to the absence of significant revenues from Middle East projects as exhibited in the prior year coupled with a halt in new product launches.

Global municipal water sales were up 8%, driven by adoption of smart metering solutions like ORION LTE-M and E-Series commercial meters. Flow instrumentation witnessed a decline of 11% due to a sluggish demand of industrial products, particularly in international markets. Robust demand of radio incorporated meters and a favorable sales mix drove mechanical meters' performance in the reported quarter.

Other Details

Gross profit was \$41.1 million, up from \$40.2 million in the year-earlier quarter. Fourth-quarter gross margin was 38.2%, primarily driven by favorable product and sales mix, and higher BEACON service revenues with increased adoption of radio solutions and ultrasonic meters. Operating earnings were \$16.3 million or 15.2% of sales compared with respective tallies of \$14.8 million and 14.2% in the year-earlier quarter.

Selling, engineering and administration expenses were \$24.8 million compared with \$25.3 million in the prior year, primarily due to effective cost-control measures.

Cash Flow & Liquidity

In 2019, Badger Meter generated \$80.7 million of net cash from operating activities compared with \$60.4 million a year ago. The increase was primarily attributable to effective working capital management. In the year, free cash flow was \$73.2 million, up from \$51.7 million in 2018.

As of Dec 31, 2019, the company had a cash balance of \$48.9 million with \$4.5 million of short-term debt compared with the respective tallies of \$13.1 million and \$18.1 million a year ago.

Moving Forward

Badger Meter expects 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, despite probable higher brass costs. Markedly, it aims to emerge as a leading market player with customizable solutions across various metering and data analytics offerings.

Customer demand is anticipated to be the crux of product and technology roadmap, with positive municipal spending trends and competitive share and positioning. Ample R&D investments, probable merger and acquisition opportunities and sustainability efforts with sales, inventory and operations planning capabilities are likely to provide potential technology extensions and opportunities in the future.

Quarter Ending **12/2019**

Report Date	Feb 05, 2020
Sales Surprise	0.43%
EPS Surprise	0.00%
Quarterly EPS	0.42
Annual EPS (TTM)	1.62

Valuation

Badger Meter shares are down 4.2% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 17.6% over the past year, but stocks in the Zacks Computer and Technology sector are up 0.5% in the same time frame.

The S&P 500 Index is down 5.3% in the past year.

The stock is currently trading at 17.91X trailing 12-month EV/EBITDA, which compares to 8.52X for the Zacks sub-industry, 10.41X for the Zacks sector and 10.05X 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 15.29X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$58 price target reflects 1.89X 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	17.91	8.52	10.41	10.05
	5-Year High	23.26	14.15	12.76	12.87
	5-Year Low	12.03	8.14	7.6	8.31
	5-Year Median	15.29	11.55	10.59	10.79
P/E F12M	Current	30.74	12.93	18.46	15.74
	5-Year High	40.67	18.35	22.04	19.34
	5-Year Low	21.95	12.93	16.87	15.18
	5-Year Median	30.24	15.72	19.32	17.42
P/S F12M	Current	3.56	1.74	3.06	2.9
	5-Year High	4.6	2.42	3.58	3.44
	5-Year Low	1.97	1.53	2.3	2.54
	5-Year Median	2.95	2.03	3.06	3

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Bottom 9% (231 out of 253)



Top Peers

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

Industry Comparison Industry: Instruments - Control				Industry Peers		
	BMI Neutral	X Industry	S&P 500	AMOT Neutral	THR Underperform	TRNS Neutral
VGM Score	C	-	-	A	B	B
Market Cap	1.59 B	313.05 M	19.05 B	313.05 M	527.15 M	191.52 M
# of Analysts	3	2	13	1	1	2
Dividend Yield	1.24%	0.00%	2.31%	0.37%	0.00%	0.00%
Value Score	D	-	-	B	D	C
Cash/Price	0.03	0.07	0.05	0.02	0.06	0.00
EV/EBITDA	17.97	11.29	11.57	11.80	8.36	13.04
PEG Ratio	NA	1.52	1.68	1.52	NA	3.18
Price/Book (P/B)	4.82	2.41	2.56	2.75	1.42	2.95
Price/Cash Flow (P/CF)	22.36	12.24	10.18	9.50	7.35	13.85
P/E (F1)	28.35	17.05	14.94	15.17	17.05	25.44
Price/Sales (P/S)	3.76	1.42	2.02	0.84	1.29	1.11
Earnings Yield	3.21%	5.86%	6.67%	6.59%	5.86%	3.93%
Debt/Equity	0.00	0.30	0.70	0.92	0.50	0.39
Cash Flow (\$/share)	2.45	2.31	7.01	3.43	2.18	1.87
Growth Score	A	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	12.63%	10.84%	10.85%	5.37%	1.41%	15.39%
Proj. EPS Growth (F1/F0)	9.11%	8.44%	5.99%	13.76%	-21.01%	7.37%
Curr. Cash Flow Growth	3.00%	12.11%	6.15%	19.18%	19.66%	20.77%
Hist. Cash Flow Growth (3-5 yrs)	8.54%	6.08%	8.52%	27.14%	4.39%	14.30%
Current Ratio	3.50	3.30	1.24	2.48	3.74	2.26
Debt/Capital	0.00%	22.59%	42.57%	47.94%	33.39%	27.91%
Net Margin	11.11%	6.74%	11.64%	4.59%	5.29%	4.79%
Return on Equity	14.74%	14.77%	16.74%	15.85%	9.61%	13.29%
Sales/Assets	1.03	0.84	0.54	1.20	0.62	1.53
Proj. Sales Growth (F1/F0)	4.64%	1.99%	3.54%	6.71%	-6.34%	6.78%
Momentum Score	C	-	-	C	B	A
Daily Price Chg	10.83%	3.60%	8.21%	1.68%	22.46%	3.76%
1 Week Price Chg	4.70%	0.54%	-0.67%	-3.24%	3.87%	8.10%
4 Week Price Chg	-20.30%	-20.10%	-22.67%	-30.29%	-25.86%	-19.43%
12 Week Price Chg	-15.29%	-21.45%	-20.46%	-30.34%	-41.28%	-20.08%
52 Week Price Chg	-3.17%	-13.45%	-10.79%	-19.46%	-36.69%	14.07%
20 Day Average Volume	237,985	117,662	3,061,271	45,040	192,446	22,376
(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%	-0.32%	-3.37%	0.00%	0.00%
(F1) EPS Est 12 week change	-0.19%	-5.68%	-0.65%	-6.52%	-30.37%	-6.42%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.62%	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	D
Growth Score	A
Momentum Score	C
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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