

Badger Meter, Inc. (BMI)

\$62.30 (As of 07/17/20)

Price Target (6-12 Months): **\$53.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 07/16/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM: C

Value: D

Growth: A

Momentum: C

Summary

Badger Meter reported unimpressive second-quarter 2020 results, with net earnings and revenues falling year over year. High R&D expenses are likely to dent the bottom line. Flow Instrumentation business faces sluggish demand for industrial products due to coronavirus-related market uncertainties. Lack of concrete order visibility has affected the revenue-generating capabilities of the company. Badger Meter has terminated its frozen pension plan, while manufacturing disruptions and supply-chain challenges remain significant headwinds. The company believes that uncertainties related to COVID-19 is likely to put pressure on its municipal budgets and customer demand in the days to come. However, a robust liquidity position backed by various cost-saving initiatives ensure smooth functioning of its business operations in the near term.

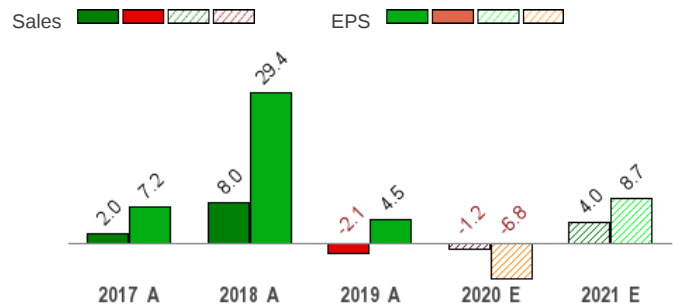
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$70.84 - \$41.50
20 Day Average Volume (sh)	162,636
Market Cap	\$1.8 B
YTD Price Change	-4.1%
Beta	0.82
Dividend / Div Yld	\$0.68 / 1.1%
Industry	Instruments - Control
Zacks Industry Rank	Bottom 15% (213 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-8.3%
Last Sales Surprise	-8.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	38.9
P/E F1	41.5
PEG F1	NA
P/S TTM	4.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					437 E
2020	109 A	91 A	106 E	106 E	420 E
2019	105 A	104 A	109 A	108 A	425 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.63 E
2020	\$0.41 A	\$0.33 A	\$0.40 E	\$0.38 E	\$1.50 E
2019	\$0.37 A	\$0.39 A	\$0.44 A	\$0.42 A	\$1.61 A

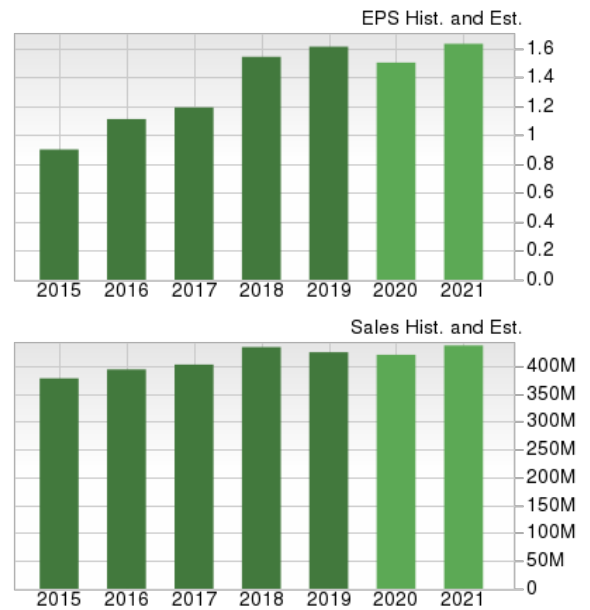
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/17/2020. The reports text is as of 07/20/2020.

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. The company offers BEACON advanced metering analytics, a secure cloud-hosted software suite that allows consumer engagement tools that permit end water customers to view and manage their water usage activity. It also provides ORION Migratable for automatic meter reading and ORION Cellular for infrastructure-free fixed network meter reading solution.

Badger Meter's 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). The company's flow instrumentation products are used in various industries, such as water/wastewater, heating, ventilating and air conditioning, oil and gas, and chemical and petrochemical. 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 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 earnings in the last reported quarter were \$9.5 million or 33 cents per share compared with \$11.4 million or 39 cents per share in the year-ago quarter. The year-over-year decline was primarily due to lower revenues.
- ▼ In the last reported quarter, municipal water sales were down 9% owing to widespread lockdown in the United States due to the coronavirus outbreak. Although, Badger Meter witnessed higher demand for new technology products and solutions like ORION Cellular LTE-M radios and ultrasonic meter technology, flow instrumentation declined 22% due to a sluggish demand for industrial products across various industrial end markets, particularly due to COVID-19 outbreak.
- ▼ With the worldwide mayhem caused by the pandemic, Badger Meter's backlog volumes surged due to manufacturing disruptions and employee absenteeism in the last reported quarter. Factors like lower demand for industrial products and supply chain disruptions are expected to dent its profitability over the next few months. High R&D costs for technology-driven products are further expected to hurt 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 5.7% and 7.9%, 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.

Risks

- 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 Usonor 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 second-quarter 2020 declined 12% year over year to \$91.1 million due to lower demand stemming from the COVID-19 pandemic. Nevertheless, Badger Meter witnessed a favorable mix of high-end products and services along with higher BEACON service revenues. 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 six quarters of 2020 with a robust free cash flow of \$20.1 million. Also, it generated \$52.3 million of net cash from operations compared with \$40.9 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.
 - Despite the slowdown of overall activity in end markets amid COVID-19 pandemic, Badger Meter's near-term outlook is optimistic. It has undertaken temporary cost-saving initiatives to ensure smooth functioning of its business operations. 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. It is well positioned to emerge from this unprecedented calamity owing to robust liquidity position and strong bid pipeline. The company has \$125 million under revolving credit facility to fund capital allocation priorities. As of Jun 30, Badger Meter had \$85.2 million in cash and equivalents with \$4.5 million of short-term debt. The times interest earned has improved steadily over the past few quarters to 599.7 at present relative to 3.7 for the sub-industry. This shows that the company is more likely to clear its debt. It has a dividend payout rate of 42.5%. 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.
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Last Earnings Report

Badger Meter Q2 Earnings & Revenues Miss Estimates

Badger Meter reported unimpressive second-quarter 2020 results, with net earnings and revenues falling year over year.

Net Income

Quarterly net earnings for the reported quarter were \$9.5 million or 33 cents per share compared with \$11.4 million or 39 cents per share in the year-ago quarter. The year-over-year deterioration in the bottom line can be primarily attributed to lower revenues. Also, the bottom line missed the Zacks Consensus Estimate by 3 cents.

Revenues

Quarterly net sales declined to \$91.1 million from \$103.5 million in the year-ago quarter. The 12% revenue contraction was primarily due to lower demand stemming from the COVID-19 pandemic. Nevertheless, the company witnessed a favorable mix of high-end products and services along with higher BEACON service revenues. The top line lagged the consensus mark of \$100 million.

Municipal water sales fell 9%, mainly due to widespread lockdown in the United States due to the coronavirus outbreak. To add to that, backlog volumes surged due to supply chain challenges, manufacturing disruptions and employee absenteeism. However, the company continued to witness higher demand for new technology products and solutions like ORION Cellular LTE-M radios and ultrasonic meter technology. Flow instrumentation declined 22% due to sluggish demand for industrial products across various industrial end markets, particularly due to COVID-19 outbreak.

Other Details

Gross profit was \$35.9 million, down 11% from \$40.3 million in the year-earlier quarter. However, gross margin was 39.3%, up 40 basis points (bps) year over year. The upside was primarily driven by favorable sales mix and cost-reduction initiatives with price cost dynamics. Operating earnings were \$12.7 million or 13.9% of sales compared with respective tallies of \$15 million and 14.5% in the year-earlier quarter.

Selling, engineering and administration expenses came in at \$23.2 million compared with \$25.2 million in the prior-year quarter. The decline was primarily due to cost-reduction actions. However, it was partially offset by business optimization investments.

Cash Flow & Liquidity

During the first six months of fiscal 2020, Badger Meter generated \$52.3 million of net cash from operations compared with \$40.9 million in the prior-year quarter, driven by strong earnings conversion. Free cash flow came in at \$20.1 million compared with \$20.8 million in the prior-year quarter. With a stable free cash flow, the company's performance was backed by an effective working capital management. As of Jun 30, the company had \$85.2 million in cash and equivalents with \$4.5 million of short-term debt.

Moving Forward

Despite the slowdown of overall activity in end markets amid COVID-19 pandemic, Badger Meter continues to remain optimistic related to its near-term outlook. With macroeconomic conditions stabilizing gradually, the Milwaukee, WI-based controls products manufacturer has undertaken several temporary cost-saving initiatives to mitigate the impact of declining sales on profitability. Consequently, this helped the company to ensure smooth functioning of business operations. Some of these initiatives include reduced work hour furloughs and executive salary reductions. Moreover, with discretionary spend controls, Badger Meter continues to deliver critical products and services to customers during this hour of crisis.

Badger Meter is well positioned to emerge from this unprecedented calamity owing to robust liquidity position and strong bid pipeline. Impressively, the company has been conducting Rapid Response Team meetings to monitor customer feedback and logistics with response to dynamic government recommendations. For additional financial flexibility, the company has \$125 million under revolving credit facility to fund capital allocation priorities. Customer demand is anticipated to be the crux of product and technology roadmap, with competitive share and positioning. The company is focused on launching new products in 2020. Continued R&D investments and probable tuck-in M&A opportunities with inventory planning capabilities are likely to provide potential opportunities in the future.

Quarter Ending 06/2020

Report Date	Jul 16, 2020
Sales Surprise	-8.45%
EPS Surprise	-8.33%
Quarterly EPS	0.33
Annual EPS (TTM)	1.60

Valuation

Badger Meter shares are up 19.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 17.2% over the past year, but stocks in the Zacks Computer and Technology sector are up 25.5% in the same time frame.

The S&P 500 Index is up 8.8% in the past year.

The stock is currently trading at 20.17X trailing 12-month EV/EBITDA, which compares to 9.14X for the Zacks sub-industry, 13.03X for the Zacks sector and 11.98X for the S&P 500 Index.

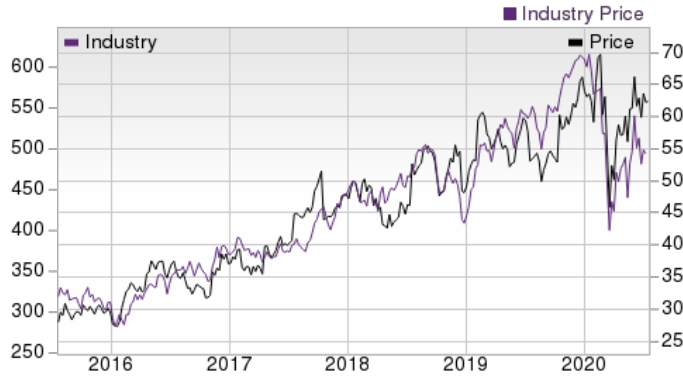
Over the past five years, the stock has traded as high as 23.26X and as low as 12.03X, with a 5-year median of 15.68X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$53 price target reflects 1.34X forward 12-month earnings.

The table below shows summary valuation data for BMI

Valuation Multiples - BMI					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	20.17	9.14	13.03	11.98
	5-Year High	23.26	12.91	13.2	12.86
	5-Year Low	12.03	6.78	7.59	8.25
	5-Year Median	15.68	11.37	10.86	10.87
P/E F12M	Current	39.64	21.16	25.93	22.84
	5-Year High	40.67	21.16	25.93	22.84
	5-Year Low	21.95	12.28	16.72	15.25
	5-Year Median	30.9	15.72	19.33	17.52
P/S F12M	Current	4.23	2.17	3.93	3.58
	5-Year High	4.6	2.42	3.93	3.58
	5-Year Low	1.97	1.53	2.32	2.53
	5-Year Median	3.09	2.02	3.14	3.02

As of 07/17/2020

Industry Analysis Zacks Industry Rank: Bottom 15% (213 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Allied Motion Technologies, Inc. (AMOT)	Neutral	3
Roper Technologies, Inc. (ROP)	Neutral	3
Sensata Technologies Holding N.V. (ST)	Neutral	3
Thermon Group Holdings, Inc. (THR)	Neutral	2
Watts Water Technologies, Inc. (WTS)	Neutral	3
Woodward, Inc. (WWD)	Neutral	3
Xylem Inc. (XYL)	Neutral	3
Transcat, Inc. (TRNS)	Underperform	5

Industry Comparison Industry: Instruments - Control				Industry Peers		
	BMI	X Industry	S&P 500	AMOT	THR	TRNS
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	5	-	-	3	2	5
VGM Score	C	-	-	F	D	A
Market Cap	1.81 B	352.29 M	22.62 B	352.29 M	475.27 M	192.55 M
# of Analysts	2	3	14	2	1	3
Dividend Yield	1.09%	0.00%	1.82%	0.33%	0.00%	0.00%
Value Score	D	-	-	D	C	C
Cash/Price	0.04	0.09	0.07	0.06	0.10	0.00
EV/EBITDA	20.27	11.49	13.05	10.64	9.88	12.98
PEG Ratio	NA	3.60	2.99	4.09	NA	3.97
Price/Book (P/B)	5.32	2.53	3.13	2.86	1.37	2.87
Price/Cash Flow (P/CF)	25.43	14.22	12.20	10.54	8.62	13.06
P/E (F1)	41.53	28.80	22.02	40.89	28.80	31.78
Price/Sales (P/S)	4.36	1.57	2.34	0.95	1.24	1.11
Earnings Yield	2.41%	3.47%	4.28%	2.43%	3.47%	3.15%
Debt/Equity	0.00	0.38	0.75	1.12	0.51	0.52
Cash Flow (\$/share)	2.45	2.22	6.94	3.43	1.67	2.00
Growth Score	A	-	-	D	D	A
Hist. EPS Growth (3-5 yrs)	13.64%	12.72%	10.85%	11.80%	3.96%	16.38%
Proj. EPS Growth (F1/F0)	-6.83%	-28.93%	-9.37%	-53.17%	-33.33%	-24.07%
Curr. Cash Flow Growth	3.00%	4.02%	5.51%	19.18%	-22.68%	9.03%
Hist. Cash Flow Growth (3-5 yrs)	8.54%	6.08%	8.55%	9.30%	-1.48%	15.66%
Current Ratio	3.56	3.37	1.30	2.64	3.59	2.32
Debt/Capital	0.00%	27.39%	44.33%	52.82%	33.69%	34.41%
Net Margin	11.15%	4.58%	10.59%	4.49%	3.11%	4.66%
Return on Equity	13.93%	13.29%	15.74%	15.13%	6.80%	12.64%
Sales/Assets	0.97	0.83	0.54	1.17	0.59	1.47
Proj. Sales Growth (F1/F0)	-1.09%	-3.46%	-2.44%	-5.82%	-21.20%	1.72%
Momentum Score	C	-	-	F	F	B
Daily Price Chg	1.04%	0.06%	0.36%	0.11%	-1.77%	-3.34%
1 Week Price Chg	-2.17%	-0.47%	-0.41%	0.24%	-7.05%	-4.23%
4 Week Price Chg	-2.12%	0.38%	2.56%	2.81%	0.77%	5.38%
12 Week Price Chg	9.37%	8.06%	15.49%	31.50%	5.42%	-3.34%
52 Week Price Chg	20.41%	-8.14%	-3.93%	-9.02%	-43.13%	6.32%
20 Day Average Volume	162,636	96,142	2,236,294	34,266	247,653	27,806
(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%	0.01%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	0.00%	-25.65%	-5.24%	-51.77%	31.58%	-30.51%
(Q1) EPS Est Mthly Chg	1.25%	0.00%	0.00%	0.00%	0.00%	0.00%

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	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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