

Bruker Corporation (BRKR)

\$49.25 (As of 02/18/20)

Price Target (6-12 Months): **\$52.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/15/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: B

Summary

Over the past six months, Bruker has outperformed its industry. Strength in the BSI and BEST segments drove the company's organic growth. The Bruker Nano Surfaces group improved significantly during the quarter, fueled by uptrends in the life science mass spectrometry solutions and microbiology. A year-over-year uptick in constant currency revenue growth across all geographies also looks impressive. In addition, the company's acquisition spree is encouraging. Further, we are upbeat about its current focus on product development through higher R&D investment. Additionally, the improvement in gross margin buoys optimism. The company delivered better-than-expected results in the third quarter of 2019. However, a competitive landscape and macroeconomic woes pose challenges. Also, the contraction in the operating margin is concerning.

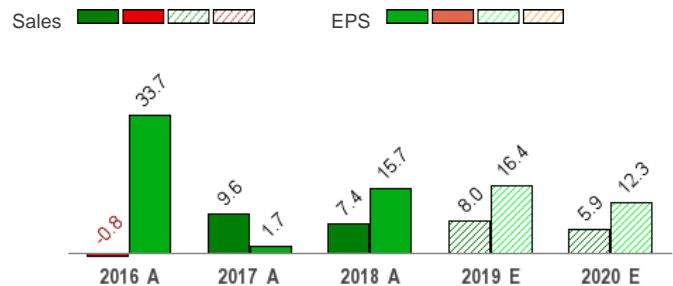
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$54.49 - \$36.72
20 Day Average Volume (sh)	600,482
Market Cap	\$7.6 B
YTD Price Change	-3.4%
Beta	1.42
Dividend / Div Yld	\$0.16 / 0.3%
Industry	Instruments - Scientific
Zacks Industry Rank	Top 42% (106 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.2%
Last Sales Surprise	5.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/12/2020
Earnings ESP	0.0%
P/E TTM	31.2
P/E F1	26.9
PEG F1	2.2
P/S TTM	3.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	488 E	524 E	552 E	606 E	2,168 E
2019	461 A	490 A	521 A	574 E	2,047 E
2018	432 A	444 A	467 A	554 A	1,896 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.39 E	\$0.43 E	\$0.48 E	\$0.57 E	\$1.83 E
2019	\$0.28 A	\$0.33 A	\$0.43 A	\$0.59 E	\$1.63 E
2018	\$0.24 A	\$0.25 A	\$0.37 A	\$0.54 A	\$1.40 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 02/18/2020. The reports text is as of 02/19/2020.

Overview

Headquartered in Billerica, MA, Bruker Corporation designs and manufactures proprietary life science and materials research systems and associated products that serve multiple customers in life science research, pharmaceuticals, applied markets, nanotechnology, cell biology, clinical research, microbiology and in-vitro diagnostics. Currently, Bruker employs 6,000 individuals who work at 90 locations across the globe. It has direct sales forces employed through North America, Europe, Japan, Asia Pacific and Australia.

Business Segments:

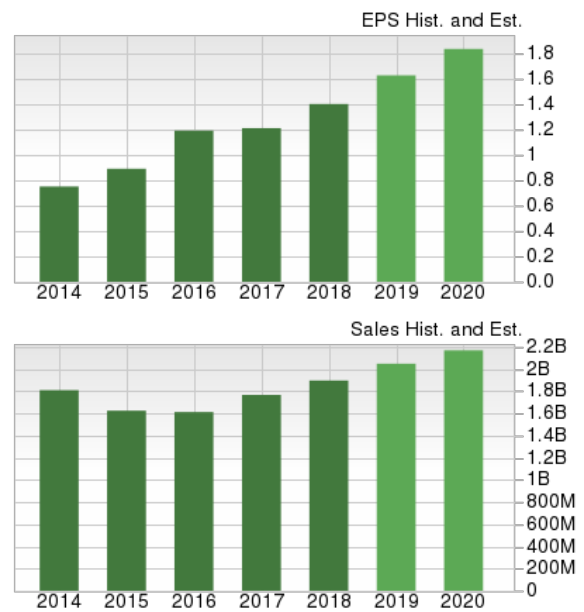
Bruker Scientific Instruments (BSI): Within BSI, Bruker operates under three groups: the Bruker BioSpin (comprising 31.2 % of revenues in 2018; up 3.3% from 2017), the Bruker CALID (2.9%, up 9.8%) and the Bruker Nano (29.9%, up 10.7%).

The Bruker BioSpin comprises the Bruker Magnetic Resonance and Preclinical Imaging divisions, which designs, manufactures and distributes enabling life science tools based on the magnetic resonance technology.

The Bruker CALID comprises the Bruker Daltonics and primarily designs, manufactures and distributes life-science mass spectrometry instruments that can be integrated with other sample preparation or chromatography instruments.

The Bruker Nano combines the Bruker AXS, Bruker Nano Surfaces, Bruker Nano Analytics and Bruker Elemental divisions, and designs, manufactures and distributes advanced X-ray instruments to determine the characteristics of matter and the three-dimensional structure of molecules.

Bruker Energy & Supercon Technologies (BEST): This segment designs, manufactures and distributes superconducting materials, primarily metallic low temperature superconductors, for use in magnetic resonance imaging, nuclear magnetic resonance, fusion energy research and other applications.



Reasons To Buy:

▲ **Share price performance:** In the past six months, Bruker rallied 17.1% compared to industry's 10.1% rise. We are upbeat about the strong organic revenue growth, driven by strength in the Bruker Scientific Instruments ("BSI") and BEST segments. A year-over-year uptrend in constant currency revenue growth witnessed across all geographies also looks impressive. The company's acquisition activities also buoy optimism. Further, we are impressed with its current focus on product development through higher R&D investment.

▲ **Bruker Nano Surfaces Continue to Deliver Strong Performance:** In the third quarter of 2019, the Bruker Nano Surfaces group — which includes Bruker's atomic force microscopy products — rose 18.8%, fueled by uptrends in the life science mass spectrometry solutions and microbiology. This upside was significantly backed by solid academic markets and strong industrial research demand for advanced X-ray and Nano Materials Analysis products. Apart from these, the company's acquisitions of Anasys (in April 2018), JPK (in July) and Alicona progressed well during the quarter. In April 2019, NANO closed the acquisition of RAVE, a semiconductor mass repair business. This buyout contributed significantly to the company's top-line during the third quarter. NANO's advanced x-ray business grew on consistent demand from academic and government customers. NANO surface tools revenues increased, courtesy of these acquisitions. The NANO group witnessed high single-digit revenue growth in the third quarter on an organic basis. This was led by growth in all of NANO's divisions.

The company has been working on a new Bruker NANO engineering final assembly and system test sensor in Penang, Malaysia, which is now operational. The company now has several Bruker NANO products that are being assembled and tested in Penang already, and by 2022, management expects more than \$50 million of revenues to be generated from Penang.

Overall, the Nano Group is witnessing a strong finish to the quarter with higher demand from industrial markets, strong semiconductor sales and improved academic markets.

▲ **High Potential of MALDI Biotyper:** Bacteria analysis and the identification of microorganisms to the species level and beyond is a key task in microbiology. Although current sequencing technologies provide more precise insights in biochemical analysis, they are still far too slow and expensive. Keeping this in mind, Bruker developed the MALDI Biotyper – a revolutionary approach for the analysis of microorganisms. The company expanded its MALDI Biotyper workflow's menu to include selected high-value resistance testing for clinical microbiology research.

We are also encouraged to note that demand for the MALDI Biotyper is increasing in applied markets, specifically for food, feed and beverage. Based on the recent developments witnessed in this product portfolio, management believes Bruker is poised to double its microbiology business over the next four to five years. Given an increase in the aging population, a higher number of individuals are likely to fall prey to illnesses, especially those caused by microorganisms. We believe MALDI Biotyper is thus positioned well to contribute significantly to the company's top line, over time.

Through the third quarter, within CALID, the company witnessed robust performance in both its microbiology, MALDI Biotyper business, as well in the life-science mass spectrometry solutions business, which includes timsTOF based proteomics.

▲ **Bruker's Prospects in NMR Industry:** Nuclear Magnetic Resonance (NMR) spectroscopy is an analytical technique used in quality control and research to identify the content and purity of a sample as well as its molecular structure. Bruker BioSpin's products, which have specific application in structural proteomics, drug discovery, research and food and materials science fields, provide customers with the ability to ascertain the structure, dynamics, and function of specific molecules, such as proteins, as well as characterize and determine the composition of mixtures. A vast majority of Bruker BioSpin's customers include academic and government customers as well as pharmaceutical and biotechnology companies.

From a year-over-year BSI organic revenue growth perspective, the company registered low single-digit growth through the third quarter at BioSpin. This included revenues from another 1.0 gigahertz NMR system in the quarter. BioSpin preclinical imaging system revenues recorded year-on-year improvement. Management expects revenues from its BioSpin Group to grow in the mid-single digits, on an organic basis organically in 2019.

▲ **Growth in Preclinical Imaging Market:** Preclinical imaging (PCI) can dramatically increase the efficiency and pace of drug discovery and development. Bruker offers advanced PCI solutions for a broad spectrum of application fields, such as cancer research, functional and anatomical neuroimaging, orthopedics, cardiac imaging and stroke models. Moreover, this division is experiencing increasing customer demand for higher-strength pre-clinical magnetic resonance imaging (MRI) system. In this regard, the company's recent collaboration with Champalimaud Foundation to develop the world's first 18 Tesla 11 cm bore, preclinical ultra-high field MRI system seems strategic.

The MRI system market, which is expected to grow at a single-digit CAGR of 5% to reach \$6,802.7 million by 2020 from \$5,093.0 million in 2014 (as per research firm Markets and Markets), drives encouragement. We believe this translates into a golden opportunity for Bruker to expand its foothold in the PCI market and earn higher profits from this division, going ahead. Currently, the company is investing vigorously in the PCI division to capture a larger share in this fast-growing market space. In July, the company made an acquisition in support of its Project Accelerate- PMOD Technologies, a provider of research-use software for preclinical and molecular imaging applications, viz. PET/MR and PET/CT scanning.

Bruker's recent acquisition of Hain Diagnostics expands its MALDI Biotyper solution product line. The company's collaboration with Champalimaud Foundation in the field of Preclinical Imaging seems strategic.

Reasons To Sell:

▼ **Exposed to Currency Movement:** Bruker conducts 80% of its business in international markets. As a result, currency fluctuations continue to result in foreign currency transaction losses at the company. In the third quarter of 2019, changes in foreign currency had 3% negative impact on the company's revenues. In addition, currency fluctuations could cause the price of Bruker's products to be less competitive than its principal competitors' offerings.

▼ **Macroeconomic Factors:** Many of the countries in which Bruker operates, including the U.S., Russia, and certain European nations, have experienced and continue to face uncertain economic conditions. Any company conducting business in these nations tend to be impacted by unfavorable changes in economic or political conditions herein, including adverse changes in interest rates or tax rates, volatile financial and commodity markets, contraction in the availability of credit in the marketplace, and changes in capital spending patterns. Moreover, continued volatility and disruption of global financial markets might limit Bruker's customers' ability to obtain adequate financing to maintain operations and proceed with planned or new capital spending initiatives. This could lead to a drop in sales volume that could materially and adversely affect the company's operational results and cashflow. Management further anticipates that the persistence of an economic downturn may entail increased pricing pressure for Bruker's products and services, thus weighing on its operating margins and profitability.

▼ **Competitive Landscape:** Bruker faces substantial competition in a consolidating industry and expects competition in all of its markets to increase further. Bruker BioSpin competes with companies that offer magnetic resonance spectrometers, mainly JEOL and Oxford Instruments. In the field of preclinical imaging, Bruker BioSpin faces competitive threat from Perkin Elmer, Mediso, Trifoil, MR Solutions, RS2D, Visualsonics (Fuji Film) and others. Bruker CALID's competitors in the life science markets and chemical and applied markets include Danaher, Agilent, GE-Healthcare, Waters, Thermo Fisher Scientific, Shimadzu, Hitachi and JEOL. BEST competes with Oxford Instruments and Luvata in low temperature superconducting materials. Unfortunately, a number of Bruker's peers have expanded their market share in recent years through business combinations. Other companies may also choose to enter Bruker's fields of operation in the near future.

Currency fluctuations remain a drag on Bruker's top as well as bottom-line. Moreover, headwinds such as unfavorable economic conditions and competitive threats continue to pose concern.

Last Earnings Report

Bruker Beats Q3 Earnings Estimates

Bruker Corporation delivered adjusted earnings per share of 43 cents in the third quarter of 2019, up 16.2% from the year-ago figure. The figure surpassed the Zacks Consensus Estimate by 13.2%.

On a GAAP basis, earnings were 39 cents a share, marking a 39.3% improvement from the year-earlier figure of 28 cents.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	5.13%
EPS Surprise	13.16%
Quarterly EPS	0.43
Annual EPS (TTM)	1.58

Revenues in Detail

Bruker registered revenues of \$521.1 million in the third quarter, up 11.7% year over year. Further, the top line surpassed the Zacks Consensus Estimate by 5.1%.

Excluding a positive effect of 6.4% from acquisitions and a 2.3% negative impact from changes in foreign currency rates, the company recorded organic revenue growth of 7.6% year over year.

Its organic revenue growth was driven by strength in Bruker Scientific Instruments ("BSI") and BEST segments.

Geographically, the United States witnessed 1% growth in the reported quarter. Meanwhile, Europe revenues rose 12.03% year over year. Also, revenues in the Asia Pacific grew 17.9%. In the Other category, revenues rose 25.4%.

In the third quarter, Bruker's BioSpin Group revenues grew 3% from the year-ago quarter. Revenues in the NANO group rose 18.8%, fueled by uptrends in the life science mass spectrometry solutions and microbiology. CALID revenues were up 17.5% year over year.

Margin Trend

Gross margin in the quarter under review expanded 102 basis points (bps) to 48.7%. Meanwhile, selling, general & administrative expenses grew 17.7% to \$125.3 million. Research and development expenses went up 10.3% year over year to \$46.1 million. Overall, adjusted operating margin contracted 9 bps to 15.8%.

Financial Position

Bruker exited the third quarter of 2019 with cash and cash equivalents and short-term investments of \$ 302.4 million, down from \$288.8million at the end of the second quarter. It has witnessed year-to-date net cash provided by operating activities of \$77.2 million compared with \$107.4 million a year ago.

2019 Guidance

Bruker reaffirmed its 2019 outlook. For the year, the company reiterates revenue growth projection at 7-8%, including nearly 4.5-5.5% organic revenue rise. However, the estimated headwind from adverse foreign currency translation has been raised to 3% from the previously mentioned 2.5%. The Zacks Consensus Estimate for the metric was unchanged at \$2.04 billion.

The company continues to envision year-over-year expansion of 90-120 bps in adjusted operating margin over its fiscal 2018 adjusted operating margin of 16.8%.

For 2019, Bruker raised its adjusted earnings per share view to \$1.59-1.62 (from \$1.57-\$1.61 mentioned previously). The Zacks Consensus Estimate of \$1.61 is closer to the upper end of the company's guided range.

Recent News

On **Dec 9, 2019**, Bruker launched the Luxendo TruLive3D Imager light-sheet imaging system at the American Society for Cell Biology (ASCB) and European Molecular Biology Organization (EMBO). The imager leverages general benefits of single-plane illumination microscopy (SPIM), thus enabling rapid 3D imaging, with negligible light exposure, confocal resolution and excellent contrast in 3D.

On **Oct 2, 2019**, Bruker announced plans to acquire Magnettech electron paramagnetic resonance (EPR) business from Freiberg Instruments GmbH.

Valuation

Bruker shares are down 3.4% in the year-to date period and up 31.9% in the trailing 12-month periods. Stocks in the Zacks sub-industry are down 4% while the Zacks Medical sector rose 9.3% in the year-to-date period. Over the past year, the Zacks sub-industry is up 1.5% and sector is up 29.3%.

The S&P 500 index is up 4.9% in the year-to-date period and increased 20.6% in the past year.

The stock is currently trading at 26.4X Forward 12-months earnings, which compares to 23.9X for the Zacks sub-industry, 23.1X for the Zacks sector and 19.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.6X and as low as 17X, with a 5-year median 23.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$52 price target reflects 27.8X forward 12-months earnings.

The table below shows summary valuation data for BRKR

Valuation Multiples- BRKR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.44	23.91	23.14	19.34
	5-Year High	31.63	26.74	23.14	19.34
	5-Year Low	17.00	18.41	16.87	15.18
	5-Year Median	23.88	22.26	19.32	17.47
P/S F12M	Current	3.47	5.40	3.79	3.58
	5-Year High	3.86	5.92	3.79	3.58
	5-Year Low	1.66	3.63	2.30	2.54
	5-Year Median	2.52	4.80	3.02	3.00
P/B TTM	Current	8.87	8.98	5.76	4.68
	5-Year High	9.73	11.71	5.76	4.68
	5-Year Low	3.57	5.27	3.13	2.85
	5-Year Median	6.00	7.49	4.24	3.62

As of 2/18/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 255)



Top Peers

Smiths Group PLC (SMGZY)	Outperform
AMETEK, Inc. (AME)	Neutral
Bio-Rad Laboratories, Inc. (BIO)	Neutral
Danaher Corporation (DHR)	Neutral
General Electric Company (GE)	Neutral
HITACHI CHEMICAL (HCHMY)	Neutral
PerkinElmer, Inc. (PKI)	Neutral
Thermo Fisher Scientific Inc. (TMO)	Neutral

Industry Comparison Industry: Instruments - Scientific				Industry Peers		
	BRKR Neutral	X Industry	S&P 500	DHR Neutral	PKI Neutral	TMO Neutral
VGM Score	C	-	-	D	C	B
Market Cap	7.58 B	293.04 M	24.50 B	117.80 B	10.46 B	135.28 B
# of Analysts	6	6	13	8	8	9
Dividend Yield	0.32%	0.00%	1.78%	0.41%	0.30%	0.23%
Value Score	C	-	-	D	C	C
Cash/Price	0.04	0.05	0.04	0.17	0.02	0.02
EV/EBITDA	25.36	21.95	14.25	26.29	23.10	21.35
PEG Ratio	2.20	2.14	2.08	2.59	1.65	1.79
Price/Book (P/B)	8.87	2.15	3.28	4.11	3.72	4.56
Price/Cash Flow (P/CF)	27.03	15.73	13.68	26.39	15.01	18.65
P/E (F1)	26.91	21.90	19.12	30.11	20.69	24.79
Price/Sales (P/S)	3.74	2.87	2.67	5.91	3.63	5.30
Earnings Yield	3.72%	4.58%	5.23%	3.32%	4.83%	4.03%
Debt/Equity	0.67	0.31	0.70	0.75	0.79	0.58
Cash Flow (\$/share)	1.82	1.81	6.93	6.21	6.27	18.08
Growth Score	C	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	16.52%	10.32%	10.84%	2.72%	10.71%	13.63%
Proj. EPS Growth (F1/F0)	12.82%	10.90%	7.11%	23.25%	10.98%	10.19%
Curr. Cash Flow Growth	11.27%	-4.57%	7.81%	-1.09%	15.05%	6.99%
Hist. Cash Flow Growth (3-5 yrs)	8.40%	8.44%	8.25%	5.87%	12.03%	10.08%
Current Ratio	2.23	1.79	1.24	5.19	1.79	1.91
Debt/Capital	40.84%	42.31%	42.37%	41.54%	43.99%	36.53%
Net Margin	10.20%	4.23%	11.76%	15.09%	7.89%	14.47%
Return on Equity	28.02%	5.34%	16.86%	11.50%	16.80%	17.24%
Sales/Assets	0.89	0.86	0.55	0.35	0.45	0.45
Proj. Sales Growth (F1/F0)	5.89%	1.03%	4.05%	6.62%	6.79%	5.40%
Momentum Score	B	-	-	C	F	B
Daily Price Chg	-2.49%	-1.13%	-0.38%	-1.18%	-1.47%	-0.54%
1 Week Price Chg	1.51%	2.00%	1.65%	2.44%	2.68%	3.98%
4 Week Price Chg	-7.48%	-7.28%	0.39%	0.18%	-7.09%	0.03%
12 Week Price Chg	-3.17%	-2.83%	4.84%	12.34%	1.67%	7.63%
52 Week Price Chg	32.00%	0.15%	14.99%	47.32%	0.31%	34.50%
20 Day Average Volume	600,482	128,917	1,996,897	2,113,206	709,644	1,672,804
(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%	-0.06%	-0.01%	0.69%	-1.67%	0.10%
(F1) EPS Est 12 week change	0.18%	-0.12%	-0.21%	-2.13%	-1.27%	0.17%
(Q1) EPS Est Mthly Chg	0.00%	-8.38%	-0.26%	5.64%	-17.61%	-4.40%

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	B
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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