

Crane Co. (CR)

\$87.40 (As of 01/20/20)

Price Target (6-12 Months): **\$92.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: B

Summary

Crane is poised to gain from product development, growth investments and the Crane Currency buyout. Of late, its Fluid Handling segment has been experiencing strength in commercial valve business. Also, strength in the commercial aftermarket business, driven by robust demand for spare parts along with solid backlog, will be a tailwind for the company's Aerospace & Electronics segment. In addition, it believes in rewarding shareholders handsomely through dividend payments and share buybacks. However, the company's shares have underperformed the industry in the past three months. Weakness in the Payment & Merchandising Technologies and Engineered Materials segments persists. In addition, high debts and charges related to repositioning activities might affect the company's margin and profitability.

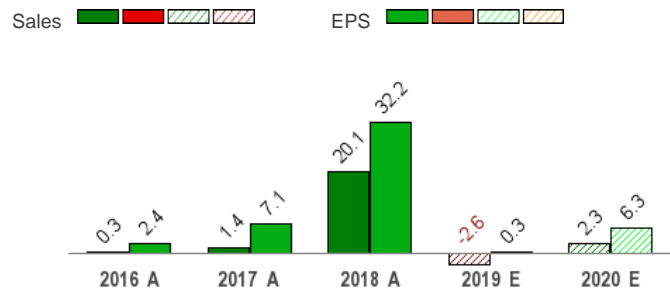
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$91.23 - \$72.57
20 Day Average Volume (sh)	172,371
Market Cap	\$5.2 B
YTD Price Change	1.2%
Beta	1.39
Dividend / Div Yld	\$1.56 / 1.8%
Industry	Diversified Operations
Zacks Industry Rank	Bottom 21% (200 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-9.7%
Last Sales Surprise	-2.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/27/2020
Earnings ESP	0.0%
P/E TTM	14.4
P/E F1	13.7
PEG F1	2.2
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	834 E	864 E	817 E	878 E	3,334 E
2019	832 A	842 A	772 A	812 E	3,258 E
2018	799 A	851 A	856 A	840 A	3,346 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.63 E	\$1.74 E	\$1.61 E	\$1.77 E	\$6.39 E
2019	\$1.45 A	\$1.58 A	\$1.40 A	\$1.57 E	\$6.01 E
2018	\$1.31 A	\$1.41 A	\$1.62 A	\$1.64 A	\$5.99 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 01/20/2020. The reports text is as of 01/21/2020.

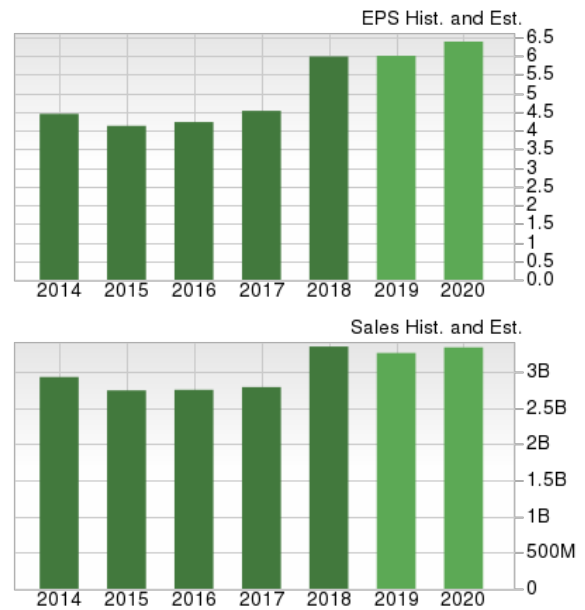
Overview

Crane Co., founded in 1855, is currently headquartered in Stamford, CT. The company is recognized for its diversified product portfolio of engineered industrial products. It employs roughly 12,000 people in the Americas, Europe, the Middle East, Asia and Australia.

Key end markets served by the company includes aerospace, electronics, chemical, power, non-residential construction, automated payment solutions and various general industrial as well as consumer related end markets. Products are either sold directly or through sales representatives and industrial distributors.

The company operates through four reporting segments, briefly discussed below:

- **Fluid Handling** (35.8% of total revenues in the third quarter of 2019): This segment manufactures and services valves for industrial usage as well as makes pumps and water treatment equipment for a variety of applications. The segment comprises businesses including Crane Valve Services, Crane Pumps & Systems and Crane Supply.
- **Payment & Merchandising Technologies** (32.2%): This segment deals with Crane Payment Innovations, Crane Merchandising Systems and Crane Currency businesses. Crane Payment Innovations offers coin accepters and dispensers, coin hoppers, coin recyclers, bill validators, and bill recyclers. Crane Merchandising Systems specializes in providing vending equipment and related solutions comprising food, snack, and beverage-vending machines, as well as vending machine software and online solutions. Crane Currency is engaged in supplying highly-engineered banknotes for central banks throughout the world.
- **Aerospace & Electronics** (25.5%): This segment's Aerospace group designs, manufactures, and supports critical aircraft systems and components; while the Electronic group provides high-density, high-reliability electronics for aerospace, space, military, industrial, and commercial applications.
- **Engineered Materials** (6.5%): This segment produces fiberglass-reinforced plastic panels. These products are mainly used in truck trailer and recreational vehicle markets, industrial markets, and the commercial construction industry.



Reasons To Buy:

▲ Crane anticipates gaining from its focus on product development, strong operating leverage, growth investments, acquired assets and repositioning initiatives. In third quarter of 2019, organic revenues for the company's Fluid Handling segment grew 1.5% year over year on the back of strength in commercial valve business. Also, the company is experiencing decent project activity in its process valve business, particularly in the United States. In addition, stable market conditions in Europe, coupled with continued positive activity in China from chemical markets are likely to drive revenues of the Fluid Handling segment. Also, strength in the commercial aftermarket business driven by strong demand for spare parts along with solid backlog will be a tailwind for the company's Aerospace & Electronics segment.

Product development initiatives, repositioning activities and growth investments will bode well for Crane in the quarters ahead.

▲ Crane started some repositioning activities for the Payment & Merchandising, Fluid Handling, and Aerospace & Electronics segments in the fourth quarter of 2017 to improve profitability and better serve customers. The initiatives include facility consolidations, especially in Europe and North America, and 3% reduction in the global workforce. The company has noted that it is progressing well with repositioning activities. It is worth noting here that these initiatives are anticipated to deliver earnings accretion of 35 cents per share by 2020. In addition, the company believes that it is on track to achieve targeted earnings of \$7.50-\$8.00 per share by 2021.

▲ Crane believes in rewarding shareholders handsomely through dividend payments and share buybacks. In 2018, the company used approximately \$83.5 million for paying dividends, reflecting 6.5% growth from the previous year, and repurchased shares worth \$50.1 million. In the first nine months of 2019, it distributed dividends amounting to \$70.1 million, reflecting an increase of 11.8% from the comparable period a year ago. It is worth noting here that the company hiked the quarterly dividend rate by 11% in January 2019. In addition, the company has been steadily strengthening business through acquisitions. In January 2018, it acquired Crane Currency — a globally renowned currency provider. Results of this acquired asset are now reported under Crane's Payment & Merchandising Technologies segment. Also, the company noted that it currently has several opportunities for potential acquisitions in a number of its end markets. Notably, for the 2018-2021 period, the company expects the Crane Currency buyout to strengthen earnings by \$1.00 per share.

Reasons To Sell:

- ▼ In the past three months, shares of Crane have returned 6%, underperforming the industry's growth of 13.4%. Crane is experiencing persistent weakness in the Payment & Merchandising Technologies and Engineered Materials segments. In the third quarter of 2019, organic revenues in the Payment & Merchandising Technologies segment declined 22% year over year while that in Engineered Materials was down 14%. Notably, the Payment & Merchandising Technologies segment is experiencing lower volumes of sales due to absence of revenues from Venezuela and lower Crane Currency sales to the U.S. government. As a matter of fact, the company expects these headwinds to persist in the rest of 2019. In addition, lower sales to the recreational vehicle customers are likely to be detrimental to Engineered Materials' top-line results.
- ▼ Geographical diversification is reflective of a flourishing business of Crane. However, this diversity exposed the company to headwinds, arising from geopolitical issues and unfavorable movements in foreign currencies. In the second and third quarter of 2019, forex woes adversely impacted sales growth by 1.9% and 1%, respectively.
- ▼ A highly leveraged balance sheet can inflate Crane's financial obligations and subsequently hurt profitability. In the last five years (2014-2018), the company's long-term debt rose 4.7% (CAGR). Notably, the metric was \$934.9 million at the end of the third quarter of 2019. In addition, costs associated with the company's repositioning activities can be concerning and might put pressure on margins. In the first nine months of 2019, charges related to repositioning activities of Crane totaled \$16.2 million, significantly above \$9.1 million recorded in the year-ago period.

Weakness in Payment & Merchandising Technologies and Engineered Materials segments, repositioning activities-related charges and high debts rates might hurt Crane's near-term profitability.

Last Earnings Report

Crane Misses Earnings Estimates in Q3, Lowers '19 View

Crane reported weaker-than-expected results for the third quarter of 2019. Its earnings lagged estimates by 9.68%, while sales lagged the same by 2.5%. Notably, the company delivered positive earnings surprise in the previous 15th consecutive quarters.

Adjusted earnings in the reported quarter were \$1.40 per share, lagging the Zacks Consensus Estimate of \$1.55. On a year-over-year basis, the bottom line declined 13.6% from the year-ago quarter figure of \$1.62 due to poor sales performance and fall in operating margin.

Quarter Ending **09/2019**

Report Date	Oct 28, 2019
Sales Surprise	-2.51%
EPS Surprise	-9.68%
Quarterly EPS	1.40
Annual EPS (TTM)	6.07

Revenues Decline Y/Y

In the quarter under review, Crane's net sales were \$772.3 million, reflecting a decline of 9.8% from the year-ago quarter. Forex woes adversely impacted results by 1% while organic sales were down 8%. Also, divestitures had adverse impact of \$2 million.

However, its net sales lagged the Zacks Consensus Estimate of \$792.2 million.

The company reports net sales under four segments — Fluid Handling, Payment & Merchandising Technologies, Aerospace & Electronics, and Engineered Materials. The segmental information is briefly discussed below:

Revenues from the **Fluid Handling** segment were \$276.1 million, reflecting a decline of 0.9% from the year-ago quarter figure. Organic sales in the quarter grew 1.5%, which were more than offset by unfavorable movements in foreign currencies of 2%. The segment's order backlog was \$272.1 million in the reported quarter, reflecting a sequential decline of 1%.

Revenues from **Payment & Merchandising Technologies** totaled \$248.9 million, declining 24% year over year. Organic sales in the quarter dipped 22% while forex woes had adverse impact of 2%. Divestitures had negative impact of \$2 million. Order backlog at the end of the reported quarter was \$291.8 million, up 1.7% sequentially.

Revenues from the **Aerospace & Electronics** segment were \$197.2 million, rising 4.1% year over year. The improvement was mainly driven by core sales growth. Order backlog at the end of the quarter under review was \$564.3 million, up 12.2% sequentially.

Revenues from the **Engineered Materials** segment dipped 16.8% year over year to \$50.1 million on weak business in the recreational vehicle end market. Order backlog at the end of the reported quarter was \$10.1 million, down 12.2% sequentially.

Operating Margin Decline Y/Y

In the third quarter, Crane's cost of sales declined 9.3% year over year to \$494.4 million. It represented 64% of net sales compared with 63.7% in the year-ago quarter. Selling, general and administrative expenses dipped 5.5% year over year to \$168.6 million. It represented 21.8% of net sales versus 20.9% in the year-ago quarter.

Adjusted operating income in the quarter under review declined 14.2% year over year to \$114 million. Moreover, adjusted operating margin declined 70 basis points to 14.8%.

Balance Sheet and Cash Flow

Exiting the third quarter, Crane had cash and cash equivalents of \$388.8 million, up 26.6% from \$307 million at the end of the last reported quarter. Long-term debt balance was down 0.6% sequentially to \$934.9 million.

In the third quarter, the company generated net cash of \$118.5 million from operating activities, mirroring growth from \$91 million generated in the year-ago quarter. Capital expenditure was \$14.8 million, down 53.2% from the year-ago quarter. Free cash flow in the quarter was \$103.7 million versus \$59.4 million in the year-ago quarter.

Shareholder-Friendly Policy

In the third quarter, Crane used \$23.4 million for paying dividends, with roughly \$20.9 million distributed in the year-ago comparable quarter.

Outlook

For 2019, the company lowered adjusted earnings per share projection to \$5.90-\$6.10 from the earlier \$6.25-\$6.45. The revision mainly resulted from lower U.S. Government sales for Crane Currency.

It anticipates operating cash flow of \$365-\$395 million (down from previously stated \$425-\$455 million) and capital expenditure of \$80 million (versus \$90 million mentioned previously) for 2019. Free cash flow is projected to be \$285-\$315 million (down from \$335-\$365 million stated earlier).

Recent News

Dividend

On **Dec 9, 2019**, Crane paid out a quarterly cash dividend of 39 cents per share to shareholders on record as of Nov 29.

Valuation

Crane's shares have gained 11% over the trailing 12-month period. Over the past year, both the Zacks sub-industry and the Zacks Conglomerates sector have moved up 28.1%.

The S&P 500 Index is up 25.7% in the past year.

The stock is currently trading at 8.7x forward 12-month EBITDA, which compares to 26.85x for the Zacks sub-industry, 26.85x for the Zacks sector and 12.66x for the S&P 500 index.

Over the past five years, the stock has traded as high as 10.22x and as low as 5.92x, with a 5-year median of 8.24x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$92 price target reflects 14.32x forward 12-month earnings per share.

The table below shows summary valuation data for CR.

Valuation Multiples - CR					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA F12M	Current	8.7	26.85	26.85	12.66
	5-Year High	10.22	81.18	81.18	12.66
	5-Year Low	5.92	17.86	17.86	9.08
	5-Year Median	8.24	22.03	22.03	10.78
P/E F12M	Current	13.6	19.8	19.8	19.19
	5-Year High	20.1	20.06	20.06	19.34
	5-Year Low	9.9	15.31	15.31	15.17
	5-Year Median	13.7	17.76	17.76	17.44
EV/Sales F12M	Current	1.74	4.22	4.22	3.26
	5-Year High	1.93	4.24	4.24	3.37
	5-Year Low	1.08	2.82	2.82	2.3
	5-Year Median	1.64	3.65	3.65	2.79

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (200 out of 254)



Top Peers

Carlisle Companies Incorporated (CSL)	Neutral
Dover Corporation (DOV)	Neutral
Flowserve Corporation (FLS)	Neutral
Honeywell International Inc. (HON)	Neutral
Ingersoll-Rand PLC (Ireland) (IR)	Neutral
ITT Inc. (ITT)	Neutral
Parker-Hannifin Corporation (PH)	Neutral
United Technologies Corporation (UTX)	Neutral

Industry Comparison Industry: Diversified Operations				Industry Peers		
	CR Neutral	X Industry	S&P 500	CSL Neutral	DOV Neutral	PH Neutral
VGM Score	C	-	-	B	B	B
Market Cap	5.24 B	7.54 B	24.65 B	9.29 B	17.36 B	26.59 B
# of Analysts	5	4	13	3	8	9
Dividend Yield	1.78%	1.38%	1.73%	1.22%	1.64%	1.70%
Value Score	B	-	-	C	C	C
Cash/Price	0.08	0.13	0.04	0.07	0.02	0.15
EV/EBITDA	9.94	9.81	14.11	14.82	17.50	11.74
PEG Ratio	2.16	2.06	2.08	1.21	1.65	2.10
Price/Book (P/B)	3.08	1.80	3.39	3.47	5.75	4.36
Price/Cash Flow (P/CF)	10.71	12.50	13.81	17.13	16.84	13.30
P/E (F1)	13.52	16.95	19.19	18.12	18.98	19.18
Price/Sales (P/S)	1.60	1.49	2.69	1.96	2.42	1.88
Earnings Yield	7.31%	5.64%	5.21%	5.52%	5.27%	5.21%
Debt/Equity	0.55	0.67	0.72	0.59	0.96	1.21
Cash Flow (\$/share)	8.16	1.94	6.94	9.57	7.10	15.57
Growth Score	C	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	8.99%	9.00%	10.56%	11.65%	8.45%	14.43%
Proj. EPS Growth (F1/F0)	6.36%	7.09%	7.57%	13.13%	7.58%	-8.95%
Curr. Cash Flow Growth	40.08%	7.31%	14.73%	9.03%	12.99%	6.37%
Hist. Cash Flow Growth (3-5 yrs)	10.05%	4.88%	9.00%	11.06%	-2.75%	7.55%
Current Ratio	2.24	2.22	1.24	3.04	1.42	1.96
Debt/Capital	35.48%	40.06%	42.99%	37.23%	49.08%	54.69%
Net Margin	10.20%	5.78%	11.14%	9.66%	9.08%	10.41%
Return on Equity	22.76%	10.25%	17.16%	17.99%	29.62%	25.74%
Sales/Assets	0.80	0.77	0.55	0.88	0.83	0.83
Proj. Sales Growth (F1/F0)	2.33%	2.93%	4.16%	5.44%	2.55%	0.77%
Momentum Score	B	-	-	F	B	A
Daily Price Chg	-0.33%	0.19%	0.27%	0.62%	-0.06%	-0.36%
1 Week Price Chg	-0.93%	-0.07%	0.39%	-0.61%	-0.01%	-0.73%
4 Week Price Chg	2.56%	3.47%	2.95%	2.39%	5.34%	0.35%
12 Week Price Chg	6.95%	6.45%	7.76%	6.72%	15.93%	11.44%
52 Week Price Chg	10.96%	-4.18%	22.29%	53.44%	51.19%	29.76%
20 Day Average Volume	172,371	62,997	1,536,375	281,044	579,875	597,015
(F1) EPS Est 1 week change	0.03%	0.00%	0.00%	-0.55%	0.04%	0.13%
(F1) EPS Est 4 week change	0.03%	0.00%	0.00%	-0.55%	0.04%	0.13%
(F1) EPS Est 12 week change	-7.61%	-0.68%	-0.40%	0.84%	-0.30%	-8.54%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-4.64%	0.00%	0.27%

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	B
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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