

Crane Co. (CR)

\$86.06 (As of 02/20/20)

Price Target (6-12 Months): **\$90.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: B

Summary

Crane is poised to gain from product development, acquired assets, repositioning initiatives and policy of rewarding shareholders through dividends (quarterly rate was hiked by 10% in January 2020) and share buybacks. In fourth-quarter 2019, it initiated certain proactive repositioning actions for Fluid Handling (likely to yield \$10 million savings in 2022) as well as acquired Cummins Allison and agreed to buy CIRCOR International's Instrumentation & Sampling business. Crane's fourth-quarter earnings surpassed estimates by 0.6%. However, the company's shares have underperformed the industry in the past three months. For 2020, it expects organic sales of the Aerospace & Electronics segment to decline 3% and for Engineered Materials to fall 1%. Also, high debts, forex woes and repositioning charges might affect profitability.

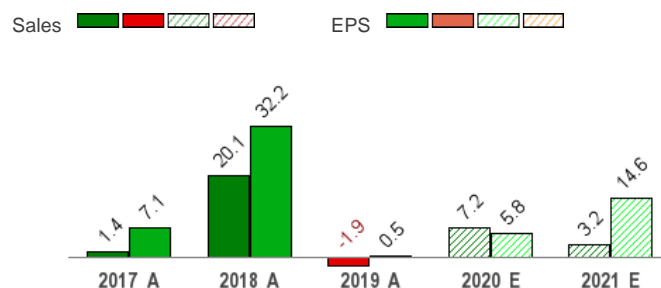
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$91.23 - \$72.57
20 Day Average Volume (sh)	251,804
Market Cap	\$5.2 B
YTD Price Change	-0.4%
Beta	1.44
Dividend / Div Yld	\$1.72 / 1.8%
Industry	Diversified Operations
Zacks Industry Rank	Bottom 16% (213 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.6%
Last Sales Surprise	3.2%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	05/04/2020
Earnings ESP	0.0%
P/E TTM	14.3
P/E F1	13.5
PEG F1	2.2
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,632 E
2020	837 E	877 E	865 E	942 E	3,521 E
2019	832 A	842 A	772 A	838 A	3,283 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$7.30 E
2020	\$1.30 E	\$1.60 E	\$1.59 E	\$1.89 E	\$6.37 E
2019	\$1.45 A	\$1.58 A	\$1.40 A	\$1.58 A	\$6.02 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 02/20/2020. The reports text is as of 02/21/2020.

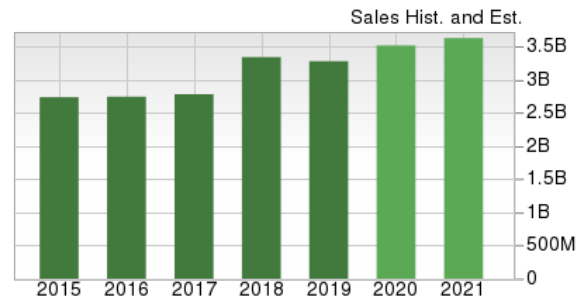
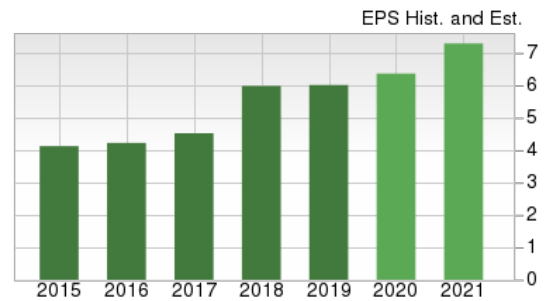
Overview

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, Australia, the Middle East, Europe and Asia.

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** (33.1% of total revenues in the fourth 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** (37.6%): 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** (24.2%): 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** (5.1%): 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 the quarters ahead. For 2020, the company anticipates adjusted earnings per share of \$6.20-\$6.50, reflecting growth of 5% year over year. Sales are predicted to be \$3.5 billion, increasing 7% from the previous year. Organic sales for Payment & Merchandising Technologies are likely to grow 1% in the year. Also, the company believes that it is on track to achieve targeted earnings of \$7.50-\$8.00 per share by 2021.
- ▲ Crane initiated certain proactive repositioning actions for Fluid Handling in the fourth quarter of 2019, anticipating savings of \$10 million in 2022. These actions are in addition to Crane's repositioning activities for the Payment & Merchandising, Fluid Handling, and Aerospace & Electronics segments started in the fourth quarter of 2017. The initiatives — including facility consolidations, especially in Europe and North America, and 3% reduction in the global workforce — might benefit earnings going forward.
- ▲ Crane believes in rewarding shareholders handsomely through dividend payments and share buybacks. In 2019, the company used \$93.2 million for paying dividends, reflecting 11.6% growth from the previous year, and repurchased shares worth \$79.9 million. It is worth noting here that the company hiked the quarterly dividend rate by 10% in January 2020.
- ▲ Crane has been steadily strengthening business through acquisitions. In 2019, the company's investment in buyouts (net of acquired cash) totaled \$156.2 million. Acquired assets boosted its sales by 0.1% year over year in 2019. It is worth mentioning here that Crane acquired Cummins Allison in December 2019. The buyout is likely to help strengthen the Crane Payment Innovations business. In the same month, Crane agreed to buy CIRCOR International's Instrumentation & Sampling business. The buyout will likely boost Crane's process valve business in the quarters ahead. For 2020, the company believes that acquisitions will boost its sales by 8%. Also, it believes that the buyouts of Cummins Allison and CIRCOR International's Instrumentation & Sampling business will boost earnings by 15 cents per share in 2020 and by 25 cents by 2022.

Product development initiatives, repositioning activities, acquisitions and shareholder-friendly policies will likely bode well for Crane in the quarters ahead.

Reasons To Sell:

- ▼ In the past three months, shares of Crane have gained 3.6% compared with the industry's growth of 4.5%. In fourth-quarter 2019, the company's earnings decreased 3.7% from the year-ago quarter and sales were down 0.3%. In the past 30 days, its earnings estimates have been lowered by 20.2% to \$1.30 per share for the first quarter of 2020 and by 0.3% to \$6.37 per share for 2020.
- ▼ Crane expects organic sales to be down 2% to up 1% year over year in 2020. It believes end-market environment will be subdued for Fluid Handling in the year, suggesting flat core sales on a year-over-year basis. For Payment & Merchandising Technologies, demand from the U.S. government will be low at Crane Currency, while the Cummins Allison buyout might impact margins initially. Production issues of 737-MAX are expected to hamper the performance of Aerospace & Electronics. Organic sales of the segment are expected to decline 3% in 2020. For Engineered Materials, the company expects core sales to decline 1%.
- ▼ With operations across the Americas, Australia, the Middle East, Europe and Asia, Crane's performance is exposed to the adverse impacts of macroeconomic cycles in the United States and international markets. Also, it faces headwinds from unfavorable foreign currency movements, impacting bottom-line growth. In the fourth quarter of 2019, forex woes had an adverse \$4 million impact on sales. The company believes that unfavorable movements in foreign currencies will continue to be a headwind in 2020, impacting sales by 0.5-1%.
- ▼ A highly leveraged balance sheet can inflate Crane's financial obligations and subsequently hurt profitability. In the last three years (2017-2019), the company's long-term debt rose 19.4% (CAGR). Notably, the metric was \$842 million at the end of the fourth quarter of 2019. In addition, costs associated with the company's repositioning activities can be concerning and might put pressure on margins. In 2019, charges related to repositioning activities (after-tax) of Crane were \$25.6 million or 43 cents per share, up from \$10.9 million or 18 cents recorded in 2018.

Prevailing headwinds in Fluid Handling, Payment & Merchandising Technologies, and Aerospace & Electronics segments might be concerning. Also, forex woes and high debts might impact near-term profitability.

Last Earnings Report

Crane Beats Q4 Earnings and Sales Estimates

Crane reported better-than-expected results for the fourth quarter of 2019. Its earnings and sales surpassed estimates by 0.6% and 3.2%, respectively.

Adjusted earnings in the reported quarter were \$1.58 per share, surpassing the Zacks Consensus Estimate of \$1.57. On a year-over-year basis, the bottom line declined 3.7% from the year-ago quarter figure of \$1.64 due to poor sales performance.

For 2019, the company's adjusted earnings were \$6.02 per share, surpassing the Zacks Consensus Estimate of \$6.01. On a year-over-year basis, the bottom line increased 0.5%.

Quarter Ending **12/2019**

Report Date	Jan 27, 2020
Sales Surprise	3.15%
EPS Surprise	0.64%
Quarterly EPS	1.58
Annual EPS (TTM)	6.01

Revenues Decline Y/Y

In the quarter under review, Crane's net sales were \$837.5 million, reflecting a decline of 0.3% from the year-ago quarter. Results were adversely impacted by forex woes of \$4 million, offset by rise in core sales of \$2 million.

However, Crane's net sales surpassed the Zacks Consensus Estimate of \$811.9 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 \$277 million, reflecting a decline of 1% from the year-ago quarter figure. Results were adversely impacted by forex woes and organic sales decline. The segment's order backlog was \$267 million in the reported quarter, reflecting a sequential decline of 1.9%.

Revenues from **Payment & Merchandising Technologies** totaled \$314.6 million, increasing 0.6% year over year. Organic sales in the quarter grew 2%, while forex woes had an adverse impact of 1%. Order backlog at the end of the reported quarter was \$311.4 million, up 6.7% sequentially.

Revenues from the **Aerospace & Electronics** segment were \$202.5 million, rising 3.1% year over year. The improvement was mainly driven by core sales growth. Order backlog at the end of the quarter under review was \$567.4 million, up 0.5% sequentially.

Revenues from the **Engineered Materials** segment dipped 14.4% year over year to \$43.4 million on weak business in the recreational vehicle end market. Order backlog at the end of the reported quarter was \$9.4 million, down 6.9% sequentially.

For 2019, the company's net sales were \$3,283.1 million, down 1.9% year over year. However, the top line lagged the Zacks Consensus Estimate of \$3.26 billion.

Operating Margin Increases Y/Y

In the fourth quarter, Crane's cost of sales increased 45.9% year over year to \$794.6 million. It represented 94.9% of net sales compared with 64.9% in the year-ago quarter. Selling, general and administrative expenses grew 4.3% year over year to \$178.3 million. It represented 21.3% of net sales versus 20.4% in the year-ago quarter.

Adjusted operating income in the quarter under review increased 2.9% year over year to \$128.1 million. Moreover, adjusted operating margin grew 50 basis points to 15.3%.

Balance Sheet and Cash Flow

Exiting the fourth quarter, Crane had cash and cash equivalents of \$393.9 million, up 1.3% from \$388.8 million at the end of the last reported quarter. Long-term debt balance was down 9.9% sequentially to \$842 million.

In the fourth quarter, the company generated net cash of \$222.9 million from operating activities, suggesting growth of 16.5% from the year-ago quarter. Capital expenditure was \$17.9 million, down 46.1% year over year. Free cash flow in the quarter was \$205 million versus \$158.2 million in the year-ago quarter.

In the fourth quarter, Crane used \$23.1 million for paying dividends, with \$20.8 million distributed in the year-ago comparable quarter. Also, \$79.9 million worth shares were reacquired by the company in the quarter.

Outlook

For 2020, Crane anticipates adjusted earnings per share of \$6.20-\$6.50. Sales are predicted to be \$3.5 billion. Acquired assets will likely benefit sales by 8%, while forex woes will adversely impact sales by 0.5-1%. Core sales are expected to decline slightly.

For Fluid Handling, Crane predicts subdued end-market environment and margin expansion in 2020. Organic growth will likely be positive and margin will probably increase for Payment & Merchandising Technologies. The segment will likely face lower demand from the U.S. government at Crane Currency, while acquisition of Cummins Allison might initially adversely impact margins. For Aerospace & Electronics, the company expects headwinds from stalled production of 737-MAX to impact performance.

It anticipates operating cash flow of \$405-\$435 million and capital expenditure of \$75 million for 2020. Free cash flow is projected to be \$330-\$360 million.

In addition, the company anticipates the buyouts of Cummins Allison, and CIRCOR International's Instrumentation & Sampling business to boost earnings by 15 cents per share in 2020 and by 25 cents by 2022.

Also, Crane's proactive repositioning actions for Fluid Handling are predicted to yield savings of \$10 million in 2022.

Recent News

Dividend Hike

On **Jan 27, 2020**, Crane announced that its board of directors approved a 10% hike in its quarterly dividend rate. The new dividend rate is 43 cents per share, up from the previous rate of 39 cents. The company will pay out the dividend on Mar 11 to shareholders of record as of Feb 28, 2020.

Acquisition of Cummins Allison

On **Dec 31, 2019**, Crane acquired Cummins Allison, adding more value to its Crane Payment Innovations business. The transaction was worth \$160 million.

Buyout

In **December 2019**, Crane agreed to buy the Instrumentation & Sampling business of CIRCOR International, Inc. The transaction has been valued at \$172 million. The acquisition is anticipated to boost Crane's process valve business. The buyout is anticipated to be completed in the first quarter of 2020.

Valuation

Crane's shares have moved down 0.3% in the year-to-date period and increased 0.6% over the trailing 12 months. Stocks in both the Zacks sub-industry and the Zacks Conglomerates sector have moved up 2.5% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector have increased 13.4%.

The S&P 500 index has moved up 5.2% year to date and 20.5% 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 \$90 price target reflects 13.90x 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	22.27	22.27	10.79
P/E F12M	Current	13.24	20.11	20.11	19.38
	5-Year High	20.1	20.11	20.11	19.38
	5-Year Low	9.9	15.31	15.31	15.18
	5-Year Median	13.67	17.76	17.76	17.47
EV/Sales F12M	Current	1.61	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 02/20/2020

Industry Analysis Zacks Industry Rank: Bottom 16% (213 out of 255)



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)	Underperform

Industry Comparison Industry: Diversified Operations				Industry Peers		
	CR Neutral	X Industry	S&P 500	CSL Neutral	DOV Neutral	PH Neutral
VGM Score	A	-	-	B	B	C
Market Cap	5.16 B	7.24 B	24.34 B	9.08 B	17.18 B	27.63 B
# of Analysts	4	3	13	3	8	8
Dividend Yield	1.81%	1.45%	1.78%	1.23%	1.65%	1.64%
Value Score	C	-	-	C	C	B
Cash/Price	0.08	0.13	0.04	0.04	0.02	0.04
EV/EBITDA	16.95	9.57	14.18	11.62	15.93	13.55
PEG Ratio	2.13	2.19	2.09	1.20	1.64	2.22
Price/Book (P/B)	3.50	1.26	3.30	3.48	5.70	4.36
Price/Cash Flow (P/CF)	10.79	11.85	13.49	13.46	15.11	13.83
P/E (F1)	13.33	17.05	19.28	18.07	18.81	20.29
Price/Sales (P/S)	1.57	1.56	2.68	1.89	2.41	1.95
Earnings Yield	7.40%	5.67%	5.17%	5.53%	5.32%	4.93%
Debt/Equity	0.57	0.71	0.70	0.51	0.98	1.28
Cash Flow (\$/share)	7.97	1.94	7.03	12.06	7.88	15.57
Growth Score	A	-	-	B	A	C
Hist. EPS Growth (3-5 yrs)	10.08%	9.45%	10.84%	11.77%	11.69%	15.94%
Proj. EPS Growth (F1/F0)	5.86%	5.71%	7.09%	9.42%	6.73%	-10.46%
Curr. Cash Flow Growth	-1.40%	2.93%	6.72%	19.98%	10.20%	6.37%
Hist. Cash Flow Growth (3-5 yrs)	7.00%	4.88%	8.25%	13.96%	1.28%	7.55%
Current Ratio	1.64	1.94	1.22	1.95	1.46	1.38
Debt/Capital	36.32%	40.80%	42.37%	33.67%	49.61%	56.21%
Net Margin	4.06%	5.33%	11.56%	9.83%	9.50%	9.63%
Return on Equity	22.65%	10.89%	16.80%	18.21%	29.46%	25.18%
Sales/Assets	0.78	0.77	0.55	0.89	0.82	0.77
Proj. Sales Growth (F1/F0)	7.26%	2.79%	3.90%	4.61%	2.25%	0.01%
Momentum Score	B	-	-	B	D	D
Daily Price Chg	0.43%	0.00%	0.01%	-0.01%	1.51%	1.65%
1 Week Price Chg	-0.58%	0.00%	1.65%	0.34%	2.17%	1.93%
4 Week Price Chg	0.76%	-3.38%	0.36%	1.81%	0.31%	6.67%
12 Week Price Chg	3.05%	-2.53%	4.39%	2.67%	6.17%	7.73%
52 Week Price Chg	1.14%	-10.56%	15.29%	32.90%	29.98%	23.06%
20 Day Average Volume	251,804	68,275	1,992,841	440,287	905,796	936,890
(F1) EPS Est 1 week change	0.07%	0.00%	0.00%	0.23%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.24%	0.00%	-0.02%	0.37%	0.52%	-1.47%
(F1) EPS Est 12 week change	-0.21%	-0.54%	-0.17%	-1.82%	0.12%	-0.71%
(Q1) EPS Est Mthly Chg	-20.25%	-1.83%	-0.48%	-12.96%	11.00%	-9.50%

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	A
Momentum Score	B
VGM Score	A

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.