

## EnerSys(ENS)

**\$73.58** (As of 08/18/20)

Price Target (6-12 Months): **\$77.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 06/04/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

## Summary

EnerSys' first-quarter fiscal 2021 earnings and revenues surpassed the Zacks Consensus Estimate by 35.3% and 1.2%, respectively. Strong demand for its TPPL products along with strength in transportation and defense businesses will continue to benefit the company in the quarters ahead. It intends to strengthen its competence on the back of acquisitions. Buyouts had a positive impact of 4% on the company's net sales in the first quarter of fiscal 2021. It remains committed to rewarding shareholders handsomely through dividends and share buybacks. However, in the past three months, EnerSys has underperformed the industry. It expects its top-line performance to be hurt by end-market challenges in the first half of fiscal 2021, owing to the coronavirus outbreak. Due to the pandemic, it has not provided any financial guidance for fiscal 2021.

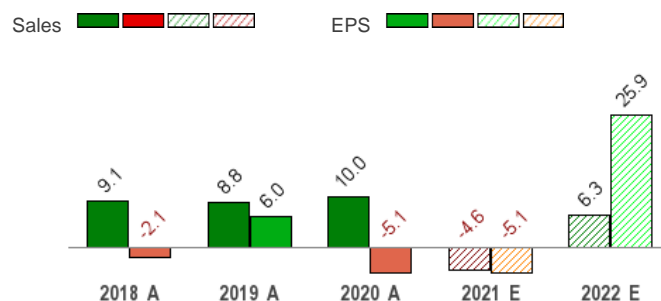
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	<b>\$80.22 - \$35.21</b>
20 Day Average Volume (sh)	<b>220,266</b>
Market Cap	<b>\$3.1 B</b>
YTD Price Change	<b>-1.7%</b>
Beta	<b>1.60</b>
Dividend / Div Yld	<b>\$0.70 / 1.0%</b>
Industry	<a href="#">Manufacturing - Electronics</a>
Zacks Industry Rank	<b>Top 21% (53 out of 252)</b>

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>35.3%</b>
Last Sales Surprise	<b>1.2%</b>
EPS F1 Est- 4 week change	<b>12.4%</b>
Expected Report Date	<b>11/04/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>17.1</b>
P/E F1	<b>16.6</b>
PEG F1	<b>1.7</b>
P/S TTM	<b>1.0</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					3,132 E
2021	705 A	715 E	749 E	776 E	2,946 E
2020	780 A	762 A	764 A	782 A	3,088 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$5.59 E
2021	\$0.92 A	\$1.04 E	\$1.18 E	\$1.31 E	\$4.44 E
2020	\$1.30 A	\$1.23 A	\$1.04 A	\$1.11 A	\$4.68 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 08/18/2020. The reports text is as of 08/19/2020.

## Overview

Headquartered in Pennsylvania, EnerSys engages in manufacturing, marketing and distribution of various industrial batteries. Additionally, the company develops battery chargers and accessories, power equipment and outdoor cabinet enclosures. This apart, it provides support services for clients.

EnerSys' products are marketed to over 10,000 customers worldwide across more than 100 countries via a robust network of distributors, independent representatives and its own sales force. Geographically, the company operates across three regions segments, namely, Americas (including North and South America), Europe, the Middle East and Africa ("EMEA"), and Asia (Asia, Australia and Oceania).

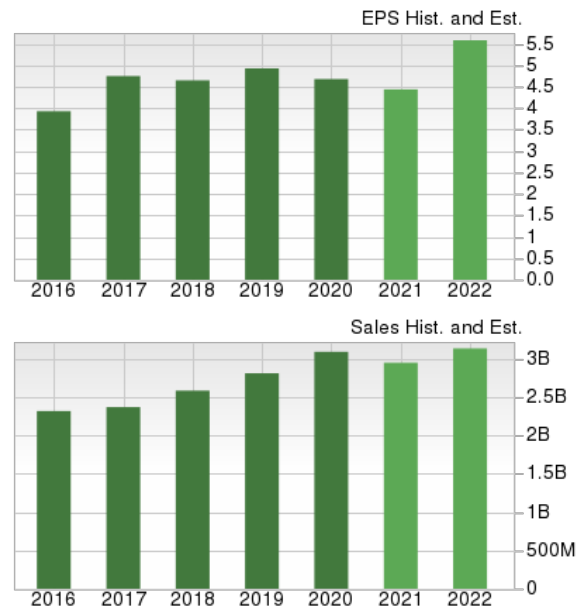
EnerSys has three operating business segments:

**Energy Systems** (50.1% of total revenues in first-quarter fiscal 2021): The segment is engaged in manufacturing products, which are used to provide backup power for operation of critical applications deployed in telecommunications systems, "UPS" applications for computer and computer-controlled systems, large-scale energy storage and energy pipelines, and switchgear and electrical control systems in industrial facilities and electric utilities.

Also, this product line includes integrated power solutions and services for telecom, broadband, renewable and industrial customers apart from thermally managed cabinets and enclosures. Notable, the products are sold to both global and regional customers.

**Motive Power** (37.3%): The segment's products are used for powering "electric industrial forklifts" that are extensively deployed in industrial applications like manufacturing, warehousing and other material handling activities. The products are also used in mining equipment as well as diesel locomotive starting and other rail equipment.

**Specialty** (12.6%): The segment specializes in developing energy solutions for satellites, transportation, submarines, military aircraft, ships and other tactical vehicles apart from medical and security systems.



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## Reasons To Buy:

- ▲ Strength in the transportation and defense businesses coupled with 5G infrastructure build outs and growing popularity of the NexSys TPPL products are likely to support EnerSys' top-line performance in the quarters ahead. Notably, the company's partnership with Corning (inked in July 2020) to solve infrastructure challenges in the 5G deployment will help it in grabbing the increasing opportunities in the telecom space. Also, we believe that solid product portfolio (existing) and new product offerings along with its investment in new and innovative technology might be beneficial for the company. In addition, in response to the coronavirus crisis, it has been adjusting its cost structure to adapt to the current situation. In the quarters ahead, this will likely help the company to maintain a healthy margin performance amid the crisis.
- ▲ Over time, EnerSys has strengthened its competency through acquisitions. In December 2018, it completed the acquisition of Alpha Technologies Group of Companies, provider of state-of-the-art energy solutions for telecom, broadband, industrial, renewable and traffic customers across the globe. The buyout aided EnerSys' product portfolio across the telecom, broadband, industrial and renewable markets. Moreover, in October 2019, the company completed the acquisition of NorthStar, which helped in enhancing its production capacities for TPPL products. Notably, the buyouts had a positive impact of 3% and 4% on the company's net sales in the fourth quarter of fiscal 2020 and first quarter of fiscal 2021, respectively.
- ▲ EnerSys follows a balanced capital-allocation strategy. It utilizes its cash flow for improving organic growth capabilities, executing acquisitions, dividend payouts and repurchasing shares. For instance, in fiscal 2020, it used \$29.7 million for paying dividends and \$34.6 million for purchasing treasury stocks. Also, in the first quarter of fiscal 2021 it paid out dividends worth \$7.4 million. Although due to the pandemic-related uncertainties, the company does not have any immediate repurchase plans; its dividend disbursement plan remains intact. In addition, at the end of the fiscal first quarter, its operating cash flow was \$116.6 million reflecting an increase from \$30.4 million generated in the year-ago quarter. Further improvement in cash flows is likely to effectively support the company's capital-allocation strategies.

Solid product portfolio, new product offerings, acquired assets and shareholder-friendly policies are key strengths of EnerSys.

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## Reasons To Sell:

- ▼ EnerSys' net sales in first-quarter fiscal 2021 were 9.7% lower than the year-ago figure and declined 12% on an organic basis. Notably, the year-over-year fall was primarily attributable to the adverse impacts of the coronavirus outbreak on its operational performance, across all geographic regions, and supply-chain disruptions caused by the pandemic. The company anticipates experiencing an adverse impact on its motive power business on account of the coronavirus outbreak-led market downturn in the first half of fiscal 2021. Also, for the fiscal second quarter, it expects gross profit margin to remain near 25% on expected lower revenues and utilization in some of its factories. Notably, on uncertainties, regarding the impacts of the outbreak on financial and operating results, the company has not provided any financial guidance for fiscal 2021.
- ▼ A highly leveraged balance sheet can inflate EnerSys' financial obligations and subsequently hurt profitability. Notably, in the last five fiscal years (2016-2020), the company's long-term debt (net of unamortized debt issuance costs) rose 17.5% (CAGR). Also, exiting the first quarter of fiscal 2021, its long-term debt (net of unamortized debt issuance costs) remained high at \$1,080.5 million. Moreover, the company presently seems to be more leveraged than the industry. The stock's long-term debt-to-capital is 44.2%, higher than the industry's 29.8%. In addition, the company's ability to meet its debt obligations based on its current income has declined over the past quarter. Notably, its times interest earned ratio at the end of the fiscal first quarter is 4.0, lower than 4.4 recorded at the end of the previous quarter.
- ▼ EnerSys has been making multiple investments to boost growth over time. For instance, over the past few quarters, it has been making significant investments for expanding the TPPL manufacturing capability for its NorthStar facilities. Although its investments hold good for long-term growth, high capital expenditure incurred will likely negatively impact its short-term liquidity. Notably, in the fiscal first quarter, the company's capital expenditure totalled \$26.3 million, up 52% year over year. We believe that high capital expenditure might put pressure on its profitability in the near term. In addition, the company, which operates across diverse geographies, is exposed to uncertainty in the global macroeconomic environment, especially related to politics, labor market and economic instability. Also, unfavorable movements in foreign currencies have been hurting its performance. For instance, forex woes had an adverse impact of 2% on net sales in both the fourth quarter of fiscal 2020 and the first quarter of fiscal 2021. EnerSys' shares have gained 20% compared with the industry's growth of 29.3% in the past three months.

EnerSys is exposed to the adverse impacts of the coronavirus outbreak and has not provided any guidance for fiscal 2021. High debt level and forex woes can create difficulties.

## Last Earnings Report

### EnerSys Surpasses Q1 Earnings and Sales Estimates

EnerSys reported better-than-expected results for first-quarter fiscal 2021 (ended Jul 5, 2020). Its earnings surpassed estimates by 35.29%, while sales exceeded the same by 1.21%.

The company's earnings in the fiscal first quarter were 92 cents per share, surpassing the Zacks Consensus Estimate of 68 cents. However, quarterly earnings declined 29.2% from the year-ago quarter's figure of \$1.30 on weak sales performance and a decline in margin.

Quarter Ending **06/2020**

Report Date	Aug 12, 2020
Sales Surprise	1.21%
EPS Surprise	35.29%
Quarterly EPS	0.92
Annual EPS (TTM)	4.30

### Revenue Details

In the reported quarter, EnerSys' net sales amounted to \$704.9 million, down 9.7% year over year. The results were adversely impacted by an 11% fall in volumes, a 1% decline in price and a 2% impact from forex woes, partially offset by a 4% gain from acquired assets.

The company noted that the top line suffered from weakness in the Motive Power segment due to the adverse impacts of the pandemic.

However, EnerSys' top line surpassed the Zacks Consensus Estimate of \$696.5 million.

Geographically, the company's net sales decreased 9% year over year to \$491 million in the Americas, while the metric witnessed a fall of 20% to \$159 million in Europe, Middle East and Africa. Sales in Asia were \$55 million, reflecting a decrease of 8% from the year-ago quarter.

The company reports revenues under three segments. A brief discussion of the quarterly results is provided below:

**Energy Systems'** sales were \$353.4 million, which contributed 50.1% to net revenues in the quarter under review. On a year-over-year basis, the segment's revenues declined 0.1%. Volume was down 3% and pricing had an adverse impact of 1%. Forex woes too played spoilsport, leading to a 2% decline in sales. However, acquired assets boosted sales by 6%.

The **Motive Power** segment generated revenues of \$262.8 million, contributing 37.3% to net revenues in the reported quarter. The figure decreased 23.6% year over year due to a 21% impact of lower volume, 1% from weak prices and 2% from forex woes.

**Specialty's** sales were \$88.7 million, which contributed 12.6% to net revenues in the quarter under review. On a year-over-year basis, the segment's revenues increased 8.2%. Volumes declined 4% in the quarter, while acquisitions had a positive impact of 12%.

### Margin Profile

In the reported quarter, EnerSys' cost of sales declined 8.4% year over year to \$529.9 million. Cost of sales was 75.2% of the quarter's net sales. Gross profit in the quarter decreased 13.2% year over year to \$175 million, while gross margin fell 100 basis points (bps) year over year to 24.8%.

Operating expenses decreased 8% year over year to \$120.4 million. It represented 17.1% of net sales in the reported quarter versus 16.8% in the year-ago quarter. Operating earnings were \$61.2 million, reflecting a year-over-year decline of 21.2%. Margin decreased 130 bps year over year to 8.7%.

Interest expenses declined 6.7% year over year to \$10.2 million.

### Balance Sheet & Cash Flow

Exiting the first quarter of fiscal 2021, EnerSys had cash and cash equivalents of \$384.4 million, up 17.6% from \$327 million recorded in the last reported quarter. Long-term debt decreased 2.2% sequentially to \$1,080.5 million.

During the quarter, the company repaid term loan of \$8.4 million and revolving credit borrowings of \$55 million. However, proceeds for revolving credit borrowings were \$35 million.

The company generated net cash of \$116.6 million from operating activities in the quarter, reflecting an increase from \$30.4 million generated in the year-ago quarter. Capital expenditure totaled \$26.3 million compared with \$17.3 million in the previous-year quarter.

### Dividend

EnerSys rewarded shareholders with a dividend payout of \$7.4 million in first-quarter fiscal 2021.

### Outlook

Though uncertainties related to the pandemic are concerning, EnerSys anticipates gaining from initiatives related to operational expenses and solid product offerings in the quarters ahead.

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## Recent News

### Dividend

On **Aug 12, 2020**, EnerSys' board of directors approved the payment of a quarterly cash dividend of 17.5 cents per share to shareholders of record as of Sep 11. The disbursement will be made on Sep 25.

### Partnerships

On **Jul 28, 2020**, EnerSys announced its partnership with Blink Charging for developing high-power wireless and DC fast charging systems with integrated battery storage for the transportation market.

On **Jul 15, 2020**, EnerSys joined forces with Corning to accelerate 5G deployment by streamlining the delivery of fiber and electrical power to small-cell wireless sites. The companies are working to solve infrastructure challenges in the deployment of 5G and small cells in outside plant networks. The collaboration will likely accelerate the development of solutions to deliver distributed powering and optical connectivity. This, in turn, will help telecommunications service providers to eventually move toward planned deployment of 5G.

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## Valuation

EnerSys' shares declined 1.7% in the year-to-date period, while it increased 30% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 2%, while the Zacks Industrial Products sector is down 1.1% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 26.8% and 14.3%, respectively.

The S&P 500 Index has moved up 4.8% year to date and increased 16.7% in the past year.

The stock is currently trading at 15.92x forward 12-month earnings per share, which compares to 23.92x for the Zacks sub-industry, 22.34x for the Zacks sector and 22.86x for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.4x and as low as 6.61x, with a 5-year median of 13.89x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$77 price target reflects 16.65x forward 12-month earnings per share.

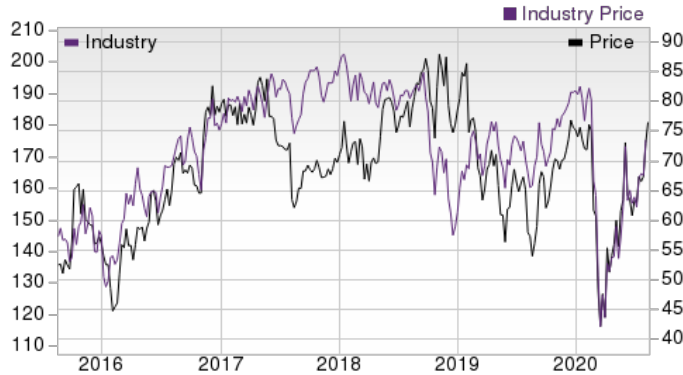
The table below shows summary valuation data for ENS.

Valuation Multiples - ENS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.92	23.92	22.34	22.86
	5-Year High	17.4	23.92	22.34	22.86
	5-Year Low	6.61	13.13	12.55	15.25
	5-Year Median	13.89	17.36	17.48	17.58
P/Sales F12M	Current	1.04	3.04	2.99	3.71
	5-Year High	1.48	3.04	2.99	3.71
	5-Year Low	0.49	1.46	1.52	2.53
	5-Year Median	1.11	2.04	2.04	3.05

As of 08/18/2020

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## Industry Analysis Zacks Industry Rank: Top 21% (53 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Rexnord Corporation (RXN)	Outperform	1
ABB Ltd (ABB)	Neutral	2
AeroVironment, Inc. (AVAV)	Neutral	3
CenturyLink, Inc. (CTL)	Neutral	3
Eaton Corporation, PLC (ETN)	Neutral	3
Luna Innovations Incorporated (LUNA)	Neutral	2
TMobile US, Inc. (TMUS)	Neutral	4
AZZ Inc. (AZZ)	Underperform	5

Industry Comparison Industry: Manufacturing - Electronics				Industry Peers		
	ENS	X Industry	S&P 500	AVAV	AZZ	TMUS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	2	-	-	3	5	4
VGM Score	A	-	-	D	D	C
Market Cap	3.13 B	2.94 B	23.71 B	1.95 B	895.35 M	143.61 B
# of Analysts	2	3.5	14	4	1	6
Dividend Yield	0.95%	0.36%	1.63%	0.00%	1.99%	0.00%
Value Score	B	-	-	D	C	C
Cash/Price	0.12	0.08	0.07	0.15	0.03	0.08
EV/EBITDA	12.03	11.42	13.45	26.43	7.76	17.81
PEG Ratio	1.66	2.67	3.01	NA	NA	6.22
Price/Book (P/B)	2.29	2.68	3.18	3.81	1.41	2.56
Price/Cash Flow (P/CF)	9.50	13.65	12.70	35.86	7.35	9.86
P/E (F1)	16.57	25.60	21.98	43.25	13.56	76.58
Price/Sales (P/S)	1.04	1.93	2.46	5.31	0.91	2.78
Earnings Yield	6.03%	3.55%	4.33%	2.31%	7.37%	1.30%
Debt/Equity	0.79	0.20	0.76	0.01	0.21	1.39
Cash Flow (\$/share)	7.74	2.20	6.94	2.26	4.65	11.77
Growth Score	B	-	-	B	D	D
Hist. EPS Growth (3-5 yrs)	3.85%	5.28%	10.44%	68.50%	-8.04%	46.26%
Proj. EPS Growth (F1/F0)	-5.13%	-13.15%	-5.97%	1.63%	-7.01%	-62.31%
Curr. Cash Flow Growth	18.95%	2.85%	5.22%	24.92%	19.59%	7.57%
Hist. Cash Flow Growth (3-5 yrs)	2.95%	3.59%	8.52%	36.90%	1.64%	16.70%
Current Ratio	2.81	2.40	1.33	7.53	1.40	1.05
Debt/Capital	44.18%	16.52%	44.50%	1.32%	17.22%	58.15%
Net Margin	4.11%	5.70%	10.13%	11.18%	3.30%	5.19%
Return on Equity	13.74%	8.57%	14.59%	8.92%	8.68%	9.60%
Sales/Assets	0.91	0.74	0.51	0.66	0.89	0.46
Proj. Sales Growth (F1/F0)	-4.60%	-7.87%	-1.54%	9.78%	-15.43%	50.48%
Momentum Score	A	-	-	F	A	A
Daily Price Chg	-2.40%	-0.64%	-0.41%	-1.35%	-0.64%	-0.73%
1 Week Price Chg	4.80%	1.25%	1.09%	0.35%	2.55%	0.35%
4 Week Price Chg	10.20%	6.72%	3.41%	3.27%	6.91%	9.89%
12 Week Price Chg	15.80%	18.58%	9.80%	20.36%	5.53%	21.40%
52 Week Price Chg	30.02%	18.13%	3.43%	55.70%	-17.64%	49.36%
20 Day Average Volume	220,266	221,852	1,894,669	162,591	136,064	4,528,213
(F1) EPS Est 1 week change	12.40%	0.00%	0.00%	0.00%	0.00%	4.94%
(F1) EPS Est 4 week change	12.40%	8.38%	1.86%	0.00%	0.00%	47.11%
(F1) EPS Est 12 week change	15.48%	12.56%	2.86%	-3.77%	-10.95%	46.54%
(Q1) EPS Est Mthly Chg	18.29%	4.64%	0.80%	0.00%	0.00%	160.41%

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## 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.

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### 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	B
Momentum Score	A
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.

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