

IDEX Corporation (IEX)

\$151.78 (As of 05/05/20)

Price Target (6-12 Months): **\$159.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/30/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: C

Summary

IDEX is poised to gain from a diversified business structure, solid product portfolio, execution abilities and growth investments in the quarters ahead. Also, gains from acquired assets and commitment to pay dividends might aid. In first-quarter 2020, the company's earnings and sales surpassed estimates by 3.1% and 0.1%, respectively, while both declined on a year-over-year basis. For 2020, the company withdrew projections due to the pandemic-related uncertainties. For the second quarter, it expects a sales decline of 15-25% and its adverse impacts on earnings. Also, forex woes might be concerning in the quarters ahead. In the past three months, the company's shares have declined (narrower than the industry) and look comparatively overvalued. Its earnings estimates have declined for both 2020 and 2021 in the past 30 days.

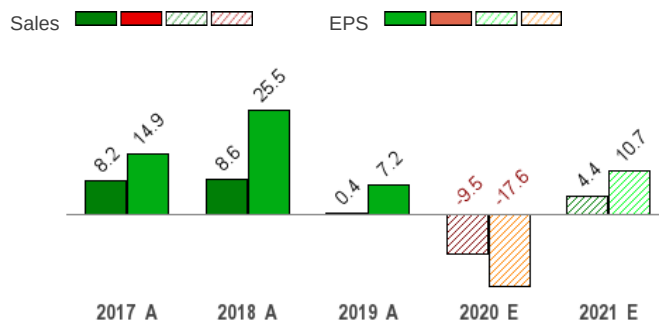
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$178.14 - \$104.56
20 Day Average Volume (sh)	475,407
Market Cap	\$11.4 B
YTD Price Change	-11.8%
Beta	1.06
Dividend / Div Yld	\$2.00 / 1.3%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 19% (204 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.1%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	-8.6%
Expected Report Date	07/23/2020
Earnings ESP	-6.7%
P/E TTM	26.7
P/E F1	31.8
PEG F1	3.2
P/S TTM	4.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	585 E	566 E	586 E	594 E	2,357 E
2020	594 A	519 E	541 E	566 E	2,258 E
2019	622 A	642 A	624 A	606 A	2,495 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.32 E	\$1.19 E	\$1.37 E	\$1.35 E	\$5.29 E
2020	\$1.33 A	\$0.98 E	\$1.15 E	\$1.19 E	\$4.78 E
2019	\$1.44 A	\$1.50 A	\$1.52 A	\$1.33 A	\$5.80 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 05/05/2020. The reports text is as of 05/06/2020.

Overview

Headquartered in Lake Forest, IL, IDEX Corporation is an applied solutions company that specializes in a diverse range of applications such as fluid and metering technologies; health and science technologies; and fire, safety and other products built to customer specifications.

Serving high-growth niche markets, the company operates under three business segments, namely Fluid & Metering Technologies, Health & Science Technologies and Fire & Safety/Diversified Products. IDEX sells its products to original equipment manufacturers (OEMs), as well as to direct end-use customers across the globe.

- **Fluid & Metering Technologies ("FMT"):** The segment produces displacement pumps, injectors, flow meters and related controls for the movement of liquids and gases in various end markets, ranging from food, general industrial, chemical, agricultural, water & wastewater, and energy industries.

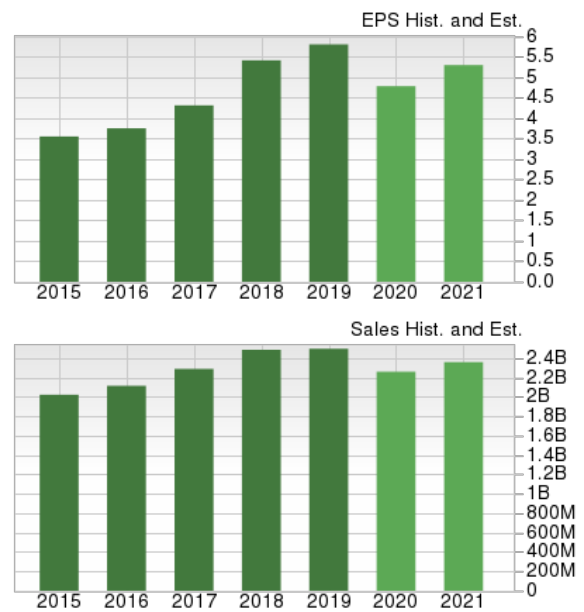
The segment operates in five platforms namely Energy, Water, Valves, Pumps and Agriculture (comprised of Banjo business).

- **Health & Science Technologies ("HST"):** The segment provides various precision fluidics solutions, including degassing equipment, pumps, corrective tubing, valves, fittings and complex manifolds as well as specialty medical equipment and devices used in life science applications.

This segment operates in five platforms — including Gast, Material Processing Technologies ("MPT"), Scientific Fluidics & Optics, Micropump, and Sealing Solutions.

- **Fire & Safety/Diversified Products ("FSD"):** The segment produces fire fighting pumps, rescue tools, lifting bags, and other components and systems for the fire and rescue industry, as well as engineered stainless steel banding and clamping devices for industrial and commercial applications.

This segment operates in three platforms — including Dispensing, Band-It, and Fire & Safety.



Reasons To Buy:

- ▲ In the quarters ahead, IDEX is poised to gain from a diversified business structure, solid product portfolio, execution abilities and growth investments. It serves customers in various markets, including life science, fire and rescue, water & wastewater, chemical, agricultural, food, general industrial, and energy industries. Weakness in one or more markets offsets gains in other markets.
- ▲ IDEX noted that workers safety, maintaining healthy liquidity and business continuation is its priorities in the wake of the pandemic. Also, the company is working diligently in its fight against the pandemic — manufacturing compressors (hospital grade), pumps used in sanitizer production and others — as well as has opted for cost-reduction measures.
- ▲ Over time, IDEX solidified the product portfolio and leveraged business opportunities through the addition of assets. Here the buyouts of the intellectual property assets of Phantom Controls (June 2018) and Finger Lakes Instrumentation (July 2018) are worth mentioning. In July 2019, IDEX acquired Velcora Holding AB with its Steridose and Roplan businesses. In February 2020, IDEX acquired Flow Management Devices. The buyout will enable IDEX to offer better solutions to chemical manufacturers, refineries and pipeline operators. Notably, acquired assets had a positive impact of 2% on sales in the first quarter of 2020.
- ▲ IDEX believes in rewarding shareholders handsomely through dividend payments and share buybacks. In first-quarter 2020, the company repurchased shares worth \$108.9 million and distributed dividends totaling \$38.7 million. The quarterly dividend rate currently stands at 50 cents per share (a hike of 16% was announced in May 2019). Share count, exiting the first quarter, was 76.5 million. The company expects generating positive cash flow in second-quarter 2020 and will continue paying dividends.

Diversified end markets, actions to fight the coronavirus outbreak and acquired assets might be beneficial for IDEX. Also, the company's commitment of rewarding shareholders with dividends is expected to aid.

Reasons To Sell:

- ▼ In the past three months, IDEX's shares have fallen 11.4% as compared with the industry's decline of 21.2%. Also, the stock currently looks overvalued compared with the industry on a P/E (TTM) basis, with respective tallies of 26.72x and 18.55x. Notably, the company's multiple is higher than the industry's three-month highest level of 21.15x. In addition to these, IDEX's earnings estimates have been lowered in a month. Notably, earnings estimates are pegged at \$4.78 for 2020 and \$5.29 for 2021, suggesting declines of 8.6% and 7.5%, respectively in the past 30 days.
- ▼ In first-quarter 2020, IDEX's earnings declined 7.6% year over year on weak sales generation (down 4.5% year over year) and operating margin. Notably, the quarter's organic sales were down 5%, while orders fell 2% from the previous-year quarter. Due to the adverse impacts of the coronavirus outbreak, the company withdrew its projections for 2020. However, it expects sales to decline 15-25% year over year in the second quarter and subsequently hurt earnings.
- ▼ IDEX's international operations have exposed it to the adverse impacts of macroeconomic cycles in the United States and international markets. Also, it faces risks from unfavorable movements in foreign currencies. In the first quarter of 2020, forex woes had an adverse 1% impact on its sales.
- ▼ Exiting the first quarter of 2020, IDEX's long-term debt reflected a 17.7% sequential increase, while its total debt to total capital grew from 27.3% in the previous quarter to 30.9%. Further, its cash and cash equivalents fell 10% from the previous quarter, while cash generation from operating activities weakened compared with the year-ago quarter. Beside these, a falling trend in times interest earned and return on total capital over the past couple of quarters is more concerning. Notably, the company's times interest earned was 12.8% at first-quarter end, down from 13% in the previous quarter. Its return on total capital of 14.2% was down from 14.8% in the fourth quarter of 2019. We believe that further deterioration in the company's ability to meet its financial obligations might be detrimental.

Challenging markets conditions caused by the coronavirus outbreak is expected to adversely impact IDEX's sales and earnings in second-quarter 2020. Also, forex woes remain concerning.

Last Earnings Report

IDEX Q1 Earnings & Revenues Beat Estimates, Decline Y/Y

IDEX reported better-than-expected results for first-quarter 2020, with earnings and sales surpassing estimates by 3.10% and 0.08%, respectively.

The company's adjusted earnings per share were \$1.33, beating the Zacks Consensus Estimate of \$1.29. However, the bottom line decreased 7.6% from the year-ago quarter's \$1.44 per share.

Quarter Ending **03/2020**

Report Date	Apr 23, 2020
Sales Surprise	0.08%
EPS Surprise	3.10%
Quarterly EPS	1.33
Annual EPS (TTM)	5.68

Revenue Details

IDEX generated revenues of \$594.5 million in the quarter, down 4.5% from the year-ago quarter. Acquisitions had a positive impact of 2% on sales, while organic sales declined 5% and forex woes affected results by 1% in the quarter.

In addition, the company's revenues managed to beat the Zacks Consensus Estimate of \$594 million.

In the reported quarter, orders declined 2% year over year to \$644.9 million. As noted, orders were down 2% organically. Forex woes hurt orders by 1%, while acquisition boosted the same by 1%.

IDEX reports revenues under the segments discussed below:

Fluid & Metering Technologies' ("FMT") net sales were \$226.9 million, down 6% year over year. Organic net sales declined 5%, while forex headwinds had a 1% impact.

Revenues from **Health & Science Technologies** ("HST") totaled \$224.1 million, reflecting a year-over-year decline of 1%. Results reflected 4% organic sales decline, 4% gain from acquisitions and 1% adverse impact from forex woes.

Fire & Safety/Diversified Products' ("FSDP") revenues were \$144.3 million, down 8% from the year-ago quarter. Organic sales decreased 7% and currency translation had an adverse 1% impact.

Margin Profile

In the reported quarter, IDEX's cost of sales dipped 4.7% year over year to \$322.5 million. It represented 54.2% of the quarter's revenues compared with 54.4% in the year-ago quarter. Gross margin improved 20 basis points (bps) year over year to 45.8%. Selling, general and administrative expenses declined 3% to \$132 million. It represented 22.2% of revenues compared with 21.9% in the year-ago quarter.

Operating income in the quarter dipped 5.3% year over year to \$139.9 million, with margin down 30 bps to 23.5%. On a segmental basis, operating income for FMT declined 7.1% to \$66.8 million, that for HST dipped 3% to \$52.6 million, and for FSDP it moved down 5.7% to \$38 million. Effective tax rate in the reported quarter was 20%.

Balance Sheet and Cash Flow

Exiting the first quarter, IDEX had cash and cash equivalents of \$569.2 million, down 10% from \$632.6 million recorded at the end of 2019. Long-term borrowings increased 17.7% sequentially to \$999 million.

In the first three months of 2020, the company generated \$84.8 million of net cash from operating activities, reflecting a decline of 4.4% from the year-ago comparable period. Capital spending on the purchase of property, plant and equipment was \$12.8 million, roughly flat year over year. Free cash flow in the quarter declined 5% to \$72 million.

In the first quarter of 2020, the company bought back 867,000 shares worth \$108.9 million and distributed dividends totaling \$38.7 million.

Outlook

On account of the coronavirus-led issues, IDEX anticipates a sales decline of 15-25% for the second quarter of 2020.

It is worth noting that on uncertainties, regarding the duration and impact of the coronavirus outbreak on financial and operating results, the company has now withdrawn its prior-issued guidance for 2020.

Recent News

Senior Notes Offering

On **Apr 29, 2020**, IDEX closed the offering of \$500 million worth of senior notes. As mentioned, notes offered are due to expire in 2030 and carry a coupon rate of 3.0% — with interest payable on May 1 and Nov 1. The net proceeds of \$495 million will be used for the repayment of 4.5% senior notes, with the expiry in December 2020, and for satisfying corporate purposes.

Share Repurchase Approval

On **Mar 18, 2020**, IDEX announced that its board has approved an additional share repurchase program, authorizing it to buy back up to \$500 million of its shares.

Under this program, the company is likely to make share repurchases from time to time through several means that include open market transactions and privately negotiated transactions. The timing and amount of share repurchases will depend on certain factors such as market conditions and relevant securities laws.

IDEX Acquires Flow Management

On **Feb 28, 2020**, IDEX announced that it completed the acquisition of Phoenix, AZ-based Flow Management Devices, LLC. The transaction value was \$125 million.

Privately-owned Flow Management Devices specializes in providing flow measurement systems, especially for customers in the oil & gas industry. The firm has manufacturing facilities in Arizona, and owns offices in Pittsburgh and Houston. It was founded in 2007. It generates \$60 million in revenues globally.

As noted, IDEX will benefit from the integration of Flow Management to its energy group, especially boosting the latter's pump and metering systems business. Businesses from customers like pipeline operators, refineries and chemical manufacturers are expected to flourish.

Valuation

IDEX shares are down 11.7% and 1.3% in the year-to-date and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are down 18.9% and 22.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 12% and 19%, respectively.

The S&P 500 Index has moved down 10.9% year to date and 0.8% in the past year.

The stock is currently trading at 30.62x forward 12-month earnings per share, which compares to 22.47x for the Zacks sub-industry, 18.12x for the Zacks sector and 20.63x for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.63x and as low as 17.9x, with a 5-year median of 25.01x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$159 reflects 32.15x forward 12-month earnings per share.

The table below shows summary valuation data for IEX.

Valuation Multiples - IEX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	30.62	22.47	18.12	20.63
	5-Year High	31.63	23.5	19.93	20.63
	5-Year Low	17.9	15.6	12.55	15.19
	5-Year Median	25.01	19.44	16.56	17.44
EV/EBITDA F12M	Current	20.83	10.72	13.52	10.96
	5-Year High	21.01	14.04	18.17	14.17
	5-Year Low	10.98	8.2	10.58	9.07
	5-Year Median	15.6	11.09	14.08	10.84
EV/Sales F12M	Current	5.16	2.41	2.31	2.59
	5-Year High	5.38	3.28	3.12	3.52
	5-Year Low	2.77	1.81	1.76	2.3
	5-Year Median	4.16	2.59	2.29	2.81

As of 05/05/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (204 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Altra Industrial Motion Corp. (AIMC)	Neutral	4
Colfax Corporation (CFX)	Neutral	4
Graco Inc. (GGG)	Neutral	4
Ingersoll Rand Inc. (IR)	Neutral	3
The Japan Steel Works, Ltd. (JPSWY)	Neutral	3
The Middleby Corporation (MIDD)	Neutral	4
Nordson Corporation (NDSN)	Neutral	3
Welbilt, Inc. (WBT)	Neutral	3

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	IEX	X Industry	S&P 500	IR	MIDD	NDSN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	D	-	-	C	A	D
Market Cap	11.44 B	1.11 B	19.65 B	5.66 B	2.99 B	9.13 B
# of Analysts	8	3	14	2	5	6
Dividend Yield	1.32%	0.00%	2.18%	0.00%	0.00%	0.96%
Value Score	F	-	-	C	B	D
Cash/Price	0.05	0.08	0.06	0.09	0.03	0.01
EV/EBITDA	18.11	9.94	11.77	14.76	7.34	17.17
PEG Ratio	3.15	2.28	2.49	3.11	NA	2.28
Price/Book (P/B)	5.13	1.68	2.64	3.02	1.56	5.58
Price/Cash Flow (P/CF)	22.10	8.27	10.48	16.74	6.13	20.08
P/E (F1)	31.50	19.65	19.10	24.63	10.23	29.60
Price/Sales (P/S)	4.64	0.98	2.00	2.31	1.01	4.17
Earnings Yield	3.15%	4.71%	4.99%	4.06%	9.76%	3.38%
Debt/Equity	0.45	0.48	0.74	0.86	0.96	0.66
Cash Flow (\$/share)	6.87	2.74	7.01	1.65	8.81	7.86
Growth Score	B	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	13.62%	10.39%	10.87%	NA	14.76%	NA
Proj. EPS Growth (F1/F0)	-17.61%	-21.05%	-9.07%	-29.56%	-24.87%	-9.14%
Curr. Cash Flow Growth	4.80%	4.08%	5.88%	-25.03%	13.23%	-1.46%
Hist. Cash Flow Growth (3-5 yrs)	7.29%	4.95%	8.55%	5.38%	16.08%	7.90%
Current Ratio	3.51	2.04	1.24	2.69	2.04	2.71
Debt/Capital	30.94%	33.00%	44.07%	46.17%	49.00%	39.89%
Net Margin	16.92%	6.05%	11.00%	6.49%	11.90%	15.54%
Return on Equity	19.89%	10.81%	16.39%	8.86%	20.64%	21.78%
Sales/Assets	0.65	0.76	0.55	0.53	0.61	0.62
Proj. Sales Growth (F1/F0)	-9.48%	-7.50%	-2.17%	104.81%	-11.58%	-4.26%
Momentum Score	C	-	-	D	A	D
Daily Price Chg	0.76%	0.09%	0.74%	0.80%	2.16%	0.61%
1 Week Price Chg	-0.94%	1.68%	0.53%	1.11%	2.33%	0.89%
4 Week Price Chg	3.89%	3.74%	6.47%	11.16%	0.19%	10.66%
12 Week Price Chg	-13.79%	-25.21%	-20.68%	-26.90%	-53.16%	-10.79%
52 Week Price Chg	-1.26%	-20.94%	-10.95%	-18.83%	-60.55%	8.80%
20 Day Average Volume	475,407	70,113	2,492,530	2,734,122	1,480,831	248,495
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-8.58%	-12.76%	-7.39%	-130.61%	-3.51%	-8.68%
(F1) EPS Est 12 week change	-16.77%	-26.26%	-14.21%	-124.19%	-27.67%	-15.48%
(Q1) EPS Est Mthly Chg	-20.57%	-24.07%	-13.52%	-208.33%	-16.92%	-13.56%

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	F
Growth Score	B
Momentum Score	C
VGM Score	D

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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