

IDEX Corporation (IEX)

\$134.87 (As of 03/11/20)

Price Target (6-12 Months): **\$115.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/25/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: D

Summary

In the past three months, IDEX's shares have underperformed the industry and also look comparatively overvalued. The company expects industrial markets to be challenging in the first half of 2020. Organic sales are predicted to be down 2% to flat in 2020, while adjusted earnings will likely be down 4% to up 1%. Growth investments will likely hurt earnings by 4 cents per share, while variable compensation and tax rate will probably create headwinds of 6-10 cents and 10 cents, respectively. For the first quarter of 2020, the company expects organic sales decline of 4-5% year over year. Lackluster performance and disappointing projections seem to have created bearish sentiments, as evident from lowered earnings projections. Notably, the company's earnings estimates have declined 4.5% for both 2020 and 2021 in the past 60 days.

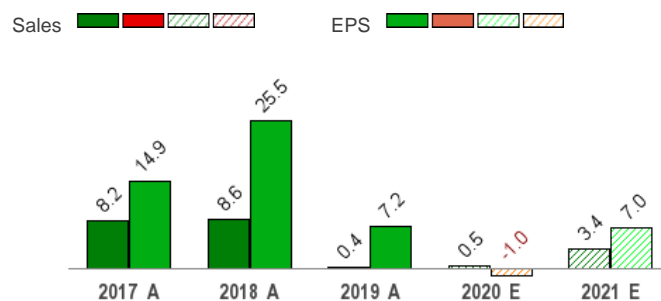
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$178.14 - \$122.48
20 Day Average Volume (sh)	522,748
Market Cap	\$10.3 B
YTD Price Change	-21.6%
Beta	1.21
Dividend / Div Yld	\$2.00 / 1.5%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 34% (167 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.5%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	04/23/2020
Earnings ESP	-0.9%
P/E TTM	23.3
P/E F1	23.5
PEG F1	2.4
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	614 E	672 E	660 E	641 E	2,591 E
2020	600 E	646 E	640 E	633 E	2,507 E
2019	622 A	642 A	624 A	606 A	2,495 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.42 E	\$1.58 E	\$1.55 E	\$1.50 E	\$6.14 E
2020	\$1.32 E	\$1.47 E	\$1.52 E	\$1.42 E	\$5.74 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 03/11/2020. The reports text is as of 03/12/2020.

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.

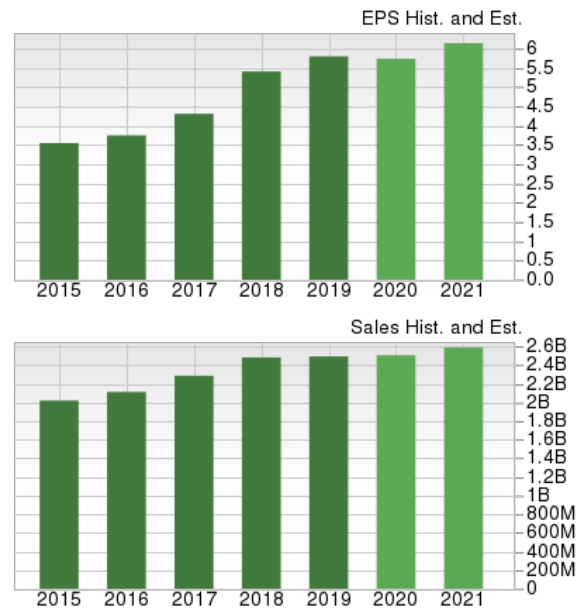
The segment operates in five platforms namely Energy, Water, Valves, Pumps and Agriculture (comprised of Banjo business).

- **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 Sell:

- ▼ In the past three months, IDEX's shares have dipped 19.4% compared with the industry's decline of 12.9%. Also, the stock currently looks overvalued compared with the industry on a P/E (TTM) basis, with respective tallies of 23.29x and 19.15x. Further, the stock is currently trading above the industry's three-month highest level of 22.04x. This makes us cautious on the stock.
- ▼ In fourth-quarter 2019, the company's organic sales were down 2% year over year due to weak global demand for industrial products. For the first half of 2020, it expects industrial markets to remain challenging. So, it expects organic sales for the year to be down 2% to flat. Revenues in the year will likely be \$2,465-\$2,515 million, suggesting a decline of 1% to growth of 1% from the previous year. In the first quarter, organic sales will likely decline 4-5%.
- ▼ In fourth-quarter 2019, IDEX's earnings lagged estimates by 1.48%. For 2020, the company anticipates adjusted earnings of \$5.55-\$5.85, suggesting a 4% dip to 1% rise from the year-ago reported figure. Growth investments will likely provide earnings headwinds of 4 cents per share, while variable compensation will probably hurt by 6-10 cents. Also, tax rate will likely have an adverse impact of 10 cents per share. Further, consensus estimates have been lowered by 4.5% for both 2020 and 2021 in the past 30 days.
- ▼ 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 fourth quarter of 2019, forex woes had an adverse 1% impact on its sales.

Challenging industrial markets will likely hamper organic sales in the first half. Also, growth investment, tax rates and variable compensation might drag earnings in 2020.

Risks

- In the quarters ahead, IDEX is poised to gain from a diversified business structure, solid product portfolio, execution abilities and growth investments. It serves high-growth niche 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. Further, the company undertook some restructuring measures in the fourth quarter of 2019. It anticipates realizing savings of \$15 million in 2020. Also, the company is committed toward rewarding shareholders handsomely through dividend payments and share buybacks. In 2019, the company repurchased shares worth \$54.7 million and distributed dividends totaling \$147.2 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 fourth quarter, was 76.5 million. We believe that healthy cash flow allows management to return higher values to shareholders in the quarters ahead.
 - 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. Since acquired, the buyout is strengthening the sealing solutions platform. 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 fourth quarter of 2019. In 2020, acquisitions will likely positively impact revenues by \$21 million and earnings by 3 cents per share.
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Last Earnings Report

IDEX's Earnings and Revenues Miss Estimates in Q4

IDEX reported lackluster fourth-quarter 2019 results, with earnings and sales missing estimates by 1.48% and 1.46%, respectively.

The company's adjusted earnings per share were \$1.33, lagging the Zacks Consensus Estimate of \$1.35. The bottom line excluded 9 cents per share of restructuring expenses and 2 cents of related tax benefits. However, the bottom line increased 1.5% from the year-ago quarter's \$1.31.

In 2019, adjusted earnings were \$5.80 per share, reflecting an increase of 7.2% from last year's figure of \$5.41.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	-1.39%
EPS Surprise	-1.48%
Quarterly EPS	1.33
Annual EPS (TTM)	5.79

Organic Sales Decline Y/Y

IDEX generated revenues of \$606 million in the quarter, down 1.3% from the year-ago quarter. Acquisitions had a positive impact of 2% on sales while forex woes affected results by 1%. Organic sales in the quarter declined 2% due to weakening global demand for industrial products along with prevailing uncertainties related to the soft global economy.

In addition, the company's revenues lagged the Zacks Consensus Estimate of \$615 million.

In the reported quarter, orders jumped 1% year over year to \$616.6 million. As noted, orders were flat organically. Forex woes hurt orders by 1%, while acquisition boosted the same by 2%.

IDEX reports revenues under the segments discussed below:

Fluid & Metering Technologies' net sales were \$227.5 million, down 4.1% year over year. Organic net sales declined 3%, while forex headwinds had a 1% impact.

Revenues from **Health & Science Technologies** totaled \$227.3 million, reflecting year-over-year growth of 0.8%. Results reflected 3% organic sales decline and 4% gain from acquisitions.

Fire & Safety/Diversified Products' revenues were \$152 million, up 0.2% from the year-ago quarter. Organic sales increased 1% and currency translation had an adverse 1% impact.

In 2019, the company's revenues were \$2,494.6 million, roughly flat year over year. Organic sales increased 1% and acquisitions had a positive impact of 1%, partially offset by 2% adverse impact of foreign currency movements.

Margins Improve Y/Y

In the reported quarter, IDEX's cost of sales dipped 0.4% year over year to \$339.1 million. It represented 56% of the quarter's revenues compared with 55.4% in the year-ago quarter. Adjusted gross margin improved 20 basis points (bps) year over year to 45.2%. Selling, general and administrative expenses declined 3.5% to \$125.8 million. It represented 20.8% of revenues compared with 21.2% in the year-ago quarter.

Adjusted operating income in the quarter dipped 1.5% year over year to \$141.1 million with margin remaining flat at 23.3%. On a segmental basis, adjusted operating income for FMT declined 7.7% to \$63.7 million and that for HST dipped 1.8% to \$51.8 million, while for FSDP it declined 1% to \$39.8 million. Effective tax rate in the reported quarter was 20.6%.

Balance Sheet and Cash Flow

Exiting the fourth quarter, IDEX had cash and cash equivalents of \$632.6 million, up 35.6% from \$466.4 million recorded at the end of 2018. Long-term borrowings were relatively flat at \$848.9 million compared with \$848.3 million a year ago.

In 2019, the company generated \$528.1 million of net cash from operating activities, reflecting growth of 10.2% from 2018. Capital spending on the purchase of property, plant and equipment was roughly \$50.9 million, down 9.2% year over year. Free cash flow in the quarter declined 0.2% to \$137 million.

In 2019, the company bought back 389,000 shares worth \$54.7 million and distributed dividends totaling \$147.2 million.

Outlook

For 2020, IDEX anticipates growth investments and solid restructuring actions amid challenging industrial markets (mainly in the first half of the year). Restructuring initiatives will provide \$15 million savings in 2020.

Adjusted earnings for the year are anticipated to be \$5.55-\$5.85. First-quarter earnings are estimated to be \$1.30-\$1.34. Organic revenues are anticipated to decline 2% to remain flat for the year, with a 4-5% fall in the first quarter of 2020.

Recent News

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.

Dividend

On **Jan 30, 2020**, IDEX paid a quarterly dividend of 50 cents per share to shareholders of record as of Jan 15, 2020.

Valuation

IDEX shares are down 21.6% and 8.5% 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 13.7% and 16.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 1.4% and 10.8%, respectively.

The S&P 500 index has declined 10.6% year to date and increased 1.5% in the past year.

The stock is currently trading at 23.27x forward 12-month earnings per share, which compares to 18.15x for the Zacks sub-industry, 15.22x for the Zacks sector and 16.58x 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 24.78x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our price target of \$115 reflects 19.78x 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	23.27	18.15	15.22	16.58
	5-Year High	31.63	22.58	19.89	19.34
	5-Year Low	17.9	15.2	12.6	15.18
	5-Year Median	24.78	18.95	16.43	17.42
EV/EBITDA F12M	Current	16.36	11.74	15.58	12.34
	5-Year High	19.56	13.46	18.2	14.18
	5-Year Low	10.98	8.3	10.68	9.08
	5-Year Median	15.46	10.82	14.09	10.82
EV/Sales F12M	Current	4.49	2.51	2.8	3.04
	5-Year High	5.38	2.88	3.15	3.51
	5-Year Low	2.77	1.67	1.76	2.3
	5-Year Median	4.14	2.33	2.29	2.8

As of 03/11/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (167 out of 253)



Top Peers

Colfax Corporation (CFX)	Neutral
Dover Corporation (DOV)	Neutral
Flowserve Corporation (FLS)	Neutral
Parker-Hannifin Corporation (PH)	Neutral
Pentair plc (PNR)	Neutral
Thermo Fisher Scientific Inc. (TMO)	Neutral
Xylem Inc. (XYL)	Underperform

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	IEX Underperform	X Industry	S&P 500	DOV Neutral	PH Neutral	TMO Neutral
VGM Score	D	-	-	B	B	C
Market Cap	10.28 B	1.19 B	19.20 B	13.79 B	18.95 B	115.41 B
# of Analysts	8	4	13	8	8	9
Dividend Yield	1.48%	0.00%	2.31%	2.05%	2.38%	0.26%
Value Score	F	-	-	C	B	C
Cash/Price	0.06	0.07	0.05	0.03	0.05	0.02
EV/EBITDA	16.01	9.86	11.76	13.20	10.16	18.52
PEG Ratio	2.18	1.79	1.73	1.31	1.41	1.52
Price/Book (P/B)	4.53	1.85	2.64	4.58	2.99	3.91
Price/Cash Flow (P/CF)	19.64	9.13	10.55	12.13	9.48	16.00
P/E (F1)	21.78	14.71	15.66	15.10	13.93	21.28
Price/Sales (P/S)	4.12	1.03	2.06	1.93	1.33	4.52
Earnings Yield	4.26%	6.62%	6.38%	6.62%	7.18%	4.70%
Debt/Equity	0.38	0.51	0.70	0.98	1.28	0.58
Cash Flow (\$/share)	6.87	2.24	7.01	7.88	15.57	18.08
Growth Score	B	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	13.39%	7.61%	10.85%	11.69%	15.94%	13.63%
Proj. EPS Growth (F1/F0)	-1.06%	4.15%	6.02%	6.73%	-10.55%	10.09%
Curr. Cash Flow Growth	4.80%	4.08%	6.09%	10.20%	6.37%	6.99%
Hist. Cash Flow Growth (3-5 yrs)	7.29%	4.53%	8.52%	1.28%	7.55%	10.08%
Current Ratio	3.52	2.01	1.24	1.46	1.38	1.92
Debt/Capital	27.28%	33.99%	42.57%	49.61%	56.21%	36.53%
Net Margin	17.06%	6.24%	11.69%	9.50%	9.63%	14.47%
Return on Equity	20.68%	11.10%	16.74%	29.46%	25.18%	17.24%
Sales/Assets	0.68	0.77	0.54	0.82	0.77	0.45
Proj. Sales Growth (F1/F0)	0.49%	0.00%	3.55%	2.24%	-0.03%	5.38%
Momentum Score	D	-	-	F	C	F
Daily Price Chg	-6.63%	-4.62%	-5.37%	-4.95%	-7.75%	-5.95%
1 Week Price Chg	-1.19%	-1.94%	-0.67%	-1.22%	-10.71%	7.00%
4 Week Price Chg	-23.72%	-23.15%	-20.57%	-20.28%	-30.97%	-13.51%
12 Week Price Chg	-20.20%	-20.90%	-17.57%	-15.89%	-28.51%	-9.46%
52 Week Price Chg	-8.51%	-17.85%	-8.21%	4.54%	-14.45%	11.79%
20 Day Average Volume	522,748	59,655	2,882,511	1,116,337	1,475,865	2,173,517
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.02%	-0.09%	-0.14%
(F1) EPS Est 4 week change	-0.05%	0.00%	-0.23%	0.00%	-0.09%	-0.10%
(F1) EPS Est 12 week change	-4.33%	-1.53%	-0.60%	0.46%	-0.71%	0.04%
(Q1) EPS Est Mthly Chg	-0.13%	-0.12%	-0.52%	-0.35%	-0.87%	-0.04%

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	D
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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