

IDEX Corporation (IEX)

\$176.70 (As of 08/14/20)

Price Target (6-12 Months): **\$186.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/30/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: C

Summary

IDEX's second-quarter 2020 earnings surpassed the Zacks Consensus Estimate by 8.9%, while sales beat the same by 6.6%. The company is poised to gain from a well-diversified business structure, solid product portfolio, execution abilities and growth investments in the quarters ahead. Also, gains from acquired assets (with a 5% positive impact on sales in the second quarter of 2020) and the commitment to pay dividends might benefit going forward. For 2020, the company did not reissue guidance due to the uncertainties related to the coronavirus outbreak. For the third quarter, it expects organic sales to decline 12-17% from the year-ago level and in turn adversely impact earnings. Also, forex woes related headwinds remains concerning. In the past three months, its shares have underperformed the industry, while looks overvalued comparatively.

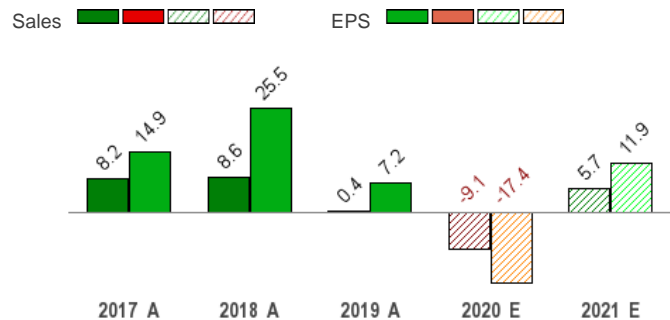
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$178.14 - \$104.56
20 Day Average Volume (sh)	374,794
Market Cap	\$13.3 B
YTD Price Change	2.7%
Beta	1.06
Dividend / Div Yld	\$2.00 / 1.1%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Top 50% (126 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.9%
Last Sales Surprise	6.6%
EPS F1 Est- 4 week change	2.8%
Expected Report Date	NA
Earnings ESP	-3.3%
P/E TTM	33.5
P/E F1	36.9
PEG F1	3.7
P/S TTM	5.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	585 E	579 E	563 E	583 E	2,397 E
2020	594 A	561 A	551 E	570 E	2,267 E
2019	622 A	642 A	624 A	606 A	2,495 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.30 E	\$1.22 E	\$1.23 E	\$1.32 E	\$5.36 E
2020	\$1.33 A	\$1.10 A	\$1.17 E	\$1.23 E	\$4.79 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 08/14/2020. The reports text is as of 08/17/2020.

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": 39% of revenues in second-quarter 2020): 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.

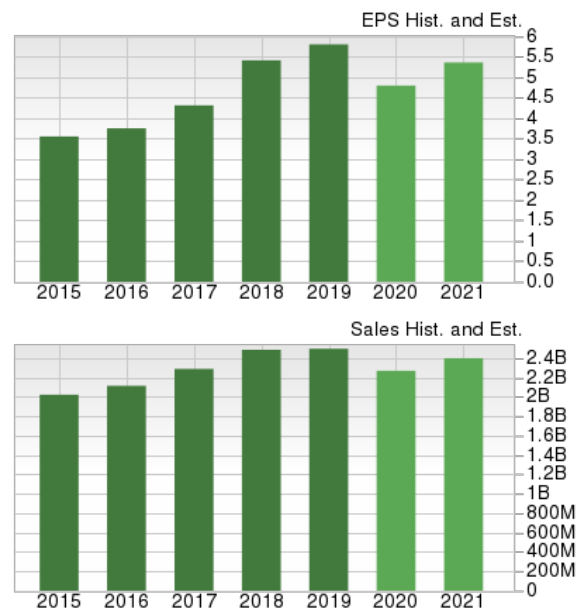
The segment operates in five platforms namely Energy, Water, Valves, Pumps and Agriculture (comprised of Banjo business).

- **Health & Science Technologies** ("HST": 38.5%): 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": 22.5%): 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. In addition, the company noted that workers' safety, maintaining healthy liquidity and business continuation are its priorities in the wake of the pandemic. Also, it is working diligently in its fight against the pandemic — including manufacturing of compressors (hospital grade), pumps used in sanitizer production and others — and has opted for cost-reduction measures. In the past 30 days, its earnings estimates have increased 1.1% for 2020 and 1.3% for 2021.
- ▲ 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 has enabled IDEX to offer better solutions to chemical manufacturers, refineries and pipeline operators. Notably, acquired assets had a positive impact of 2% and 5% on sales in the first and second quarters of 2020, respectively.
- ▲ IDEX believes in rewarding shareholders handsomely through dividend payments and share buybacks. In second-quarter 2020, the company repurchased shares worth \$1.4 million and distributed dividends totaling \$37.8 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 second quarter, was 75.9 million. Notably, its free cash flow increased 36.2% to \$161.1 million in the second quarter, on a year-over-year basis. Going forward, the company expects generating free cash flow in excess of net income as it focuses on cost-control actions and working capital management.

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 gained 14.3% compared with the industry's growth of 23.1%. Also, the company's stock currently looks overvalued compared with the industry on a P/E (TTM) basis, with respective tallies of 33.47X and 27.01X. Also, the company's multiple is higher than the industry's three-month highest level of 27.01X. In second-quarter 2020, the company's earnings declined 26.7% year over year on weak sales generation (down 12.6% year over year) and operating margin. Notably, the quarter's organic sales were down 17%, while orders fell 18% from the previous-year quarter, owing to weakness across energy, general industrial and dispensing end markets. On uncertainties regarding the impacts of the coronavirus outbreak on its financial and operating results, the company did not reissue guidance for 2020. Also, it expects organic sales to decline 12-17% year over year in the third 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 both the first and second quarters of 2020, forex woes had an adverse 1% impact on its sales.
- ▼ Exiting the second quarter of 2020, IDEX's long-term debt reflected a 4.5% sequential increase, while its total debt to total capital grew from 30.9% in the previous quarter to 31.6%. Beside these, a falling trend in times interest earned and return on total capital over the past quarter is more concerning. Notably, the company's times interest earned was 11.3% at the second-quarter end, down from 12.8% in the previous quarter. Its return on total capital of 12.8% was down from 14.2% in the previous quarter. 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 third-quarter 2020. Also, forex woes remain concerning.

Last Earnings Report

IDEX Q2 Earnings & Revenues Beat Estimates, Decline Y/Y

IDEX reported better-than-expected results for second-quarter 2020, with earnings and sales surpassing estimates by 8.9% and 6.6%, respectively.

The company's adjusted earnings per share were \$1.10, beating the Zacks Consensus Estimate of \$1.01. However, the bottom line decreased 26.7% from the year-ago quarter's \$1.50 per share.

Quarter Ending 06/2020

Report Date	Jul 23, 2020
Sales Surprise	6.56%
EPS Surprise	8.91%
Quarterly EPS	1.10
Annual EPS (TTM)	5.28

Organic Sales Decline Y/Y

IDEX generated revenues of \$561.2 million in the quarter, down 12.6% from the year-ago quarter. Acquisitions had a positive impact of 5% on sales, while organic sales declined 17% and forex woes affected results by 1% in the quarter.

In addition, the company's revenues beat the Zacks Consensus Estimate of \$527 million.

In the reported quarter, orders declined 17% year over year to \$521.9 million. As noted, orders were down 18% 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' ("FMT") net sales were \$219.1 million, down 11% year over year. Organic net sales declined 20%, and forex headwinds had a 1% impact, while acquisition boosted the same by 10%.

Revenues from **Health & Science Technologies** ("HST") totaled \$215.7 million, reflecting a year-over-year decline of 7%. Results reflected 10% organic sales decline, 4% gain from acquisitions and 1% adverse impact from forex woes.

Fire & Safety/Diversified Products' ("FSDP") revenues were \$127.1 million, down 23% from the year-ago quarter. Organic sales decreased 22% and currency translation had an adverse 1% impact.

Margins Contract Y/Y

In the reported quarter, IDEX's cost of sales dipped 6.7% year over year to \$326.4 million. It represented 58.1% of the quarter's revenues compared with 54.5% in the year-ago quarter. Gross margin contracted 370 basis points (bps) year over year to 41.8%. Selling, general and administrative expenses declined 10.7% to \$120.4 million. It represented 21.5% of revenues compared with 21% in the year-ago quarter.

Operating income in the quarter dipped 28.8% year over year to \$110.6 million, with margin down 450 bps to 19.7%. On a segmental basis, operating income for FMT declined 31.3% to \$50.9 million, that for HST dipped 15.5% to \$48 million, and for FSDP it moved down 33.9% to \$28.8 million. Effective tax rate in the reported quarter was 22.7%.

Balance Sheet and Cash Flow

Exiting the second quarter, IDEX had cash and cash equivalents of \$746.3 million, up 18% from \$632.6 million recorded at the end of 2019. Long-term borrowings were \$1,044.4 million compared with \$848.9 million as of Dec 31, 2019.

In the first six months of 2020, the company generated \$254.2 million of net cash from operating activities, reflecting growth of 15.7% from the year-ago comparable period. Capital spending on the purchase of property, plant and equipment was \$21.1 million compared with \$25.7 million in the year-ago comparable period. Free cash flow in the quarter increased 36.2% to \$161.1 million.

In the second quarter of 2020, the company bought back 9,600 shares worth \$1.4 million and distributed dividends totaling \$37.8 million.

Outlook

On account of the coronavirus-led issues, IDEX anticipates an organic sales decline of 12-17% for the third quarter of 2020.

It is worth noting that on uncertainties, regarding the duration and impacts of the coronavirus outbreak on financial and operating results, the company has not reissued guidance for 2020.

Recent News

Dividend

On **Jul 31, 2020**, IDEX paid out a quarterly cash dividend of 50 cents per share to shareholders of record as of Jul 16.

Valuation

IDEX shares are up 2.8% and 6.7% 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 2.2% and 1.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 10.1% and 13.3%, respectively.

The S&P 500 Index has moved up 4.6% year to date and increased 15.5% in the past year.

The stock is currently trading at 34.33x forward 12-month earnings per share, which compares to 28.43x for the Zacks sub-industry, 22.35x for the Zacks sector and 22.87x for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.44x and as low as 17.9x, with a 5-year median of 25.68x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$186 reflects 36.05x 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	34.33	28.43	22.35	22.87
	5-Year High	34.44	28.43	22.35	22.87
	5-Year Low	17.9	15.6	12.55	15.25
	5-Year Median	25.68	19.7	17.48	17.58
P/S F12M	Current	5.68	3.57	2.98	3.7
	5-Year High	5.69	3.57	2.98	3.7
	5-Year Low	2.48	1.58	1.52	2.53
	5-Year Median	4.07	2.25	2.04	3.05

As of 08/14/2020

Industry Analysis Zacks Industry Rank: Top 50% (126 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Altra Industrial Motion Corp. (AIMC)	Outperform	2
Colfax Corporation (CFX)	Neutral	3
Graco Inc. (GGG)	Neutral	2
The Middleby Corporation (MIDD)	Neutral	3
Nordson Corporation (NDSN)	Neutral	2
Welbilt, Inc. (WBT)	Neutral	3
Xylem Inc. (XYL)	Neutral	3
Ingersoll Rand Inc. (IR)	Underperform	5

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	IEX	X Industry	S&P 500	IR	MIDD	NDSN
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	2
VGM Score	C	-	-	F	C	F
Market Cap	13.34 B	1.34 B	23.68 B	14.76 B	5.72 B	11.92 B
# of Analysts	7	3	14	4	4	6
Dividend Yield	1.13%	0.00%	1.68%	0.00%	0.00%	0.74%
Value Score	D	-	-	F	C	D
Cash/Price	0.06	0.10	0.07	0.08	0.11	0.03
EV/EBITDA	20.81	13.07	13.36	38.01	11.48	21.86
PEG Ratio	3.66	3.36	2.99	3.54	NA	2.94
Price/Book (P/B)	5.90	2.08	3.22	1.71	2.95	7.21
Price/Cash Flow (P/CF)	25.73	11.68	12.82	21.48	11.68	26.29
P/E (F1)	36.62	26.85	22.06	28.09	24.86	38.20
Price/Sales (P/S)	5.59	1.26	2.51	4.52	2.15	5.49
Earnings Yield	2.71%	3.22%	4.30%	3.56%	4.02%	2.62%
Debt/Equity	0.46	0.51	0.77	0.44	1.22	0.76
Cash Flow (\$/share)	6.87	2.49	6.94	1.65	8.81	7.86
Growth Score	B	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	13.05%	10.21%	10.41%	NA	12.43%	NA
Proj. EPS Growth (F1/F0)	-17.36%	-24.67%	-6.32%	-20.75%	-41.06%	-7.84%
Curr. Cash Flow Growth	4.80%	0.16%	5.20%	-25.03%	13.23%	-1.46%
Hist. Cash Flow Growth (3-5 yrs)	7.29%	7.19%	8.55%	5.38%	16.08%	7.90%
Current Ratio	3.48	2.06	1.33	2.25	3.27	3.17
Debt/Capital	31.60%	34.34%	44.59%	30.64%	55.03%	43.03%
Net Margin	15.71%	4.34%	10.13%	-4.51%	10.75%	15.70%
Return on Equity	18.15%	10.81%	14.51%	-2.80%	16.66%	21.32%
Sales/Assets	0.61	0.75	0.51	0.33	0.52	0.61
Proj. Sales Growth (F1/F0)	-9.11%	-7.62%	-1.43%	109.53%	-18.83%	-5.92%
Momentum Score	C	-	-	F	C	F
Daily Price Chg	1.05%	0.00%	0.12%	0.80%	-0.61%	0.10%
1 Week Price Chg	1.65%	4.95%	2.30%	7.31%	23.90%	3.01%
4 Week Price Chg	4.89%	6.72%	4.41%	15.38%	24.56%	8.03%
12 Week Price Chg	16.59%	20.58%	13.66%	20.37%	61.57%	17.81%
52 Week Price Chg	9.23%	0.00%	5.80%	20.24%	-6.53%	56.24%
20 Day Average Volume	374,794	59,201	1,984,154	2,686,310	678,676	242,231
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.62%
(F1) EPS Est 4 week change	2.82%	4.98%	2.08%	700.00%	2.58%	0.90%
(F1) EPS Est 12 week change	2.82%	3.13%	2.66%	700.00%	5.19%	1.44%
(Q1) EPS Est Mthly Chg	1.42%	2.61%	0.94%	100.00%	13.20%	0.64%

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	D
Growth Score	B
Momentum Score	C
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.

Disclosures

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