

IDEX Corporation (IEX)

\$174.86 (As of 01/21/20)

Price Target (6-12 Months): **\$184.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/05/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: F

Summary

In the quarters ahead, IDEX stands to gain from solid product portfolio, diversified business structure, execution capabilities and growth investments. In addition, its acquisitive nature and policy of rewarding shareholders with dividends and share buybacks are boons. For 2019, the company expects the municipal water business to witness robust performance and MPT to gain. However, geopolitical uncertainties and prevalent trade issues remain concerning for the company. It predicts organic sales growth of 2%, down from 3-4% mentioned earlier. Also, adjusted earnings are anticipated to be \$5.80-\$5.82 versus earlier mentioned \$5.78-\$5.85. High cost of sales and forex woes remain dragging. In the past three months, the company's shares have underperformed the industry and also look comparatively overvalued.

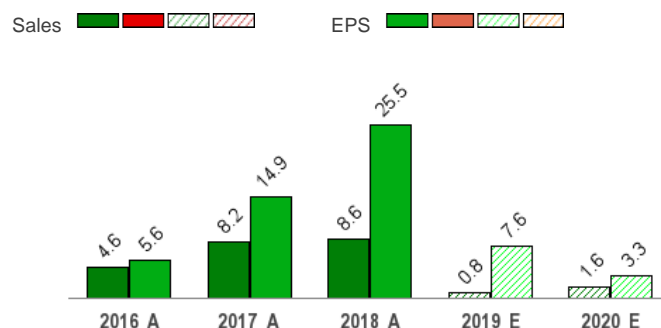
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$176.70 - \$130.00
20 Day Average Volume (sh)	241,643
Market Cap	\$13.3 B
YTD Price Change	1.7%
Beta	1.22
Dividend / Div Yld	\$2.00 / 1.1%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 25% (190 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.1%
Last Sales Surprise	-2.7%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	01/29/2020
Earnings ESP	0.0%
P/E TTM	30.3
P/E F1	29.1
PEG F1	2.9
P/S TTM	5.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	636 E	656 E	636 E	633 E	2,544 E
2019	622 A	642 A	624 A	615 E	2,503 E
2018	612 A	634 A	623 A	614 A	2,484 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.48 E	\$1.57 E	\$1.57 E	\$1.47 E	\$6.01 E
2019	\$1.44 A	\$1.50 A	\$1.52 A	\$1.35 E	\$5.82 E
2018	\$1.29 A	\$1.40 A	\$1.41 A	\$1.31 A	\$5.41 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 01/21/2020. The reports text is as of 01/22/2020.

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 pumps, compressors, flow meters and related controls for the movement of liquids and gases in various end markets ranging from the food, chemical, general industrial, water & wastewater, agricultural and energy industries.

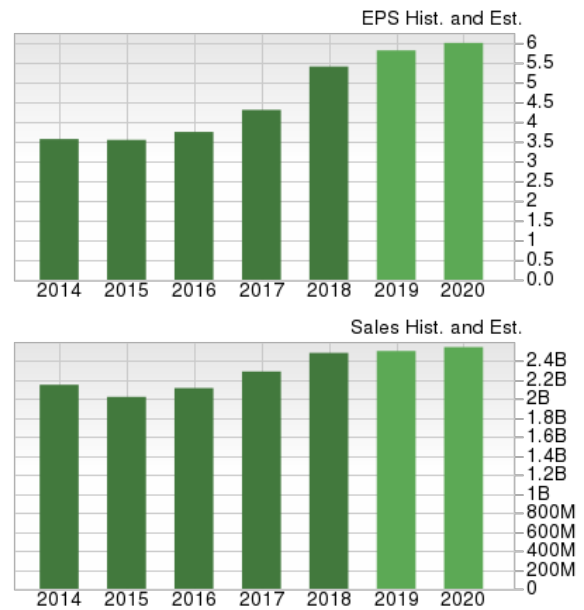
This segment operates in five platforms namely Energy, Water, Valves, Pumps and Agriculture (comprised of Banjo).

- **Health & Science Technologies ("HST"):** The segment provides various precision fluidics solutions including pumps, valves, degassing equipment, corrective tubing, 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 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. For 2019, the company expects the municipal water business to witness robust performance and MPT is likely to gain.
- ▲ 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. Phantom Controls — part of the Fire & Safety/Diversified Products segment — have been strengthening the company's water-flow offerings under Akron Brass, Hale Products and other Class 1 Electronics brands. The Finger Lakes buyout has been solidifying IDEX's Health & Science business. In July 2019, IDEX acquired Velcora Holding AB with its Steridose and Roplan businesses. Since acquired, the buyout is strengthening the sealing solutions platform. Notably, acquired assets had a positive impact of 1% on sales in the third quarter of 2019.
- ▲ IDEX's healthy cash flow allows management to return higher values to shareholders. In the first three quarters of 2019, the company repurchased shares worth \$54.7 million and distributed dividends totaling \$109.2 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 third quarter was roughly 76.6 million. We believe that further share buybacks by the company will help in improving the bottom line.

Diversified end markets, growth investments and acquired assets will be beneficial for IDEX. Also, the company's shareholder-friendly policies are creating tailwinds.

Reasons To Sell:

- ▼ In the past three months, IDEX's shares have increased 10% compared with the industry's growth of 11%. Also, the stock currently looks overvalued compared with the industry on a P/E (TTM) basis, with respective tallies of 30.31x and 23.09x. Further, the stock is currently trading above the industry's three-month highest level of 23.09x. In the third quarter of 2019, it recorded flat revenue results, with organic sales suffering from prevailing market uncertainties. For 2019, the company remains concerned about geopolitical uncertainties and prevalent trade issues. It predicts organic sales growth of 2%, down from previously mentioned 3-4%. Organic sales growth in 2018 was 8%. Also, adjusted earnings for the year are anticipated to be \$5.80-\$5.82 versus previously mentioned \$5.78-\$5.85. The mid-point of the new projection is \$5.81, whereas earlier it was \$5.82.
- ▼ In the last five years (2014-2018), IDEX's cost of sales rose 2.6% (CAGR), while operating expenses grew 1.3% (CAGR). Notably, its cost of sales increased 0.5% year over year in the first three quarters of 2019. As noted by the company, rise in engineering costs played spoilsport in the quarter. We believe that any unwarranted rise in the cost of sales (due to ongoing trade disputes with foreign countries and inflation in commodity prices) and operating expenses might be detrimental to IDEX's performance, going forward.
- ▼ With operations across multiple continents, the company's performance is exposed to the adverse impacts of macroeconomic cycles in the United States and international markets. Given its international presence, IDEX also faces unfavorable foreign currency movements, impacting bottom-line growth. In the third quarter of 2019, forex woes had an adverse 1% impact on its sales. Further, unfavorable movements in foreign currencies are predicted to lower sales by 1% in the fourth quarter and 2% in 2019.

Weakness in organic sales, high costs of sales, and unfavorable movement in foreign currencies might adversely impact IDEX's results in the quarters ahead.

Last Earnings Report

IDEX Beats Q3 Earnings Estimates, Lowers Organic View

IDEX reported better-than-expected results for the third quarter of 2019, with earnings surpassing estimates by 4.11%. However, sales lagged estimates by 2.73%.

The company's adjusted earnings per share in the reported quarter were \$1.52, surpassing the Zacks Consensus Estimate of \$1.46. The bottom line excluded 16 cents per share of restructuring expenses, 4 cent of related tax benefits and 3 cents of miscellaneous charges.

Further, the bottom line rose 7.8% from the year-ago quarter's \$1.41. The improvement was driven by the diligent execution of productivity initiatives.

Organic Sales Flat Y/Y

IDEX generated revenues of \$624.2 million in the quarter under review, flat compared with the year-ago quarter figure. Acquisitions had a positive impact of 1% on sales while forex woes affected results by 1%. Organic sales in the quarter were flat year over year due to prevailing uncertainties related to the soft global economy.

However, the company's revenues lagged the Zacks Consensus Estimate of \$641.8 million.

In the reported quarter, orders dipped 5% year over year to \$586.1 million. As noted, orders were down 5% organically. Forex woes declined orders by 1%, while acquisition boosted the same by 1%.

IDEX reports revenues under the segments discussed below:

Net sales of Fluid & Metering Technologies were \$240.9 million, up 0.7% year over year. Organic net sales grew 2%, while forex headwinds had a 1% impact.

Revenues from Health & Science Technologies totaled \$229.6 million, reflecting year-over-year growth of 3.2%. Results were driven by 1% organic sales growth and 3% gain from acquisitions, partially offset by forex woes of 1%.

It is worth mentioning here that the company acquired Velcora Holding AB from FSN Capital Partners for approximately \$137 million in July 2019. The integration of this acquired asset with the segment's sealing solutions business is in progress.

Fire & Safety/Diversified Products' revenues were \$154.5 million, down 4.5% from the year-ago quarter. Organic sales declined 3% and currency translation had an adverse 2% impact.

Margins Improve Y/Y

In the reported quarter, IDEX's cost of sales dipped 0.1% year over year to \$342.3 million. It represented 54.8% of the quarter's revenues compared with 55% in the year-ago quarter. Adjusted gross margin improved 70 basis points (bps) year over year to 45.7% on benefits of productivity actions and favorable pricing. However, rise in engineering costs played spoilsport. Selling, general and administrative expenses declined 1.7% to \$128.3 million. It represented 20.6% of revenues compared with 21% in the year-ago quarter.

Adjusted operating income in the quarter rose 4.9% year over year to \$157.1 million and margin improved 120 bps to 25.2%. On a segmental basis, adjusted operating income for the FMT segment grew 9.8% to \$77.5 million and that for HST expanded 4.7% to \$54.7 million, while for FSDP it declined 6.1% to \$42.1 million. Effective tax rate in the reported quarter was 18.6%.

Balance Sheet and Cash Flow

Exiting the third quarter, IDEX had cash and cash equivalents of \$516 million, down 5% from \$543.2 million recorded at the end of the last reported quarter. Long-term borrowings were flat sequentially at \$848.7 million.

In the first three quarters of 2019, the company generated net cash of \$376.9 million from operating activities, reflecting growth of 15.7% from the year-ago period. Capital spending on the purchase of property, plant and equipment was roughly \$36.8 million, down 7.7% year over year. Free cash flow in the quarter improved 27.6% to \$146 million.

During the first nine months of 2019, the company bought back shares worth \$54.7 million and distributed dividends totaling \$109.2 million.

Outlook

For 2019, IDEX anticipates growth investments and solid execution abilities to aid performance. However, geopolitical uncertainties and prevalent trade issues are concerning.

Adjusted earnings for the year are anticipated to be \$5.80-\$5.82 versus previously mentioned \$5.78-\$5.85. Organic revenue growth is anticipated to be roughly 2%, down from 3-4% stated previously.

For the fourth quarter, earnings per share are anticipated to be \$1.33-\$1.35, with organic sales likely to be flat.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	-2.73%
EPS Surprise	4.11%
Quarterly EPS	1.52
Annual EPS (TTM)	5.77

Recent News

Dividend

On **Nov 13, 2019**, IDEX's board of directors approved payment of a quarterly dividend of 50 cents per share to shareholders of record as of Jan 15, 2020. The dividend will be paid out on Jan 30, 2020.

Valuation

IDEX shares are up 28.7% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are up 32.4% and 18.8% in the past year.

The S&P 500 index has moved up 25.4% in the past year.

The stock is currently trading at 28.98x forward 12-month earnings per share, which compares to 21.52x for the Zacks sub-industry, 18.41x for the Zacks sector and 19.18x 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 23.95x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$184 reflects 30.43x 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	28.98	21.52	18.41	19.18
	5-Year High	31.63	22.58	19.91	19.34
	5-Year Low	17.9	15.2	12.6	15.17
	5-Year Median	23.95	18.95	16.54	17.44
EV/EBITDA F12M	Current	19.41	12.81	17.82	12.66
	5-Year High	19.41	12.81	18.22	12.66
	5-Year Low	10.66	8.3	10.69	9.08
	5-Year Median	15.3	10.69	14.03	10.78
EV/Sales F12M	Current	5.37	2.78	3.14	3.26
	5-Year High	5.37	2.78	3.14	3.37
	5-Year Low	2.74	1.67	1.76	2.3
	5-Year Median	4.05	2.31	2.28	2.79

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (190 out of 255)



Top Peers

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

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	IEX Neutral	X Industry	S&P 500	DOV Neutral	PH Neutral	TMO Neutral
VGM Score	D	-	-	B	B	B
Market Cap	13.30 B	1.99 B	24.43 B	17.14 B	25.96 B	135.24 B
# of Analysts	6	4	13	8	9	9
Dividend Yield	1.14%	0.00%	1.75%	1.66%	1.74%	0.23%
Value Score	D	-	-	C	C	C
Cash/Price	0.04	0.05	0.04	0.02	0.15	0.01
EV/EBITDA	20.91	13.79	14.00	17.30	11.49	27.19
PEG Ratio	2.91	2.13	2.06	1.63	2.05	1.98
Price/Book (P/B)	6.15	2.60	3.39	5.68	4.25	4.61
Price/Cash Flow (P/CF)	26.91	12.70	13.69	16.62	12.98	20.03
P/E (F1)	29.09	18.75	19.00	18.74	18.76	24.81
Price/Sales (P/S)	5.31	1.40	2.68	2.39	1.83	5.36
Earnings Yield	3.44%	5.33%	5.26%	5.34%	5.33%	4.03%
Debt/Equity	0.39	0.56	0.72	0.96	1.21	0.56
Cash Flow (\$/share)	6.50	2.51	6.94	7.10	15.57	16.84
Growth Score	C	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	12.58%	5.37%	10.60%	8.45%	14.43%	13.25%
Proj. EPS Growth (F1/F0)	3.26%	7.72%	7.57%	7.58%	-9.13%	10.29%
Curr. Cash Flow Growth	18.92%	15.81%	14.00%	12.99%	6.37%	16.70%
Hist. Cash Flow Growth (3-5 yrs)	8.19%	7.16%	9.00%	-2.75%	7.55%	17.85%
Current Ratio	3.21	2.03	1.23	1.42	1.96	1.80
Debt/Capital	28.18%	36.44%	42.99%	49.08%	54.69%	35.83%
Net Margin	17.05%	6.22%	11.15%	9.08%	10.41%	14.24%
Return on Equity	21.28%	13.11%	17.16%	29.62%	25.74%	17.16%
Sales/Assets	0.70	0.83	0.55	0.83	0.83	0.45
Proj. Sales Growth (F1/F0)	1.63%	1.90%	4.05%	2.55%	0.92%	5.77%
Momentum Score	F	-	-	C	B	A
Daily Price Chg	-0.56%	-0.95%	-0.27%	-1.31%	-2.39%	-0.57%
1 Week Price Chg	2.20%	1.58%	2.29%	3.25%	0.82%	3.18%
4 Week Price Chg	1.73%	0.95%	2.13%	2.34%	-2.13%	3.29%
12 Week Price Chg	7.75%	3.33%	6.99%	12.30%	4.72%	13.19%
52 Week Price Chg	27.08%	14.18%	21.25%	48.77%	27.60%	40.12%
20 Day Average Volume	241,643	35,082	1,415,064	534,484	586,947	820,858
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.21%	0.00%
(F1) EPS Est 4 week change	-0.06%	0.00%	0.00%	0.04%	0.17%	0.04%
(F1) EPS Est 12 week change	-0.95%	-0.95%	-0.34%	-0.32%	-8.51%	0.02%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.64%	-0.56%

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	D
Growth Score	C
Momentum Score	F
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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