

Ingersoll Rand Inc. (IR)

\$30.79 (As of 06/03/20)

Price Target (6-12 Months): **\$32.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/30/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

Summary

In the quarters ahead, Ingersoll Rand might gain from its talented workforce, solid product portfolio, innovation capabilities and focus on increasing its aftermarket businesses. Also, its exposure in various end markets and pandemic-related measures as well as savings from the accelerated synergy actions related to the business combination of Gardner Denver and the Industrial segment of Ingersoll Rand will likely aid. Since the beginning of March, its shares have declined, the fall being narrower than the market. For 2020, it refrained from providing projections due to the pandemic-related worries. Beside this, a huge debt balance is a major concern. Given its presence in international markets, the company is exposed to unfavorable movements in foreign currencies. Its earnings estimates have been lowered for 2020 and 2021 in the past 30 days.

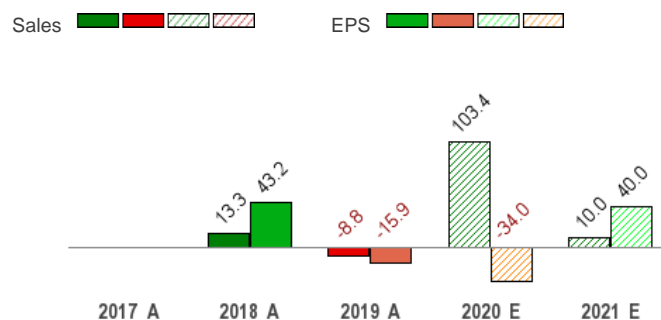
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$38.96 - \$17.01
20 Day Average Volume (sh)	3,273,922
Market Cap	\$12.8 B
YTD Price Change	-16.1%
Beta	1.46
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 23% (194 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-12.9%
Last Sales Surprise	-38.9%
EPS F1 Est- 4 week change	106.7%
Expected Report Date	07/29/2020
Earnings ESP	1.8%
P/E TTM	20.8
P/E F1	29.3
PEG F1	2.7
P/S TTM	4.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,267 E	1,344 E	1,346 E	1,439 E	5,488 E
2020	800 A	1,153 E	1,202 E	1,336 E	4,987 E
2019	620 A	629 A	597 A	606 A	2,452 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.29 E	\$0.31 E	\$0.36 E	\$0.44 E	\$1.47 E
2020	\$0.27 A	\$0.19 E	\$0.26 E	\$0.34 E	\$1.05 E
2019	\$0.38 A	\$0.43 A	\$0.41 A	\$0.37 A	\$1.59 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 06/03/2020. The reports text is as of 06/04/2020.

Overview

Headquartered in Davidson, NC, Ingersoll Rand Inc. is a global industrial company, with expertise in industrial and mission-critical flow creation technologies. It came into existence when Gardner Denver Holdings, Inc. acquired the Industrial segment of Ingersoll-Rand plc in February 2020.

The company operates through four business segments — Industrial Technologies & Services, Precision & Science Technologies, Specialty Vehicle Technologies, and High Pressure Solutions. A brief discussion on the segments is provided below.

Industrial Technologies & Services (62.7% of first-quarter 2020 revenues): The segment engages in manufacturing products, including air compressors, couplers, vacuum pumps, power tools, blowers and others. Key brands are ComAir, Emco Wheaton, Garo, Ingersoll Rand, Nash, Gardner Denver and others.

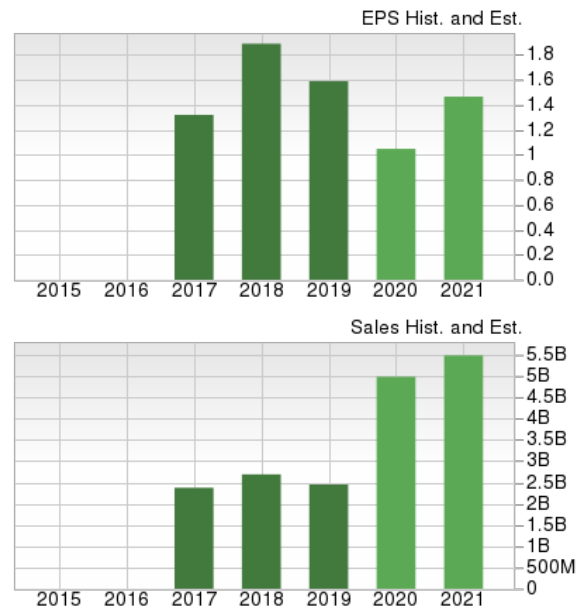
The segment comprises the Industrials business of Gardner Denver, and Compression Technologies and Services business of Ingersoll Rand. The combined business will operate through three units — the Asia Pacific, Americas, and Europe, Middle East, India and Africa (EMEIA). Also, the segment will include the Power Tools and Lifting business unit and the Pressure and Vacuum Solutions business unit.

Precision & Science Technologies (15.1%): The segment engages in manufacturing products, including doing and metering pumps (for use in multiple industries) and liquid and gas pumps for use in life sciences, lab and medical markets. Key brands are Hartell, Welch, ARO, Dosatron and others.

The segment comprises the Industrial Precision Flow Systems business of Ingersoll Rand as well as Medical and Specialty Pumps business units of Gardner Denver.

Specialty Vehicle Technologies (14.6%): The segment comprises the Industrial Club Car business of Ingersoll Rand. The vehicles manufactured are used for utility, golf and consumer applications. The segment also engages in providing aftermarket services.

High Pressure Solutions (7.6%): The segment comprises the Petroleum and Industrial Pump business of Gardner Denver. Its pumps, fluid ends and consumables are primarily used for oil and gas development activities.



Reasons To Buy:

- ▲ Ingersoll Rand, formed of combined business of Ingersoll Rand's Industrial segment and Gardner Denver, has expertise in industrial and mission-critical flow creation technologies. It expects to deliver \$80-\$90 million of savings from the accelerated synergy actions related to the business combination. The savings are part of \$250-million savings expected from the transaction in the first three years of the completion.
- ▲ In the quarters ahead, the company's talented workforce, solid product portfolio and innovation capabilities as well as focus on increasing its aftermarket businesses will be beneficial. Further, its exposure in various end markets — including industrial manufacturing, mining & construction, chemical, upstream energy, midstream energy, transportation, downstream energy and other — is a boon. Such diversification helps in dealing with difficult times effectively.
- ▲ The company recently noted that the safety of workers and customers remain top priorities in the present difficult environment caused by the pandemic. Also, cost-saving measures — including hiring freeze, furloughs, restricted discretionary spending and others — have been implemented.

Integration-related synergies, solid product portfolio and innovation capabilities might be beneficial in the quarters ahead. Also, diversification-benefits and pandemic-related measures might aid too.

Reasons To Sell:

- ▼ Since the beginning of March 2020, Ingersoll Rand's shares have fallen 6.1% as compared with the industry's decline of 8%. Also, on a P/E (TTM) basis, the company's shares look overvalued compared with the industry, with respective tallies of 76.98x and 20.51x. Notably, the company's multiple is trading higher than the industry's highest level (since the beginning of March) of 21.17x. In first-quarter 2020, it reported weaker-than-expected results, with earnings and sales lagging estimates by 19.4% and 3.1%, respectively. On a year-over-year basis, supplemental adjusted earnings declined 32.4% year over year due to weak sales performance and margin contraction. Supplemental organic sales in the quarter declined 14% year over year, while adjusted orders decreased 8.3%. For 2020, the company has refrained from providing projections due to the uncertainties related to the coronavirus outbreak. In the past 30 days, the company's earnings estimates have been lowered by 2.8% for 2020 and 2% for 2021.
- ▼ Exiting first-quarter 2020, Ingersoll Rand's long-term debt was \$3,427.1 million. Notably, it repaid \$1,591 million of its long-term debts in the quarter, while also secured \$1,586 million as proceeds from these debts. Interest expenses in the quarter were \$35.2 million. We find the high-debt level concerning, especially when the company's cash position seems weak. Its cash and cash equivalents were just \$555.7 million at the end of first-quarter 2020 and cash generated from operating activities in the quarter totaled \$68.4 million.
- ▼ Ingersoll Rand has considerable operations in geographies outside the United States. Its significant international presence exposes it to political and economic disruptions, all of which can directly impact profits. Also, the company is exposed to unfavorable movements in foreign currencies, which might have an adverse impact on revenues. For instance, unfavorable movements in foreign currencies had an adverse impact of 1.4% on the company's first-quarter 2020 revenues.

The uncertainties related to the coronavirus outbreak remain concerning for Ingersoll Rand. It refrained from providing projections for 2020. Also, high debts and forex woes might hurt performances.

Last Earnings Report

Ingersoll Rand Q1 Earnings Miss Estimates, Fall Y/Y

Ingersoll Rand reported weaker-than-expected results for the first quarter of 2020, with earnings lagging estimates by 12.9%.

Its adjusted earnings in the quarter under review were 27 cents per share, reflecting a year-over-year decline of 28.9% and lagging the Zacks Consensus Estimate of 31 cents.

For comparison purpose, the company provided supplemental data, assuming the merger of Gardner Denver Holdings and the Industrial segment of Ingersoll-Rand was completed in January 2018.

Its adjusted earnings (supplemental) were 25 cents per share, reflecting decline of 32.4% from the year-ago quarter figure of 37 cents.

Revenue Details

Ingersoll Rand's net sales were \$799.9 million in the first quarter, reflecting a 29% increase from the year-ago quarter. The Zacks Consensus Estimate for the quarter was \$1,310 million.

However, the company's supplemental adjusted revenues were \$1,269.8 million in the first quarter, reflecting a 15.3% decline from the year-ago quarter. Organic sales in the quarter declined 14% year over year, while acquisition had a positive 0.1% impact. However, unfavorable movements in foreign currencies had an adverse impact of 1.4%.

Adjusted orders (supplemental) in the quarter decreased 8.3% year over year to \$1,404.5 million.

The company reports revenues under four market segments. A brief discussion of the quarterly results (supplemental) is provided below:

The **Industrial Technologies & Services** segment generated revenues of \$795.8 million, accounting for 62.7% of net revenues in the reported quarter. Sales decreased 18.5% year over year on a 16.9% fall in organic sales. Forex woes had an adverse 1.7% impact on sales and acquisitions had a 0.1% positive impact. The segment's adjusted orders in the quarter decreased 11.3% year over year to \$889.4 million.

Precision & Science Technologies' revenues totaled \$192.2 million, representing 15.1% of net revenues in the quarter under review. On a year-over-year basis, the segment's revenues decreased 10% on an organic sales decline of 8.9% and forex woes of 1.4%. Acquisitions had a positive impact of 0.3%. The segment's adjusted orders were flat year over year at \$218.3 million.

The **Specialty Vehicle Technologies** segment generated revenues of \$185.4 million, accounting for 14.6% of net revenues in the reported quarter. Sales increased 6.6% year over year on 7% growth in organic sales, partially offset by forex woes of 0.4%. The segment's adjusted orders in the quarter increased 7.9% year over year to \$213.3 million.

High Pressure Solutions' revenues totaled \$96.4 million, representing 7.6% of net revenues in the quarter under review. On a year-over-year basis, the segment's revenues decreased 29.1% on a fall in organic sales of 28.6% and forex woes of 0.4%. The segment's adjusted orders were down 25.8% year over year at \$83.5 million.

Margin Profile

Supplemental adjusted earnings before interest, tax, depreciation and amortization (EBITDA) in the quarter decreased 24.4% year over year to \$208.1 million. Margins, also, plummeted 200 basis points (bps) to 16.4%.

On a segmental basis, supplemental adjusted EBITDA margin decreased 150 bps year over year for Industrial Technologies & Services, while increased 120 bps to 27.7% for Precision & Science Technologies. However, margin for Specialty Vehicle Technologies segment decreased 80 bps year over year and plummeted 620 bps for High Pressure Solutions.

Balance Sheet & Cash Flow

Exiting the first quarter of 2020, Ingersoll Rand had cash and cash equivalents of \$555.7 million, up 9.9% from \$505.5 million recorded in the last reported quarter. Long-term debt surged 113.7% sequentially to \$3,427.1 million.

During the quarter, the company repaid \$1,591 million of its long-term debts, while also secured \$1,586 million as proceeds from these debts.

In the first quarter of 2020, the company generated net cash of \$68.4 million from operating activities, decreasing 0.6% year over year. Capital expenditure totaled \$8.3 million versus \$14.1 million in the previous year's comparable quarter. Free cash flow rose 9.9% year over year to \$60.1 million.

Outlook

The company noted that the safety of workers and customers remain top priorities in the present difficult environment. Also, it expects to deliver \$80-\$90 million of savings from the accelerated synergy actions related to the business combination of Ingersoll-Rand's Industrial segment with Gardner Denver. This savings is part of \$250 million savings expected from the transaction in the first three years of the completion.

The company has refrained from providing projections for 2020 due to the uncertainties related to the coronavirus outbreak.

Quarter Ending 03/2020

Report Date	May 12, 2020
Sales Surprise	-38.92%
EPS Surprise	-12.90%
Quarterly EPS	0.27
Annual EPS (TTM)	1.48

Valuation

Ingersoll Rand's shares have lost 6.1% since the beginning of March 2020. During the same timeframe, the Zacks sub-industry and the Zacks Industrial Products sector have moved down 8% and 2.4%, respectively. The S&P 500 index has increased 4.1%, over the same time frame.

The stock is currently trading at 118.17x forward 12-month earnings per share, which compares with 26.76x for the Zacks sub-industry, 21.8x for the Zacks sector and 22.29x for the S&P 500 index.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$32 price target reflects 124.08x forward 12-month earnings per share.

Industry Analysis Zacks Industry Rank: Bottom 23% (194 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Atlas Copco AB (ATLKY)	Neutral	4
Eaton Corporation, PLC (ETN)	Neutral	3
Honeywell International Inc. (HON)	Neutral	3
Hubbell Inc (HUBB)	Neutral	4
Lennox International, Inc. (LII)	Neutral	5
ParkerHannifin Corporation (PH)	Neutral	3
Tetra Technologies, Inc. (TTI)	Neutral	2
Hitachi Ltd. (HTHIY)	Underperform	5

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	IR	X Industry	S&P 500	ETN	HON	PH
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	C	D	A
Market Cap	12.83 B	1.19 B	22.50 B	35.73 B	107.63 B	25.17 B
# of Analysts	5	3.5	14	10	10	9
Dividend Yield	0.00%	0.00%	1.88%	3.27%	2.35%	1.79%
Value Score	D	-	-	B	C	B
Cash/Price	0.05	0.10	0.06	0.01	0.09	0.03
EV/EBITDA	34.28	11.90	12.98	11.72	12.26	12.69
PEG Ratio	2.74	3.52	3.05	2.19	2.98	1.73
Price/Book (P/B)	1.46	1.65	3.11	2.50	6.02	3.99
Price/Cash Flow (P/CF)	18.68	9.66	12.18	11.30	15.50	12.61
P/E (F1)	29.33	24.57	22.19	24.06	22.14	20.33
Price/Sales (P/S)	4.87	1.20	2.40	1.71	2.97	1.77
Earnings Yield	3.41%	3.44%	4.31%	4.15%	4.52%	4.92%
Debt/Equity	0.39	0.50	0.76	0.57	0.65	1.28
Cash Flow (\$/share)	1.65	2.49	7.01	7.91	9.89	15.57
Growth Score	D	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	NA%	11.57%	10.87%	7.34%	8.38%	17.20%
Proj. EPS Growth (F1/F0)	-34.09%	-31.95%	-10.74%	-34.52%	-15.11%	-18.53%
Curr. Cash Flow Growth	-25.03%	5.37%	5.48%	0.36%	-1.43%	6.37%
Hist. Cash Flow Growth (3-5 yrs)	5.38%	5.38%	8.55%	2.58%	5.69%	7.55%
Current Ratio	2.11	2.19	1.29	1.75	1.30	1.49
Debt/Capital	28.13%	33.61%	44.75%	36.40%	39.26%	56.22%
Net Margin	2.86%	4.65%	10.59%	10.19%	17.38%	9.32%
Return on Equity	2.12%	11.37%	16.29%	14.67%	33.60%	24.30%
Sales/Assets	0.36	0.75	0.55	0.65	0.62	0.72
Proj. Sales Growth (F1/F0)	103.40%	-9.37%	-2.65%	-22.07%	-13.30%	-6.53%
Momentum Score	B	-	-	F	D	C
Daily Price Chg	6.72%	3.09%	2.42%	4.33%	3.37%	6.02%
1 Week Price Chg	-1.19%	5.10%	4.60%	7.92%	4.79%	7.84%
4 Week Price Chg	12.87%	14.41%	13.40%	11.77%	15.27%	28.00%
12 Week Price Chg	31.08%	8.29%	12.78%	5.88%	-0.03%	32.94%
52 Week Price Chg	-8.36%	-10.74%	0.89%	14.20%	-9.48%	20.90%
20 Day Average Volume	3,273,922	89,514	2,528,787	2,162,686	3,641,166	1,397,141
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.80%	0.00%	0.00%
(F1) EPS Est 4 week change	106.67%	0.00%	-0.14%	-3.76%	-4.34%	0.88%
(F1) EPS Est 12 week change	-97.96%	-35.15%	-16.00%	-35.47%	-21.34%	-8.40%
(Q1) EPS Est Mthly Chg	46.15%	-1.56%	-0.02%	-12.02%	-11.93%	-1.52%

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	D
Momentum Score	B
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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