

Ingersoll-Rand plc (IR)

\$138.53 (As of 02/04/20)

Price Target (6-12 Months): **\$146.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/30/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM: C

Value: C

Growth: A

Momentum: F

Summary

In fourth-quarter 2019, Ingersoll-Rand's earnings and revenues increased 6.1% and 7%, respectively, year over year. In the past three months, the stock has outperformed the industry. The company believes that stellar sales generated from the commercial and residential HVAC markets will bolster revenues in the quarters ahead. Further, operational excellence projects, pricing actions, investments in innovation and the Precision Flow Systems buyout are expected to boost profitability. However, material cost inflation, tariff-related woes might affect 2020 performance. Increases in debt levels can raise its financial obligations. Also, it expects interest expenses of \$240 million for the year. In the past seven days, earnings estimates have declined for first-quarter 2020.

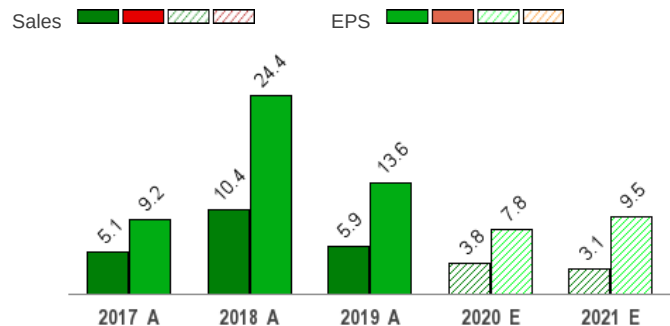
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$139.40 - \$99.80
20 Day Average Volume (sh)	1,517,551
Market Cap	\$33.0 B
YTD Price Change	4.2%
Beta	1.26
Dividend / Div Yld	\$2.12 / 1.5%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 16% (214 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.4%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	-0.8%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	21.8
P/E F1	20.2
PEG F1	1.9
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,801 E	4,870 E	4,650 E	4,463 E	17,768 E
2020	3,663 E	4,761 E	4,466 E	4,333 E	17,231 E
2019	3,576 A	4,528 A	4,344 A	4,151 A	16,599 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.10 E	\$2.36 E	\$2.34 E	\$1.84 E	\$7.52 E
2020	\$0.90 E	\$2.20 E	\$2.13 E	\$1.65 E	\$6.87 E
2019	\$0.89 A	\$2.09 A	\$1.99 A	\$1.40 A	\$6.37 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 02/04/2020. The reports text is as of 02/05/2020.

Overview

Headquartered in Dublin, Ireland, Ingersoll-Rand plc designs, manufactures, sells and services a diverse portfolio of industrial and commercial products globally. Its products help in enhancing the quality and comfort of air in homes and buildings, and transporting and protecting food and perishables.

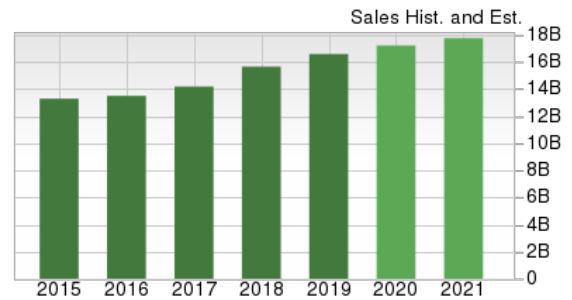
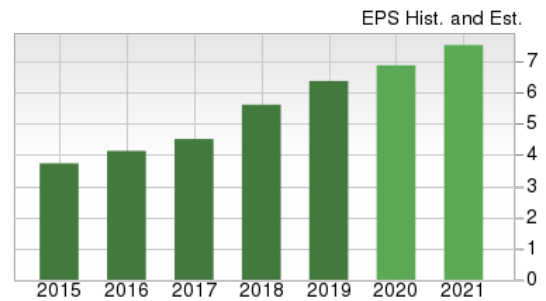
Notably, the company's two business segments, Climate and Industrial, feature market leading brands, consisting of differentiated products within their respective markets. A brief discussion on the segments is provided below.

- **Climate** (76.7% of fourth-quarter 2019 revenues): The Climate segment offers energy-efficient products and multiple innovative services. Through American Standard Heating & Air Conditioning and Trane, the segment provides HVAC (heating, ventilation, and air conditioning) solutions and residential and commercial building services.

Meanwhile, it provides building automation and energy services through Nexia and Trane building Advantage. Thermo King provides temperature control solutions for transportation market.

- **Industrial** (23.3%): The Industrial segment provides products like compressed air and gas systems, material handling systems, power tools and fluid management systems. Moreover, it provides utility, golf and low-speed vehicles. The segment's products and services help in improving productivity, energy efficiency and operations. Leading brands are Club Car and ARO.

In April 2019, Ingersoll-Rand entered into an agreement to sale of its Industrial segment to Gardner Denver. The transaction (expected to be completed in early 2020), will create a global industrial company with expertise in mission-critical flow creation and industrial technologies. This company's name is expected to be Ingersoll Rand while the trading on NYSE will be done under "IR" ticker symbol. Notably, the company's climate segment will become a separate company, known as Trane Technologies plc. This climate company will come into existence after Ingersoll-Rand completes the divestment of its Industrial segment to Gardner Denver Holdings.



Reasons To Buy:

▲ In the past three months, Ingersoll-Rand's shares have gained 5.4% compared with the industry's growth of 2.6%. In the fourth quarter of 2019, the company's earnings recorded 6.1% rise from the year-ago quarter on solid revenue growth, margin expansion and lower share count. Notably, adjusted operating margin in the quarter expanded 10 bps year over year, driven by volume growth, better productivity, restructuring savings and execution of commercial strategies. For 2020, the company anticipates gaining from strengthening revenue performance, execution capabilities, favorable pricing and operational excellence projects. Also, its investments toward innovation, technology and footprint-optimization initiatives will be beneficial. Moreover, the company is targeting to achieve stranded cost reduction of \$100 million by end of 2021, with \$40 million in 2020 and another \$60 million in 2021.

Solid demand in some end markets, innovation investments, acquired assets, divestment actions and shareholder-friendly policies are likely to augment Ingersoll-Rand's near-term results.

▲ In fourth-quarter 2019, Ingersoll-Rand's net sales grew 7% year over year or roughly 5% on an organic basis. On a segmental basis, organic sales expanded 7% for Climate segment. The company believes that strength in the global commercial HVAC markets are likely to boost revenues for 2020. In addition, growth in residential HVAC markets — particularly in North America — led by strength in the replacement markets will bolster revenues for the year. Business in the residential HVAC market is predicted to grow in low single digits for 2020. Pipeline and solid backlog are expected to support top-line growth for the year. In addition, solid demand for small electric vehicles is likely to support the company's Industrial segment's revenues in the first quarter.

▲ Ingersoll-Rand intends to boost near-term revenues and profitability on acquisitions and divestments as well as unique business strategies. Notably, the company spent approximately \$1.5 billion on acquisitions in 2019. It acquired Precision Flow Systems in May 2019. Since then, the buyout has been supporting Ingersoll-Rand's existing fluid management business, and boost margins and profitability. Additionally, the company has entered into an agreement to divest its Industrial segment to Gardner Denver. The transaction, upon completion, will create a pure-play industrial company.

▲ Ingersoll-Rand believes in rewarding shareholders handsomely through dividend payments and share buybacks. In 2019, the company distributed \$510 million as dividends and repurchased shares worth \$750 million. It is worth noting here that Ingersoll-Rand announced an 18% hike in the quarterly dividend rate in June 2018. Also, it received the approval for \$1.5 billion worth of share buyback program in October 2018. As a matter of fact, the company expects to maintain its annualized dividend of \$2.12 per share post-closing the divestment of its Industrial segment to Gardner Denver, and through 2020.

Reasons To Sell:

- ▼ On an EV/EBITDA (TTM) basis, Ingersoll-Rand's shares look overvalued compared with the industry, with respective tallies of 13.94x and 13.42x. Notably, the company's multiple is trading higher than the industry's three-month highest level of 13.56x. Also, earnings estimates for the company have been lowered by 10.9% to 90 cents for first-quarter 2020 in the past seven days. This makes us cautious about the stock.
- ▼ Rise in costs has been a major headwind for Ingersoll-Rand. In third and fourth quarters of 2019, the company's cost of sales grew 8% and 5.8%, respectively, year over year. In addition, in the third and fourth quarters, its selling and administrative expenses rose 8.2% and 16.7%, respectively, on a year-over-year basis. Despite year-over-year growth, adjusted operating margin in the quarter suffered from the adverse impacts of unfavorable product mix, tariffs and other inflationary pressures. However, the company's effective pricing and productivity measures proved beneficial. Moreover, for 2020, the company expects corporate expenses to be approximately \$260 million, including stranded costs previously allocated to its industrial segment.
- ▼ Exiting the fourth quarter of 2019, Ingersoll-Rand's long-term debt was \$4,922.9 million, up roughly 31.6% from 2018 end. It is worth mentioning here that the company's short-term borrowings and current maturities of long-term debt exiting the quarter were \$650.5 million, up 85.5% from 2018 end. Notably, Ingersoll-Rand expects higher interest expenses of about \$240 million for 2020. We believe that fresh issuances in the quarters ahead will further elevate its debts and hence, increase financial obligations.
- ▼ 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.

Material cost inflation, high debts and headwinds related to international exposure might hurt Ingersoll-Rand's near-term profitability.

Last Earnings Report

Ingersoll-Rand Q4 Earnings & Revenues Lag, Bookings Dip

Ingersoll-Rand reported weaker-than-expected fourth-quarter 2019 results.

Adjusted earnings were \$1.40 per share, missing the Zacks Consensus Estimate of \$1.42. However, the bottom line grew 6.1% from the year-ago quarter figure of \$1.32 on strong revenue growth.

In 2019, Ingersoll-Rand's adjusted earnings were \$6.37 per share, up 14% from \$5.61 in 2018.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	-0.06%
EPS Surprise	-1.41%
Quarterly EPS	1.40
Annual EPS (TTM)	6.37

Segmental Performance Drives Revenues

Ingersoll-Rand's net sales were \$4,151 million in the fourth quarter, reflecting 7% growth from the year-ago quarter. Organic sales grew 5% year over year.

The company's top line marginally missed the Zacks Consensus Estimate of \$4,153 million.

Bookings in the quarter declined 4% year over year to \$3,975 million.

The company reports revenues under two market segments. A brief discussion of the quarterly results is provided below:

Climate generated revenues of \$3,183.7 million, accounting for roughly 76.7% of net revenues in the reported quarter. Sales grew 6.1% year over year on 7% growth in organic sales. Healthy growth in Commercial heating, ventilation and air conditioning business boosted organic sales.

The segment's bookings fell 7% year over year (or down 6% organically) to \$3,057 million.

Industrial's revenues totaled \$967.2 million, representing 23.3% of net revenues in the quarter. On a year-over-year basis, the segment's revenues grew 8.2% on gains from solid demand for small electric vehicles, offset by continued weakness in the industrial short cycle markets. Organic revenues were down 2% in the quarter.

The segment's bookings in the quarter grew 6% year over year (or down 4% organically) to \$918 million.

Operating Margin

In the fourth quarter, Ingersoll-Rand's cost of sales rose 5.8% year over year to \$2,904.3 million. Cost of sales was 70% of the quarter's net sales compared with 70.5% in the year-ago quarter. Selling & administrative expenses rose 16.7% to \$821.2 million. It represented 19.8% of net sales in the reported quarter.

Adjusted operating profit grew 7.1% year over year to \$501.6 million. Margin grew 10 bps to 12.1%.

Interest expenses rose 29.2% year over year to \$63.3 million. Adjusted effective tax rate in the quarter was 20%.

Balance Sheet & Cash Flow

Exiting the fourth quarter, Ingersoll-Rand had cash and cash equivalents of \$1,303.6 million, up 44.3% from \$903.4 million recorded as on Dec 31, 2018. Long-term debt was \$4,922.9 million, up 31.6% on a year-over-year basis.

In 2019, the company generated net cash of \$1,956.3 million from continuing operating activities, roughly 32.6% above the 2018 level. Capital expenditure totaled \$254.1 million compared with \$365.6 million in the previous year. Free cash flow rose 60% to \$1,838.7 million.

During 2019, the company distributed \$510.1 million as dividend payouts and repurchased shares worth \$750.1 million.

Outlook

Earlier, Ingersoll-Rand had announced that its climate company will be known as Trane Technologies plc. This climate company will come into existence in early 2020 after Ingersoll-Rand completes the divestment of its Industrial segment to Gardner Denver Holdings.

For 2020, Ingersoll-Rand anticipates revenues to increase 3-5% year over year for Trane Technologies.

Recent News

Dividend

On **Dec 31, 2019**, Ingersoll-Rand paid a quarterly cash dividend of 53 cents per share to shareholders of record as of Dec 6, 2019.

Climate Company Named Trane Technologies

On **Dec 11, 2019**, Ingersoll-Rand announced that its climate company will be known as Trane Technologies plc. This climate company will come into existence in early 2020 after Ingersoll-Rand completes the divestment of its Industrial segment to Gardner Denver Holdings.

As noted, Trane Technologies will be a pure-play climate control company, with market-leading brands being Trane and Thermo King. Trane's innovative capabilities will help it provide effective solutions to customers in transportation, buildings and homes arenas.

Trane Technologies is expected to trade under the symbol "TT" on the New York Stock Exchange. The company's chairman and CEO will be Mike Lamach while Dave Regnery will be the president and chief operating officer.

Divestment Agreement

On **Apr 30, 2019**, Ingersoll-Rand entered an agreement to sell its Industrial segment to Gardner Denver. The transaction will be accomplished by spinning-off the Industrial segment to Ingersoll-Rand's shareholders and then combining it with Gardner Denver.

The transaction, when completed, will create a global industrial company with expertise in mission-critical flow creation and industrial technologies. This company's name is expected to be Ingersoll Rand while the trading on NYSE will be done under "IR" ticker symbol.

The combined company's 2019 revenues are predicted to be \$6.6 billion and adjusted earnings before interest, tax, depreciation and amortization (EBITDA) are likely to be \$1.6 billion. In addition, the company anticipates realizing cost-synergies of \$250 million by the end of three years of the completion of transaction.

Meanwhile, Ingersoll-Rand's Climate segment will become a pure-play climate solution provider. Its revenues and adjusted EBITDA are predicted to be \$12.9 billion and \$2 billion, respectively. Upon completion, the climate company will receive \$1.9 billion in cash. The proceeds are likely to be used for repaying debts (\$600 million to \$1 billion) as well as repurchasing shares and making acquisitions (\$900 million to \$1.3 billion).

Subject of receipt of regulatory approvals and fulfillment of customary closing conditions, Ingersoll-Rand believes that the transaction will be completed in early 2020.

Valuation

Ingersoll-Rand's shares have gained 4.2% year to date and 37.4% over the trailing 12-month period. Stocks in the Zacks sub-industry have moved up 0.3%, while the Zacks Industrial Products sector moved down 3.6% year to date. Over the past year, the Zacks sub-industry and sector have moved up 21.7% and 6.7%, respectively.

The S&P 500 index has moved up 0.9% year to date and 18.2% in the past year.

The stock is currently trading at 19.99x forward 12-month earnings per share, which compares with 21.02x for the Zacks sub-industry, 17.52x for the Zacks sector and 18.6x for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.98x and as low as 12.04x, with a 5-year median of 16.89x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$146 price target reflects 21.07x forward 12-month earnings per share.

The table below shows summary valuation data for IR.

Valuation Multiples - IR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.99	21.02	17.52	18.6
	5-Year High	20.98	22.58	19.91	19.34

EV/EBITDA F12M	5-Year Low	12.04	15.2	12.6	15.18
	5-Year Median	16.89	18.98	16.58	17.46
	Current	12.75	12.81	17.82	12.66
	5-Year High	12.83	12.81	18.22	12.66
	5-Year Low	7.84	8.3	10.69	9.08
EV/Sales F12M	5-Year Median	10.46	10.7	14.04	10.78
	Current	2.09	2.78	3.14	3.26
	5-Year High	2.16	2.78	3.14	3.37
	5-Year Low	1.23	1.67	1.76	2.3
	5-Year Median	1.64	2.31	2.28	2.78

As of 02/04/2020

Industry Analysis Zacks Industry Rank: Bottom 16% (214 out of 255)



Top Peers

Colfax Corporation (CFX)	Neutral
Crane Company (CR)	Neutral
Emerson Electric Co. (EMR)	Neutral
Eaton Corporation, PLC (ETN)	Neutral
Gardner Denver Holdings, Inc. (GDI)	Neutral
Lennox International, Inc. (LII)	Neutral
Pentair plc (PNR)	Neutral
United Technologies Corporation (UTX)	Underperform

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	IR Neutral	X Industry	S&P 500	CR Neutral	EMR Neutral	UTX Underperform
VGM Score	C	-	-	C	A	C
Market Cap	33.01 B	1.93 B	23.66 B	5.27 B	44.61 B	132.08 B
# of Analysts	10	2.5	13	5	10	7
Dividend Yield	1.53%	0.00%	1.82%	1.78%	2.73%	1.92%
Value Score	C	-	-	C	B	C
Cash/Price	0.04	0.05	0.04	0.08	0.03	0.06
EV/EBITDA	15.38	13.10	13.87	17.27	12.23	12.07
PEG Ratio	1.88	2.18	1.97	4.05	2.54	2.23
Price/Book (P/B)	4.51	2.39	3.24	3.57	5.27	2.99
Price/Cash Flow (P/CF)	16.89	12.68	13.40	11.02	14.46	12.10
P/E (F1)	20.16	19.48	18.48	13.79	20.17	18.40
Price/Sales (P/S)	1.99	1.39	2.60	1.60	2.43	1.71
Earnings Yield	4.96%	5.12%	5.40%	7.25%	4.96%	5.44%
Debt/Equity	0.67	0.54	0.72	0.57	0.47	0.90
Cash Flow (\$/share)	8.20	2.62	6.92	7.97	5.07	12.65
Growth Score	A	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	14.11%	7.61%	10.80%	10.08%	-1.19%	4.27%
Proj. EPS Growth (F1/F0)	7.85%	8.65%	7.46%	5.78%	-1.57%	0.69%
Curr. Cash Flow Growth	10.80%	10.71%	10.59%	-1.40%	7.06%	26.99%
Hist. Cash Flow Growth (3-5 yrs)	9.43%	7.04%	8.55%	7.00%	-0.68%	5.99%
Current Ratio	1.28	2.03	1.21	1.64	1.13	1.08
Debt/Capital	40.24%	35.40%	42.91%	36.32%	32.20%	47.51%
Net Margin	8.50%	6.22%	11.76%	4.06%	11.79%	7.19%
Return on Equity	21.72%	13.10%	17.24%	22.65%	25.55%	16.60%
Sales/Assets	0.82	0.81	0.55	0.78	0.88	0.56
Proj. Sales Growth (F1/F0)	3.81%	1.86%	4.22%	7.26%	0.66%	1.52%
Momentum Score	F	-	-	F	C	F
Daily Price Chg	1.72%	1.68%	0.67%	1.36%	0.88%	2.03%
1 Week Price Chg	2.01%	-1.95%	-2.60%	-0.07%	-6.61%	-1.95%
4 Week Price Chg	5.39%	-0.08%	-0.76%	1.80%	-5.18%	-0.12%
12 Week Price Chg	6.93%	0.86%	2.84%	7.55%	-1.12%	3.11%
52 Week Price Chg	36.77%	9.51%	13.93%	5.73%	9.48%	26.69%
20 Day Average Volume	1,517,551	50,354	1,915,782	242,848	2,860,363	3,662,463
(F1) EPS Est 1 week change	-0.49%	0.00%	0.00%	-0.40%	0.37%	-4.12%
(F1) EPS Est 4 week change	-0.75%	0.00%	0.00%	-0.28%	0.46%	-4.80%
(F1) EPS Est 12 week change	-0.77%	-0.94%	-0.13%	-0.28%	-0.20%	-4.90%
(Q1) EPS Est Mthly Chg	-11.61%	0.00%	0.00%	-20.71%	0.60%	-10.49%

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	C
Growth Score	A
Momentum Score	F
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.

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