

Ingersoll-Rand plc (IR)

\$131.18 (As of 01/10/20)

Price Target (6-12 Months): **\$138.00**

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:A

Value: C

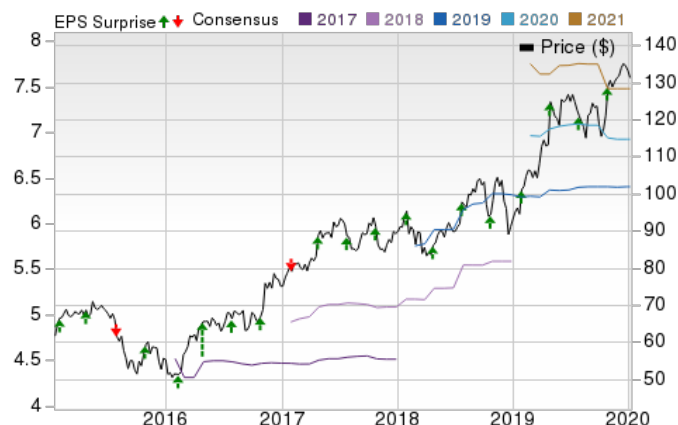
Growth: B

Momentum: B

Summary

In the past three months, Ingersoll-Rand's shares have 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, an effective operating system, pricing actions, investments on innovation and the Precision Flow Systems buyout are expected to boost profitability. For 2019, it expects adjusted earnings per share of \$6.40. The company anticipates revenue growth of 5.5-6.5% for the year. However, material cost inflation, tariff-related woes and high debts are likely to affect performance in 2019. Interest expenses from senior notes offered in March 2019 are predicted to be \$60 million (\$47 million will be incurred in 2019). In the past 60 days, earnings estimates have declined for fourth-quarter 2019.

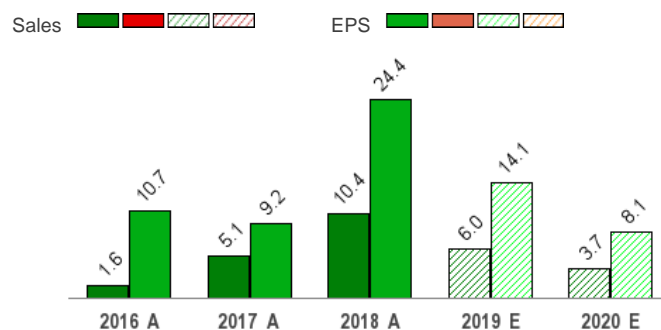
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$135.30 - \$92.24
20 Day Average Volume (sh)	1,074,983
Market Cap	\$31.3 B
YTD Price Change	-1.3%
Beta	1.22
Dividend / Div Yld	\$2.12 / 1.6%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 32% (172 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.2%
Last Sales Surprise	1.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/29/2020
Earnings ESP	0.0%
P/E TTM	20.9
P/E F1	19.0
PEG F1	1.8
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	3,754 E	4,762 E	4,460 E	4,289 E	17,225 E
2019	3,576 A	4,528 A	4,344 A	4,153 E	16,603 E
2018	3,385 A	4,358 A	4,031 A	3,895 A	15,668 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.02 E	\$2.21 E	\$2.11 E	\$1.62 E	\$6.92 E
2019	\$0.89 A	\$2.09 A	\$1.99 A	\$1.42 E	\$6.40 E
2018	\$0.70 A	\$1.85 A	\$1.75 A	\$1.32 A	\$5.61 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 01/10/2020. The reports text is as of 01/13/2020.

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.

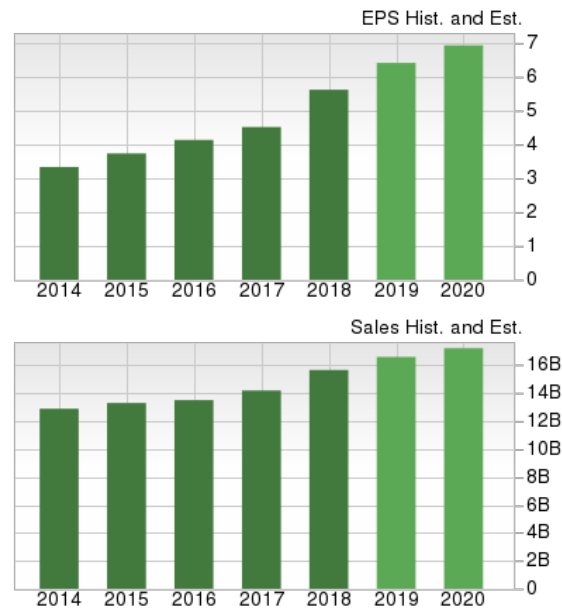
Effective fourth-quarter 2013, Ingersoll realigned financial reporting structure into two segments, namely Climate and Industrial, following the spin-off of its commercial and residential security businesses into a standalone company called Allegion.

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** (79.9% of third-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** (20.1%): 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.



Reasons To Buy:

- ▲ In the past three months, Ingersoll-Rand's shares have gained 13.7% compared with the industry's growth of 12.8%. In the third quarter of 2019, the company's earnings surpassed estimates by 4.2% while recorded 13.7% rise from the year-ago quarter on solid revenue growth, margin expansion and lower share count. Notably, adjusted operating margin in the quarter expanded 70 bps year over year, driven by volume growth, favorable pricing and better productivity. For 2019, the company anticipates gaining from strengthening revenue performance, effective operating system and execution capabilities. Moreover, its investments toward innovation, technology and footprint-optimization initiatives to trim costs will be beneficial. Adjusted earnings per share are predicted to be \$6.40 in 2019, suggesting growth from \$5.61 recorded in 2018.
- ▲ In third-quarter 2019, Ingersoll-Rand's net sales grew 7.8% year over year or roughly 6% on an organic basis. On a segmental basis, organic sales expanded 8% for Climate segment. The company believes that stellar sales from the non-residential HVAC markets — particularly in North America and Europe — will bolster revenues in 2019. Pipeline, orders rates and backlog all are expected to support top-line growth in 2019. Business in the residential HVAC market is predicted to grow in low to mid-single digits in 2019. Demand will likely be solid in the replacement market. Though uncertainties prevail in European markets, the transport business' revenues will likely grow in low to mid-single digits in 2019. For 2019, the company anticipates revenue growth of 5.5-6.5%. Organic sales growth projection is maintained at 5-6%.
- ▲ Ingersoll-Rand intends to boost near-term revenues and profitability on acquisitions and divestments as well as unique business strategies. In January 2018, the company acquired ICS Cool Energy and in May it entered a joint venture with Mitsubishi Electric Corporation — with equal partnership in Mitsubishi Electric Trane HVAC. Ingersoll-Rand spent approximately \$1.5 billion on acquisitions in the first nine months of 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. In 2019, Ingersoll-Rand expects the Precision Flow Systems buyout to boost sales by 1.5%. Additionally, the company entered 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 the first nine months of 2019, the company distributed \$383.1 million as dividends and repurchased shares worth \$500.1 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.

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

Reasons To Sell:

- ▼ On an EV/EBITDA (TTM) basis, Ingersoll-Rand's shares look overvalued compared with the industry, with respective tallies of 13.86x and 13.47x. Notably, the company's multiple is trading higher than the industry's three-month highest level of 14.28x. Also, earnings estimates for the company have been lowered by 0.7% to \$1.42 for fourth-quarter 2019 in the past 60 days. This makes us cautious about the stock.
- ▼ Rise in costs is a major headwind for Ingersoll-Rand. In the third quarter, the company's cost of sales grew 8% year over year, and selling and administrative expenses rose 8.2%. Despite year-over-year growth, adjusted operating margin in the quarter suffered from the adverse impacts of unfavorable product mix, tariffs, other inflationary pressures and growth investments. Ingersoll-Rand noted that tariff-related headwinds and inflationary pressure will be concerning in 2019. However, effective pricing and productivity measures will be boon. Moreover, corporate expenses are predicted to be less than \$240 million in 2019.
- ▼ 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. In third-quarter 2019, forex woes adversely impacted its sales by 1%.
- ▼ Exiting the third quarter of 2019, Ingersoll-Rand's long-term debt was \$4,921.9 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 third quarter were \$650.5 million, marking an increase of 85.5% from 2018 end. Notably, Ingersoll-Rand expects higher interest expenses (including \$47 million for 2019) from senior notes offered in March 2019. We believe that fresh issuances in the quarters ahead will further elevate its debts and hence, increase financial obligations.

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

Last Earnings Report

Ingersoll-Rand Beats Q3 Earnings and Sales Estimates

Ingersoll-Rand reported better-than-expected results for the third quarter of 2019, with earnings surpassing estimates by 4.2%.

Adjusted earnings in the quarter under review were \$1.99 per share, surpassing the Zacks Consensus Estimate of \$1.91. Also, the bottom line grew 13.7% from the year-ago quarter figure of \$1.75 on solid revenue growth, margin expansion and lower share count.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	1.40%
EPS Surprise	4.19%
Quarterly EPS	1.99
Annual EPS (TTM)	6.29

Revenues Improve Y/Y

Ingersoll-Rand's net sales were \$4,344.3 million in the third quarter, reflecting 7.8% growth from the year-ago quarter. Organic sales in the quarter grew 6% year over year, while acquisition had a positive 3% impact. However, unfavorable movements in foreign currencies had an adverse impact of 1%.

The company's revenues surpassed the Zacks Consensus Estimate of \$4,284 million by 1.4%.

Bookings in the quarter rose 3% year over year to \$4,162 million.

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

The **Climate** segment generated revenues of \$3,470.9 million, accounting for roughly 79.9% of net revenues in the reported quarter. Sales grew 7.2% year over year on 8% growth in organic sales. Healthy growth in heating, ventilation and air conditioning (HVAC) markets boosted organic sales. Forex woes had an adverse 1% impact on sales.

The segment's bookings in the quarter under review rose 0.9% year over year (or up roughly 2% organically) to \$3,269 million.

Industrial's revenues totaled \$873.4 million, representing 20.1% of net revenues in the quarter under review. On a year-over-year basis, the segment's revenues grew 10.2% on gains of 12% from acquisitions, partially offset by a 2% adverse impact of unfavorable movements in foreign currencies. Organic revenues were flat in the quarter.

The segment's bookings in the quarter under review grew 10.5% year over year (or flat organically) to \$894 million.

Operating Margin Improves Y/Y

In the reported quarter, Ingersoll-Rand's cost of sales rose 8% year over year to \$2,935.8 million. Cost of sales was 67.6% of the quarter's net sales versus 67.4% in the year-ago quarter. Selling & administrative expenses rose 8.2% year over year to \$785.3 million. It represented 18.1% of net sales in the reported quarter.

Adjusted operating profit grew 12.7% year over year to \$684.4 million. Margin grew 70 bps year over year to 15.8%. Margin improvement was driven by favorable pricing, volume growth and better productivity, partially offset by unfavorable product mix, tariffs, other inflationary pressures and growth investments.

Interest expenses in the quarter under review rose 32.2% year over year to \$64.1 million. Effective tax rate in the quarter was 19.7%.

Balance Sheet & Cash Flow

Exiting the third quarter, Ingersoll-Rand had cash and cash equivalents of \$830.9 million, down 5.1% from \$875.6 million recorded in the last reported quarter. Long-term debt was flat sequentially at \$4,921.9 million.

In the first three quarters of 2019, the company generated net cash of \$1,089.8 million from continuing operating activities, roughly 15.2% above the year-ago period. Capital expenditure totaled \$186.2 million versus \$251.2 million in the previous year's comparable period. Free cash flow rose 37.1% year over year to \$992.7 million.

During the first three quarters of 2019, the company distributed \$383.1 million as dividend payouts and repurchased shares worth \$500.1 million.

Outlook

For 2019, Ingersoll-Rand anticipates gaining from strengthening HVAC markets, and effective operating system and execution capabilities. Also, weakness in industrial spending will be dealt with efficiently.

The company anticipates revenues growth of 5.5-6.5% for 2019, including roughly 1.5% contribution from the Precision Flow Systems buyout (done in the second quarter of 2019). Organic sales growth projection is maintained at 5-6%.

Adjusted earnings per share are predicted to be roughly \$6.40 (guidance maintained). Effective tax rate (adjusted) will likely be 20-21%, lower than previously mentioned 21-22%.

Free cash flow conversion will be more than 100%. Also, the company is working toward combining its Industrial segment with Gardner Denver Holdings.

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 38% over the trailing 12-month period. During the same timeframe, stocks in the Zacks sub-industry and the Zacks Industrial Products sector have moved up 30.2% and 17.2%, respectively.

The S&P 500 index has moved up 25.6% in the past year.

The stock is currently trading at 18.9x forward 12-month earnings per share, which compares with 21.01x for the Zacks sub-industry, 18.05x for the Zacks sector and 18.88x 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 16.86x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$138 price target reflects 19.85x 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	18.9	21.01	18.05	18.88
	5-Year High	20.98	22.52	19.9	19.34

EV/EBITDA F12M	5-Year High	20.59	22.92	19.9	19.94
	5-Year Low	12.04	15.16	12.59	15.17
	5-Year Median	16.86	18.9	16.54	17.44
	Current	13.14	12.73	17.8	12.66
	5-Year High	13.21	12.73	18.2	12.66
EV/Sales F12M	5-Year Low	8.39	8.25	10.68	9.08
	5-Year Median	10.94	10.62	14.01	10.78
	Current	2.09	2.76	3.14	3.26
	5-Year High	2.16	2.77	3.14	3.37
	5-Year Low	1.23	1.66	1.76	2.3
	5-Year Median	1.64	2.3	2.28	2.78

As of 01/10/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (172 out of 254)



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)	Neutral

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	IR Neutral	X Industry	S&P 500	CR Neutral	EMR Neutral	UTX Neutral
VGM Score	A	-	-	C	A	B
Market Cap	31.26 B	1.83 B	24.03 B	5.15 B	46.87 B	131.10 B
# of Analysts	10	4	13	5	10	6
Dividend Yield	1.62%	0.00%	1.78%	1.82%	2.60%	1.94%
Value Score	C	-	-	C	C	C
Cash/Price	0.03	0.05	0.04	0.07	0.03	0.06
EV/EBITDA	15.77	13.51	14.04	9.79	12.88	13.93
PEG Ratio	1.77	2.14	2.02	3.95	2.67	1.98
Price/Book (P/B)	4.32	2.71	3.32	3.03	5.72	3.06
Price/Cash Flow (P/CF)	18.26	12.76	13.52	10.53	15.19	14.15
P/E (F1)	18.96	18.39	18.82	13.45	21.20	17.43
Price/Sales (P/S)	1.91	1.39	2.63	1.57	2.55	1.74
Earnings Yield	5.28%	5.40%	5.31%	7.44%	4.72%	5.74%
Debt/Equity	0.68	0.57	0.72	0.55	0.52	0.93
Cash Flow (\$/share)	7.18	2.41	6.94	8.16	5.07	10.73
Growth Score	B	-	-	C	A	A
Hist. EPS Growth (3-5 yrs)	13.74%	5.37%	10.56%	8.99%	-1.19%	3.31%
Proj. EPS Growth (F1/F0)	8.14%	7.63%	7.49%	6.36%	-1.65%	7.09%
Curr. Cash Flow Growth	16.39%	16.39%	14.83%	40.08%	7.06%	15.39%
Hist. Cash Flow Growth (3-5 yrs)	9.60%	7.16%	9.00%	10.05%	-0.68%	2.98%
Current Ratio	1.28	2.04	1.23	2.24	1.19	1.06
Debt/Capital	40.34%	37.08%	42.99%	35.48%	34.08%	48.29%
Net Margin	8.38%	6.55%	11.08%	10.20%	12.55%	6.72%
Return on Equity	21.72%	13.61%	17.16%	22.76%	26.32%	16.81%
Sales/Assets	0.83	0.82	0.55	0.80	0.88	0.55
Proj. Sales Growth (F1/F0)	3.75%	1.94%	4.20%	2.25%	0.59%	3.47%
Momentum Score	B	-	-	D	C	C
Daily Price Chg	0.51%	-0.45%	-0.33%	-1.48%	-1.11%	-1.17%
1 Week Price Chg	-0.89%	0.00%	-0.30%	0.54%	-0.12%	2.04%
4 Week Price Chg	-2.39%	-0.04%	1.71%	-1.07%	-0.04%	1.64%
12 Week Price Chg	12.25%	7.67%	6.05%	4.93%	13.06%	9.91%
52 Week Price Chg	37.69%	10.20%	22.39%	12.46%	23.88%	37.54%
20 Day Average Volume	1,074,983	51,501	1,580,816	179,497	2,495,888	2,394,965
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.30%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.19%	-0.30%
(F1) EPS Est 12 week change	-0.48%	-1.18%	-0.50%	-8.27%	-3.97%	-0.70%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-0.20%	0.87%

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	C
Growth Score	B
Momentum Score	B
VGM Score	A

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

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.