

## Ingersoll Rand Inc. (IR)

**\$35.40** (As of 08/14/20)

Price Target (6-12 Months): **\$30.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 08/14/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**5-Strong Sell**

Zacks Style Scores:

VGM:F

Value: F

Growth: C

Momentum: F

### Summary

Ingersoll Rand's talented workforce, solid product portfolio, innovation capabilities and focus on increasing its aftermarket businesses might be beneficial in the quarters ahead. Also, its cost-reduction efforts will likely help ward-off financial pressure caused by the pandemic. In second-quarter 2020, the company's earnings of 31 cents per share declined from the year-ago number of 44 cents due to weak sales performance and margin contraction. Being wary of the pandemic woes, the company refrained from providing projections for 2020. But it mentioned that recovery in markets will be slow in the third quarter and leverage will increase in the near term. In addition to these, forex woes might continue to be a spoilsport for the top line. In the past three months, the company's shares have outperformed the industry.

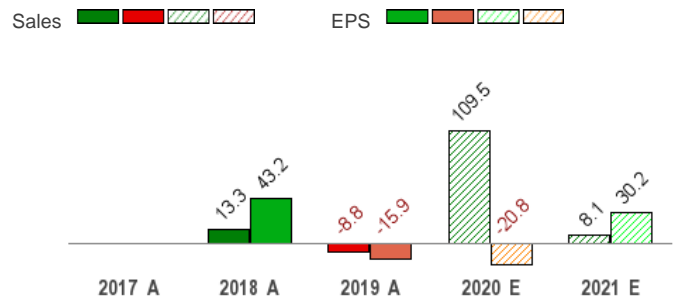
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$38.96 - \$17.01
20 Day Average Volume (sh)	2,686,310
Market Cap	\$14.8 B
YTD Price Change	-3.5%
Beta	1.47
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Manufacturing - General Industrial</a>
Zacks Industry Rank	Top 50% (126 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	47.6%
Last Sales Surprise	9.6%
EPS F1 Est- 4 week change	700.0%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	26.0
P/E F1	28.1
PEG F1	2.6
P/S TTM	4.5

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,192 E	1,415 E	1,320 E	1,436 E	5,555 E
2020	800 A	1,270 A	1,229 E	1,353 E	5,138 E
2019	620 A	629 A	597 A	606 A	2,452 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.27 E	\$0.40 E	\$0.39 E	\$0.49 E	\$1.64 E
2020	\$0.27 A	\$0.31 A	\$0.30 E	\$0.39 E	\$1.26 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 08/14/2020. The reports text is as of 08/17/2020.

## 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** (65.6% of second-quarter 2020 revenues) 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.

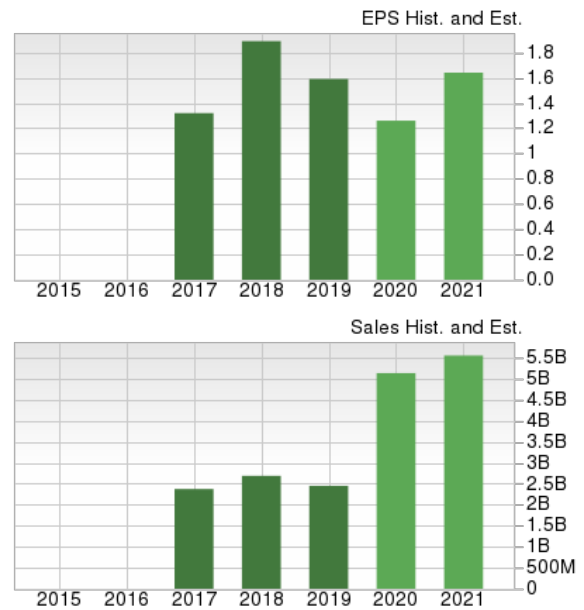
The segment comprises the Industrials business of Gardner Denver, and Compression Technologies and Services business of Ingersoll Rand. The combined business will operate through three units — the Asia Pacific, Americas, and Europe, Middle East, India and Africa (EMEIA). Also, the segment will include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

**Precision & Science Technologies** (15.5%) 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** (17.2%) 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** (1.7%) 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.



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## Reasons To Sell:

- ▼ In second-quarter 2020, Ingersoll Rand's earnings of 31 cents per share declined from the year-ago number of 44 cents due to weak sales performance and margin contraction. Organic sales in the quarter declined 19.3% year over year, while adjusted orders decreased 22.7%. For 2020, the company has refrained from providing projections due to the uncertainties related to the coronavirus outbreak. For the third quarter, it expects slow recovery in markets and near-term savings achieved in the second quarter to impact results to the tune of \$30-\$35 million.
- ▼ Exiting second-quarter 2020, Ingersoll Rand's long-term debt was \$3,816.7 million, reflecting a sequential increase of 11.4%. Notably, the company repaid \$1,600 million of its long-term debts in the quarter, while secured \$1,980 million as proceeds from these debts. Interest expenses in the quarter increased 37.5% year over year to \$30.8 million. Its total debt to total capital at the end of the second quarter was 30.9%, higher than 28.3% at the first-quarter end. We find the high-debt level concerning, especially when the company's cash position seems weak. Liquidity at the end of the second quarter was just \$2.2 billion — comprising cash of \$1.2 billion and credit facilities of \$1 billion. It is worth noting here that the company expects leverage to increase in the short term.
- ▼ 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% and 1.6% on the company's first- and second-quarter 2020 revenues, respectively.

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.

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## Risks

- In the past three months, Ingersoll Rand's shares have gained 23.4% as compared with the industry's growth of 23.1%. The company, formed of the combined business of Ingersoll Rand's Industrial segment and Gardner Denver in February 2020, has expertise in industrial and mission-critical flow creation technologies. It has executed \$125 million of cost reduction (annualized) — including \$100 million of structural reductions and \$20-\$30 million of procurement savings. The savings are part of \$250-million savings expected from the transaction in the first three years of the completion. Notably, the company anticipates realizing 30-40% of \$250-million savings in 2020.
  - In the quarters ahead, its talented workforce, solid product portfolio and innovation capabilities as well as focus on increasing its aftermarket businesses will be beneficial. Also, investments in digital, IoT and e-commerce space remain a priority. 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. In addition, the company 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 — to effectively deal with the pandemic-related financial stress yielded \$40 million of savings in the second quarter of 2020. The cost-reduction measures might be of high importance if the market recovery in the quarters ahead gets subdued.
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## Last Earnings Report

### Ingersoll Rand Q2 Earnings Beat Estimates, Fall Y/Y

Ingersoll Rand has reported better-than-expected results for the second quarter of 2020, with earnings surpassing estimates by 47.62%.

Its adjusted earnings in the quarter under review were 31 cents per share, reflecting a decline from the year-ago number of 44 cents. The result also surpassed the Zacks Consensus Estimate of 21 cents.

Quarter Ending 06/2020

Report Date	Aug 03, 2020
Sales Surprise	9.59%
EPS Surprise	47.62%
Quarterly EPS	0.31
Annual EPS (TTM)	1.36

### Revenue Details

Ingersoll Rand's revenues of \$1,264.4 million in the second quarter reflected a decline of 20.8% from the year-ago quarter. Organic sales in the quarter declined 19.3% year over year, while acquisition had a positive 0.1% impact. However, unfavorable movements in foreign currencies had an adverse impact of 1.6%.

The company's revenues surpassed the Zacks Consensus Estimate of \$1,159 million.

Adjusted orders in the quarter decreased 22.7% year over year to \$1,210 million.

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

The **Industrial Technologies & Services** segment generated revenues of \$829.6 million. Sales decreased 19.3% year over year on a 17.3% fall in organic sales. Forex woes had an adverse 2.1% impact on sales and acquisitions had a 0.1% positive impact. The segment's adjusted orders in the quarter decreased 25% year over year.

**Precision & Science Technologies'** revenues totaled \$195.8 million. On a year-over-year basis, the segment's revenues decreased 9.1% on an organic sales decline of 8.1% and forex woes of 1.3%. Acquisitions had a positive impact of 0.3%. The segment's adjusted orders were down 7.8% year over year.

The **Specialty Vehicle Technologies** segment generated revenues of \$217.5 million. Sales decreased 6.6% year over year on a 6.5% fall in organic sales and forex woes of 0.1%. The segment's adjusted orders in the quarter increased 5.2% year over year.

**High Pressure Solutions'** revenues totaled \$21.5 million. On a year-over-year basis, the segment's revenues decreased 82% on a fall in organic sales of 81.9% and forex woes of 0.1%. The segment's adjusted orders were down 86.9% year over year.

### Margin Profile

Adjusted earnings before interest, tax, depreciation and amortization (EBITDA) in the quarter decreased 23% year over year to \$241 million. Also, margins plummeted 50 basis points (bps) to 19.1%.

On a segmental basis, supplemental adjusted EBITDA margin increased 280 bps year over year to 22.2% for Industrial Technologies & Services, while increased 90 bps to 30.3% for Precision & Science Technologies. Also, margin for Specialty Vehicle Technologies segment grew 270 bps year over year to 18.9% and plummeted sharply from 27.3% in the year-ago quarter to (70.7%) in the second quarter of 2020 for High Pressure Solutions.

### Balance Sheet & Cash Flow

Exiting the second quarter of 2020, Ingersoll Rand had cash and cash equivalents of \$1,173.6 million, up 111.2% from \$555.7 million recorded in the last reported quarter. Long-term debt increased 11.4% sequentially to \$3,816.7 million.

During the quarter, the company repaid \$1,600 million of its long-term debts, while also secured \$1,980.1 million as proceeds from these debts.

The company's liquidity of \$2.2 billion at the end of the second quarter of 2020 comprised of cash of \$1.2 billion and credit facilities of \$1 billion.

In the first half of 2020, it generated net cash of \$315.8 million from operating activities, increasing 142.7% year over year. Capital expenditure totaled \$25.4 million versus \$24.7 million in the previous year's comparable period. Free cash flow rose 175.5% year over year to \$290.4 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 \$95 million from the accelerated synergy actions related to the business combination of Ingersoll-Rand's Industrial segment with Gardner Denver. The savings are part of \$250-million savings expected from the transaction in the first three years of the completion.

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

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## Recent News

On **Jun 17, 2020**, Ingersoll Rand priced the secondary offering of its 12.1 million common shares by KKR Renaissance Aggregator L.P. The share has been offered to the public at \$30.70 per share.

As noted, KKR Renaissance Aggregator will receive proceeds from the offering.

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## Valuation

Ingersoll Rand's shares have increased 7.9% since the beginning of March 2020. During the same timeframe, the Zacks sub-industry and the Zacks Industrial Products sector have moved up 5.7% and 11.2%, respectively. The S&P 500 index has increased 13.8%, over the same time frame.

The stock is currently trading at 2.73x forward 12-month sales per share, which compares with 3.57x for the Zacks sub-industry, 2.98x for the Zacks sector and 3.7x for the S&P 500 index.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$30 price target reflects 2.32x forward 12-month sales per share.

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



## Top Peers

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

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	IR	X Industry	S&P 500	ETN	HON	PH
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	F	-	-	B	C	A
Market Cap	14.76 B	1.34 B	23.68 B	40.37 B	112.48 B	26.88 B
# of Analysts	4	3	14	9	10	8
Dividend Yield	0.00%	0.00%	1.68%	2.89%	2.25%	1.68%
Value Score	F	-	-	B	C	C
Cash/Price	0.08	0.10	0.07	0.01	0.14	0.03
EV/EBITDA	38.01	13.07	13.36	12.69	12.77	14.32
PEG Ratio	2.62	3.36	2.99	2.33	3.01	1.67
Price/Book (P/B)	1.71	2.08	3.22	2.84	6.12	4.39
Price/Cash Flow (P/CF)	21.48	11.68	12.82	12.76	16.20	13.86
P/E (F1)	28.10	26.85	22.06	25.65	23.15	19.73
Price/Sales (P/S)	4.52	1.26	2.51	2.10	3.26	1.96
Earnings Yield	3.56%	3.22%	4.30%	3.90%	4.32%	5.07%
Debt/Equity	0.44	0.51	0.77	0.51	0.96	1.25
Cash Flow (\$/share)	1.65	2.49	6.94	7.91	9.89	15.12
Growth Score	C	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	NA%	10.21%	10.41%	7.09%	7.45%	17.12%
Proj. EPS Growth (F1/F0)	-20.75%	-24.67%	-6.32%	-30.63%	-15.15%	-1.54%
Curr. Cash Flow Growth	-25.03%	0.16%	5.20%	0.36%	-1.43%	-2.94%
Hist. Cash Flow Growth (3-5 yrs)	5.38%	7.19%	8.55%	2.58%	5.69%	7.19%
Current Ratio	2.25	2.06	1.33	1.50	1.63	1.55
Debt/Capital	30.64%	34.34%	44.59%	33.67%	48.93%	55.53%
Net Margin	-4.51%	4.34%	10.13%	8.03%	16.94%	8.81%
Return on Equity	-2.80%	10.81%	14.51%	12.73%	29.93%	22.54%
Sales/Assets	0.33	0.75	0.51	0.61	0.58	0.68
Proj. Sales Growth (F1/F0)	109.53%	-7.62%	-1.43%	-19.59%	-12.89%	-7.54%
Momentum Score	F	-	-	B	B	B
Daily Price Chg	0.80%	0.00%	0.12%	-0.53%	0.82%	0.83%
1 Week Price Chg	7.31%	4.95%	2.30%	4.97%	3.84%	10.44%
4 Week Price Chg	15.38%	6.72%	4.41%	7.83%	4.70%	13.64%
12 Week Price Chg	20.37%	20.58%	13.66%	28.87%	16.41%	25.72%
52 Week Price Chg	20.24%	0.00%	5.80%	32.91%	-1.23%	32.99%
20 Day Average Volume	2,686,310	59,201	1,984,154	1,472,928	3,229,500	902,360
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.75%
(F1) EPS Est 4 week change	700.00%	4.98%	2.08%	7.40%	0.03%	11.79%
(F1) EPS Est 12 week change	700.00%	3.13%	2.66%	3.43%	-0.04%	14.15%
(Q1) EPS Est Mthly Chg	100.00%	2.61%	0.94%	15.59%	-7.06%	20.28%

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## 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.

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### 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	F
Growth Score	C
Momentum Score	F
VGM Score	F

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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