

ITT Corporation (ITT)

\$75.55 (As of 01/02/20)

Price Target (6-12 Months): **\$80.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/18/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: C

Summary

In the past three months, ITT's shares have outperformed the industry. In the quarters ahead, the company expects operational execution, cost containment, supply-chain actions and increase in sales volume to continue boosting profitability. For 2019, it raised adjusted earnings per share guidance to \$3.73-\$3.75 from the previously estimated \$3.58-\$3.68. Organic and total revenues are expected to improve 3-5%. In addition, ITT is highly committed toward increasing wealth of shareholders through share repurchase programs and dividend payments. However, an increase in cost of sales mainly due to tariffs and higher commodity costs can hurt its margins. Given the company's extensive geographic presence, its operations are also exposed to currency exchange rate fluctuations. Moreover, rise in debt levels can increase its financial obligations.

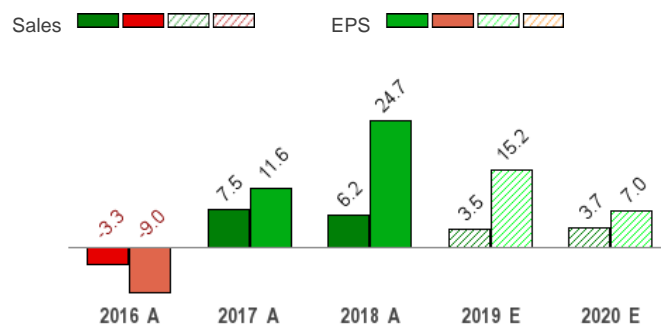
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$75.56 - \$46.83
20 Day Average Volume (sh)	496,346
Market Cap	\$6.6 B
YTD Price Change	2.2%
Beta	1.67
Dividend / Div Yld	\$0.59 / 0.8%
Industry	Diversified Operations
Zacks Industry Rank	Top 41% (104 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.8%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	02/28/2020
Earnings ESP	0.0%
P/E TTM	20.8
P/E F1	19.0
PEG F1	2.1
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	733 E	747 E	743 E	753 E	2,946 E
2019	696 A	720 A	712 A	713 E	2,841 E
2018	689 A	697 A	681 A	678 A	2,745 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.96 E	\$0.99 E	\$1.04 E	\$1.01 E	\$3.98 E
2019	\$0.91 A	\$0.93 A	\$0.97 A	\$0.92 E	\$3.72 E
2018	\$0.77 A	\$0.82 A	\$0.82 A	\$0.82 A	\$3.23 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 01/02/2020. The reports text is as of 01/03/2020.

Overview

Headquartered in the New York City, ITT Inc. is a global multi-industry leader in high-technology engineering and manufacturing projects. It engages in the design, manufacture and sale of a wide range of engineered products and services.

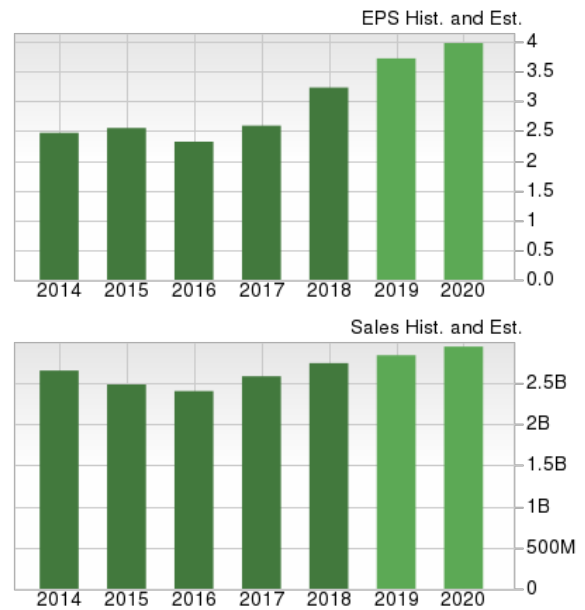
The company employs approximately 10,000 people and provides services in 125 countries. Earlier, ITT restructured its business from formerly four segments into three, by integrating its Interconnect Solutions and Control Technologies businesses into a new operating segment — Connect and Control Technologies. The company's current operating structure is thus divided into these three segments:

Industrial Process segment (33.7% of third-quarter 2019 revenues) deals in manufacturing engineered fluid-process equipments for diverse industries like oil & gas, mining, power generation and chemical, among others. The segment also provides plant optimization & efficiency solutions, and aftermarket services & parts. It is divided into five product categories, namely, Goulds Pumps, Bornemann, ITT Engineered Valves, ITT PRO Services and ITT C'treat. The segment has a global manufacturing footprint with operations located in the United States, Germany and South Korea.

Motion Technologies segment (42.7%) specializes in manufacturing highly engineered and durable components, such as brake pads, shock absorbers and damping technologies for the transportation industry. Friction Technologies and KONI represent two of this segment's most important product categories. Friction Technologies equips the automotive market with high-performance, high-quality brake pads, while KONI provides the transportation industry with shock absorber and damping equipment.

Connect and Control Technologies segment (23.6%) is a combination of the former Interconnect Solutions and Control Technologies businesses. The new segment specializes in designing and manufacturing harsh-environment connector solutions and critical energy absorption and flow control components. It will primarily cater to customers in the aerospace and defense, general industrial, medical, and oil & gas markets.

Notably, the segment sells its products directly and through several networks including distribution channels.



Reasons To Buy:

- ▲ In the third quarter of 2019, ITT's top line grew 4.5% year over year while surpassed the Zacks Consensus Estimate by 0.4%. Notably, on an organic basis, the top line rose 4% on strength across major end markets like chemical, rail, auto friction and aerospace. Earnings surpassed estimates by 7.8% and grew 18% on a year-over-year basis. Bottom-line results gained from healthy sales, cost-reduction moves, improvement in segmental margin and low taxes. Notably, ITT currently expects organic revenue growth of 3-5% for 2019, whereas it recorded 4% in 2018. Total revenues are predicted to rise 3-5% in 2019. Also, the company expects operational execution, cost containment, supply-chain actions and increase in sales volume to continue boosting profitability in the upcoming quarters. For 2019, ITT raised adjusted earnings guidance to \$3.73-\$3.75 from previously mentioned \$3.58-\$3.68. In the past three months, the company's shares have gained 30.7% compared with the industry's growth of 12.9%.
- ▲ ITT intends to become more competent on innovation investments. Notably, investments made to upgrade its ITT Smart Pad largely aided in speeding up board testing activities among multiple end users. Also, the company's investments made toward commercialization of market-leading technologies are helping it strengthen the top-line performance. Also, its acquisition of Germany-based Rheinhutte Pumpen Group (closed in May 2019) has been strengthening business opportunities in Europe. The buyout is expanding the Industrial Process segment's portfolio of engineered industrial pump technologies. ITT expects the acquisition to be accretive to earnings in the initial year of completion. Moreover, the buyout of Matrix Composites (July 2019) has been strengthening the company's Connect and Control Technologies segment's aerospace product offerings, and solidifying its technological capabilities. Earnings accretion from the buyout is predicted in the first year. Notably, Rheinhutte Pumpen and Matrix buyouts boosted revenues by 3% in the third quarter of 2019.
- ▲ ITT is highly committed toward increasing wealth of shareholders through share repurchase programs and dividend payments. In February 2019, the board of directors approved a 10% hike in the quarterly dividend rate. Also, the company authorized a \$25-million share buyback program. The new program along with a \$25-million initiative announced in November 2018 brings the total buyback authorization to \$50 million. In October 2019, the company announced an additional \$40-million share repurchase program as well as noted that it got board of director's approval for a new indefinite-term share buyback program worth \$500 million. In the first nine months of 2019, the company bought back \$38.3 million worth of shares while paid out dividends amounting to \$26.1 million. We believe that such initiatives are reflective of strong cash position.

Acquisitions, innovation investments, improved productivity and greater operational efficacy are likely to strengthen ITT's near-term profitability.

Reasons To Sell:

- ▼ Rising cost of sales remains concerning for ITT. In the second quarter and third quarters of 2019, the company's cost of sales rose 3.6% and 5.8%, respectively, on a year-over-year basis. The company stated that higher commodity, tariff costs and rise in investment expenses are escalating aggregate costs. Notably, gross margin declined 80 basis points year over year in the reported quarter. We believe that rising costs, if unchecked, might weigh on ITT's margin and bottom-line performance in the quarters ahead.
- ▼ The company intends to strengthen its competency on overseas business expansion. However, this exposes it to foreign exchange, environmental and political headwinds. For instance, a stronger U.S. dollar is currently weighing over the company's international revenues. Notably, foreign exchange headwinds had an adverse impact of 2% on the company's sales in the third quarter.
- ▼ ITT's total non-current liabilities at the end of third-quarter 2019 were \$1,175.5 million. Notably, this balance was 2.2% higher than the 2018-end level. High level of liabilities remains concerning for the company, and if unchecked, can increase its financial obligations in the quarters ahead. In addition, it develops proprietary technology for the industries, where it operates, and relies on intellectual property laws and a number of patents to protect such technology. Failure to enforce and defend its intellectual property could hurt its business.

Higher cost of sales and unfavorable movements in foreign currencies might be concerning for ITT in the quarters ahead.

Last Earnings Report

ITT's Q3 Earnings and Revenues Beat Estimates, Rise Y/Y

ITT pulled off third-quarter 2019 positive earnings surprise of 7.8%. Quarterly adjusted earnings came in at 97 cents per share, outpacing the Zacks Consensus Estimate of 90 cents. The bottom line also increased 18.3% from the year-ago figure.

Revenues totaled \$711.9 million, up 4.5% year over year. The top line also surpassed the consensus estimate of \$709 million by 0.4%. Notably, revenues jumped 4% on an organic basis.

Quarter Ending **09/2019**

Report Date	Nov 01, 2019
Sales Surprise	0.40%
EPS Surprise	7.78%
Quarterly EPS	0.97
Annual EPS (TTM)	3.63

Segmental Breakup

Third-quarter revenues of **Industrial Process** were \$240.3 million, up 17.2% year over year. Organic sales jumped 10%, driven by increase in pump projects and strong short-cycle business on account of baseline pump strength.

Quarterly revenues of **Motion Technologies** declined 2% year over year to \$304.5 million. Notably, forex woes had 4% adverse impact on sales. Organic sales increased 2% in the quarter, mainly on account of global rail share gains and Friction OEM growth, partially offset by softness in the Wolverine business.

Connect & Control Technologies generated \$167.9 million revenues, up 1% year over year. Organic sales decreased 1% due to lower defense components as well as industrial and oil and gas sales.

Costs/Margins

Cost of sales in the third quarter was \$480.6 million, up 5.8% year over year. Gross profit margin was 32.5%, down 80 basis points (bps).

Sales and marketing expenses were \$41.6 million compared with \$40.8 million in the year-ago quarter. Adjusted operating margin increased 90 bps to 16.6%. Income tax expenses were \$34.1 million, up from \$25.9 million.

Balance Sheet/Cash Flow

Exiting the third quarter, ITT had cash and cash equivalents of \$555.7 million, down from \$561.2 million recorded as of Dec 31, 2018.

In the first nine months of 2019, the company generated \$221.7 million cash from operating activities, lower than \$246.6 million recorded in the year-ago period. Capital expenditure totaled \$69.3 million, declining from \$63.8 million spent in the first nine months of 2018. Adjusted free cash flow was \$193.8 million, down from \$214.1 million.

Notable Developments During the Quarter

In July 2019, ITT completed the acquisition Rockledge, FL-based Matrix Composites, Inc. for approximately \$29 million. This move is in sync with its growth policies.

The buyout will boost the Connect and Control Technologies segment's aerospace product offerings, and help in solidifying its technological capabilities and add 115 skilled people to its employee base. Earnings accretion from the buyout is predicted in the first year of deal closure.

Outlook

Based on the existing market conditions, the company anticipates total revenue growth of 3-5% for 2019. Also, it continues to anticipate organic revenue growth in the range of 3-5%. Adjusted earnings view for the year has been increased to \$3.73-\$3.75 per share, reflecting a 11-cent increase to the mid-point from its prior guidance.

Recent News

Dividend

On **Dec 30, 2019**, ITT paid out a quarterly cash dividend of 14.7 cents per share to shareholders of record as on Dec 9, 2019.

Product Line

On **Nov 18, 2019**, ITT's Engineered Valves brand announced the addition to its EnviZion valve product line. The company noted that the latest BioviZion fractional size valve incorporates the advanced technology of the EnviZion valve platform in a compact package for 1/4-1/2" applications.

Valuation

ITT shares are up 54.7% over the trailing 12-month period. Over the past year, both the Zacks sub-industry and the Zacks Conglomerates sector have moved up 27.7%.

The S&P 500 index has moved up 26.3% in the past year.

The stock is currently trading at 10.71x forward 12-month EV/EBITDA, which compares to 26.85x for both the Zacks sub-industry and the Zacks sector as well as 12.66x for the S&P 500 index.

Over the past five years, the stock has traded as high as 10.71x and as low as 5.95x, with a 5-year median of 8.18x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$80 price target reflects 21.4x forward 12-month earnings per share.

The table below shows summary valuation data for ITT.

Valuation Multiples - ITT					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA F12M	Current	10.71	26.85	26.85	12.66
	5-Year High	10.71	81.18	81.18	12.66
	5-Year Low	5.95	17.61	17.61	9.08
	5-Year Median	8.18	22.01	22.01	10.78
P/E F12M	Current	20.21	19.51	19.51	19.06
	5-Year High	21.1	20.06	20.06	19.34
	5-Year Low	11.02	15.31	15.31	15.17
	5-Year Median	15.55	17.75	17.75	17.44
EV/Sales F12M	Current	2.13	4.22	4.22	3.26
	5-Year High	2.13	4.24	4.24	3.37
	5-Year Low	0.99	2.82	2.82	2.3
	5-Year Median	1.38	3.66	3.66	2.78

As of 01/02/2020

Industry Analysis Zacks Industry Rank: Top 41% (104 out of 253)



Top Peers

Crane Company (CR)	Neutral
Eaton Corporation, PLC (ETN)	Neutral
Flowserve Corporation (FLS)	Neutral
Gardner Denver Holdings, Inc. (GDI)	Neutral
Graco Inc. (GGG)	Neutral
IDEX Corporation (IEX)	Neutral
Rexnord Corporation (RXN)	Neutral
Snap-On Incorporated (SNA)	Neutral

Industry Comparison Industry: Diversified Operations				Industry Peers		
	ITT Neutral	X Industry	S&P 500	FLS Neutral	GGG Neutral	RXN Neutral
VGM Score	B	-	-	C	C	A
Market Cap	6.63 B	7.63 B	23.76 B	6.63 B	8.75 B	3.48 B
# of Analysts	7	4	13	7	6	6
Dividend Yield	0.78%	1.38%	1.78%	1.50%	1.22%	0.00%
Value Score	C	-	-	C	D	A
Cash/Price	0.09	0.13	0.04	0.08	0.02	0.09
EV/EBITDA	11.98	9.63	13.97	21.86	18.54	10.95
PEG Ratio	2.11	2.12	2.02	1.83	2.44	1.79
Price/Book (P/B)	3.31	1.28	3.38	3.75	8.90	2.63
Price/Cash Flow (P/CF)	16.70	11.84	13.70	19.38	23.37	10.70
P/E (F1)	18.98	16.98	18.83	20.88	28.11	16.87
Price/Sales (P/S)	2.36	1.42	2.68	1.72	5.34	1.70
Earnings Yield	5.27%	5.87%	5.30%	4.79%	3.56%	5.94%
Debt/Equity	0.00	0.72	0.72	0.85	0.20	0.95
Cash Flow (\$/share)	4.52	1.94	6.94	2.62	2.25	3.07
Growth Score	B	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	7.60%	9.00%	10.56%	-17.72%	13.95%	4.86%
Proj. EPS Growth (F1/F0)	6.92%	7.36%	7.41%	10.83%	3.15%	5.23%
Curr. Cash Flow Growth	18.05%	7.31%	14.83%	15.24%	26.72%	34.59%
Hist. Cash Flow Growth (3-5 yrs)	7.72%	4.88%	9.00%	-10.76%	8.54%	5.48%
Current Ratio	1.92	2.23	1.23	2.29	2.69	2.94
Debt/Capital	0.00%	41.81%	42.92%	45.83%	16.34%	48.60%
Net Margin	11.00%	5.57%	11.08%	6.39%	20.29%	8.56%
Return on Equity	16.92%	9.97%	17.10%	16.21%	36.17%	19.40%
Sales/Assets	0.71	0.78	0.55	0.81	1.04	0.63
Proj. Sales Growth (F1/F0)	3.70%	3.19%	4.20%	3.28%	0.73%	0.66%
Momentum Score	C	-	-	F	B	A
Daily Price Chg	2.22%	0.79%	0.33%	1.83%	0.94%	0.67%
1 Week Price Chg	0.57%	0.04%	0.13%	-0.36%	0.44%	-0.46%
4 Week Price Chg	6.65%	2.71%	3.31%	8.04%	8.45%	5.36%
12 Week Price Chg	33.13%	8.90%	9.70%	16.16%	18.46%	26.89%
52 Week Price Chg	60.51%	2.41%	30.28%	39.12%	30.31%	48.60%
20 Day Average Volume	496,346	64,906	1,603,615	540,561	605,557	617,145
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.08%	0.00%	0.00%	-1.39%	0.15%	-1.60%
(F1) EPS Est 12 week change	0.39%	-0.75%	-0.57%	-2.33%	-7.76%	0.43%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	-3.42%

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	C
VGM Score	B

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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