

ITT Corporation (ITT)

\$54.32 (As of 06/11/20)

Price Target (6-12 Months): **\$48.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 05/27/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: D

Summary

In the past six months, ITT's shares have underperformed the industry. In the quarters ahead, weak demand for brake pads, aftermarket and aerospace OEM components and connectors, and 737 Max-related issues are likely to hurt its top-line performance. Notably, for 2020, the company withdrew its projections due to the pandemic. Due to the pandemic-related issues, it expects operating income of its business segments to fall, while anticipates working capital to be hurt significantly in 2020. Going forward, forex woes might also continue to have an adverse impact on the company's revenues. In addition, its earnings estimates have declined for 2020 and 2021 in the past 60 days. However, the company is well-positioned to gain from its diversified business operations, operational execution and supply-chain adjustments in the quarter ahead.

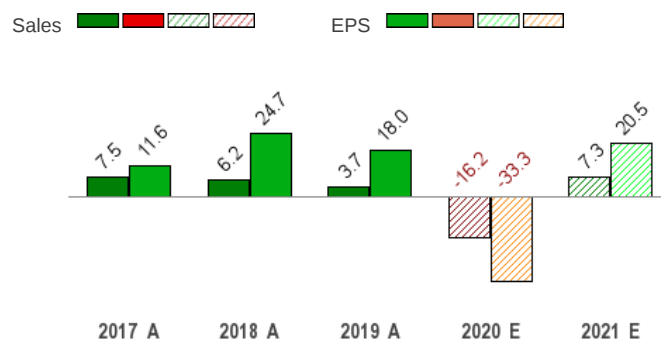
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$75.56 - \$35.41
20 Day Average Volume (sh)	665,990
Market Cap	\$4.7 B
YTD Price Change	-26.5%
Beta	1.60
Dividend / Div Yld	\$0.68 / 1.2%
Industry	Diversified Operations
Zacks Industry Rank	Bottom 10% (227 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.1%
Last Sales Surprise	6.5%
EPS F1 Est- 4 week change	-5.8%
Expected Report Date	08/07/2020
Earnings ESP	1.6%
P/E TTM	14.7
P/E F1	21.4
PEG F1	2.4
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,559 E
2020	663 A	516 E	579 E	627 E	2,385 E
2019	696 A	720 A	712 A	719 A	2,846 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.06 E
2020	\$0.80 A	\$0.35 E	\$0.63 E	\$0.72 E	\$2.54 E
2019	\$0.91 A	\$0.93 A	\$0.97 A	\$0.99 A	\$3.81 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 06/11/2020. The reports text is as of 06/12/2020.

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.

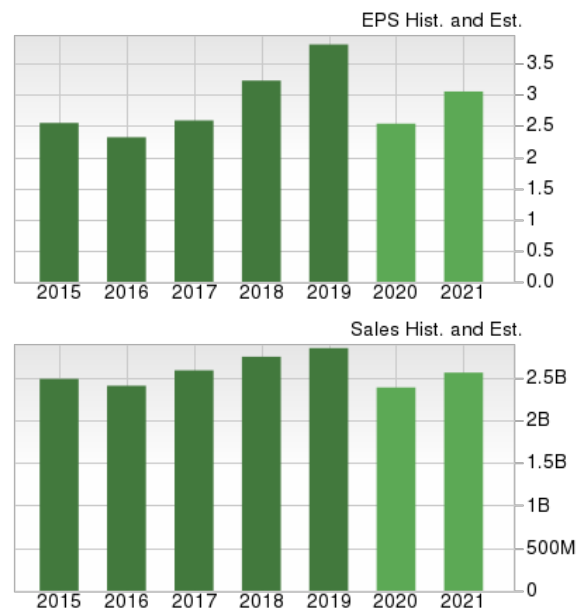
At the end of 2019, the company employed 10,500 people and provided services in 125 countries. The company operates in three business segments; a brief discussion is provided below.

Industrial Process segment (34.2% of first-quarter 2020 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 (44.9%) 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 (20.9%) 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 Sell:

- ▼ In the past six months, ITT's shares have fallen 25.1% as compared with the industry's decline of 10.1%. In first-quarter 2020, the company's earnings decreased 12.1% on weak sales generation and high expenses. Due to the uncertainties related with the coronavirus outbreak, the company withdrew its financial projections for 2020. It seems that analysts have become increasingly bearish about ITT over the past 60 days. The company's earnings estimates have been lowered by 23.5% to \$2.54 for 2020 and by 19.5% to \$3.06 for 2021. In addition, the Zacks Consensus Estimate for second-quarter earnings has gone down 53.3% to 35 cents.
- ▼ ITT expects the pandemic impact to continue impacting its businesses throughout 2020. It believes that demand reduction for brake pads due to declining production by automakers will have adverse impact on the Motion Technologies segment. On the other hand, weak prices for oil and gas as well as governmental restrictions due to the pandemic will continue to hurt the Industrial Process segment. Also, fall in demand for aftermarket and aerospace OEM components and connectors due to a decline in commercial air traffic will adversely impact the Connect and Control Technologies segment. Also, the segment might suffer due to 737 Max-related issues.
- ▼ Due to the pandemic-related worries, ITT expects that operating income of its business segments will decline, while its working capital will be hurt badly in 2020. The headwinds are predicted to have adverse impacts on the company's operating cash flows in the year. 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.
- ▼ The company intends to strengthen its competency on the back of 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 \$12.4 million (or 2%) on the company's first-quarter 2020 revenues and \$12.7 million impact on orders.

The pandemic-related uncertainties are expected to hurt ITT's business segments in 2020. Also, forex woes and the pandemic-impact on cash flow might be concerning.

Risks

- In the first quarter of 2020, ITT's earnings and revenues surpassed estimates by 8.1% and 6.5%, respectively. In the quarters ahead, the company anticipates gaining from its diversified business operations, operational execution and supply-chain adjustments. Further, cost-reduction measures are being considered to deal with the pandemic-induced financial stress. This includes the restructuring plan worth \$50 million (expected to yield \$70 million pre-tax gains), salary reductions, lowering discretionary spending and others. In addition, ITT recently noted that its healthy liquidity position might help it tide over the difficult operating conditions caused by the pandemic. At the end of first-quarter 2020, the company's cash on hand was \$840 million, while free cash flow in the quarter increased by \$18.4 million from the year-ago quarter. Also, its borrowing under revolving credit facility was \$500 million.
 - ITT intends to become more competent on the back of innovation investments. In May, the company's Engineered Valves unveiled Integrated Sensing Platform. The valve sensing platform will help in simplifying operations for customers as well as reduce piping footprint and lower set-up time. Also, several investments — to upgrade its ITT Smart Pad, expand manufacturing automation capabilities at friction technologies business, and pursue value analysis and value engineering initiatives made over the past few quarters are expected to aid. Further, acquisitions made might prove beneficial for the company. In May 2019, ITT acquired Germany-based Rheinhalte Pumpen Group, while added Matrix Composites to its portfolio in July 2019. ITT noted that in the first quarter of 2020, Rheinhalte Pumpen and Matrix buyouts boosted revenues by 2%.
 - ITT believes in rewarding shareholders through share buybacks and dividend payments. In first-quarter 2020, the company bought back shares worth \$83.4 million and paid out dividends of \$0.2 million. Notably, the quarterly dividend rate was hiked by 15% in February 2020, while \$500 million share buyback program was declared in October 2019. The company recently noted that there is no change to its dividend plans, while share buyback activities have been temporarily halted due to the pandemic.
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Last Earnings Report

ITT Q1 Earnings & Revenues Surpass Estimates, Decline Y/Y

ITT reported better-than-expected results in first-quarter 2020, wherein both earnings and revenues surpassed the Zacks Consensus Estimate.

In the quarter, the company pulled off a positive earnings surprise of 8.1%. Quarterly adjusted earnings were 80 cents per share, outpacing the Zacks Consensus Estimate of 74 cents. However, the bottom line declined 12.1% from the year-ago figure.

Revenues of \$663.3 million were down 4.6% year over year. However, the top line surpassed the consensus mark of \$623 million by 6.4%. Also, revenues fell 5% on an organic basis.

Quarter Ending **03/2020**

Report Date	May 01, 2020
Sales Surprise	6.54%
EPS Surprise	8.11%
Quarterly EPS	0.80
Annual EPS (TTM)	3.69

Segmental Breakup

First-quarter revenues of Industrial Process were \$227 million, up 5% year over year. Organic sales climbed 1%, driven by an increase in pump projects.

Quarterly revenues of Motion Technologies declined 5% year over year to \$298 million. Organic sales decreased 3% in the quarter mainly due to lower Friction sales on account of soft demand in China and Europe, owing to the coronavirus outbreak.

Connect & Control Technologies generated \$139 million revenues, down 16% year over year. Organic sales dipped 17% due to temporary plant shutdowns in China and Europe, owing to the coronavirus outbreak, lower commercial and defense components sales.

Costs/Margins

Cost of sales in the first quarter was \$453.9million, down 4.8% year over year. Sales and marketing expenses were \$41.6 million compared with \$40.2 million in the year-ago quarter.

Gross profit margin was 31.6%, up 10 basis points (bps).

Income tax expenses were \$24.7 million, up from \$19.7 million.

Balance Sheet/Cash Flow

Exiting the first quarter, ITT had cash and cash equivalents of \$839.9 million, up from \$612.1 million as of Dec 31, 2019.

In the first three months of 2020, the company generated \$53.5 million in cash from operating activities, higher than \$42.1 million recorded in the year-ago comparable period. Capital expenditure totaled \$22.2 million, declining from \$29.2 million spent in the year-ago comparable period. Free cash flow was \$31.3 million, up from \$12.9 million reported a year ago.

2020 Guidance

On uncertainties, regarding the impacts of the coronavirus outbreak on financial and operating results, ITT has now withdrawn its previously announced guidance for 2020.

Recent News

ITT's HiRPM Qualified for F-35 Lighting Program

On **May 27, 2020**, ITT confirmed that its advanced closed molding process, Hot Isostatic Resin Pressure Molding ("HiRPM") has been qualified on Lockheed Martin's F-35 lighting program.

Dividend

On **May 15, 2020**, ITT's board of directors approved the payment of a quarterly cash dividend of 16.9 cents per share to shareholders of record as of Jun 15, 2020. The dividend will be paid out on Jul 6, 2020.

Launch

On **May 4, 2020**, ITT's Engineered Valves unveiled Integrated Sensing Platform. As noted, this valve sensing platform will help in simplifying operations for customers as well as reduce piping footprint and lower set-up time.

Valuation

ITT's shares are down 26.5% and 13.5% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in both the Zacks sub-industry and the Zacks Conglomerates sector have decreased 11.3% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector have moved down 6.7%.

The S&P 500 Index has moved down 1% in the year-to-date period and increased 10.2% in the past year.

The stock is currently trading at 6.24x forward 12-month EV/EBITDA, which compares to 23.88x for both the Zacks sub-industry and the Zacks sector as well as 12.28x for the S&P 500 index.

Over the past five years, the stock has traded as high as 10.47x and as low as 5.42x, with a 5-year median of 7.91x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$48 price target reflects 17.34x 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	6.24	23.88	23.88	12.28
	5-Year High	10.47	79.69	79.69	12.62
	5-Year Low	5.42	17.51	17.51	9.03
	5-Year Median	7.91	21.57	21.57	10.79
P/E F12M	Current	19.62	27.53	27.53	23.03
	5-Year High	23.48	27.53	27.53	23.03
	5-Year Low	9.67	15.76	15.76	15.23
	5-Year Median	15.61	18.35	18.35	17.49
EV/Sales F12M	Current	2.04	3.78	3.78	3.38
	5-Year High	2.06	4.1	4.1	3.51
	5-Year Low	1.01	2.53	2.53	2.28
	5-Year Median	1.44	3.39	3.39	2.82

As of 06/11/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (227 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Eaton Corporation, PLC (ETN)	Neutral	3
Graco Inc. (GGG)	Neutral	3
Honeywell International Inc. (HON)	Neutral	3
IDEX Corporation (IEX)	Neutral	3
Rexnord Corporation (RXN)	Neutral	3
SnapOn Incorporated (SNA)	Neutral	3
Crane Company (CR)	Underperform	5
Flowserve Corporation (FLS)	Underperform	4

Industry Comparison Industry: Diversified Operations				Industry Peers		
	ITT	X Industry	S&P 500	FLS	GGG	RXN
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	3	3
VGM Score	C	-	-	B	F	A
Market Cap	4.69 B	4.51 B	21.32 B	3.51 B	8.21 B	3.34 B
# of Analysts	8	3	14	8	6	6
Dividend Yield	1.24%	1.98%	1.99%	2.96%	1.42%	1.15%
Value Score	C	-	-	C	D	B
Cash/Price	0.15	0.22	0.06	0.15	0.05	0.15
EV/EBITDA	7.33	8.81	12.31	8.77	17.44	10.84
PEG Ratio	2.39	2.94	2.88	2.76	4.66	3.11
Price/Book (P/B)	2.33	1.03	2.92	2.08	8.06	2.57
Price/Cash Flow (P/CF)	10.57	6.81	11.24	8.97	21.97	9.99
P/E (F1)	21.51	19.56	20.84	19.10	37.31	18.59
Price/Sales (P/S)	1.67	0.74	2.24	0.89	5.09	1.61
Earnings Yield	4.68%	4.99%	4.64%	5.22%	2.68%	5.37%
Debt/Equity	0.00	0.77	0.76	0.89	0.39	1.06
Cash Flow (\$/share)	5.14	2.28	7.01	3.01	2.24	2.78
Growth Score	B	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	10.27%	10.44%	10.87%	-11.93%	14.61%	7.80%
Proj. EPS Growth (F1/F0)	-33.36%	-22.02%	-10.81%	-35.74%	-30.44%	-25.71%
Curr. Cash Flow Growth	13.73%	2.77%	5.46%	15.12%	0.13%	5.35%
Hist. Cash Flow Growth (3-5 yrs)	7.28%	5.78%	8.55%	-8.93%	7.47%	4.56%
Current Ratio	1.76	1.65	1.29	2.19	3.36	2.78
Debt/Capital	0.00%	42.26%	44.75%	47.16%	28.20%	51.54%
Net Margin	12.03%	3.62%	10.54%	4.96%	20.43%	8.71%
Return on Equity	16.26%	11.52%	16.08%	14.99%	31.40%	18.93%
Sales/Assets	0.68	0.76	0.55	0.82	0.93	0.61
Proj. Sales Growth (F1/F0)	-16.22%	0.00%	-2.60%	-7.63%	-13.99%	-17.51%
Momentum Score	D	-	-	C	F	B
Daily Price Chg	-9.35%	-6.14%	-6.44%	-10.39%	-6.50%	-8.23%
1 Week Price Chg	9.88%	7.58%	7.51%	21.03%	9.09%	6.05%
4 Week Price Chg	14.65%	9.70%	8.40%	17.49%	12.12%	6.28%
12 Week Price Chg	35.16%	11.15%	25.04%	31.13%	13.20%	16.83%
52 Week Price Chg	-13.52%	-22.54%	-6.33%	-45.39%	-0.90%	-3.41%
20 Day Average Volume	665,990	66,201	2,634,935	2,016,797	729,123	738,996
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.86%	0.00%
(F1) EPS Est 4 week change	-5.75%	0.00%	0.00%	0.00%	-1.86%	-6.67%
(F1) EPS Est 12 week change	-34.61%	-30.95%	-15.86%	-40.39%	-33.30%	-28.83%
(Q1) EPS Est Mthly Chg	0.27%	0.00%	0.00%	0.00%	2.04%	-11.41%

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	D
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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