

ITT Corporation (ITT)

\$45.75 (As of 03/30/20)

Price Target (6-12 Months): **\$49.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/18/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

Summary

ITT expects operational execution, cost containment and supply-chain actions to continue boosting profitability. For 2020, it anticipates adjusted earnings in the range of \$3.72-\$4.02 per share, indicating growth of 1.6% at the midpoint year over year. ITT is highly committed to increasing wealth of shareholders through share repurchase programs and dividend payments. However, over the past six months, ITT has underperformed the industry. Also, rise 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 exposed to currency exchange rate fluctuations. Further, a highly leveraged balance sheet can inflate financial obligations and hurt profitability. In the past seven days, its earnings estimates for 2020 and 2021 have been revised downward.

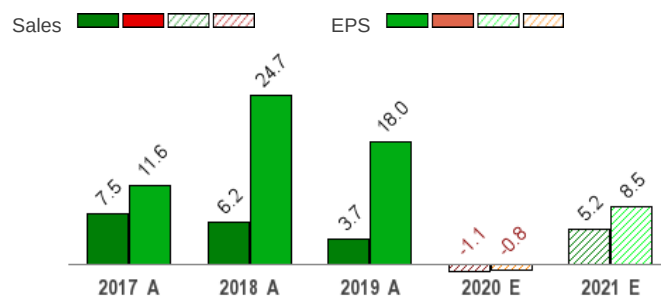
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$75.56 - \$35.41
20 Day Average Volume (sh)	1,372,484
Market Cap	\$4.0 B
YTD Price Change	-38.1%
Beta	1.57
Dividend / Div Yld	\$0.68 / 1.5%
Industry	Diversified Operations
Zacks Industry Rank	Bottom 32% (173 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.6%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	-2.7%
Expected Report Date	05/01/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,961 E
2020	651 E	715 E	714 E	734 E	2,814 E
2019	696 A	720 A	712 A	719 A	2,846 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.02 E				\$4.10 E
2020	\$0.91 E	\$0.80 E	\$1.01 E	\$1.05 E	\$3.78 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.

P/E TTM	12.0
P/E F1	12.1
PEG F1	1.3
P/S TTM	1.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/30/2020. The reports text is as of 03/31/2020.

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.

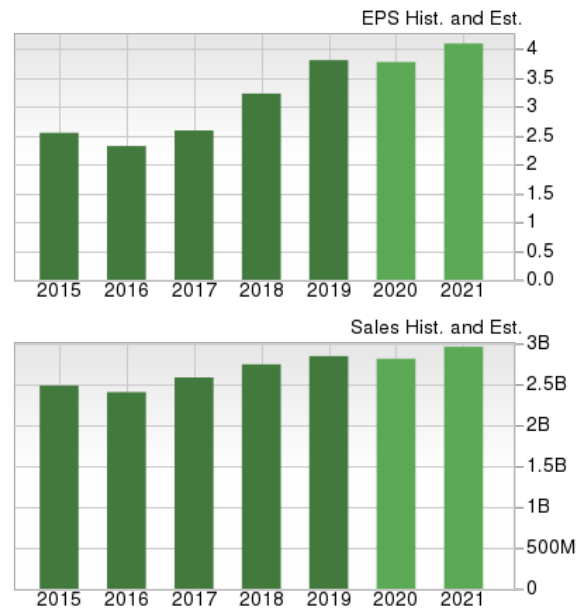
The company employs approximately 10,500 people and provides services in 125 countries. Earlier, ITT restructured its business from formerly four segments into three, by integrating its Interconnect Solutions and Control Technologies businesses into a new operating segment — Connect and Control Technologies. The company's current operating structure is thus divided into these three segments:

Industrial Process segment (35.4% of fourth-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 (42.3%) 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 (22.3%) 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 fourth quarter of 2019, ITT's top line grew 6% year over year while surpassed the Zacks Consensus Estimate by 0.7%. Notably, on an organic basis, the top line rose 4% on strength across major end markets like chemical, industrial pumps, oil and gas auto, rail, commercial aerospace, friction OEM and friction aftermarket. Earnings surpassed estimates by 7.6% and grew 20.7% on a year-over-year basis. The bottom line gained from healthy sales, cost-reduction moves and improvement in segmental margin. The company expects operational execution, cost containment and supply-chain actions to continue boosting profitability in the upcoming quarters. For 2020, it anticipates adjusted earnings in the range of \$3.72-\$4.02 per share, indicating growth of 1.6% at the midpoint from the year-ago reported figure.

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

▲ ITT intends to become more competent on the back of innovation investments. Over the past few quarters, the company has made several investments to upgrade its ITT Smart Pad, expand manufacturing automation capabilities at friction technologies business and pursue value analysis and value engineering initiatives. Also, the company's investments made toward commercialization of market-leading technologies and enhancing productivity are helping it strengthen the top line. 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. Moreover, the buyout of Matrix Composites (July 2019) has been boosting the company's Connect and Control Technologies segment's aerospace product offerings and solidifying its technological capabilities. ITT noted that in the fourth quarter of 2019, Rheinhutte Pumpen and Matrix buyouts boosted revenues by 3.3%, and were also accretive to earnings in 2019. As a matter of fact, it expects both these buyouts to continue to be accretive to earnings in the quarters ahead.

▲ ITT is highly committed toward increasing wealth of shareholders through share repurchase programs and dividend payments. In February 2020, the board of directors approved a 15% hike in the quarterly dividend rate. Also, in October 2019, the company noted that it got board of director's approval for a new indefinite-term share buyback program worth \$500 million. In 2019, the company bought back \$41.4 million worth of shares while paid out dividends amounting to \$52.1 million. Also, in 2019, its adjusted free cash flow increased 3% year over year to \$318.8 million. Further, improvement in cash flows is likely to effectively support the company's capital-allocation strategies.

Reasons To Sell:

- ▼ Rising cost of sales remains a concern for ITT. In the third quarter and fourth quarters of 2019, the company's cost of sales rose 5.8% and 4.9%, respectively, on a year-over-year basis. The company stated that higher commodity, tariff costs and rise in investment expenses are escalating aggregate costs. Also, in 2019, the metric jumped 4.2% on a year-over-year basis. Notably, gross margin declined 30 basis points year over year in 2019. We believe that rising costs might weigh on ITT's margin and bottom-line performance in the quarters ahead. In addition, analysts have become increasingly bearish about ITT over the past seven days. The company's earnings estimates for 2020 have been lowered from \$3.85 to \$3.78. In addition, the Zacks Consensus Estimate for 2021 has gone down from \$4.22 to \$4.14. In the past six months, the company's shares have lost 22.3% compared with the industry's decline of 16.9%.

Higher cost of sales and unfavorable movements in foreign currencies might be concerning for ITT in the quarters ahead.
 - ▼ 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 2% and 1.4% on the company's sales in the third quarter and fourth quarter of 2019, respectively.
 - ▼ ITT's total non-current liabilities at the end of fourth-quarter 2019 were \$1,180.2 million. Notably, this balance was 2.6% higher than the 2018-end level. High level of liabilities remains a woe for the company and 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.
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Last Earnings Report

ITT's Q4 Earnings & Revenues Surpass Estimates, Increase Y/Y

ITT reported strong fourth-quarter 2019 results wherein both earnings and revenues surpassed the Zacks Consensus Estimate.

In fourth-quarter 2019, the company pulled off a positive earnings surprise of 7.6%. Quarterly adjusted earnings came in at 99 cents per share, outpacing the Zacks Consensus Estimate of 92 cents. The bottom line also improved 20.7% from the year-ago figure.

In 2019, the company's adjusted earnings were \$3.81 per share, up 18% year over year.

Revenues of \$719.1 million were up 6% year over year. The top line also surpassed the consensus mark of \$714 million by 0.7%. Also, revenues rose 4% on an organic basis.

In 2019, ITT reported revenues of \$2,846.4 million, up 3.7% on a year-over-year basis.

Quarter Ending 12/2019

Report Date	Feb 21, 2020
Sales Surprise	0.69%
EPS Surprise	7.61%
Quarterly EPS	0.99
Annual EPS (TTM)	3.80

Segmental Breakup

Fourth-quarter revenues of **Industrial Process** were \$255.2 million, up 11.4% year over year. Organic sales climbed 4%, driven by an increase in pump projects and a strong short-cycle business on account of baseline pump strength and higher service activity.

Quarterly revenues of **Motion Technologies** ascended 4.5% year over year to \$304.4 million. Organic sales increased 7% in the quarter, mainly on account of Friction OEM growth, partially offset by softness in the Wolverine business. However, forex woes had a 3% adverse impact on sales.

Connect & Control Technologies generated \$160.8 million revenues, up 1.4% year over year. Organic sales dipped 2% due to lower defense components as well as industrial and aerospace sales.

Costs/Margins

Cost of sales in the fourth quarter was \$491.1 million, up 4.9% year over year. Sales and marketing expenses were \$41.4 million compared with \$40.5 million in the year-ago quarter.

Gross profit margin was 31.7%, up 70 basis points (bps).

Income tax expenses were \$16.8 million, up from \$15.3 million.

Balance Sheet/Cash Flow

Exiting the fourth quarter, ITT had cash and cash equivalents of \$612.1 million, up from \$561.2 million as of Dec 31, 2018.

In 2019, the company generated \$357.7 million cash from operating activities, lower than \$371.8 million recorded in the previous year. Capital expenditure totaled \$91.4 million, declining from \$95.5 million spent in 2018. Adjusted free cash flow was \$318.8 million, up from \$308.9 million.

Outlook

Based on the existing market conditions, the company anticipates total revenues from a 3% decline to 1% increase for 2020. Adjusted earnings view for the year is set at \$3.72-\$4.02 per share, indicating growth of 1.6% at the midpoint from the year-ago reported figure.

Recent News

Dividend

On **Feb 21, 2020**, ITT's board of directors approved a hike of 15% in the quarterly dividend rate, which has now jumped to 16.9 cents from 14.7 cents. ITT will pay the revised quarterly cash dividend on Apr 6, 2020, to shareholders of record as on Mar 16, 2020.

Valuation

ITT's shares are down 38.1% and 23.2% 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 are down 26% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector are down 22.2%.

The S&P 500 index is down 21.1% in the year-to-date period and 11.8% in the past year.

The stock is currently trading at 5.72x forward 12-month EV/EBITDA, which compares to 20.17x for both the Zacks sub-industry and the Zacks sector as well as 9.81x for the S&P 500 index.

Over the past five years, the stock has traded as high as 10.71x and as low as 5.07x, with a 5-year median of 8.33x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$49 price target reflects 12.34x 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	5.72	20.17	20.17	9.81
	5-Year High	10.71	81.18	81.18	14.17
	5-Year Low	5.07	17.86	17.86	9.07
	5-Year Median	8.33	22.9	22.9	10.83
P/E F12M	Current	11.52	16.17	16.17	15.48
	5-Year High	21.1	20.06	20.06	19.34
	5-Year Low	9.72	15.31	15.31	15.18
	5-Year Median	15.61	17.76	17.76	17.42
EV/Sales F12M	Current	1.14	3.11	3.11	2.58
	5-Year High	2.06	4.32	4.32	3.52
	5-Year Low	1.01	2.75	2.75	2.3
	5-Year Median	1.41	3.65	3.65	2.8

As of 03/30/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (173 out of 254)



Top Peers

Crane Company (CR)	Neutral
Eaton Corporation, PLC (ETN)	Neutral
Flowserve Corporation (FLS)	Neutral
Graco Inc. (GGG)	Neutral
Honeywell International Inc. (HON)	Neutral
Rexnord Corporation (RXN)	Neutral
Snap-On Incorporated (SNA)	Neutral
IDEX Corporation (IEX)	Underperform

Industry Comparison Industry: Diversified Operations				Industry Peers		
	ITT Neutral	X Industry	S&P 500	FLS Neutral	GGG Neutral	RXN Neutral
VGM Score	A	-	-	B	C	B
Market Cap	4.02 B	4.95 B	18.21 B	2.94 B	8.10 B	2.72 B
# of Analysts	8	1	13	7	7	
Dividend Yield	1.48%	2.24%	2.3%	3.56%	1.46%	1.43%
Value Score	B	-	-	B	D	B
Cash/Price	0.16	0.19	0.06	0.24	0.03	0.10
EV/EBITDA	6.49	6.86	11.22	7.56	17.18	8.93
PEG Ratio	1.34	1.75	1.74	1.23	3.03	1.90
Price/Book (P/B)	1.93	0.75	2.41	1.62	7.82	1.99
Price/Cash Flow (P/CF)	8.90	5.99	9.70	7.47	21.41	7.29
P/E (F1)	12.09	13.29	15.12	10.88	24.25	11.35
Price/Sales (P/S)	1.41	0.89	1.96	0.75	4.92	1.32
Earnings Yield	8.26%	6.65%	6.55%	9.20%	4.12%	8.81%
Debt/Equity	0.00	0.75	0.70	0.84	0.16	0.84
Cash Flow (\$/share)	5.14	2.19	7.01	3.01	2.24	3.07
Growth Score	A	-	-	B	A	C
Hist. EPS Growth (3-5 yrs)	9.12%	9.12%	10.89%	-14.64%	14.76%	6.27%
Proj. EPS Growth (F1/F0)	-0.85%	-2.45%	1.80%	-6.04%	4.28%	6.49%
Curr. Cash Flow Growth	13.73%	8.17%	5.93%	15.12%	0.13%	34.59%
Hist. Cash Flow Growth (3-5 yrs)	7.28%	5.29%	8.55%	-8.93%	7.47%	5.48%
Current Ratio	2.04	2.00	1.23	2.25	2.77	2.79
Debt/Capital	0.00%	42.18%	42.57%	45.52%	13.82%	45.61%
Net Margin	11.42%	4.06%	11.64%	6.43%	20.89%	9.66%
Return on Equity	17.11%	10.89%	16.74%	16.44%	34.45%	18.82%
Sales/Assets	0.70	0.78	0.54	0.82	1.01	0.63
Proj. Sales Growth (F1/F0)	-1.14%	0.00%	2.08%	1.42%	1.99%	0.42%
Momentum Score	B	-	-	F	C	D
Daily Price Chg	6.72%	0.37%	2.63%	3.69%	5.63%	2.66%
1 Week Price Chg	11.03%	7.31%	12.32%	6.17%	10.47%	3.67%
4 Week Price Chg	-25.25%	-20.49%	-18.22%	-46.00%	-7.06%	-25.60%
12 Week Price Chg	-37.84%	-30.19%	-23.36%	-54.82%	-8.11%	-31.55%
52 Week Price Chg	-23.23%	-30.65%	-17.22%	-51.59%	-5.54%	-13.07%
20 Day Average Volume	1,372,484	138,963	4,211,236	2,084,568	1,396,728	1,391,557
(F1) EPS Est 1 week change	-1.85%	0.00%	-0.19%	-8.26%	0.00%	-0.42%
(F1) EPS Est 4 week change	-2.70%	-4.02%	-3.07%	-12.90%	0.00%	-0.51%
(F1) EPS Est 12 week change	-4.66%	-8.55%	-4.15%	-14.83%	6.12%	1.20%
(Q1) EPS Est Mthly Chg	-0.35%	-1.04%	-2.28%	-8.22%	-0.69%	-1.64%

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	B
Growth Score	A
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.

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