MKS Instruments (MKSI)

$100.23 (As of 04/30/20)

Price Target (6-12 Months): **$103.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/04/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: C | Growth: C | Momentum: D	**3-Hold** VGM:C

Summary

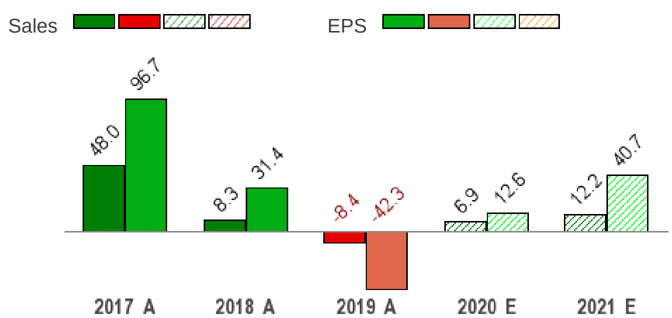
MKS Instruments first-quarter 2020 results benefited from strong growth in the semiconductor market. Both earnings and revenues increased on a year-over-year basis. MKS Instruments is also benefiting from a lean cost structure. Moreover, the Electro Scientific Industries acquisition strengthened the company's offerings in optics, photonics and laser markets. However, the company's results were affected by headwinds in the advanced market segment. Top line was negatively impacted by university and research lab closures due to the coronavirus. Management stated that order rates remain strong in the second quarter. However, lockdowns around the world due to the coronavirus are expected to impact second-quarter revenues. Notably, shares have underperformed the industry on a year-to-date basis.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$122.30 - $66.87**
20 Day Average Volume (sh)	**388,603**
Market Cap	**$5.5 B**
YTD Price Change	**-8.9%**
Beta	**1.50**
Dividend / Div Yld	**$0.80 / 0.8%**
Industry	**Electronics - Manufacturing Machinery**
Zacks Industry Rank	**Bottom 45% (139 out of 253)**
Last EPS Surprise	**24.2%**
Last Sales Surprise	**4.8%**
EPS F1 Est- 4 week change	**-14.7%**
Expected Report Date	**08/04/2020**
Earnings ESP	**-6.4%**
P/E TTM	**20.3**
P/E F1	**19.7**
PEG F1	**1.6**
P/S TTM	**2.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	539 E	570 E	579 E	590 E	2,278 E
2020	536 A		502 E	510 E	2,031 E
2019	464 A	474 A	462 A	500 A	1,900 A

EPS Estimates

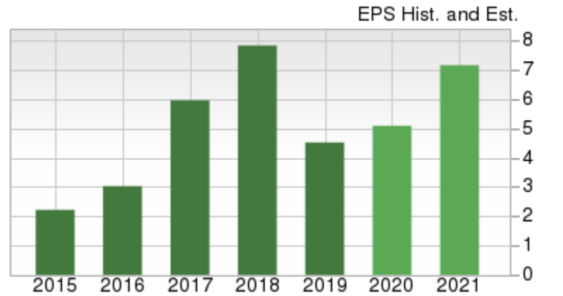
	Q1	Q2	Q3	Q4	Annual*
2021	$1.52 E	$1.73 E	$1.87 E	$1.93 E	$7.16 E
2020	$1.54 A	$1.22 E	$1.28 E	$1.34 E	$5.09 E
2019	$1.12 A	$1.09 A	$1.12 A	$1.20 A	$4.52 A

*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 04/30/2020. The reports text is as of 05/01/2020.

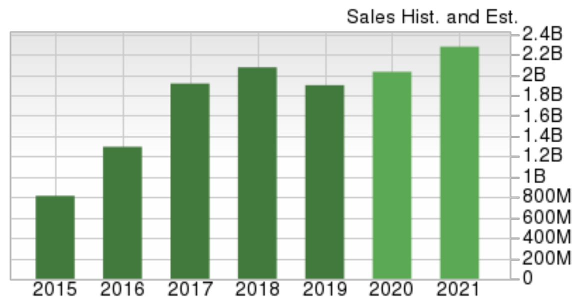
Overview

Massachusetts-based MKS Instruments, Inc. is a global provider of instruments, subsystems and process control solutions that measure, monitor, deliver, analyze, power and control critical parameters of advanced manufacturing processes.



MKS solutions are used in pressure measurement and control, flow measurement and control, gas and vapor delivery, gas composition analysis, residual gas analysis, leak detection, control technology, ozone generation and delivery, RF & DC power, reactive gas generation, vacuum technology, lasers, photonics, sub-micron positioning, vibration control, and optics.

Total revenues in 2019 were $1.9 billion. The company has six product groups: Analytical and Controls Solutions; Power, Plasma and Reactive Gas Solutions; Vacuum Solutions; Photonics; Optics; and Laser Products.



Since the acquisition of Electro Scientific Industries (ESI) (February 2019), MKS Instruments has been reporting results via three business segments as discussed below:

The Vacuum and Analysis segment (56% of 2019 revenues) provides a wide range of components, instruments, software and subsystems. The Analytical and Controls Solutions, the Power, Plasma and Reactive Gas Solutions and the Vacuum Solutions are included under this segment.

The Light and Motion (35.3% of 2019 revenues) offers several components, instruments and subsystems. The Photonics, Optics and Laser product groups are included under this segment.

Equipment & Solutions segment (8.7% of 2019 revenues) includes a portfolio of industrial laser-based component and micromanufacturing test systems used for processing materials.

Reasons To Buy:

Robust semiconductor portfolio, increasing demand for solutions related 5G and the Electro Scientific Industries (ESI) buyout are key catalysts.

- MKS Instruments' is expected to gain from solid demand for laser-based solutions for advanced industrial manufacturing, including solar market applications and flexible PCB. The company won a number of orders in this space in China and Korea, which bodes well for top-line growth.

- MKS Instruments' has solid growth prospects in the semiconductor market due to its exposure to 3D NAND, DRAM and logic- based devices. The company continues to develop innovative solutions for 5-nm logic devices, 3D NAND stacks of 128 layers and beyond and next-generation DRAM structures. Moreover, broad exposure to almost 85% of WFE spending including deposition, etch, lithography, metrology and inspection presents significant growth opportunity over the long term.

- Moreover, rapid adoption of 5G technology presents significant growth opportunity for MKS Instruments over the next few years. This is due to the fact that implementation of 5G will require upgraded wireless infrastructure and new mobile devices. This will require increased data processing and storage capabilities, which is positive for the company's semiconductor and laser diode testing businesses.

- The acquisition of Electro Scientific Industries (ESI) expands MKS Instruments' total addressable market by nearly $2.2 billion. The deal also strengthens its lasers, photonics and optic product portfolio.

- MKS Instruments liquidity position is strong. As of Mar 31, 2020, the company had cash and short-term investments of $503 million compared with $524 million as of Dec 31, 2019. Secured term-loan principal outstanding as of Mar 31, 2020 was $840 million. The company also had $100 million of incremental borrowing capacity under an asset-based line of credit, subject to certain borrowing base requirements.

Reasons To Sell:

- Notably, a significant portion of sales now originates from Asia (especially South Korea, Japan, Israel, China and Taiwan) post ESI acquisition. Since, the company conducts businesses in major foreign currencies, unfavorable movement in foreign currency exchange rates often adversely impact sales. Moreover, the uncertainty regarding the resolution of the ongoing U.S.-China trade war doesn't bode well for MKS Instruments.

Sluggish semiconductor capital equipment spending as well as foreign currency exchange rate volatility are concerns.

- A significant portion of MKS Instruments revenue comes from a handful of customers. Top 10 customers contributed 33% to the company's top line in 2019. Loss of any of these top customers can significantly hurt revenues.

- The acquisitions of Newport and ESI have negatively impacted the company's balance sheet in the form of high level of goodwill and intangible assets, which totaled $1.62 billion or almost 47.5% of total assets as of Dec 31, 2019.

Last Earnings Report

MKS Instruments' Q1 Earnings Top, Revenues Rise Y/Y

Quarter Ending	03/2020
Report Date	**Apr 28, 2020**
Sales Surprise	**4.76%**
EPS Surprise	**24.19%**
Quarterly EPS	**1.54**
Annual EPS (TTM)	**4.95**

MKS Instruments reported first-quarter 2020 adjusted earnings of $1.54 per share, which beat the Zacks Consensus Estimate by 24.2% and also increased 28.3% year over year.

Revenues of $535.7 million surpassed the consensus mark by 4.8% and also improved 15.6% year over year, driven by buoyant demand for the semiconductor market.

Products revenues (86.1% of total revenues) were $461.2 million, up 8.1% from the year-ago quarter. Services revenues (13.9%) inched up 1.8% year over year to $74.5 million.

Quarterly Update

Revenues from the semiconductor market (58.4% of total revenues) jumped 41.9% year over year to $312.6 million owing to increased demand.

Revenues from advanced markets (41.6% of total revenues) were $223.1 million, down 8.3% from the year-ago quarter. The top line was negatively impacted by university and research lab closures due to the coronavirus (COVID-19).

Segmentwise, Vacuum and Analysis (59.6% of total revenues) revenues surged 36.2% year over year to $319.3 million.

Equipment & Solutions segment revenues (9.5% of total revenues) were $51 million, up 44.9% year over year.

Light and Motion division revenues (30.9% of total revenues), however, decreased 14.7% year over year to $165.4 million.

Operating Details

In the first quarter, MKS Instruments' adjusted gross margin contracted 190 basis points (bps) on a year-over-year basis to 44.7%.

Adjusted EBITDA increased 20.2% year over year to $129.7 million. Adjusted EBITDA margin expanded 90 bps on a year-over-year basis to 24.2%.

Research & development and sales, general & administrative expenses, as a percentage of revenues, declined 110 bps and 150 bps on a year-to-date basis, respectively.

MKS Instruments reported non-GAAP operating income of $110 million, up 19.4% year over year. Adjusted operating margin expanded 70 bps on a year-over-year basis to 20.5%.

Balance Sheet & Cash Flow

As of Mar 31, 2020, MKS Instruments had cash and short-term investments of $503 million compared with $524 million as of Dec 31, 2019.

Secured term-loan principal outstanding as of Mar 31, 2020 was $840 million. The company also had $100 million of incremental borrowing capacity under an asset-based line of credit, subject to certain borrowing base requirements.

MKS Instruments paid out dividends worth $11 million during the reported quarter.

Q2 Guidance

For the second quarter of 2020, MKS Instruments anticipates revenues between $450 million and $520 million. Management stated that order rates will remain strong in the second quarter. However, lockdowns around the world due to the coronavirus are expected to impact second-quarter revenues.

Non-GAAP earnings are expected between 90 cents and $1.38 per share.

Recent News

On Feb 11, 2020, MKS Instruments announced a quarterly cash dividend of 20 cents per share. The dividend was paid out on Mar 6 to shareholders of record as of Feb 24, 2020.

Valuation

MKS Instruments shares are down 17.1% in the year-to-date period but up 3.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are down 5.5% and 2.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 16% and 7%, respectively.

The S&P 500 index is down 9.6% in the year-to-date period and 0.4% in the past year.

The stock is currently trading at 17.4X forward 12-month earnings, which compares to 23.4X for the Zacks sub-industry, 23.05X for the Zacks sector and 20.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.58X and as low as 7.14X, with a 5-year median of 15.25X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $103 price target reflects 18.62X forward 12-month earnings.

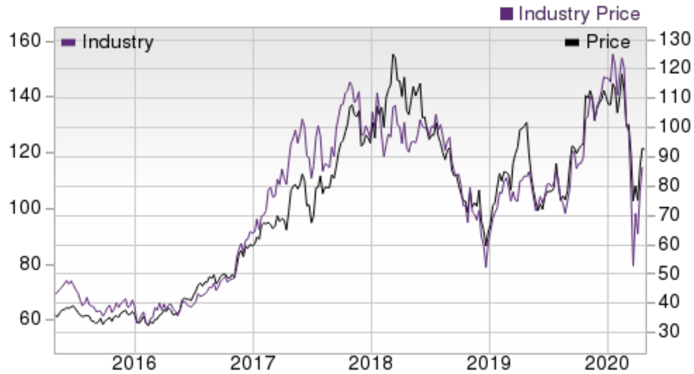
The table below shows summary valuation data for MKSI

Valuation Multiples - MKSI

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.4	23.4	23.05	20.8
	5-Year High	25.58	23.4	23.05	20.8
	5-Year Low	7.14	10.44	16.71	15.19
	5-Year Median	15.25	18.43	19.23	17.44
P/S F12M	Current	2.6	2.7	3.52	3.3
	5-Year High	3.26	2.7	3.59	3.44
	5-Year Low	1.46	1.45	2.32	2.54
	5-Year Median	2.27	2.06	3.1	3.01
EV/EBITDA TTM	Current	12.58	15.33	11.38	10.76
	5-Year High	16.89	16.71	12.85	12.87
	5-Year Low	4.32	5.51	7.56	8.27
	5-Year Median	10.54	10.59	10.63	10.78

As of 04/30/2020

Industry Analysis **Zacks Industry Rank:** Bottom 45% (139 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Coherent, Inc. **(COHR)**	Outperform	2
Advanced Energy Industries, Inc. **(AEIS)**	Neutral	4
Applied Materials, Inc. **(AMAT)**	Neutral	3
AMETEK, Inc. **(AME)**	Neutral	3
Entegris, Inc. **(ENTG)**	Neutral	3
KLA Corporation **(KLAC)**	Neutral	4
Lam Research Corporation **(LRCX)**	Neutral	3
Teradyne, Inc. **(TER)**	Neutral	3

Industry Comparison Industry: Electronics - Manufacturing Machinery

	MKSI	X Industry	S&P 500	Industry Peers AEIS	AME	COHR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	4	3	2
VGM Score	C	-	-	D	B	C
Market Cap	5.50 B	1.15 B	20.61 B	2.14 B	19.22 B	3.09 B
# of Analysts	5	2	14	5	9	3
Dividend Yield	0.80%	0.00%	2.11%	0.00%	0.86%	0.00%
Value Score	C	-	-	D	D	C
Cash/Price	0.10	0.23	0.06	0.18	0.02	0.12
EV/EBITDA	16.87	16.01	11.87	23.55	15.16	15.66
PEG Ratio	1.50	0.99	2.47	NA	2.76	NA
Price/Book (P/B)	2.70	1.72	2.67	3.15	3.75	2.36
Price/Cash Flow (P/CF)	14.62	24.99	10.66	18.63	16.03	12.78
P/E (F1)	18.00	24.97	19.01	22.24	22.51	29.40
Price/Sales (P/S)	2.79	1.76	2.10	2.71	3.73	2.26
Earnings Yield	5.08%	3.77%	5.05%	4.50%	4.45%	3.40%
Debt/Equity	0.43	0.31	0.72	0.61	0.44	0.30
Cash Flow ($/share)	6.86	1.43	7.01	2.98	5.23	10.00
Growth Score	C	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	33.93%	31.25%	10.88%	14.90%	11.36%	25.03%
Proj. EPS Growth (F1/F0)	12.61%	37.93%	-7.32%	2.46%	-11.08%	-26.52%
Curr. Cash Flow Growth	-27.42%	-17.54%	5.92%	-35.66%	23.89%	-46.32%
Hist. Cash Flow Growth (3-5 yrs)	24.72%	18.65%	8.55%	8.19%	10.17%	18.56%
Current Ratio	4.51	4.22	1.23	2.71	1.42	4.38
Debt/Capital	30.11%	22.99%	43.84%	37.83%	30.75%	23.27%
Net Margin	9.99%	5.43%	11.08%	8.23%	16.70%	1.76%
Return on Equity	13.76%	6.04%	16.44%	13.49%	20.14%	6.46%
Sales/Assets	0.58	0.57	0.54	0.65	0.56	0.63
Proj. Sales Growth (F1/F0)	6.90%	6.08%	-1.42%	51.79%	-10.19%	-5.45%
Momentum Score	D	-	-	D	A	D
Daily Price Chg	-7.15%	-3.21%	-2.39%	-6.73%	-0.75%	-2.92%
1 Week Price Chg	-0.41%	-0.20%	-1.74%	-8.50%	-4.05%	5.11%
4 Week Price Chg	28.83%	28.11%	17.07%	23.15%	17.98%	32.29%
12 Week Price Chg	-11.86%	-16.41%	-18.53%	-23.99%	-15.01%	-17.52%
52 Week Price Chg	12.04%	7.09%	-9.82%	-3.07%	-3.62%	-9.98%
20 Day Average Volume	388,603	294,299	2,641,413	282,552	1,434,693	182,101
(F1) EPS Est 1 week change	-0.12%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-14.66%	-20.88%	-6.62%	-27.21%	-5.09%	0.00%
(F1) EPS Est 12 week change	-17.42%	-24.61%	-13.28%	-25.97%	-14.57%	3.33%
(Q1) EPS Est Mthly Chg	-15.17%	-14.73%	-11.97%	-32.37%	-1.86%	0.00%

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	C
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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