

PerkinElmer, Inc. (PKI)

\$99.65 (As of 07/07/20)

Price Target (6-12 Months): **\$105.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: D

Summary

PerkinElmer witnessed modest performance by its core Discover & Analytics Solutions unit in the quarter under review. Modest growth in Europe and United States is also encouraging. The Meizheng Group buyout is an added positive. Further, expansion in gross margin buoys optimism. Solid show by Tulip and EUROIMMUN also paints a bright picture. PerkinElmer has outperformed the industry over the past year. PerkinElmer exited the first quarter on a strong note, with both earnings and revenues surpassing the Zacks Consensus Estimate. However, negative currency movements impacted the company's top line in the quarter under review. Further, Diagnostics segment displayed weak performance in the first quarter. Furthermore, PerkinElmer continues to make acquisitions, which increases integration risks.

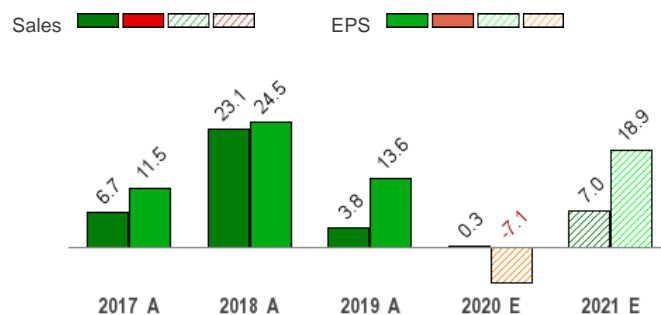
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$105.70 - \$62.91
20 Day Average Volume (sh)	785,621
Market Cap	\$11.1 B
YTD Price Change	2.6%
Beta	1.37
Dividend / Div Yld	\$0.28 / 0.3%
Industry	Instruments - Scientific
Zacks Industry Rank	Top 18% (46 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	42.6%
Last Sales Surprise	1.8%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	08/03/2020
Earnings ESP	-0.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	709 E	742 E	755 E	882 E	3,094 E
2020	652 A	660 E	725 E	854 E	2,892 E
2019	649 A	723 A	707 A	806 A	2,884 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.93 E	\$1.06 E	\$1.13 E	\$1.45 E	\$4.53 E
2020	\$0.67 A	\$0.71 E	\$1.00 E	\$1.47 E	\$3.81 E
2019	\$0.69 A	\$1.00 A	\$1.06 A	\$1.35 A	\$4.10 A

*Quarterly figures may not add up to annual.

P/E TTM	24.4
P/E F1	26.2
PEG F1	1.9
P/S TTM	3.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/07/2020. The reports text is as of 07/08/2020.

Overview

Headquartered in Waltham, MA, PerkinElmer, Inc. provides scientific instruments, consumables, and services to pharmaceutical, biomedical, environmental testing, chemical, and general industrial markets worldwide.

For the **Diagnostics** market, the company offers products that are used to detect genetic disorders from pre-conception to early childhood. The company also provides digital x-ray flat panel detectors and infectious disease testing solutions. For the Research market, the company offers reagents, liquid handling and detection, and imaging technologies that are used by researchers in the drug discovery process.

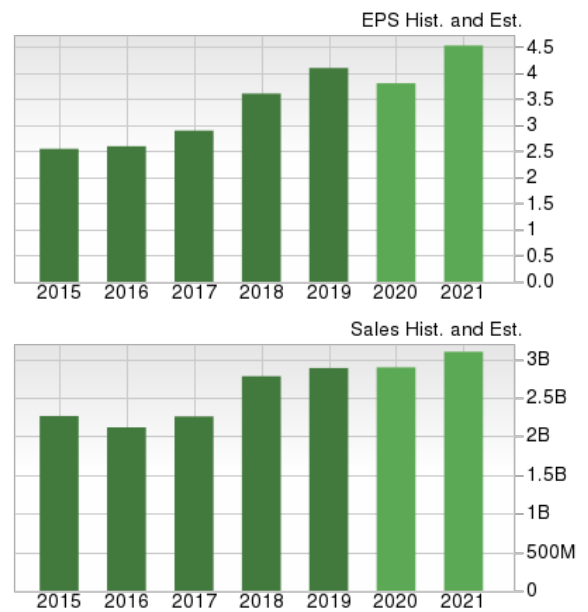
In the **Discovery & Analytical Solutions (DAS)** segment, PerkinElmer has two operating segments – Human Health and Environmental Health. In recent past, the company realigned its business structure. OneSource, the company's multivendor laboratory service business that serves the life sciences end market, was moved from the Environmental Health segment into the Human Health segment.

The Human Health segment focuses on developing diagnostics, tools and applications, which help to detect diseases earlier and more accurately. The Human Health segment serves two end markets: diagnostics and research.

The Environmental Health segment offers products and services that help in producing safer food and consumer products, securing environment and using energy more efficiently. The segment serves three end markets - laboratory services, environmental and Industrial. The company's environmental solutions help in maintaining the wellbeing of air, water, soil and food. PerkinElmer's environmental applications help its customers comply with regulatory requirements and maintain industry standards by detecting harmful substances in water, adulterants in food, toxic metals in toys, counterfeits in medicine and many other consumer products.

2019 at a Glance

In 2019, the company posted revenues worth \$2.88 billion, up 3.6% on a year-over-year basis. In 2019, Discovery & Analytical Solutions (DAS) revenues totaled \$1.75 billion (61% of net revenues) and Diagnostics' revenues came in at \$1.14 billion (39%).



Reasons To Buy:

- ▲ **Shares Up:** Shares of PerkinElmer have gained 3.6%, versus the industry's decline of 10.2% over the past year. Wide array of products, global exposure and strength in emerging markets continue to favor the stock.
- ▲ **Focus on Artificial Intelligence (AI):** The use of AI by healthcare companies has been a latest and popular trend.

Management at PerkinElmer recently confirmed that are introducing image analysis in the high-content screening and immunodiagnostic businesses, for better determination of the quality of grain in the food business and for applying AI in the company's services business to help to optimize its customers' laboratory productivity across all of its business segments — DAS and Diagnostics.

- ▲ **Emerging Markets in Focus:** PerkinElmer's presence in the emerging markets of China and India has more than doubled over the last couple of years. Per management, various reports suggest that over 40% of the world population will soon be in China and India. However out of the \$65 billion global market for diagnostic testing, China and India collectively represent less than 10%. Thus, PerkinElmer has significant opportunity in these countries. However, it is important to mention here that Asia Pacific (APAC) witnessed a double-digit decline (due to the COVID-19 pandemic in China, which was down over 30%). We expect to see a turnaround once the effects of the pandemic ease.
- ▲ **Global Exposure:** Apart from emerging economies, PerkinElmer enjoys strong global exposure. Per management, the major geographies witnessed a mixed first quarter, with mid-single digit organic revenue growth in the United States and double-digit organic revenue growth in Europe.
- ▲ **Broad Spectrum of Products:** PerkinElmer delivers a comprehensive suite of scientific informatics and software solutions to aggregate data into actionable insights in an automated and scalable way. The company's products include the industry leading ChemDraw software, Electronic Lab Notebooks including cloud-based Elements SaaS Offering and enterprise E-Notebook Solutions, along with the TIBCO Spotfire platform for scientific data analytics.

There has been a latest development of assays for Zika, Dengue and Chikungunya viruses using the company's dried blood spot technologies as well as rapid lateral flow tests created by combining EUROIMMUN's antigen capabilities with lateral flow technologies from Tulip. PerkinElmer is also in the process of developing genomic and molecular solutions to enable new applications, including the rapidly growing area of cannabis testing. The recent legalization of cannabis in Canada and other countries is likely to create significant market opportunity to support both the testing and basic research around cannabis.

During fourth-quarter 2019, PerkinElmer introduced several new Cisbio kits for phosphorylate and total protein and biomarker detection. Apart from PerkinElmer's reagent R&D for all the company's technologies, now consolidated at its site in Codolet, France, an uptick in drug discovery screening reagent innovation in the future can be expected.

During the first quarter, the company announced that it has received Emergency Use Authorization from the FDA for its New Coronavirus RT-PCR test. Clinical laboratories that are certified under Clinical Laboratory Improvement Amendments (CLIA) can start utilizing this test kit to detect SARS-CoV-2 (virus causing COVID-19) immediately. Notably, this test is marketed as an in-vitro diagnostic (IVD) device on basis of fulfilling the requirements of European In Vitro Diagnostic Directive (IVDD). The test kit is now available in over 30 countries worldwide.

- ▲ **Growing Demand for Affordable Healthcare:** PerkinElmer is well poised to benefit from a rising middle class in the developing countries of Asia-Pacific and Latin America. Growing demand for affordable healthcare in these regions provides a significant growth opportunity for the company. Meanwhile, rising birth rates coupled with higher demand for screening and diagnostic products in countries like China, India, Indonesia, Thailand, Mexico and Brazil will continue to drive demand for the company's products. Further, PerkinElmer's significant international presence provides it with diversified revenue and client base.
- ▲ **Improving Margins:** PerkinElmer's gross and operating margin continues to improve primarily on the back of productivity initiatives and volume leverage. The new product introductions are expected to improve product mix thereby enhancing gross margin. This coupled with stringent cost control will continue to drive operating margin in the near term.

In the first quarter, adjusted gross profit in the quarter came in at \$325.4 million, up 0.7% year over year. Adjusted gross margin, as a percentage of revenues was 49.9%, up 10 bps year over year. Adjusted operating income was \$99.6 million, down 5.3% year over year. Per the fourth-quarter 2019 earnings call, it is encouraging to note that management now anticipates operating margin in 2020 to expand by 80 bps and is confident of achieving its goal of 22% of adjusted operating margins in 2020.

- ▲ **Acquisitions and Divestments:** Acquisitions and strategic partnerships have been key catalysts for PerkinElmer over the years. In recent times, PerkinElmer completed the acquisition of DANI Instruments of Italy. Per management, this tie-up will help accelerate workflow solutions in food, pharma and environmental end markets.

Earlier, the company announced the buyout of Cisbio Bioassays – a leading custom assay service provider. The addition of Cisbio strengthens PerkinElmer's position in life sciences and diagnostics markets. In fact, Cisbio integration process is showing great progress and the business witnessed double-digit growth in the second quarter.

In the third quarter, the company announced the buyout of Meizheng Group – a leading food safety testing company in China. The acquisition is likely to strengthen PerkinElmer's food safety abilities in attractive markets, which includes pathogen, toxin and drug residue testing. The deal is also likely to bolster PerkinElmer's assay capabilities. Per management, Meizheng Group is projected to contribute less than 1% to PerkinElmer revenue growth and negligible EPS accretion in the fourth quarter. The company estimates a double-digit return on invested capital by the fourth year of the completion of the buyout. Meizheng Group is anticipated to have around \$30 million of revenues in 2019 with accretive operating margins.

An expanding product portfolio, margin expansion and accretive acquisitions provides potential growth opportunity for PerkinElmer.

With the addition of Meizheng, PerkinElmer has more than \$80 million food quality and food safety testing business in China. With the acquisition of Meizheng, the company is in a prime position to establish itself as a leader in food quality and safety testing over the coming years.

In recent times, PerkinElmer announced a collaboration with Helix, a personal genomics company, to develop and commercialize exome sequencing-based tests that will empower consumers to make proactive health management decisions.

▲ **Stable Liquidity Position:** PerkinElmer exited first-quarter 2020 with cash and cash equivalents amounting to \$195.1million, up from \$191.9million sequentially. Meanwhile, the company's long-term debt came at \$2.10 billion in the first quarter, compared with \$2.06 billion sequentially. The long-term debt level is significantly higher than the quarter's cash and cash equivalent level. However, we can see that the current debt level of \$9.7million in the first quarter, declining from \$9.9 million sequentially, is in fact much lower than the cash level. This is good news in terms of the company's solvency level as, at least during the year of economic downturn, the company has sufficient cash for debt repayment.

Reasons To Sell:

- ▼ **Potential Headwinds:** Per the fourth-quarter 2019 earnings call, according to management, for the full year, the company anticipates headwinds related to foreign exchange of about \$12 million.

The COVID-19 pandemic has primarily impacted performance in China, consequently raising concern.

- ▼ **Sluggish European Macro-environment:** International operations contribute majority of PerkinElmer's top-line growth. Lackluster academic end market in Europe, coupled with issues related to third party logistics provider in have been negatively impacting organic revenue growth of the company.

Revenues in the four major economies- United Kingdom, Germany, Italy and France have been witnessing lackluster performances since long.

The company continues to expect international operations to represent a substantial portion of revenue in the future. However sluggish European macro-environment and restrained spending on research are significant challenges that will keep company's top-line growth under pressure.

- ▼ **Foreign Exchange Volatility:** Increasing exposure to the international markets enhances the risk of foreign exchange volatility. The fluctuations in currency exchange rates can adversely impact the company's international sales. Due to the sluggish European economy, future revenues and earnings are likely to be affected adversely if the company does not hedge from exposure to currency fluctuations.

Per the first quarter earnings call, the company anticipates 1% foreign exchange headwind for 2020.

- ▼ **Integration Risks:** PerkinElmer continues to acquire a large number of companies. While this improves revenue opportunities, it adds to integration risks. The frequent acquisitions can also negatively impact its balance sheet in the form of a high level of goodwill and intangible assets. Frequent acquisitions are also a distraction for management and impacts organic growth.
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Unfavorable foreign exchange, a sluggish European macro environment and leveraged balance sheet are primary concerns for PerkinElmer.

Last Earnings Report

PerkinElmer Q1 Earnings and Revenues Surpass Estimates

PerkinElmer, Inc. reported first-quarter 2020 adjusted earnings per share of 67 cents, which beat the Zacks Consensus Estimate of 47 cents per share by 42.6%. However, the bottom line declined 2.9% from the year-ago quarter.

Based in Waltham, MA, this leading MedTech company reported revenues of \$652.4 million, up 0.6% from the year-ago quarter but fell 1% organically. Adjusted revenues in the reported quarter came in at \$652.6 million, 0.6% year over year. The top line also surpassed the Zacks Consensus Estimate by 1.8%.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	1.75%
EPS Surprise	42.55%
Quarterly EPS	0.67
Annual EPS (TTM)	4.08

Segment Details

Discover & Analytics Solutions

At this segment, revenues totaled \$398.4 million, reflecting an improvement of 2.5% from the year-ago quarter. Organically, the segment saw a decline of 1% in the quarter under review. Per management, continued strength in life sciences was more than offset by weak performance in food and applied markets.

Coming to profits at the DAS segment, the company reported first-quarter 2020 adjusted operating income of \$54.4 million, up 0.2% from the year-ago quarter.

Diagnostics segment

Revenues at this segment amounted to \$254 million, down 2.3% on a year-over-year basis. Organically, the segment deteriorated 1% in the first quarter. Per management, strength in applied genomics business was noticeably offset by modest decline across reproductive health and immunodiagnostics business lines.

Adjusted operating income in the segment totaled \$90.6 million, up 5.6% from the year-ago quarter.

Geographical Details

Per management, the major geographies witnessed a mixed first quarter, with mid-single digit organic revenue growth in the United States. While Europe saw double-digit growth, Asia Pacific (APAC) witnessed a double-digit decline on account of the COVID-19 pandemic in China, which was down over 30%.

Margin Analysis

Adjusted gross profit in the quarter came in at \$325.4 million, up 0.7% year over year. Adjusted gross margin, as a percentage of revenues was 49.9%, up 10 bps year over year.

Adjusted operating income was \$99.6 million, down 5.3% year over year. Adjusted operating margin, as a percentage of revenues was 15.3%, down 90 bps.

Financial Update

The company exited the first quarter with cash and cash equivalents came in at \$195.1 million, increasing 1.7% from the year-end 2019.

During the reported quarter, net cash provided by operating activities came in at \$60.1 million, compared with net cash used in operating activities of \$5.3 million in the year-ago period.

2020 Guidance

Due to the uncertainty regarding the magnitude and duration of the COVID-19 pandemic, and the scope of a potential customer activity rebound, PerkinElmer has withdrawn its previously issued (Jan 27, 2020) full-year 2020 outlook.

Nonetheless, the company anticipates adjusted earnings per share of at least 65 cents in second-quarter 2020. Revenues are anticipated between \$610 million and \$720 million.

Recent News

On **Mar 24**, PerkinElmer announced that the FDA has provided Emergency Use Authorization (EUA) for the Company's coronavirus test.

Valuation

PerkinElmer's shares are up 2.6% in the year-to-date period while up 3.5% in the trailing 12-month period. Stocks in the Zacks sub-industry are down 7.6% while the Zacks Medical Market is up 14.9% in the year-to-date period. Over the past year, the Zacks sub-industry is down 10.2% while sector is up 27.4%.

The S&P 500 index is down 1.1% in the year-to-date period and up 7.2% in the past year.

The stock is currently trading at 23.8X Forward 12-months earnings, which compares to 23.1X for the Zacks sub-industry, 26.3X for the Zacks sector and 22.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.5X and as low as 14.3X, with a 5-year median of 20.1X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$105 price target reflects 25X forward 12-months earnings.

The table below shows summary valuation data for PKI.

Valuation Multiples - PKI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.82	23.07	26.29	22.70
	5-Year High	26.46	26.74	26.29	22.70
	5-Year Low	14.33	18.41	16.86	15.15
	5-Year Median	20.05	22.42	19.37	17.42
P/S F12M	Current	3.70	4.91	3.94	3.54
	5-Year High	3.95	5.92	3.94	3.54
	5-Year Low	1.97	3.63	2.29	2.54
	5-Year Median	3.03	4.86	3.07	3.01
P/B TTM	Current	4.02	10.63	6.19	4.45
	5-Year High	4.28	11.69	6.19	4.52
	5-Year Low	2.20	5.26	3.19	2.82
	5-Year Median	3.17	7.54	4.38	3.63

As of 07/07/2020

Industry Analysis Zacks Industry Rank: Top 18% (46 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
QIAGEN N.V. (QGEN)	Outperform	1
Agilent Technologies, Inc. (A)	Neutral	3
Abbott Laboratories (ABT)	Neutral	2
Becton, Dickinson and Company (BDX)	Neutral	3
BioRad Laboratories, Inc. (BIO)	Neutral	3
Bruker Corporation (BRKR)	Neutral	2
Hologic, Inc. (HOLX)	Neutral	3
Thermo Fisher Scientific Inc. (TMO)	Neutral	2

Industry Comparison Industry: Instruments - Scientific				Industry Peers		
	PKI	X Industry	S&P 500	BRKR	QGEN	TMO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	2	-	-	2	1	2
VGM Score	D	-	-	D	F	C
Market Cap	11.10 B	217.02 M	21.64 B	6.31 B	9.84 B	150.18 B
# of Analysts	6	6	14	6	4	8
Dividend Yield	0.28%	0.00%	1.92%	0.39%	0.00%	0.23%
Value Score	D	-	-	D	C	C
Cash/Price	0.02	0.08	0.07	0.13	0.09	0.02
EV/EBITDA	21.77	12.11	12.68	18.03	38.42	23.70
PEG Ratio	1.88	4.53	2.88	2.96	2.04	2.44
Price/Book (P/B)	4.02	2.09	3.01	6.83	3.95	5.26
Price/Cash Flow (P/CF)	15.89	13.90	11.66	19.61	16.26	21.02
P/E (F1)	26.15	30.86	21.31	35.54	24.89	30.47
Price/Sales (P/S)	3.84	2.90	2.30	3.10	6.35	5.86
Earnings Yield	3.82%	3.32%	4.43%	2.81%	4.03%	3.28%
Debt/Equity	0.79	0.79	0.76	1.04	0.56	0.67
Cash Flow (\$/share)	6.27	1.81	6.94	2.09	2.66	18.08
Growth Score	D	-	-	D	F	D
Hist. EPS Growth (3-5 yrs)	11.33%	10.86%	10.90%	14.52%	8.12%	13.78%
Proj. EPS Growth (F1/F0)	-7.11%	-8.09%	-9.72%	-26.64%	21.33%	1.05%
Curr. Cash Flow Growth	15.05%	7.99%	5.51%	12.63%	9.25%	6.99%
Hist. Cash Flow Growth (3-5 yrs)	12.03%	8.45%	8.55%	11.39%	5.76%	10.08%
Current Ratio	1.84	2.05	1.30	2.60	1.58	2.32
Debt/Capital	44.25%	42.93%	44.46%	50.92%	35.76%	40.24%
Net Margin	7.82%	2.59%	10.62%	8.69%	-2.01%	14.31%
Return on Equity	16.52%	5.68%	15.75%	25.09%	13.80%	17.25%
Sales/Assets	0.45	0.78	0.55	0.78	0.30	0.44
Proj. Sales Growth (F1/F0)	0.30%	0.00%	-2.57%	-6.68%	8.17%	-0.99%
Momentum Score	D	-	-	B	F	C
Daily Price Chg	-0.44%	-0.38%	-1.54%	-2.20%	-0.16%	-0.53%
1 Week Price Chg	4.27%	4.88%	3.66%	9.33%	-2.28%	4.26%
4 Week Price Chg	-2.72%	-1.60%	-6.66%	-2.50%	-1.84%	9.38%
12 Week Price Chg	27.19%	13.47%	7.04%	11.86%	7.44%	16.51%
52 Week Price Chg	3.59%	-0.67%	-6.88%	-18.22%	8.19%	28.07%
20 Day Average Volume	785,621	115,102	2,385,506	639,939	936,659	1,426,873
(F1) EPS Est 1 week change	0.26%	0.13%	0.00%	0.58%	0.00%	4.87%
(F1) EPS Est 4 week change	0.64%	0.55%	0.00%	0.58%	0.00%	4.70%
(F1) EPS Est 12 week change	-1.85%	-9.27%	-8.21%	-19.65%	26.18%	-1.08%
(Q1) EPS Est Mthly Chg	0.96%	0.38%	0.00%	0.00%	0.00%	0.05%

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	D
Growth Score	D
Momentum Score	D
VGM Score	D

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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