

PerkinElmer, Inc. (PKI)

\$78.34 (As of 04/10/20)

Price Target (6-12 Months): **\$82.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: D

Summary

PerkinElmer witnessed strong performances by its core Discover & Analytics Solutions and Diagnostics units in fourth-quarter 2019. Notably, continued strength in life sciences, strong performance across reproductive health and immunodiagnostics businesses have been driving the company's top line for quite some time now. Moreover, modest international growth is encouraging. The Meizheng Group buyout is an added positive for the stock. PerkinElmer exited the fourth quarter on a strong note, wherein both earnings and revenues surpassed their respective consensus estimates. Meanwhile, negative currency movement affected the company's top line. Headwinds related to tariffs are expected to mar the upcoming quarters. High long-term debt remains a concern. Further, PerkinElmer has underperformed the industry over the past year.

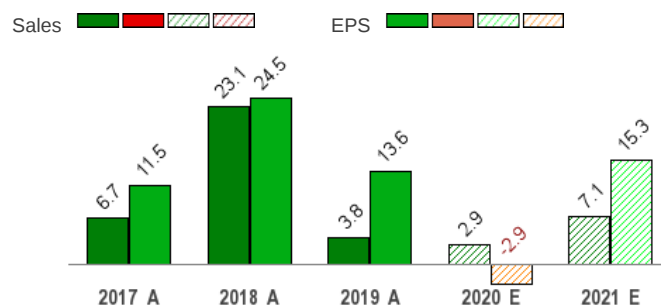
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$102.46 - \$62.91
20 Day Average Volume (sh)	1,062,734
Market Cap	\$8.7 B
YTD Price Change	-19.3%
Beta	1.31
Dividend / Div Yld	\$0.28 / 0.4%
Industry	Instruments - Scientific
Zacks Industry Rank	Bottom 22% (198 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.3%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	-12.5%
Expected Report Date	04/23/2020
Earnings ESP	-22.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	740 E	814 E	799 E	902 E	3,178 E
2020	660 E	689 E	746 E	871 E	2,967 E
2019	649 A	723 A	707 A	806 A	2,884 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.99 E	\$1.27 E	\$1.30 E	\$1.55 E	\$4.59 E
2020	\$0.54 E	\$0.86 E	\$1.15 E	\$1.56 E	\$3.98 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	19.1
P/E F1	19.7
PEG F1	1.4
P/S TTM	3.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/10/2020. The reports text is as of 04/13/2020.

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.

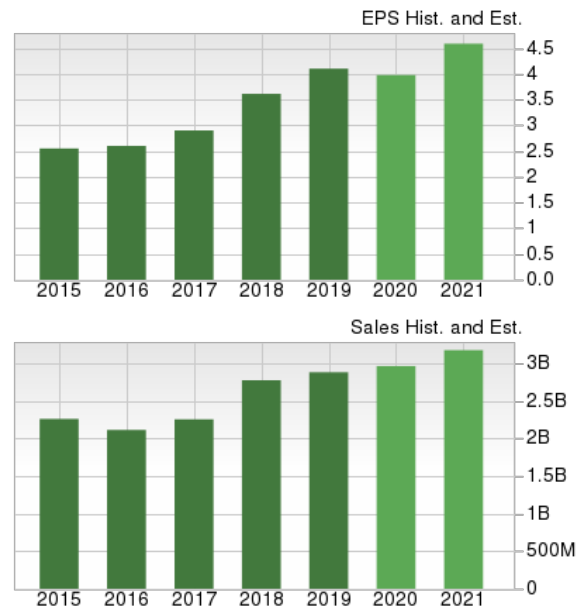
In the **Discovery & Analytical Solutions (DAS)** segment, PerkinElmer has two operating segments – Human Health and Environmental Health. In recent past, the company realigned its business structure. OneSource, the company's multivendor laboratory service business that serves the life sciences end market,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

- ▲ **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. In fourth-quarter 2019, revenues from APAC improved mid-single digits compared with the prior-year quarter.

- ▲ **Global Exposure:** Apart from emerging economies, PerkinElmer enjoys strong global exposure. Per management, the major geographies witnessed a mixed fourth quarter, with low-single digit organic revenue growth in the United States and mid-single digit organic revenue growth in Asia Pacific (APAC) and 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.

- ▲ **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 fourth-quarter 2019, gross profit came in at \$398.2 million, up 5.8% year over year. Adjusted gross margin, as a percentage of revenues, was 52.4%, up 100 bps year over year. Adjusted operating income was \$192.3 million, up 17% year over year. Adjusted operating margin, as a percentage of revenues, was 23.9% in the quarter, up 220 bps. It is encouraging to note that management now anticipates operating margin in 2020 to expand by 80 bps and is confident about achieving its goal of 22% of adjusted operating margins in 2020.

Interestingly, every fifth year includes a 53rd week and this extra week is anticipated to dilute PerkinElmer's first-quarter operating margin rate by 90-110 bps.

- ▲ **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.

In the first quarter, 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. Notably, the company anticipates around \$35 million of contributions from Cisbio with respect to reported revenues in 2019.

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.

- ▲ 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.

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

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.

Reasons To Sell:

▼ **Shares Down:** Shares of PerkinElmer have lost 21%, wider than the industry's decline of 17.4% over the past year. Negative currency movement affected the company's top line. Headwinds related to tariffs are expected to mar the upcoming quarters. High long-term debt remains a concern. Further, the ongoing economic volatility on account of the global coronavirus outbreak is hampering the stock.

▼ **Potential Headwinds:** For first-quarter 2020 and full year, the company anticipates headwinds related to foreign exchange of about \$8 million and \$12 million, respectively.

Meanwhile, although China continues to perform well for PerkinElmer, some expected hurdles are worrisome.

▼ **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.

In fourth-quarter 2019, PerkinElmer's revenues were impacted by 1% thanks to unfavorable foreign exchange movement.

▼ **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.

▼ **High Long-term Debt:** PerkinElmer's balance sheet is highly leveraged. The company ended fourth-quarter 2019 with approximately \$2.1 billion in debt and nearly \$192 million in free cash flow. Such high debt levels may limit the company's expansion plans and aggravate risks. Higher interest expense on debt is also expected to impact profits.

Unfavorable foreign exchange, a sluggish European macro environment and leveraged balance sheet are primary concerns for PerkinElmer.

Last Earnings Report

PerkinElmer Q4 Earnings and Revenues Beat Estimates

PerkinElmer, Inc. reported fourth-quarter 2019 adjusted earnings per share of \$1.35, which beat the Zacks Consensus Estimate of \$1.32 per share by 2.3%. Further, the bottom line improved 14.4% from the year-ago quarter.

Based in Waltham, MA, this leading MedTech company reported revenues of \$805.5 million, up 6.5% from the year-ago quarter and improved 5% organically. Adjusted revenues in the reported quarter came in at \$805.7 million, up 6.5% year over year. The top line also outpaced the Zacks Consensus Estimate by 0.4%.

Quarter Ending **12/2019**

Report Date	Jan 27, 2020
Sales Surprise	0.44%
EPS Surprise	2.27%
Quarterly EPS	1.35
Annual EPS (TTM)	4.10

2019 at a Glance

In 2019, the company reported revenues worth \$2.88 billion, which met the Zacks Consensus Estimate. On a year-over-year basis, the top line improved 3.6%.

Adjusted EPS for the year was \$4.10, which beat the Zacks Consensus Estimate by 0.5%. EPS also climbed 13.6% year over year.

PerkinElmer reports through two major segments — Discovery & Analytical Solutions (DAS) and Diagnostics.

In 2019, DAS revenues totaled \$1.75 billion (61% of net revenues) and Diagnostics' revenues came in at \$1.14 billion (39%).

Segment Details

DAS

At this segment, revenues totaled \$496.5 million, reflecting an improvement of 7.9% from the year-ago quarter. Organically, the segment grew 5% in the quarter under review. Per management, continued strength in life sciences and a rebound in the core food business contributed to organic revenues.

Coming to profits at the DAS segment, the company reported fourth-quarter 2019 adjusted operating income of \$116 million, up 25.1% from the year-ago quarter.

Diagnostics segment

Revenues at this segment amounted to \$309 million, up 4.2% on a year-over-year basis. Adjusted revenues in the segment totaled \$309.2 million, up 4.2% from the prior-year quarter. Organically, the segment improved 5% in the fourth quarter. Per management, the upside can be attributed to strength 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 fourth quarter, with low-single digit organic revenue growth in the United States and mid-single digit organic revenue growth in Asia Pacific (APAC) and Europe.

Margin Analysis

Gross profit in the quarter came in at \$398.2 million, up 5.8% year over year. Adjusted gross margin, as a percentage of revenues was 52.4%, up 100 bps year over year.

Adjusted operating income was \$192.3 million, up 17% year over year.

Adjusted operating margin, as a percentage of revenues was 23.9%, up 220 bps.

Financial Update

In the fourth quarter, cash and cash equivalents came in at \$191.9 million, increasing 17.6% from the prior-year quarter.

During the reported quarter, net cash provided by operating activities came in at \$215.2 million, up 34.9% from the year-ago quarter.

2020 Guidance

PerkinElmer estimates adjusted earnings per share between \$4.50 and \$4.60. Moreover, revenues are anticipated to be in the range of \$3.05-\$3.09 billion.

For the first-quarter 2020, the company anticipates adjusted earnings per share of 70 cents. Revenues are expected to total \$700 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 down 19.3% and 21% in the year-to-date and in trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are down 17.6% while the Zacks Medical Market is down 9.9% in the year-to-date period. Over the past year, the Zacks sub-industry is down 17.4% and sector is down 0.9%.

The S&P 500 index is down 13.4% in the year-to-date period and 2.1% in the past year.

The stock is currently trading at 16.7X Forward 12-months earnings, which compares to 22.3X for the Zacks sub-industry, 20.3X for the Zacks sector and 16.2X 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 19.8X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$82 price target reflects 17.5X 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	16.68	22.25	20.25	18.16
	5-Year High	26.46	26.74	21.92	19.34
	5-Year Low	14.33	18.41	16.71	15.19
	5-Year Median	19.81	22.25	19.21	17.45
P/S F12M	Current	2.78	4.66	3.18	3.08
	5-Year High	3.81	5.92	3.58	3.44
	5-Year Low	1.97	3.63	2.32	2.54
	5-Year Median	2.98	4.81	3.09	3.00
P/B TTM	Current	3.10	9.60	4.25	3.71
	5-Year High	4.28	12.24	5.37	4.55
	5-Year Low	2.20	5.27	3.15	2.84
	5-Year Median	3.10	7.55	4.27	3.63

As of 04/09/2020

Industry Analysis Zacks Industry Rank: Bottom 22% (198 out of 253)



Top Peers

Agilent Technologies, Inc. (A)	Neutral
Abbott Laboratories (ABT)	Neutral
Becton, Dickinson and Company (BDX)	Neutral
Bio-Rad Laboratories, Inc. (BIO)	Neutral
Hologic, Inc. (HOLX)	Neutral
QIAGEN N.V. (QGEN)	Neutral
Thermo Fisher Scientific Inc. (TMO)	Neutral
Bruker Corporation (BRKR)	Underperform

Industry Comparison Industry: Instruments - Scientific				Industry Peers		
	PKI Neutral	X Industry	S&P 500	BRKR Underperform	QGEN Neutral	TMO Neutral
VGM Score	C	-	-	D	B	C
Market Cap	8.72 B	195.48 M	19.66 B	5.67 B	9.07 B	126.58 B
# of Analysts	7	6	13	6	4	9
Dividend Yield	0.36%	0.00%	2.18%	0.43%	0.00%	0.28%
Value Score	D	-	-	D	D	C
Cash/Price	0.02	0.09	0.06	0.13	0.09	0.02
EV/EBITDA	17.85	16.21	11.72	16.43	35.82	20.11
PEG Ratio	1.38	2.94	2.04	2.61	2.97	1.80
Price/Book (P/B)	3.09	1.98	2.66	6.18	3.57	4.29
Price/Cash Flow (P/CF)	12.49	17.59	10.44	17.64	14.98	17.55
P/E (F1)	19.16	20.94	17.51	25.67	28.95	25.16
Price/Sales (P/S)	3.02	2.60	2.12	2.74	5.94	4.96
Earnings Yield	5.08%	4.80%	5.65%	3.89%	3.47%	3.98%
Debt/Equity	0.79	0.31	0.70	0.94	0.56	0.58
Cash Flow (\$/share)	6.27	1.81	7.01	2.09	2.66	18.08
Growth Score	B	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	10.71%	10.32%	10.92%	15.94%	7.82%	13.63%
Proj. EPS Growth (F1/F0)	-3.03%	-0.36%	-1.14%	-8.71%	-3.85%	2.16%
Curr. Cash Flow Growth	15.05%	-4.57%	5.93%	12.63%	9.25%	6.99%
Hist. Cash Flow Growth (3-5 yrs)	12.03%	6.01%	8.55%	11.39%	5.76%	10.08%
Current Ratio	1.80	2.09	1.24	2.78	1.65	1.92
Debt/Capital	43.99%	42.15%	42.36%	48.99%	35.91%	36.53%
Net Margin	7.89%	4.23%	11.64%	9.51%	-2.72%	14.47%
Return on Equity	16.80%	5.94%	16.74%	27.62%	13.00%	17.24%
Sales/Assets	0.45	0.85	0.54	0.85	0.29	0.45
Proj. Sales Growth (F1/F0)	2.88%	0.00%	0.45%	-2.70%	0.81%	2.37%
Momentum Score	D	-	-	D	A	D
Daily Price Chg	0.59%	0.00%	2.48%	-0.51%	0.81%	3.33%
1 Week Price Chg	-4.81%	-4.55%	-4.40%	-8.65%	-0.45%	2.87%
4 Week Price Chg	11.18%	7.15%	11.26%	3.11%	0.23%	11.63%
12 Week Price Chg	-22.60%	-20.07%	-20.02%	-31.84%	16.44%	-5.75%
52 Week Price Chg	-21.93%	-21.59%	-11.31%	-5.86%	-2.93%	13.14%
20 Day Average Volume	1,062,734	143,354	3,931,994	1,129,932	1,988,287	2,947,777
(F1) EPS Est 1 week change	0.00%	0.00%	-0.12%	0.00%	0.00%	-0.43%
(F1) EPS Est 4 week change	-12.48%	-5.88%	-5.78%	-20.00%	-9.54%	-7.20%
(F1) EPS Est 12 week change	-14.09%	-8.44%	-7.64%	-21.82%	-7.00%	-7.20%
(Q1) EPS Est Mthly Chg	-25.69%	-25.69%	-10.13%	-51.88%	-38.67%	-13.49%

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	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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