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PerkinElmer, Inc. (PKI)

$100.63 (As of 01/13/20)

Price Target (6-12 Months): **$106.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/08/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:C
	Value: C | Growth: C | Momentum: C	

Summary

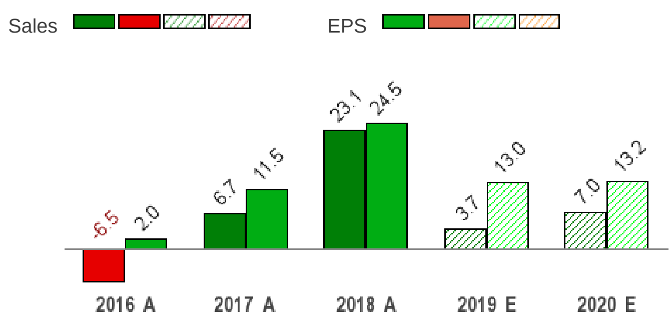
PerkinElmer witnessed strong performances by its core Discover & Analytics Solutions and Diagnostics units in the third quarter of 2019. Notably, strength in reproductive health, applied genomics and immunodiagnostics businesses has been driving the company's top line for quite some time now. Moreover, modest international growth is encouraging. The recent Meizheng Group buyout is an added positive for the stock. PerkinElmer exited the third quarter on a mixed note, wherein earnings surpassed the consensus mark but revenues missed the same. Meanwhile, negative currency movement affected the company's top line of late. 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	**$103.00 - $78.35**
20 Day Average Volume (sh)	**377,396**
Market Cap	**$11.2 B**
YTD Price Change	**3.6%**
Beta	**1.30**
Dividend / Div Yld	**$0.28 / 0.3%**
Industry	**Instruments - Scientific**
Zacks Industry Rank	**Top 6% (16 out of 254)**
Last EPS Surprise	**5.0%**
Last Sales Surprise	**-2.2%**
EPS F1 Est- 4 week change	**0.1%**
Expected Report Date	**01/27/2020**
Earnings ESP	**0.0%**
P/E TTM	**25.6**
P/E F1	**21.8**
PEG F1	**1.6**
P/S TTM	**3.9**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	702 E	774 E	753 E	851 E	3,084 E
2019	649 A	723 A	707 A	802 E	2,881 E
2018	644 A	703 A	674 A	756 A	2,778 A

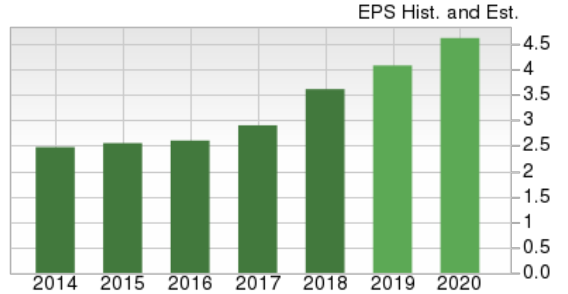
EPS Estimates

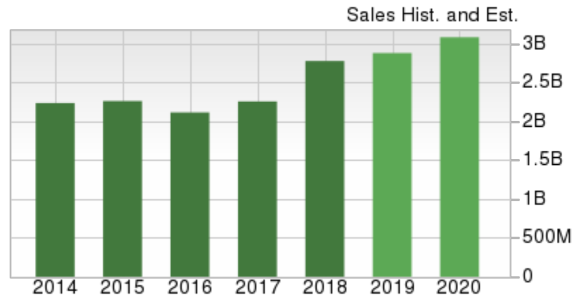
	Q1	Q2	Q3	Q4	Annual*
2020	$0.88 E	$1.17 E	$1.13 E	$1.40 E	$4.62 E
2019	$0.69 A	$1.00 A	$1.06 A	$1.32 E	$4.08 E
2018	$0.63 A	$0.91 A	$0.90 A	$1.18 A	$3.61 A

*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 01/13/2020. The reports text is as of 01/14/2020.

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.

2018 at a Glance

In 2018, the company posted revenues worth $2.78 billion, up 23.1% on a year-over-year basis. In 2018, Discovery & Analytical Solutions (DAS) revenues totaled $1.69 billion (61% of net revenues) and Diagnostics' revenues came in at $1.08 billion (39%).

Reasons To Buy:

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

▲ **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 third-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 third quarter, with low-single digit organic revenue growth in the United States, mid-single digit organic revenue growth in Asia Pacific (APAC) and Europe. Nonetheless, the company remains optimistic about the second-quarter operational performance.

▲ **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.

▲ **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 third-quarter 2019, gross profit came in at $342.3 million, up 3% year over year. Adjusted gross margin, as a percentage of revenues, was 51.7%, up 70 bps year over year. Adjusted operating income was $152.5 million, up 18.6% year over year. Adjusted operating margin, as a percentage of revenues, was 21.6% in the quarter, up 250 bps. It is encouraging to note that management now anticipates operating margin in 2019 to expand by 150 bps and is confident about 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.

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.

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:

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

- **Shares Down:** Shares of PerkinElmer have gained 22.6%, compared with the industry's growth of 24.8% over the past year. The S&P 500 Index's has rallied 27.8% in the same timeframe.

- **Valuation Looks Dull:** PerkinElmer is currently trading at a forward P/E (TTM basis) ratio of 25.61 over the past year, which compares with 20.56 for the S&P 500 index.

- **Potential Headwinds:** For fourth-quarter 2019 and full year, the company anticipates headwinds related to foreign exchange of about $11 million and $41 million, respectively.

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

  On the tariff side, PerkinElmer confirmed that it expects to face a headwind of $1 million or less in the coming quarters from China. Precisely, tariffs in the DAS unit are likely to be on the higher end because the company trades products worth $75 million to $80 million from United States to China.

- **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 third-quarter 2019, PerkinElmer's revenues were impacted by 2% 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 third-quarter 2019 with approximately $2.3 billion in debt and nearly $393 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.

Last Earnings Report

PerkinElmer Q3 Earnings Beat Estimates, Revenues Miss

Quarter Ending	09/2019
Report Date	Oct 30, 2019
Sales Surprise	-2.16%
EPS Surprise	4.95%
Quarterly EPS	1.06
Annual EPS (TTM)	3.93

PerkinElmer, Inc. reported third-quarter 2019 adjusted earnings per share of $1.06, which beat the Zacks Consensus Estimate of $1.01 per share by 4.9%. Moreover, the bottom line improved 17.8% from the year-ago quarter.

Based in Waltham, MA, this leading MedTech company reported revenues of $706.9 million, up 4.8% from the year-ago quarter and improved 5% organically. Adjusted revenues in the reported quarter came in at $707.1 million, up 4.8% year over year. However, the top line lagged the Zacks Consensus Estimate of $$722.5 million by 2.2%.

Segment Details

DAS

At this segment, revenues totaled $426.9 million, reflecting an improvement of 5.1% from the year-ago quarter. Organically, the segment grew 4% in the quarter under review. Per management, the third-quarter performance was affected by soft performance in applied markets. However, solid show by life sciences contributed to organic revenues.

Coming to profits at the DAS segment, the company reported third-quarter 2019 adjusted operating income of $86.2 million, up 26.8% from the year-ago quarter.

Diagnostics segment

Revenues at this segment amounted to $280 million, up 4.4% on a year-over-year basis. Adjusted revenues in the segment totaled $280.2 million, up 4.4% from the prior-year quarter. Organically, the segment improved 6% in the third quarter. Per management, the upside can be attributed to strength across reproductive health and immunodiagnostics business lines.

Adjusted operating income in the segment totaled $79.7 million, up 4.6% from the year-ago quarter.

Geographical Details

Per management, the major geographies witnessed a mixed third 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 $342.3 million, up 3% year over year.
Adjusted gross margin, as a percentage of revenues, was 51.7%, up 70 bps year over year.

Adjusted operating income was $152.5 million, up 18.6% year over year. Adjusted operating margin, as a percentage of revenues, was 21.6% in the quarter, up 250 bps.

Financial Update

In the third quarter, cash and cash equivalents came in at $392.9 million, which increased a whopping 161.9% sequentially.

During the reported quarter, net cash provided by operating activities came in at $106.7 million, up 14.5% from the year-ago quarter.

2019 Guidance Raised

PerkinElmer now expects 2019 adjusted EPS of $4.07.

Acquisition Update

The company announced the buyout of Meizheng Group – a leading food safety testing company in China. The buyout is likely to strengthen PerkinElmer's food safety abilities in attractive markets, which includes pathogen, toxin and drug residue testing. Further, the acquisition is likely to bolster PerkinElmer's assay capabilities.

Valuation

PerkinElmer's shares are up 3.6% and 23.5% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 2.1% while the Zacks Computer and Technology Market is up 4.9% in the year-to-date period. Over the past year, the Zacks sub-industry is up 24.8% and 37.7%, respectively.

The S&P 500 index is up 2.1% in the year-to-date period and 27.8% in the past year.

The stock is currently trading at 21.73X Forward 12-months earnings, which compares to 25.29X for the Zacks sub-industry, 22.94X for the Zacks sector and 19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.46X and as low as 15.09X, with a 5-year median of 19.58X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our $106 price target reflects 23X 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	21.73	25.29	22.94	19
	5-Year High	26.46	26.74	22.94	19.34
	5-Year Low	15.09	18.41	16.87	15.17
	5-Year Median	19.58	22.15	19.24	17.44
P/S F12M	Current	3.62	5.15	3.7	3.52
	5-Year High	3.81	5.92	3.7	3.81
	5-Year Low	1.97	3.63	2.3	1.97
	5-Year Median	2.93	4.8	3.01	2.93
P/B TTM	Current	4.13	11.91	5.54	4.49
	5-Year High	4.28	11.91	5.54	4.49
	5-Year Low	2.2	5.27	3.13	2.85
	5-Year Median	3.07	7.43	4.22	3.61

As of 01/13/2020

Industry Analysis **Zacks Industry Rank:** Top 6% (16 out of 254)

Top Peers

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

Industry Comparison Industry: Instruments - Scientific

Industry Peers

	PKI Neutral	**X Industry**	**S&P 500**	**BRKR** Neutral	**QGEN** Neutral	**TMO** Neutral
VGM Score	C	-	-	C	D	B
Market Cap	11.18 B	284.22 M	24.31 B	8.16 B	7.92 B	133.14 B
# of Analysts	8	6	13	6	7	9
Dividend Yield	0.28%	0.00%	1.76%	0.30%	0.00%	0.23%
Value Score	C	-	-	D	C	C
Cash/Price	0.04	0.05	0.04	0.04	0.10	0.01
EV/EBITDA	24.08	19.31	14.12	27.22	16.46	26.81
PEG Ratio	1.57	2.30	2.05	2.30	2.60	1.95
Price/Book (P/B)	4.13	2.17	3.34	9.55	3.21	4.54
Price/Cash Flow (P/CF)	18.48	18.48	13.66	29.09	14.30	19.72
P/E (F1)	21.83	22.51	18.82	28.91	23.75	24.42
Price/Sales (P/S)	3.94	2.18	2.64	4.03	5.22	5.28
Earnings Yield	4.58%	4.45%	5.29%	3.45%	4.21%	4.10%
Debt/Equity	0.70	0.67	0.72	0.67	0.68	0.56
Cash Flow ($/share)	5.45	1.81	6.94	1.82	2.46	16.84
Growth Score	C	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	9.84%	6.93%	10.56%	16.52%	7.59%	13.25%
Proj. EPS Growth (F1/F0)	13.25%	12.39%	7.49%	12.82%	5.72%	10.29%
Curr. Cash Flow Growth	40.05%	5.99%	14.83%	11.27%	3.23%	16.70%
Hist. Cash Flow Growth (3-5 yrs)	10.37%	8.44%	9.00%	8.40%	4.46%	17.85%
Current Ratio	1.30	2.02	1.23	2.23	2.45	1.80
Debt/Capital	41.30%	41.07%	42.99%	40.84%	40.63%	35.83%
Net Margin	8.27%	4.83%	11.08%	10.20%	-1.68%	14.24%
Return on Equity	16.45%	7.29%	17.16%	28.02%	12.24%	17.16%
Sales/Assets	0.45	0.78	0.55	0.89	0.28	0.45
Proj. Sales Growth (F1/F0)	7.06%	1.66%	4.23%	5.89%	4.89%	5.77%
Momentum Score	C	-	-	B	F	B
Daily Price Chg	0.29%	0.14%	0.73%	2.08%	1.56%	1.00%
1 Week Price Chg	3.45%	1.63%	0.39%	2.98%	1.83%	1.83%
4 Week Price Chg	5.18%	5.32%	1.84%	7.11%	-14.86%	3.29%
12 Week Price Chg	19.66%	3.72%	6.48%	20.56%	24.94%	17.10%
52 Week Price Chg	23.14%	8.45%	23.15%	58.07%	-2.58%	41.26%
20 Day Average Volume	377,396	63,921	1,578,594	384,143	3,089,888	1,007,217
(F1) EPS Est 1 week change	0.14%	0.02%	0.00%	0.18%	0.00%	0.04%
(F1) EPS Est 4 week change	0.14%	0.02%	0.00%	0.18%	-0.29%	0.04%
(F1) EPS Est 12 week change	0.39%	-0.47%	-0.48%	-0.47%	-3.47%	0.28%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	-0.56%

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	C
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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