Aug 14, 2020

PerkinElmer, Inc. (PKI)

$120.00 (As of 08/13/20)

Price Target (6-12 Months): **$138.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Outperform**
	(Since: 07/15/20)	
	Prior Recommendation: Neutral	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**1-Strong Buy**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: C	Momentum: C

Summary

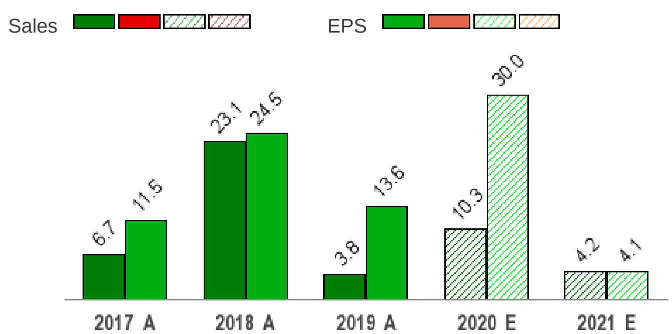
PerkinElmer exited the second quarter on a strong note, with both earnings and revenues surpassing their respective consensus marks. The company witnessed robust performance by its core Diagnostics unit in the quarter under review. Modest growth in Europe and the United States is also encouraging. The 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. However, negative currency movements impacted the company's top line in the quarter under review. Further, Discover & Analytics segment exhibited weak performance in the second quarter. Moreover, PerkinElmer continues to make acquisitions, which increases integration risks.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$123.21 - $62.91
20 Day Average Volume (sh)	981,790
Market Cap	$13.4 B
YTD Price Change	23.6%
Beta	1.43
Dividend / Div Yld	$0.28 / 0.2%
Industry	Instruments - Scientific
Zacks Industry Rank	Top 13% (34 out of 252)
Last EPS Surprise	68.8%
Last Sales Surprise	1.3%
EPS F1 Est- 4 week change	32.8%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	25.8
P/E F1	22.5
PEG F1	1.6
P/S TTM	4.5

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	700 E	817 E	813 E	916 E	3,313 E
2020	652 A	812 A	822 E	893 E	3,180 E
2019	649 A	723 A	707 A	806 A	2,884 A

EPS Estimates

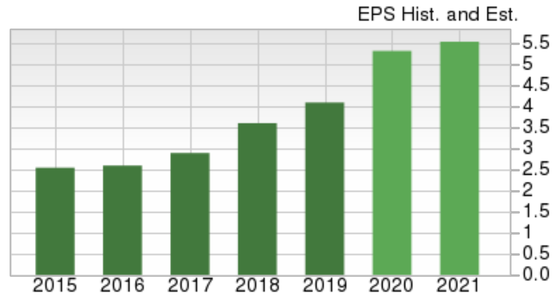
	Q1	Q2	Q3	Q4	Annual*
2021	$1.01 E	$1.31 E	$1.32 E	$1.58 E	$5.55 E
2020	$0.67 A	$1.57 A	$1.42 E	$1.58 E	$5.33 E
2019	$0.69 A	$1.00 A	$1.06 A	$1.35 A	$4.10 A

*Quarterly figures may not add up to annual.

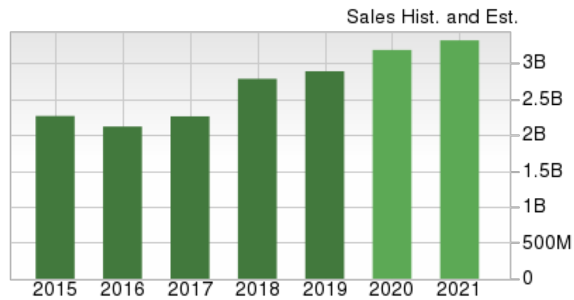
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/13/2020. The reports text is as of 08/14/2020.

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.

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 48.7%, outperforming the industry's rally of 23.7% over the past year. Wide array of products, global exposure and strength in emerging markets continue to favor the stock.

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. 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 second quarter with low double-digit organic revenue growth in the United States. While Europe saw strong double-digit growth, Asia Pacific (APAC) remained flat on a year-over-year basis. China exhibited sequential improvement.

▲ **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.

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.

In July, the company launched a dry blood spot (DBS)-based test for SARS-CoV-2 IgG using its GSP/DELFIA platform. The platform enables processing of up to 5,000 samples per day. The finger-prick sample collection device facilitates both decentralized sample collection and high-throughput testing. Notably, the product is being commercially rolled out as a CE-IVD test and the company intends to apply for its FDA Emergency Use Authorization (EUA) soon.

In June, PerkinElmer collaborated with the world's largest professional society of hematologists — American Society of Hematology ("ASH") — to lend support to an initiative to bolster capacity for newborn screening, education and clinical interventions for sickle cell disease (SCD) in sub-Saharan Africa. Notably, PerkinElmer is a global provider of hemoglobin isoelectric focusing (IEF) technology, which helps in the detection of SCD. Further in the same month, the company added the DELFIA Xpress sFlt-1 kit to its CE-IVD pre-eclampsia product offerings. This kit will help in the short-term prediction of pre-eclampsia and enable diagnosis in the second and third trimesters of pregnancy together with the DELFIA Xpress PlGF 1-2-3 assay.

In April, the company launched solutions to simplify analysis for labs in pharmaceuticals, semiconductors, biomonitoring, food and materials.

▲ **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 second quarter, adjusted gross profit in the quarter came in at $463.9 million, up 25.8% year over year. Adjusted gross margin, as a percentage of revenues was 57.1%, up 610 basis points (bps) year over year. Adjusted operating income was $228.2 million, up 56.3% year over year. Adjusted operating margin, as a percentage of revenues was 28.1%, up 790 bps. Notably, with respect to profitability, the company delivered the best quarter of profitability since the inception of modern day PerkinElmer in 1999, with the aforementioned adjusted operating margin.

▲ **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 of 2019, 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. The company estimates a double-digit return on invested capital by the fourth year of the completion of the buyout. 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.

▲ **Stable Liquidity Position**: PerkinElmer exited second-quarter 2020 with cash and cash equivalents amounting to $218.5 million, down from

$195 million sequentially. Meanwhile, the company's long-term debt came at $1.96 billion in the second quarter, compared with $2.19 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 $9.8 million in the second quarter, declining from $21 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.

Risks

- **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 the second quarter, revenues were impacted by foreign exchange headwind of 2%. Per the second 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.

Last Earnings Report

PerkinElmer Q2 Earnings and Revenues Surpass Estimates

Quarter Ending	06/2020
Report Date	**Jul 28, 2020**
Sales Surprise	**1.27%**
EPS Surprise	**68.82%**
Quarterly EPS	**1.57**
Annual EPS (TTM)	**4.65**

PerkinElmer, Inc. reported second-quarter 2020 adjusted earnings per share of $1.57, which beat the Zacks Consensus Estimate of 93 cents per share by 68.8%. Moreover, the bottom line improved 57% from the year-ago quarter.

Based in Waltham, MA, this leading MedTech company reported revenues of $811.7 million, up 12.3% from the year-ago quarter and 13% organically. Adjusted revenues in the reported quarter came in at $811.9 million, up 12.3% year over year. The top line also surpassed the Zacks Consensus Estimate by 1.3%.

Segment Details

Discover & Analytics Solutions

At this segment, revenues were $391 million, reflecting a decline of 9.9% from the year-ago quarter. Organically, the segment saw a decline of 10% 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 second-quarter 2020 adjusted operating income of $57.4 million, down 29.6% from the year-ago quarter.

Diagnostics segment

Revenues at this segment amounted to $420.7 million, up 45.8% on a year-over-year basis. Organically, the segment improved 48% in the second quarter. Per management, strength in immunodiagnostics and applied genomics business drove the upside. However, modest decline across reproductive health business line partially offset the upside.

Adjusted operating income in the segment totaled $189.6 million, up 137.9% from the year-ago quarter.

Geographical Details

Per management, the major geographies witnessed a mixed second quarter with low double-digit organic revenue growth in the United States. While Europe saw strong double-digit growth, Asia Pacific (APAC) remained flat on a year-over-year basis. China exhibited sequential improvement.

Margin Analysis

Adjusted gross profit in the quarter came in at $463.9 million, up 25.8% year over year. Adjusted gross margin, as a percentage of revenues was 57.1%, up 610 basis points (bps) year over year.

Adjusted operating income was $228.2 million, up 56.3% year over year. Adjusted operating margin, as a percentage of revenues was 28.1%, up 790 bps.

Financial Update

The company exited the second quarter with cash and cash equivalents of $218.5 million, increasing 13.9% from the year-end 2019.

During the reported quarter, net cash provided by operating activities amounted to $138.6 million, compared with net cash utilized in operating activities of $46.9 million in the year-ago period.

Guidance

PerkinElmer has provided guidance for third-quarter 2020.
The company expects adjusted earnings per share in the range of $1.18-$1.53. Revenues are anticipated between $760 million and $860 million.

Valuation

PerkinElmer's shares are up 23.6% and 48.7% in the year-to-date period and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are down 6% while the Zacks Medical Market is up 20.4% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 23.7% and 38.9%, respectively.

The S&P 500 index is up 0.4% in the year-to-date period and 8.4% in the past year.

The stock is currently trading at 21.9X Forward 12-months earnings, which compares to 23.9X for the Zacks sub-industry, 26.3X for the Zacks sector and 22.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.1X and as low as 14.3X, with a 5-year median of 20.2X.

Our Outperform recommendation indicates that the stock will perform above the market. Our $138 price target reflects 25.3X 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	21.96	23.86	26.27	22.91
	5-Year High	27.12	23.74	26.31	22.91
	5-Year Low	14.33	18.41	16.72	15.25
	5-Year Median	20.2	22.61	19.61	17.58
P/S F12M	Current	4.1	4.07	3.7	3.7
	5-Year High	4.43	4.07	3.7	3.7
	5-Year Low	1.97	2.32	2.53	2.53
	5-Year Median	3.05	3.14	3.05	3.05
P/B TTM	Current	4.51	12.72	6.26	4.71
	5-Year High	4.59	12.72	6.34	4.71
	5-Year Low	2.2	5.27	3.16	2.83
	5-Year Median	3.19	7.73	4.43	3.74

As of 08/13/2020

Industry Analysis **Zacks Industry Rank:** Top 13% (34 out of 252)

Top Peers

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

Industry Comparison Industry: Instruments - Scientific

	PKI	X Industry	S&P 500	BRKR	QGEN	TMO
				Industry Peers		
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Outperform	Outperform
Zacks Rank (Short Term)	1	-	-	3	1	1
VGM Score	D	-	-	F	D	D
Market Cap	13.42 B	246.54 M	23.58 B	6.73 B	11.08 B	164.80 B
# of Analysts	6	6	14	6	2	8
Dividend Yield	0.23%	0.00%	1.68%	0.36%	0.00%	0.21%
Value Score	D	-	-	D	C	D
Cash/Price	0.02	0.08	0.07	0.13	0.08	0.04
EV/EBITDA	24.94	17.65	13.34	19.24	43.11	25.58
PEG Ratio	1.62	5.47	2.99	6.61	1.04	1.86
Price/Book (P/B)	4.50	1.99	3.20	7.48	4.23	5.52
Price/Cash Flow (P/CF)	19.13	16.18	12.83	21.08	18.31	23.03
P/E (F1)	22.51	30.95	21.99	35.33	23.28	27.86
Price/Sales (P/S)	4.51	3.10	2.53	3.42	6.88	6.28
Earnings Yield	4.44%	3.30%	4.35%	2.84%	4.30%	3.59%
Debt/Equity	0.61	0.64	0.77	1.07	0.53	0.69
Cash Flow ($/share)	6.27	0.71	6.94	2.09	2.66	18.08
Growth Score	C	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	12.49%	12.05%	10.41%	11.98%	9.09%	14.10%
Proj. EPS Growth (F1/F0)	29.96%	-2.54%	-6.32%	-20.70%	46.15%	21.09%
Curr. Cash Flow Growth	15.05%	7.99%	5.20%	12.63%	9.25%	6.99%
Hist. Cash Flow Growth (3-5 yrs)	12.03%	9.94%	8.55%	11.39%	5.76%	10.08%
Current Ratio	1.32	1.95	1.33	2.61	1.71	2.62
Debt/Capital	37.79%	38.44%	44.59%	51.60%	34.82%	40.86%
Net Margin	9.87%	1.61%	10.13%	8.35%	0.86%	14.12%
Return on Equity	18.40%	1.76%	14.51%	22.70%	15.85%	18.18%
Sales/Assets	0.46	0.71	0.51	0.71	0.31	0.45
Proj. Sales Growth (F1/F0)	10.26%	0.00%	-1.43%	-7.38%	16.47%	9.77%
Momentum Score	C	-	-	C	F	D
Daily Price Chg	0.11%	0.00%	-0.44%	0.05%	0.48%	0.10%
1 Week Price Chg	0.35%	8.83%	2.30%	-1.10%	-4.33%	0.09%
4 Week Price Chg	10.15%	10.25%	4.38%	2.66%	2.03%	6.16%
12 Week Price Chg	29.73%	17.59%	13.59%	5.95%	13.32%	24.08%
52 Week Price Chg	48.77%	13.22%	5.75%	10.09%	41.30%	52.43%
20 Day Average Volume	981,790	85,800	1,984,154	514,403	1,678,027	1,250,930
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	32.77%	9.31%	2.08%	8.10%	-0.48%	17.49%
(F1) EPS Est 12 week change	40.80%	9.43%	2.66%	8.73%	20.46%	25.61%
(Q1) EPS Est Mthly Chg	41.85%	10.52%	0.94%	-0.75%	1.82%	30.04%

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.

Value Score	D
Growth Score	C
Momentum Score	C
VGM Score	D

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.

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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