Ingersoll-Rand plc (IR)

Updated October 24th, 2018 by Bob Ciura

Key Metrics

Current Price:	$94	**5 Year CAGR Estimate:**	12.1%	**Volatility Percentile:**	40.1%
Fair Value Price:	$96	**5 Year Growth Estimate:**	10%	**Momentum Percentile:**	47.8%
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	0.3%	**Valuation Percentile:**	88.4%
Dividend Yield:	1.8%	**5 Year Price Target**	$152	**Growth Percentile:**	55.2%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	74.9%

Overview & Current Events

Ingersoll-Rand Plc is an industrial manufacturer, founded in 1871. Today, it is headquartered in Ireland and has a market capitalization of $25 billion. It develops products, services, and solutions to enhance the quality, energy efficiency and comfort of air in homes and buildings. It also transports and protects food and perishable items. These businesses are housed in the company's two operating segments, Climate and Industrial. Ingersoll-Rand manufactures a number of popular brands, including Ingersoll-Rand, Trane, Thermo King, American Standard, ARO, and Club Car.

On 10/24/18 the company announced strong results for the 2018 third quarter. Quarterly revenue of $4.03 billion increased 10% from the same quarter a year ago, and beat analyst expectations by $30 million. Performance was evenly balanced, as Ingersoll-Rand generated 10% organic growth in the Climate segment, and 9% growth in the Industrial segment. Adjusted earnings-per-share of $1.75 also beat analyst expectations, and increased 22% year-over-year. Earnings growth was primarily attributable to revenue growth, margin expansion, and share repurchases.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.69	$1.41	$2.23	$2.82	$3.29	$2.08	$3.33	$3.73	$4.13	$4.52	***$5.57***	***$8.86***
DPS	$0.72	$0.50	$0.28	$0.59	$0.64	$0.84	$1.00	$1.16	$1.36	$1.70	***$1.96***	***$3.16***
Shares	371	321	328	297	296	278	263	231	259	250	***250***	***250***

Ingersoll-Rand expects 2018 to be a successful year. For 2018, the company expects 7% to 8% organic revenue growth. Demand remains strong, evident by 11% organic bookings growth last quarter. The company also raised its earnings guidance after providing third-quarter results. Ingersoll-Rand expects adjusted earnings of approximately $5.57. We have adjusted our forecasts as a result.

Ingersoll-Rand's growth outlook is due to the continued expansion of the global economy, as well as a strong North American housing market. Another long-term growth catalyst is technology and innovation designed to solve climate-related issues. Ingersoll-Rand's climate segment represents nearly 80% of revenue. This will be a major growth story over the next several years. Assuming the global economy stays out of recession, we expect 10% annual earnings growth over the next five years. Dividends are also expected to increase at a 10% compound annual rate through 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	12.7	17.5	16.7	14.3	12.9	28.1	18.1	16.7	15.6	19.0	***16.9***	***17.2***
Avg. Yld.	2.1%	2.0%	0.8%	1.5%	1.5%	1.4%	1.7%	1.9%	2.1%	2.0%	***1.8%***	***1.5%***

Ingersoll-Rand stock has declined since our last report, which has reduced the stock valuation. As a result, the stock now trades for a price-to-earnings ratio of 16.9, which is slightly below our fair value estimate of 17.2. This means the shares are now slightly undervalued, demonstrating the benefit of avoiding stocks trading above fair value. Going forward, valuation changes are expected to positively impact the stock, by approximately 0.3% per year over the next five years. The other benefit of waiting for a stock valuation to come down is that the dividend yield is now 1.8% after the 20%

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withholding tax, compared with a dividend yield of 1.5% at our last report. Ingersoll-Rand is a strong dividend growth stock. The company raised its dividend by 12.5% in 2017.

Safety, Quality, Competitive Advantage, & Recession Resiliency

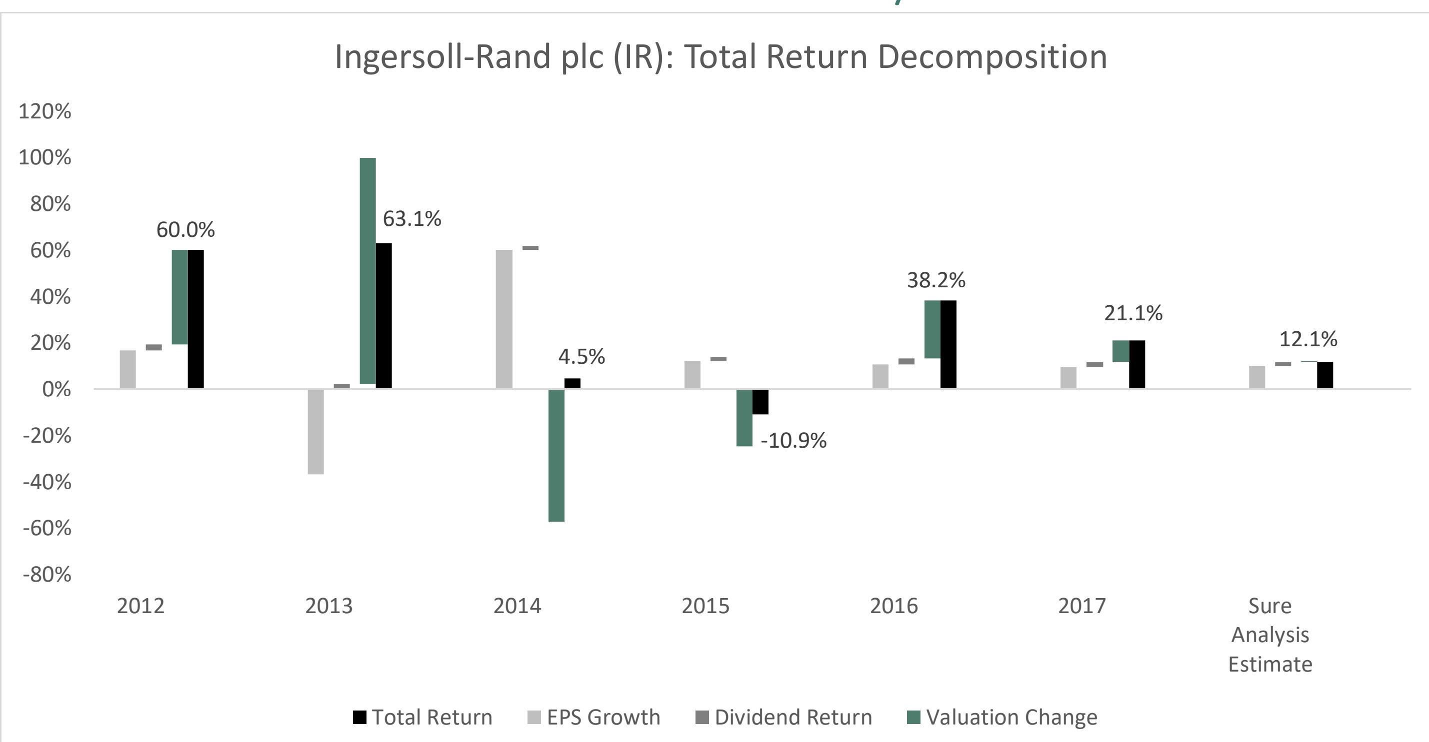
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	16.6%	17.8%	19.7%	18.5%	18.7%	20.5%	22.6%	24.1%	24.1%	24.1%	***24.0%***	***24.0%***
Debt/A	67.7%	64.1%	59.7%	62.8%	60.9%	59.6%	65.1%	64.8%	61.4%	60.3%	***60.5%***	***60.5%***
Int. Cov.	-16.8	3.0	4.8	1.8	4.7	4.2	6.8	6.9	9.2	7.9	***8.0***	***8.0***
Payout	26.8%	35.5%	12.6%	20.9%	19.5%	40.4%	30.0%	31.1%	32.9%	37.6%	***35.2%***	***35.6%***
Std. Dev.	53.1%	58.6%	27.1%	39.1%	22.5%	14.4%	19.7%	22.1%	22.9%	17.1%	***17.0%***	***17.0%***

Ingersoll-Rand has brand power and competitive advantages. These qualities are reflected across its safety and quality metrics. Ingersoll-Rand has a manageable level of debt, a high level of interest coverage, and a low payout ratio, which indicates the dividend is secure. Ingersoll-Rand's competitive advantages are its strong brands and investments in product innovation. The company delivered more than 80 new products and services in 2017, across a number of product categories. At the same time, Ingersoll-Rand is not resistant to recessions. As a large industrial manufacturer, Ingersoll-Rand is highly sensitive to economic downturns. Rising inflation and tariffs are the key risk factors for Ingersoll-Rand in the near-term, while a global recession would significantly impact earnings over the next several years.

Final Thoughts & Recommendation

Ingersoll-Rand is a high-quality business. It has benefited greatly from steady global economic growth in the years since the Great Recession ended. It has a positive future growth outlook, thanks to product innovation and competitive advantages. We rate Ingersoll-Rand stock as a buy, due to 12% expected annual returns.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue										
Gross Profit										
Gross Margin										
SG&A Exp.										
D&A Exp.										
Operating Profit										
Operating Margin										
Net Profit										
Net Margin										
Free Cash Flow										
Income Tax										

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets										
Cash & Equivalents										
Accounts Receivable										
Inventories										
Goodwill & Int. Ass.										
Total Liabilities										
Accounts Payable										
Long-Term Debt										
Shareholder's Equity										
D/E Ratio										

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets										
Return on Equity										
ROIC										
Shares Out.										
Revenue/Share										
FCF/Share										

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.