Ingersoll-Rand plc (IR)

Updated February 3rd, 2019 by Eli Inkrot

Key Metrics

Current Price:	$101	**5 Year CAGR Estimate:**	9.0%	**Volatility Percentile:**	33.5%
Fair Value Price:	$100	**5 Year Growth Estimate:**	7.1%	**Momentum Percentile:**	67.0%
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.2%	**Growth Percentile:**	70.8%
Dividend Yield:	2.1%	**5 Year Price Target**	$141	**Valuation Percentile:**	45.7%
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Total Return Percentile:**	45.3%

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 January 30th, 2018 Ingersoll-Rand released Q4 and full year 2018 results for the period ending December 31st, 2018. For the quarter Ingersoll-Rand reported $3.90 billion in net revenue, an increase of 9% compared to Q4 2017, and adjusted earnings-per-share of $1.32 against $1.02 in the year ago quarter. For the full year the company reported $15.67 billion in net revenues, a 10% increase compared to 2017 driven by a 10.5% increase in the Climate segment and a 9.7% increase in the Industrial segment. Adjusted earnings-per-share came in at $5.61 against $4.51 in 2017.

Ingersoll-Rand also provided full-year 2019 guidance. The company anticipates that revenues will be up 4% to 5% and adjusted earnings-per-share will come in between $6.15 and $6.35. Diluted shares outstanding are expected to average 244 million and the company believes its tax rate will be approximately 21% to 22%.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.41	$2.23	$2.82	$3.29	$2.08	$3.33	$3.73	$4.13	$4.52	$5.61	***$6.25***	***$8.80***
DPS	$0.50	$0.28	$0.59	$0.64	$0.84	$1.00	$1.16	$1.36	$1.70	$1.96	***$2.22***	***$3.34***
Shares	321	328	297	296	278	263	261	259	249	250	***244***	***235***

From 2008 through 2018, Ingersoll-Rand grew earnings-per-share by an average compound rate of 7.6% per annum. We believe this is fair historical barometer as it incorporates a full business cycle (the company generates solid profits year-in, year-out, but it is susceptible to general economic cyclicality).

Moving forward Ingersoll-Rand has a healthy growth outlook 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 and will be a major growth story over the next several years. We are upbeat on the growth prospects of both the business and the industry, but we are cognizant of its cyclical nature.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	17.5	16.7	14.3	12.9	28.1	18.1	16.7	15.6	19.0	16.3	***16.2***	***16.0***
Avg. Yld.	2.0%	0.8%	1.5%	1.5%	1.4%	1.7%	1.9%	2.1%	2.0%	2.1%	***2.2%***	***2.4%***

Since 2010 (excluding 2013 when reported earnings dipped) shares of Ingersoll-Rand have traded hands with an average P/E ratio of about 16 times earnings. We believe this multiple is reasonable, weighing the solid growth prospects with the occasional cyclicality, implying that today's valuation is more or less fair. The dividend component is average, but has plenty of growth runway ahead of it. Note that Ingersoll-Rand has paid cash dividends since 1910, but 1) this payment was reduced in 2010 and 2) due to the company's Irish domicile, dividends may be subject to a 20% withholding tax.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	35%	13%	21%	19%	40%	30%	31%	33%	38%	35%	***36%***	***38%***

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.

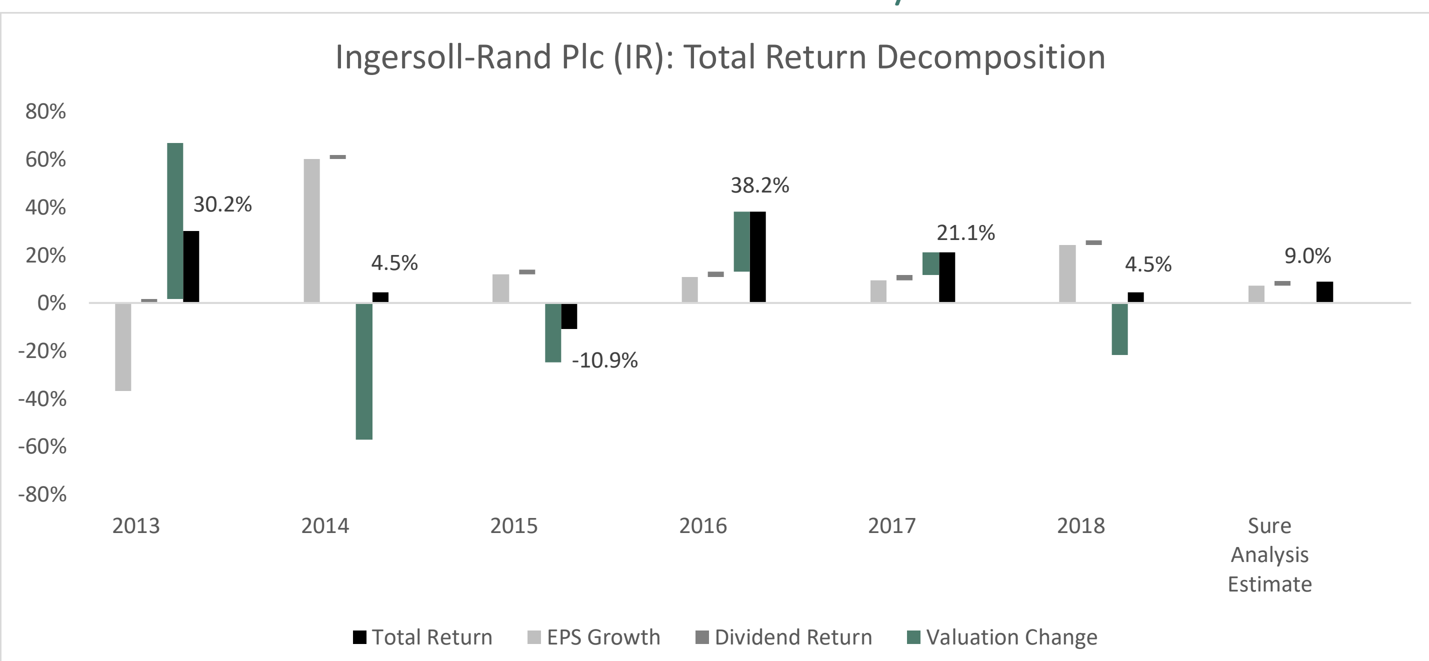
During the last recession Ingersoll-Rand reported earnings-per-share of $2.69, $1.41, $2.23 and $2.82 for the 2008 through 2011 stretch. Additionally, the dividend was reduced from $0.50 in 2009 down to $0.28 in 2010. While the bounce back performance is admirable, the company is still sensitive to economic downturns. Moreover, rising inflation and tariffs could provide additional risks in the short-term.

As of the most recent report, Ingersoll-Rand held $903 million in cash, $5.7 billion in current assets and $17.9 billion in total assets against $4.3 billion in current liabilities and $10.9 billion in total liabilities. Notably, goodwill and intangibles made up 54% of assets. Long-term debt stood at $4.3 billion against underlying annual earnings power of about $1.5 billion.

Final Thoughts & Recommendation

Ingersoll-Rand's share price is up about 7% since our last update, while earnings came in more or less as anticipated. The business has performed well since the last recession, but we are mindful of the possibility of lackluster results should (or perhaps more accurately when) another recession comes along. The company's earnings and dividend growth prospects look solid. However, our enthusiasm is offset by the current fair valuation. For now, we rate these shares as a hold.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	13102	14001	12761	11988	12351	12891	13301	13509	14198	15668
Gross Profit	3560	3941	3481	3455	3628	3909	4023	4201	4386	4821
Gross Margin	27.2%	28.1%	27.3%	28.8%	29.4%	30.3%	30.2%	31.1%	30.9%	30.8%
SG&A Exp.	2687	2680	2395	2383	2523	2504	2532	2598	2721	2903
D&A Exp.	422	437	359	334	334	332	364	352	353	362
Operating Profit	872	1261	1086	1072	1105	1405	1492	1603	1665	1917
Op. Margin	6.7%	9.0%	8.5%	8.9%	8.9%	10.9%	11.2%	11.9%	11.7%	12.2%
Net Profit	451	642	343	1019	619	932	665	1476	1303	1338
Net Margin	3.4%	4.6%	2.7%	8.5%	5.0%	7.2%	5.0%	10.9%	9.2%	8.5%
Free Cash Flow	1531	516	970	952	849	740	639	1339	1302	1042
Income Tax	80	228	45	56	189	294	541	282	80	281

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	19991	19991	18844	18482	17658	17299	16718	17397	18173	17915
Cash & Equivalents	877	1014	1161	708	1937	1705	737	1715	1549	903
Acc. Receivable			2136	1870	2072	2119	2151	2223	2477	2679
Inventories	1176	1401	1278	1144	1166	1359	1411	1386	1555	1678
Goodwill & Int.	11649	11433	10438	9543	9463	9174	9656	9444	9679	9594
Total Liabilities	12815	11932	11828	11253	10527	11253	10838	10679	10966	10850
Accounts Payable	1065	1319	1224	1019	1163	1290	1249	1334	1556	1705
Long-Term Debt	4097	3684	3643	3229	3521	4224	4218	4070	4064	4091
Total Equity	7072	7964	6928	7148	7069	5987	5817	6644	7140	N/A
D/E Ratio	0.58	0.46	0.53	0.45	0.50	0.71	0.73	0.61	0.57	N/A

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	2.2%	3.2%	1.8%	5.5%	3.4%	5.3%	3.9%	8.7%	7.3%	7.4%
Return on Equity	6.6%	8.5%	4.6%	14.5%	8.7%	14.3%	11.3%	23.7%	18.9%	N/A
ROIC	3.9%	5.6%	3.1%	9.6%	5.9%	8.9%	6.5%	14.1%	11.8%	N/A
Shares Out.	321	328	297	296	278	263	261	259	249	250
Revenue/Share	39.81	41.20	37.61	38.60	41.40	47.00	49.67	51.62	55.01	62.65
FCF/Share	4.65	1.52	2.86	3.07	2.85	2.70	2.39	5.12	5.05	4.17

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