Ingersoll-Rand plc (IR)

Updated January 30th, 2020 by Eli Inkrot

Key Metrics

Current Price:	$133	**5 Year CAGR Estimate:**	4.4%	**Market Cap:**	$32.7 B
Fair Value Price:	$109	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	03/07/20
% Fair Value:	123%	**5 Year Valuation Multiple Estimate:**	-4.0%	**Dividend Payment Date[1]:**	03/29/20
Dividend Yield:	1.6%	**5 Year Price Target**	$153	**Years Of Dividend Growth[1]:**	9
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	17.8%

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 $33 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 April 30th, 2019 Ingersoll-Rand announced a definitive agreement to merge its industrial segment with Gardner Denver Holdings and spin-off this segment to shareholders. This transaction is expected to close in early 2020 and will create two separate companies, focusing on Industrial and a pure-play Climate Control business, to be called Trane Technologies. Ingersoll-Rand also completed the acquisition of Precision Flow Systems in May of 2019.

On January 29th, 2020 Ingersoll-Rand released Q4 2019 results for the period ending December 31st, 2019. For the quarter Ingersoll-Rand reported $4.15 billion in net revenue, a 6.6% increase, driven by a 6.1% increase in the Climate segment and an 8.2% increase in the Industrial segment. Adjusted operating income equaled $502 million, compared to $469 million previously, while adjusted earnings-per-share totaled $1.40 versus $1.32 in the year ago quarter. For the year, Ingersoll-Rand generated $16.6 billion in revenue, a 5.9% increase compared to 2018. Adjusted operating income equaled $2.23 billion compared to $2.01 billion previously, while earnings-per-share totaled $6.37 versus $5.61 in 2018.

Full year 2020 guidance for Trane Technologies, expected to trade with the ticker "TT" was provided, which excludes the Industrial segment that is set to be combined with Gardner Denver. The company expects $13.5 - $13.7 billion in revenue and a 15.3% - 15.7% adjusted operating margin, along with debt repayment and share repurchases.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.23	$2.82	$3.29	$2.08	$3.33	$3.73	$4.13	$4.52	$5.61	$6.37	***$6.80***	***9.54***
DPS	$0.28	$0.59	$0.64	$0.84	$1.00	$1.16	$1.36	$1.70	$1.96	$2.12	***$2.12***	***2.96***
Shares[2]	328	297	296	278	263	261	259	249	242	244	***245***	***240***

From 2008 through 2019, Ingersoll-Rand grew earnings-per-share by a compound rate of 8.2% per annum. We believe this is a reasonable historical barometer as it incorporates a full business cycle (the company generates solid profits, but it is susceptible to economic cyclicality) and have forecast 7% earnings growth over the intermediate term.

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. For now, we are treating the company as a combined business, but should the Gardner Denver transaction and subsequent spin-off occur, these two businesses will need to be parsed out.

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[1] Estimate

[2] In millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	16.7	14.3	12.9	28.1	18.1	16.7	15.6	19.0	16.6	17.8	***19.6***	***16.0***
Avg. Yld.	0.8%	1.5%	1.5%	1.4%	1.7%	1.9%	2.1%	2.0%	2.1%	1.9%	***1.6%***	***1.9%***

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. This would imply a fair amount of valuation headwind from this point.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	13%	21%	19%	40%	30%	31%	33%	38%	35%	33%	***31%***	***31%***

Ingersoll-Rand's competitive advantages are its strong brands and investments in product innovation. As an example, the company delivered more than 80 new products and services in 2017 across a number of product categories.

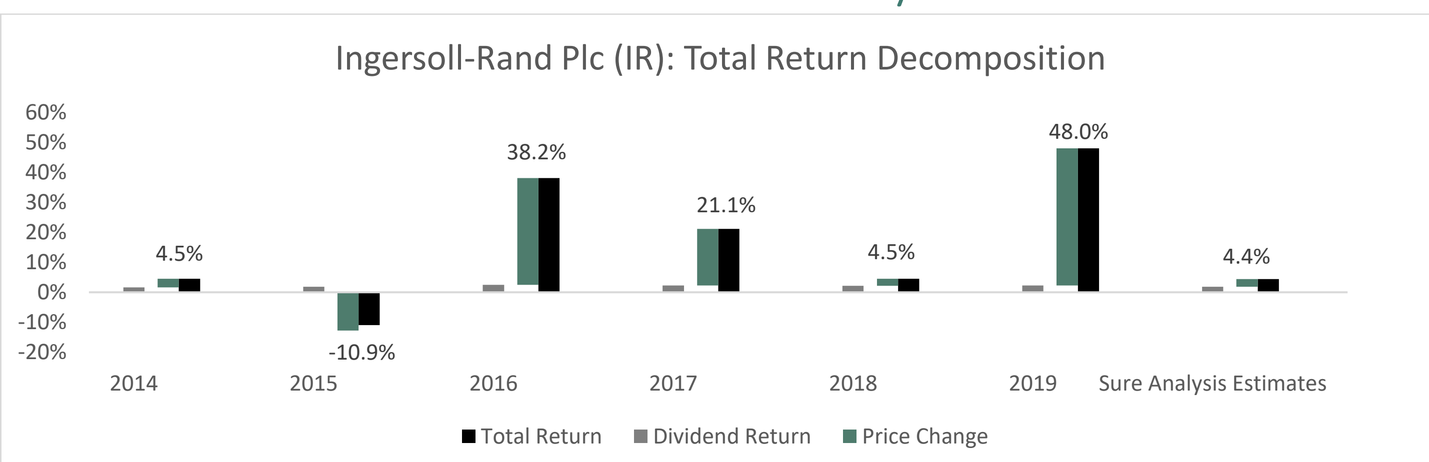
During the last recession Ingersoll-Rand reported earnings-per-share of $2.69, $1.41, $2.23 and $2.82 for the 2008 through 2011 stretch. Additionally, the dividend was reduced from $0.50 in 2009 down to $0.28 in 2010. While the bounce back performance is admirable, the company is still sensitive to economic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

As of the most recent report, Ingersoll-Rand held $1.3 billion in cash, $6.2 billion in current assets and $20.5 billion in total assets (with goodwill and intangibles making up 53% of assets) against $4.9 billion in current liabilities and $13.2 billion in total liabilities. Long-term debt stood at $4.9 billion against annual earnings power of about $1.7 billion.

Final Thoughts & Recommendation

Shares are up 4% since our last report. Ingersoll-Rand's 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. We forecast 4.4% total returns, driven by 7% growth and the 1.6% dividend yield, offset by a valuation headwind. Notably, the merger and subsequent spin-off can materially impact this thesis. For now, we rate shares as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	14,001	12,761	11,988	12,351	12,891	13,301	13,509	4,198	5,668	16,599
Gross Profit	3,941	3,481	3,455	3,628	3,909	4,023	4,201	4,386	4,821	5,147
Gross Margin	28.1%	27.3%	28.8%	29.4%	30.3%	30.2%	31.1%	31%	30.8%	31.0%
SG&A Exp.	2,680	2,395	2,383	2,523	2,504	2,532	2,598	2,721	2,903	3,130
D&A Exp.	437	359	334	334	332	364	352	353	362	397
Operating Profit	1,261	1,086	1,072	1,105	1,405	1,492	1,603	,665	1,917	2,018
Op. Margin	9.0%	8.5%	8.9%	8.9%	10.9%	11.2%	11.9%	12%	12.2%	12.2%
Net Profit	642	343	1,019	619	932	665	1,476	1,303	1,338	1,411
Net Margin	4.6%	2.7%	8.5%	5.0%	7.2%	5.0%	10.9%	9.2%	8.5%	8.5%
Free Cash Flow	516	970	952	849	740	639	1,339	1,302	1,042	1,665
Income Tax	228	45	56	189	294	541	282	80	281	354

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	19991	18844	18482	17658	17299	16718	17397	18173	17915	20,492
Cash & Equivalents	1014	1161	708	1937	1705	737	1715	1549	903	1,304
Acc. Receivable		2136	1870	2072	2119	2151	2223	2477	2679	2,798
Inventories	1401	1278	1144	1166	1359	1411	1386	1555	1678	1,712
Goodwill & Int.	11433	10438	9543	9463	9174	9656	9444	9679	9594	10,932
Total Liabilities	11932	11828	11253	10527	11253	10838	10679	10966	10850	13,180
Accounts Payable	1319	1224	1019	1163	1290	1249	1334	1556	1705	1,809
Long-Term Debt	3684	3643	3229	3521	4224	4218	4070	4064	4091	5,573
Total Equity	7964	6928	7148	7069	5987	5817	6644	7140	N/A	7,312
D/E Ratio	0.46	0.53	0.45	0.50	0.71	0.73	0.61	0.57	N/A	0.76

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	3.2%	1.8%	5.5%	3.4%	5.3%	3.9%	8.7%	7.3%	7.4%	7.3%
Return on Equity	8.5%	4.6%	14.5%	8.7%	14.3%	11.3%	23.7%	18.9%	N/A	19.7%
ROIC	5.6%	3.1%	9.6%	5.9%	8.9%	6.5%	14.1%	11.8%	N/A	11.7%
Shares Out.	328	297	296	278	263	261	259	249	250	244
Revenue/Share	41.20	37.61	38.60	41.40	47.00	49.67	51.62	55.01	62.65	67.92
FCF/Share	1.52	2.86	3.07	2.85	2.70	2.39	5.12	5.05	4.17	6.81

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