



Azenta Inc. (AZTA)

Updated December 5th, 2021, by Derek English

Key Metrics

Current Price:	\$106	5 Year CAGR Estimate:	-3.7%	Market Cap:	\$7.9 B
Fair Value Price:	\$63	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	12/02/21
% Fair Value:	169%	5 Year Valuation Multiple Estimate:	-14.5%	Dividend Payment Date:	12/23/21
Dividend Yield:	0.4%	5 Year Price Target	\$86	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	F	Last Dividend Increase:	N/A

Overview & Current Events

Headquartered in Chelmsford, Massachusetts, Azenta, formerly known as Brooks Automation (BRKS), is a global provider of life science exploration and management solutions for the life science market. The company has around 2,900 employees and has sales in more than 80 countries across North America, Asia, and Europe. Founded in 1978, the company had been a leading automation provider and partner to the semiconductor manufacturing industry. However, the company has agreed to sell its automation semiconductor business to Thomas H Lee Partners for \$3.0 billion. The sale is expected to close in the first half of 2022, and Azenta will no longer serve the semiconductor market. As a result, the company now only has two reportable segments, the Life Sciences Products segment and the Life Sciences Services segment. The Life Sciences Products business provides ultra-cold storage solutions for biological and chemical compound samples. The Life Sciences Services business provides Genomic analysis, sample management, and sample intelligence software solutions. In 2022, both the Life Sciences Products business and Life Sciences Services business will be unified and rebranded as Azenta Life Sciences.

Azenta released its fourth quarter and fiscal year 2021 results on November 10th, 2021. During the quarter, revenue increased 39% to \$342 million. Adjusted earnings-per-share increased 67% to \$0.78. The Products business grew 38% in Q4 and 54% for the entire year, led by 79% reported growth in stores. At the same time, the Services business grew 20% for Q4 and 21% for the year, led by 12% growth in Sample Repository Solutions. Combined, the total organic growth for Life Sciences was 33% for the year. Azenta generated \$2.58 in adjusted earnings-per-share compared to \$1.26 in 2020.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.48	-\$0.03	\$0.02	\$0.45	\$0.47	\$1.23	\$0.64	\$0.76	\$1.26	\$2.58	\$1.20	\$2.11
DPS	\$0.32	\$0.32	\$0.34	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40
Shares	66	67	67	68	69	70	71	72	74	74	74.0	74.0

In the last decade Azenta's earnings-per-share have been inconsistent but generally increasing. However, the company will see a drop in revenue and net income in fiscal year 2022 due to the sale of the semiconductor business, which accounts for nearly 55% of revenue. On the positive side, this sale will bring \$3.0 billion in proceeds (~\$2.4 billion after-tax) for the company to reinvest in its business and generate growth opportunities.

As a result, we are forecasting \$1.20 in earnings-per-share for fiscal year 2022 along with a 12% annual growth over the intermediate term. Note that the actual growth rate could be dramatically higher or lower depending on how effectively the sale proceeds are used.

The company has paid a consistent dividend since 2011; however, it has been flat at \$0.40 annually since 2015. We do not expect this to change over the next five years as the company is focused on adding value through acquisitions.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	21.0	---	---	25.6	23.3	17.4	46.3	43.1	32.7	34.1	88.3	25.0
Avg. Yld.	3.2%	3.5%	3.3%	3.5%	3.7%	1.9%	1.3%	1.2%	1.0%	0.6%	0.4%	0.8%

Azenta's share price has skyrocketed from around \$35 before the pandemic to \$106 at the time of writing. This factor, along with the much lower expected earnings for fiscal 2022 due to the semiconductor sale, lead to an exceptionally high current P/E ratio. This is offset somewhat due to the above average anticipated growth rate and the large amount cash the company could have in 2022. Over the past decade shares of Brooks Automation have traded hands with an average P/E ratio of 30 times earnings. We are using 25 times earnings as a fair value baseline, implying the potential for a significant valuation headwind.

After the sale of the semiconductor business, Azenta anticipates having >\$2.5 billion in cash, which equates to ~\$33 per share. We have added this to our fair value estimate and 5-year price target.

Safety, Quality, Competitive Advantage, & Recession Resiliency

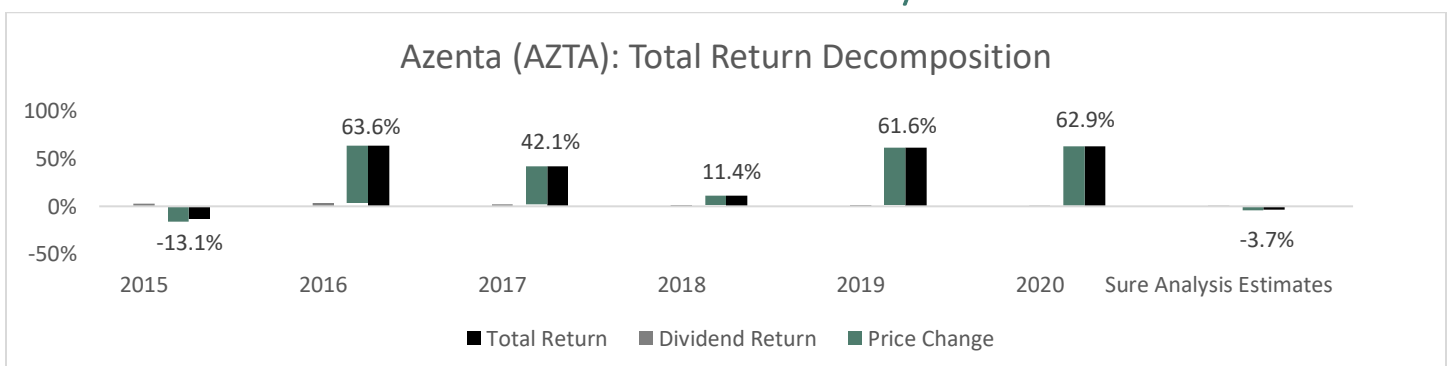
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	67%	---	---	89%	85%	33%	63%	53%	32%	16%	33%	19%

Azenta has seen quite a few changes over the last year, including a name change from Brooks Automation. As Brooks Automation, the company had been quite active in M&A on both buying and selling assets to improve the business. For example, in 2018, the company bought GENEWIZ, which provides gene sequencing and synthesis services for more than 4,000 institutional customers worldwide, in a \$442.7 million deal. In April of this year, the company announced an agreement to purchase Precise Automation for \$70 million. However, the company agreed to sell its semiconductor and Automation business for \$3 billion to become a pure-play life sciences company. Azenta's competitive advantage lies in its strong brand portfolio and ability to develop new products while penetrating new markets. The company also boasts a solid balance sheet with a debt-to-equity ratio of around 7% and \$227 million cash on hand. Once the company completes the sale of its semiconductor business, it will have over \$2.5 billion of cash on hand.

Final Thoughts & Recommendations

From changing its name to its share price reaching triple digits, Azenta has had quite a year. Selling the semiconductor business will generate a significant amount of cash, but it is yet to be seen whether the company will be able to put this to productive use. We are forecasting a -3.7% annual total return, driven by a 0.4% dividend yield and 12% growth rate, offset by the potential for a significant valuation headwind. This view could be too conservative if the company grows faster than anticipated, but we are not yet ready to make that assumption. Shares earn a sell rating.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	489	422	483	553	434	527	632	334	389	514
Gross Profit	159	132	167	189	157	199	246	135	172	244
Gross Margin	32.6%	31.3%	34.7%	34.2%	36.1%	37.7%	39.0%	40.3%	44.3%	47.5%
SG&A Exp.	98	97	111	115	119	142	167	163	190	252
D&A Exp.	22	24	23	25	28	28	37	54	65	65
Operating Profit	14	(10)	4	22	(7)	17	32	(46)	(36)	(31)
Operating Margin	2.8%	-2.5%	0.7%	3.9%	-1.6%	3.3%	5.1%	-13.8%	-9.2%	-6.0%
Net Profit	137	(2)	31	14	(69)	63	117	437	65	111
Net Margin	28.0%	-0.5%	6.5%	2.6%	-16.0%	11.9%	18.5%	131%	16.7%	21.6%
Free Cash Flow	27	51	48	28	27	83	61	67	(2)	97
Income Tax	(126)	(5)	(2)	3	66	3	(47)	(23)	(14)	(20)

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	742	737	778	759	686	767	1,095	1,516	1,559	1,820
Cash & Equivalents	55	83	94	81	85	102	198	302	251	227
Accounts Receivable	79	77	80	86	106	93	125	166	95	120
Inventories	103	94	94	101	93	73	97	99	37	60
Goodwill & Int. Ass.	128	158	169	177	284	291	356	740	666	656
Total Liabilities	93	104	135	127	132	159	377	377	346	494
Accounts Payable	29	35	34	45	41	49	45	59	26	42
Long-Term Debt	---	---	---	---	---	---	196	51	50	50
Shareholder's Equity	649	632	643	632	554	608	718	1,139	1,214	1,325
D/E Ratio	---	---	---	---	---	---	0.27	0.04	0.04	0.04

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	19.8%	-0.3%	4.1%	1.9%	-9.6%	8.6%	12.5%	33.5%	4.2%	6.6%
Return on Equity	23.4%	-0.3%	4.9%	2.2%	-11.7%	10.8%	17.6%	47.1%	5.5%	8.7%
ROIC	23.4%	-0.3%	4.9%	2.2%	-11.7%	10.8%	15.3%	41.6%	5.3%	8.4%
Shares Out.	66	67	67	68	69	70	71	72	74	74
Revenue/Share	7.44	6.41	7.14	8.06	6.34	7.48	8.90	4.62	5.26	6.90
FCF/Share	0.42	0.77	0.71	0.40	0.39	1.18	0.86	0.93	(0.03)	1.30

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

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