

October 28, 2018

Company Name:
Altra Industrial Motion Corp
(AIMC)
Marko Stojanovic

Sector: Machinery Components
Industry: Industrial Machinery
Current Price:\$31.56
Target Price:\$42-45\$

Altra Industrial Motion Corp is a leading producer and marketer of a wide range of mechanical power transmission products- brakes, clutches, couplings and others. Most of their products are used on industrial machinery such as fail-safe brakes for elevators and forklifts, gearboxes on conveyors, heavy-duty brakes on mining equipment, clutches for beverage capping equipment, etc. Altra is the parent company of several power transmission industry brands, including Ameridrives, Boston Gear, Warner Electric, TB Wood's, Stieber Clutch, Twiflex, Matrix International and Wichita Clutch. The company was found in 2004, and it's headquarters are in Braintree, Massachusetts.

BUY

Current Price: \$31.56
 Target Price: \$42.25
 Market Cap: 2B
 ROIC/WACC: .93 (Comp.: .61)
 WACC: 9.4% (Comp.:10.6%)

Total Debt: \$256.5M
 TD/TE= .61
 Last dividend: \$0.17 (Quarter)



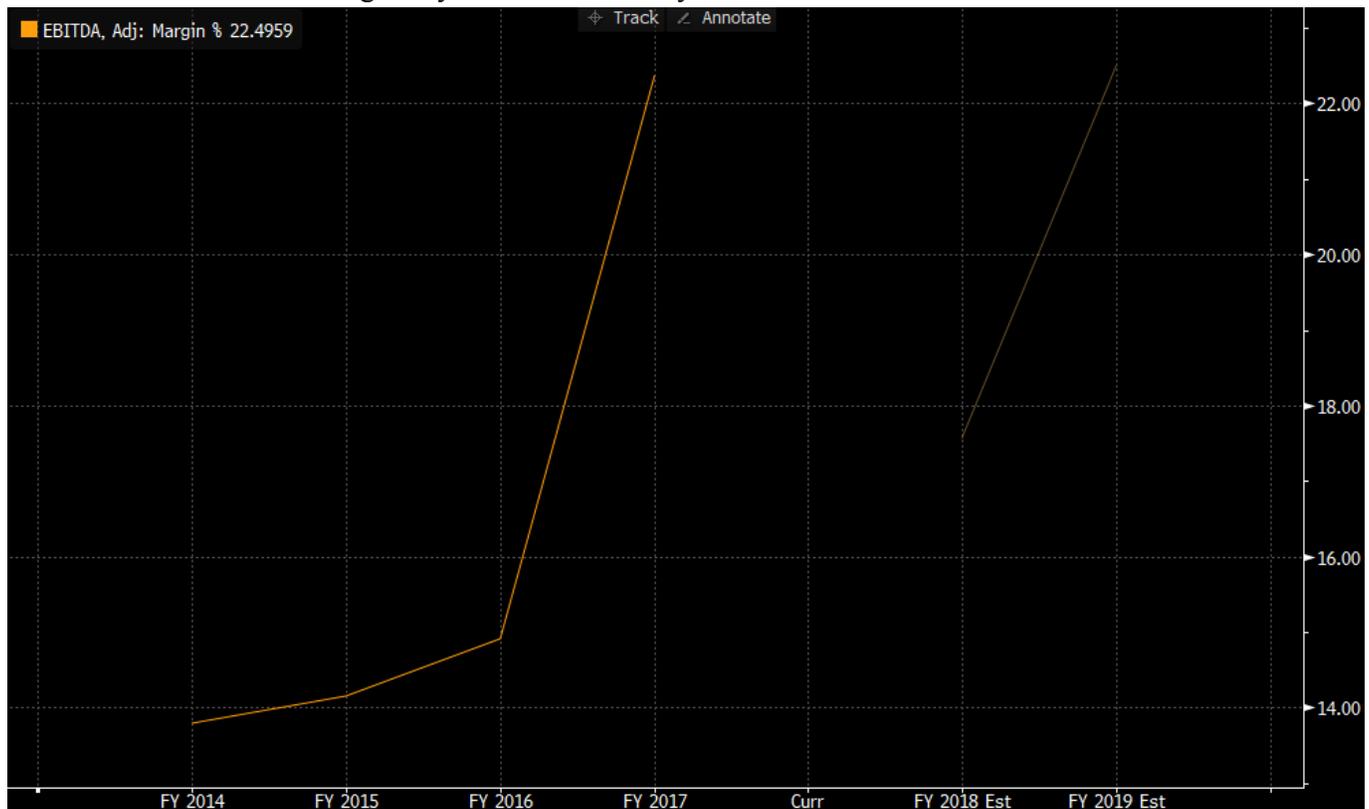
Thesis: Altra Industrial Motion Corp has shown ability to keep steady sales and manage the tariff cost that are big concern in the industry. Their earning performances have been outperforming estimates. The revenue is growing; the industry is stabilizing, which implies that this is undervalued company. Drop in price is following the overall economy.

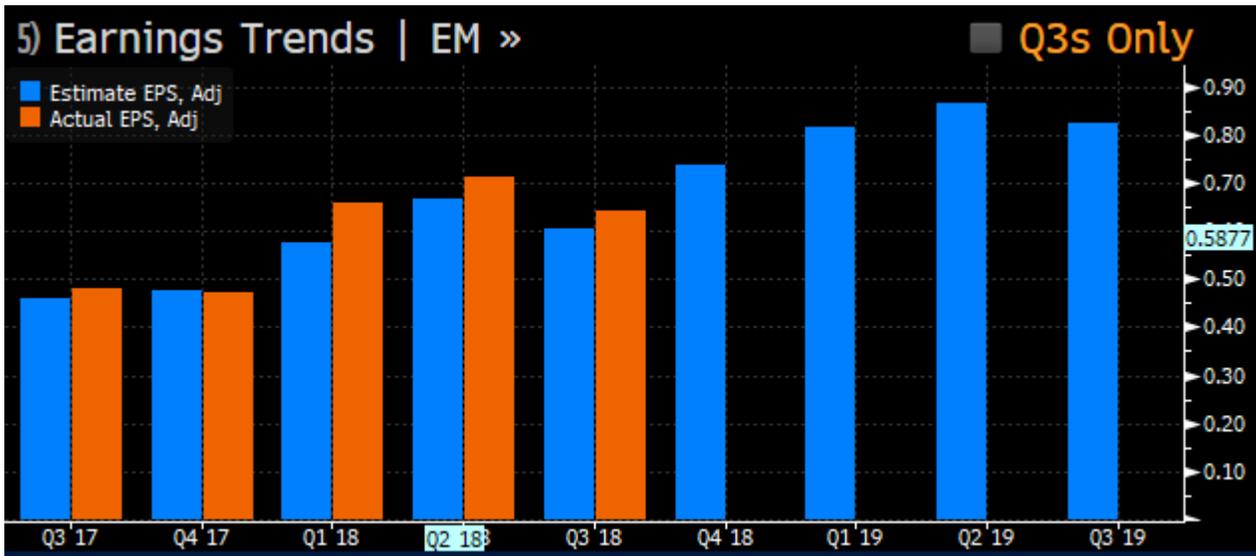
Catalysts:

- **Short Term:** De-lever and strength the balance sheet
- **Mid Term:** Accelerate topline growth
- **Long Term:** Deliver \$50M to A&S (Automation & Specialty Platform) Integration

Earnings Performance:

Altra Industrial Motion had decline in the revenue growth in 2015 and 2016, however in 2017 they showed 23.7% growth in revenue. Market reacted positively on this and price of stock went up from \$30 to approximately \$40. Their overall success came from acquisition of Stromag and completion of seventh and eight facility that was in their plan for the year. The company has beat estimates in last 8 earnings reports. The last earning report came on October 25th and they reported EPS of \$0.64 and Revenue of \$2.78M. They beat estimate for EPS by \$0.04 and Revenue by \$2.78M. Looking into the forecast for the future earnings, it shows the decline in 2020 but increase in 2019. This forecast is also very biased towards the overall economic situation with China-USA tariff discussion. The EBITDA margin has been growing drastically in last 4 years. In 2014 it was 13.8% and it grew to 22.4% in 2017. It is estimated to drop to 17.6%, but get back to 22.5% in 2019. The Overall we can see that Altra has outperformed the estimates and ability to increase their EBITDA margins by almost 10% in 4 years.

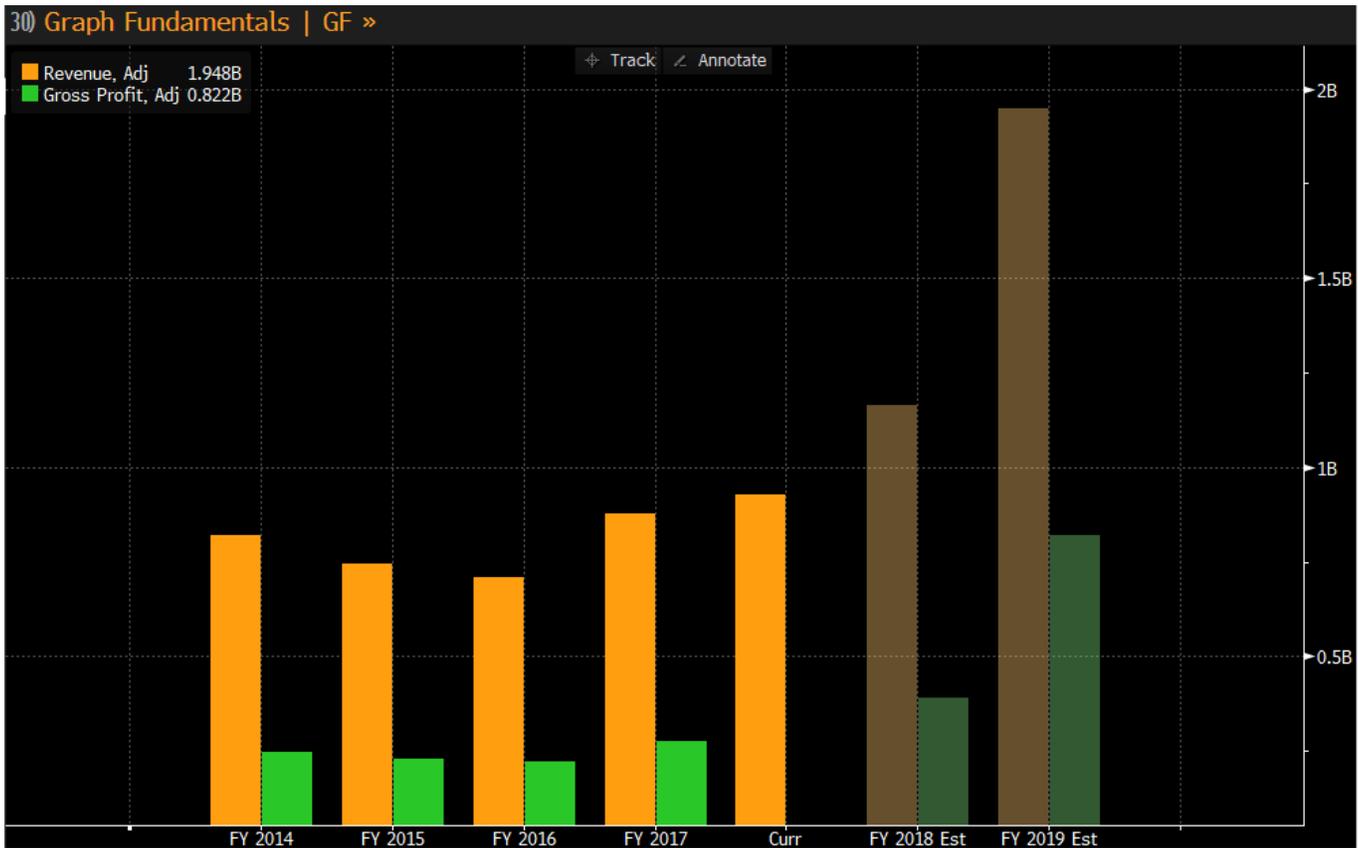




Revenue, Adj	819.8	746.7	708.9	876.7	929.5	1,163.8	1,948.5
Growth %, YoY	13.5	-8.9	-5.1	23.7	12.5	32.7	67.4
Gross Profit, Adj	248.9	228.5	222.1	275.8	-	390.6	821.6
Margin %	30.4	30.6	31.3	31.5	-	33.6	42.2
EBITDA, Adj	113.0	105.6	105.7	196.2	-	204.3	438.3
Margin %	13.8	14.1	14.9	22.4	-	17.6	22.5
Net Income, Adj	44.6	43.5	45.8	103.6	72.7	102.3	175.3
Margin %	5.4	5.8	6.5	11.8	7.8	8.8	9.0
EPS, Adj	1.63	1.67	1.77	3.57	2.49	2.89	3.46
Growth %, YoY	2.6	2.5	5.9	101.4	19.0	-18.9	19.5

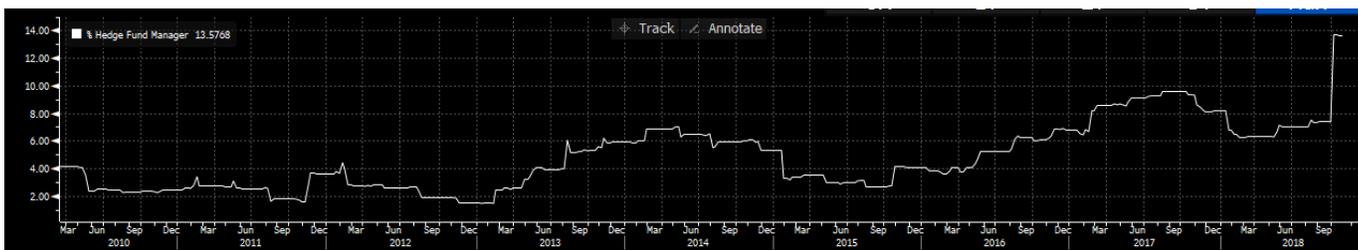
Tariff issues:

The costs are rising due to the tariff that president Trump has proposed on the China's imports. Due to the last tariff propose, Altra Industrial announced in the earning call that direct cost of tariffs are in the range of \$6-\$10M for legacy Altra businesses and in the same magnitude for other business. Even with this cost, Altra has still improve their sales and their gross margin is improving as well. They also protected themselves by various swaps in currency. In the last earning calls, they also mention that they are working very hard to protect themselves from additional cost that could come after the next meeting between Trump and Xi on November 31 and December 1st. As of now, the reports are stating that trade war is off the table for the meeting, however tariffs are set to rise to 25% and it is very likely that there will be some kind of discussion at the meeting. If we look at the Revenue and Gross Margins, we can see that Tariff has very small influences on Altra Industry, while taking away the Tariffs could benefit them drastically.



Ownership:

The ownership of Altra is very interesting, if we consider that in last month their average volume of shares per day was about 5 million shares per day, while before August this year it was on average 150K. The head fund position grew from 7.05% to 13.58% since September 28. Head fund Millennium Management LLC purchased 2.47M shares on 9/28 and took long position right before price dropped. Millennium has \$65.7B under management and is invested in 3890 securities. It shows that they believe in Altra company. Even though this is the main reason for hedge fund position to grow, the chart shows that hedge fund position has been on incline in one year.



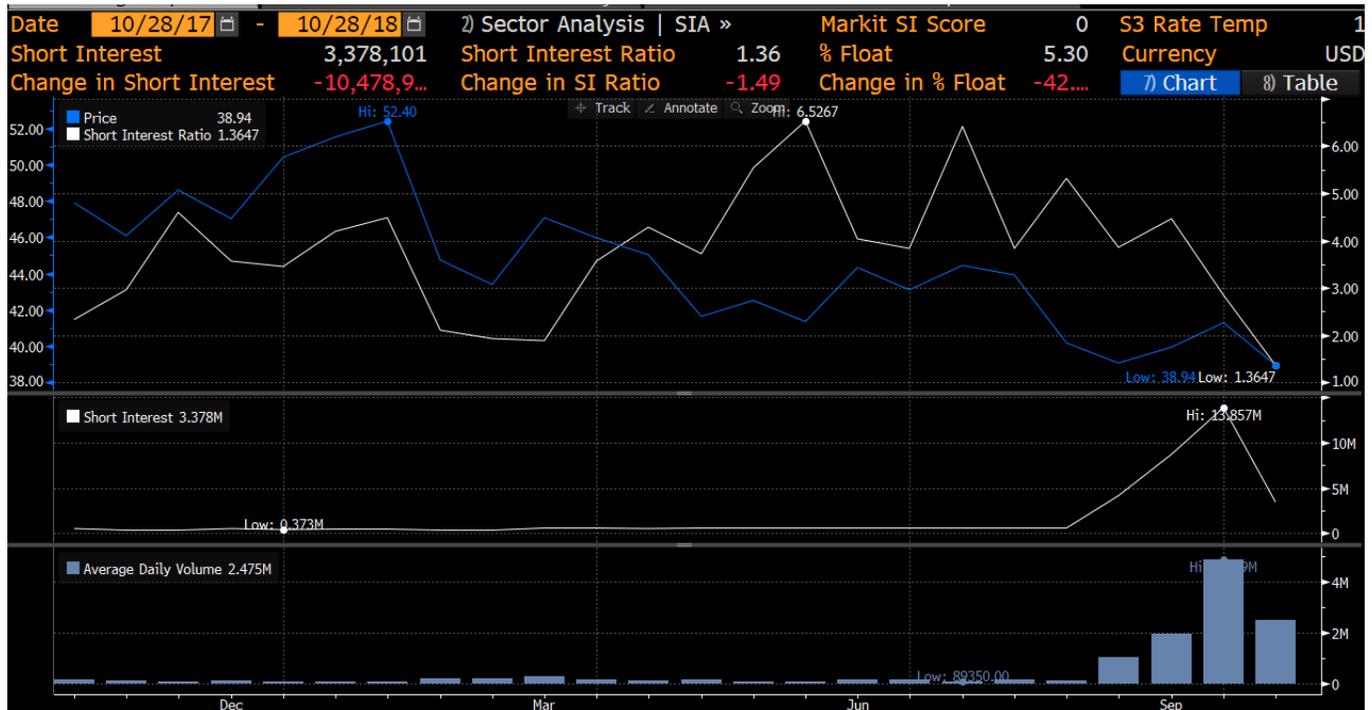
Looking in overall one-year ownership, we can see that Investment Advisors has drop by 3.85% and everything else is almost same. It shows that there is trust in this company from very smart people that take high risk in investments.

Ownership Type	10/22/17	Curr	Change
11) Investment Advisor	82.85	79.02	-3.83
12) Hedge Fund Manager	9.33	13.58	+4.25
13) Pension Fund	3.12	3.63	+0.51
14) Individual	2.29	1.98	-0.31
15) Bank	0.97	0.81	-0.16
16) Insurance Company	0.98	0.75	-0.23
17) Government	0.22	0.14	-0.08
18) Brokerage	0.13	0.03	-0.10
19) Unclassified	0.02	0.03	+0.01
20) Other	0	0.03	+0.03
21) Holding Company	0.02	0.02	0.00

6M 1Y 2Y 5Y Max

Short Interest:

Short interest has very interesting graph. If we follow the price and Interest Ratio, we can see that first drop of the price cause increase of the Short Interest Ratio. This is period between May and September. However, looking at interest ratio from September we can see that it has drop down to 1.36 and this could signal that short seller are going to take profit on this and turn it into long position. It signals that people are starting to take long position and believe in the stock price going up in near future. This is good signal that price will go up from now.

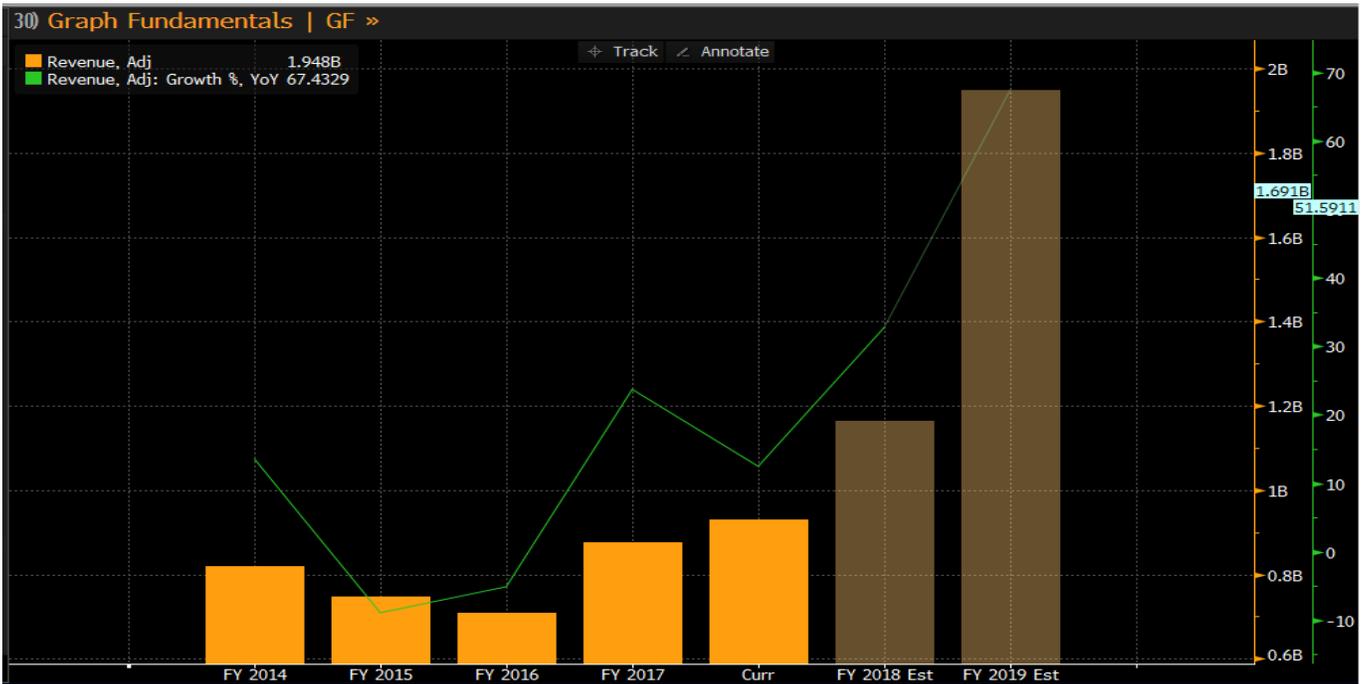


Potentials:

Looking at their financials, we can see growth in almost every aspect of the business. They have beat estimates in last 8 earning calls. They showed the ability to deal with new Tariffs. The meeting between Trump and Xi could potentially help Altra if Trump administration decides to back off from increase on the tariffs. However, even if tariff stays same, we can see that Altra is able to minimize the cost of it. Looking at growth revenue projection for next two years are 32.7% and 67.4%. Their dividends have been growing on average 6.25% with dividend yield of 2.15%. They are planning to use almost all cash to pay off debt and that's their first priority, this would allow them to take different approaches in future investments.

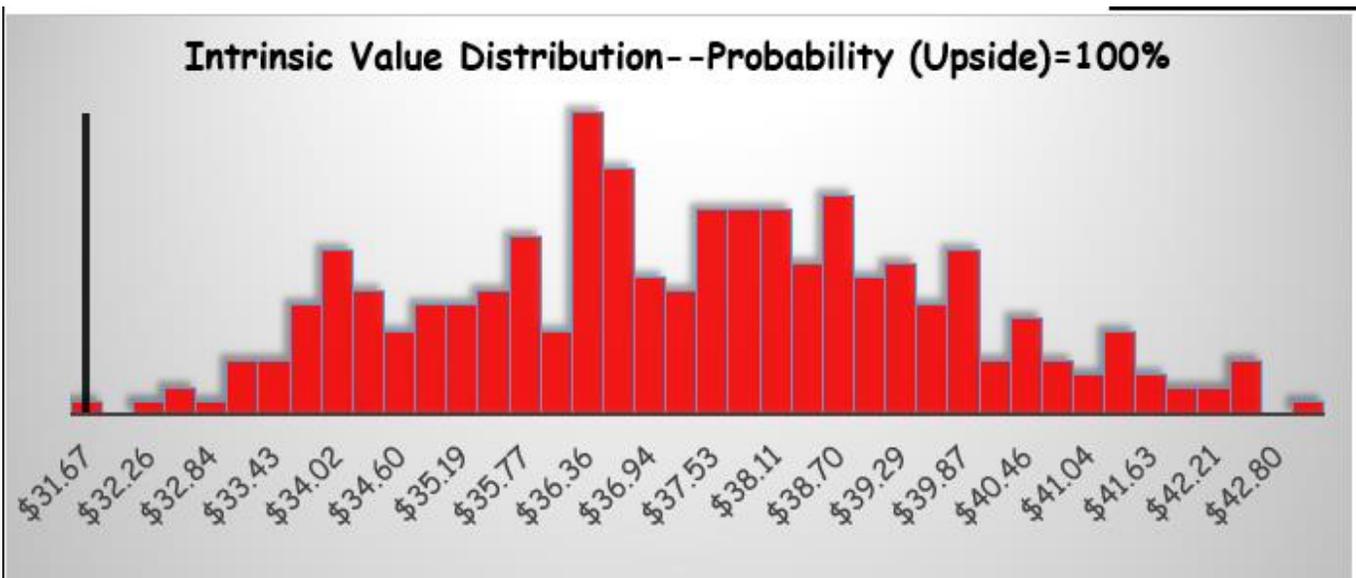
In Millions of USD except Per Share	2014 Y		2015 Y		2016 Y		2017 Y	
12 Months Ending	12/31/2014		12/31/2015		12/31/2016		12/31/2017	
▼ Revenue	819.8	100.0%	746.7	100.0%	708.9	100.0%	876.7	100.0%
Couplings Clutches & Brakes	396.1	47.9%	342.3	45.4%	305.4	42.7%	441.9	49.9%
Electromagnetic Clutches & Bra...	218.6	26.4%	219.7	29.1%	217.9	30.5%	251.5	28.4%
Gearing	212.6	25.7%	192.3	25.5%	192.0	26.8%	191.8	21.7%
Intersegment Elimination	-7.5		-7.6		-6.4		-8.4	
▼ Revenue Including Intersegmen...	827.3	100.0%	754.2	100.0%	715.3	100.0%	885.2	100.0%
Couplings Clutches & Brakes	396.1	47.9%	342.3	45.4%	305.4	42.7%	441.9	49.9%
Electromagnetic Clutches & Bra...	218.6	26.4%	219.7	29.1%	217.9	30.5%	251.5	28.4%
Gearing	212.6	25.7%	192.3	25.5%	192.0	26.8%	191.8	21.7%
▼ Percentage of Revenue	—		—		—		—	
Couplings Clutches & Brakes	47.90		45.40		—		—	
Electromagnetic Clutches & Bra...	26.40		29.10		—		—	
Gearing	25.70		25.50		—		—	
▼ Operating Income	75.1	100.0%	64.2	100.0%	47.5	100.0%	81.0	100.0%
Couplings Clutches & Brakes	49.3	52.4%	38.8	47.6%	20.9	29.9%	47.2	48.6%
Electromagnetic Clutches & Bra...	22.0	23.4%	21.6	26.6%	26.4	37.7%	27.8	28.6%
Gearing	22.7	24.1%	21.1	25.9%	22.7	32.4%	22.2	22.9%
Loss on partial settlement of p...	—		—		—		-1.7	
Restructuring	-1.8		-7.2		-9.8		-4.1	
Corporate	-17.1		-10.1		-12.7		-10.4	

In Millions of USD except Per Share	2014 Y		2015 Y		2016 Y		2017 Y	
12 Months Ending	12/31/2014		12/31/2015		12/31/2016		12/31/2017	
▼ Operating Income	75.1	100.0%	64.2	100.0%	47.5	100.0%	81.0	100.0%
Couplings Clutches & Brakes	49.3	52.4%	38.8	47.6%	20.9	29.9%	47.2	48.6%
Electromagnetic Clutches & Bra...	22.0	23.4%	21.6	26.6%	26.4	37.7%	27.8	28.6%
Gearing	22.7	24.1%	21.1	25.9%	22.7	32.4%	22.2	22.9%
Loss on partial settlement of p...	—		—		—		-1.7	
Restructuring	-1.8		-7.2		-9.8		-4.1	
Corporate	-17.1		-10.1		-12.7		-10.4	
▼ Operating Margin	—		—		—		—	
Couplings Clutches & Brakes	52.40		47.60		—		—	
Electromagnetic Clutches & Bra...	23.40		26.60		—		—	
Gearing	24.20		25.80		—		—	
▼ Restructuring Charges	1.8	100.0%	7.2	100.0%	9.8	100.0%	3.5	100.0%
Couplings Clutches & Brakes	0.4	26.7%	2.5	35.1%	7.3	82.3%	1.8	62.2%
Gearing	0.6	36.3%	3.1	42.7%	0.3	3.2%	1.1	36.2%
Corporate	0.1		0.0		1.0		0.5	
Electromagnetic Clutches & Bra...	0.6	37.0%	1.6	22.2%	1.3	14.5%	0.1	1.7%
▼ Property/Plant/Equipment	156.4	100.0%	145.4	100.0%	177.0	100.0%	191.9	100.0%
Gearing	156.4	100.0%	145.4	100.0%	177.0	100.0%	191.9	100.0%
▼ Goodwill	102.1	100.0%	97.3	100.0%	188.8	100.0%	206.0	100.0%



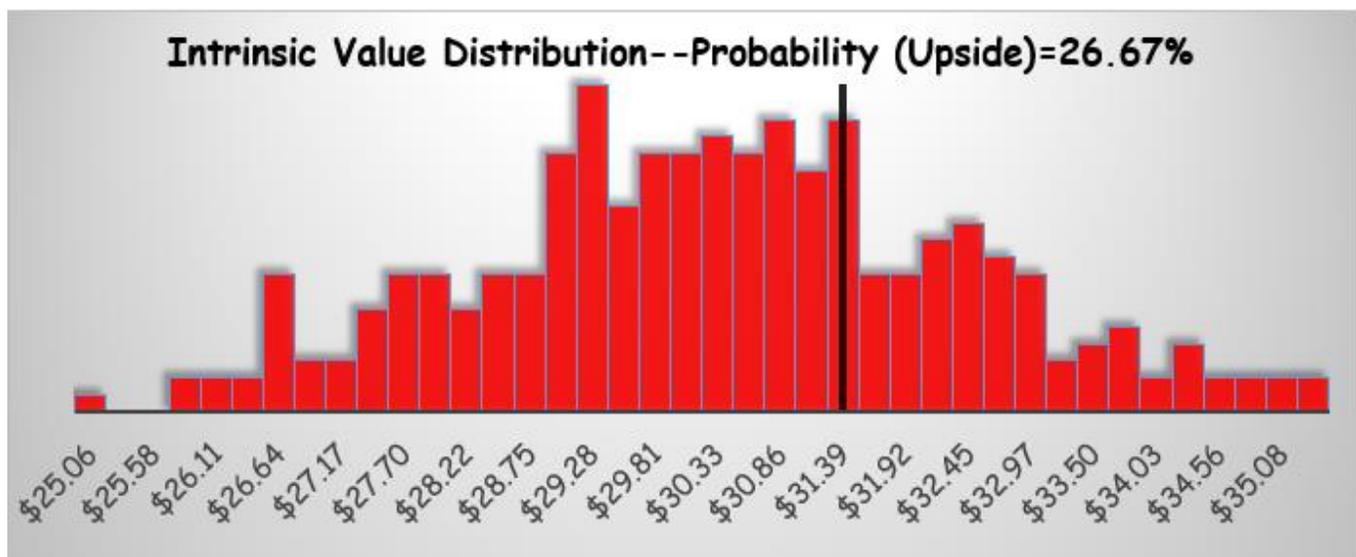
Normal Case:

Using very conservative approach and giving them lower revenue growth than analyst are projecting and decrease in the future EBITDA margin it gives me target price of \$42.25. The target price for Analyst is \$50. This is in situation that they continue with their production and sales at the rate that they announced.



Bear Case:

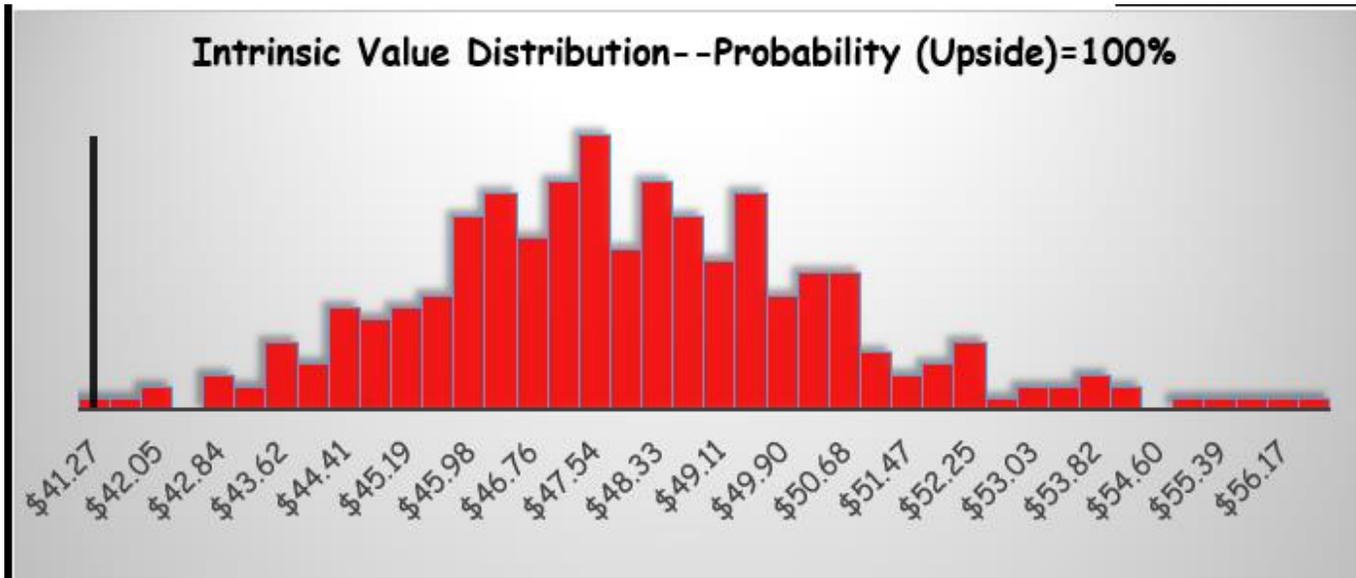
In the situation that overall economy goes bad and their revenue sales drop down by lets assume 3% in next 4 years I am still having positive outlook of Target price \$34.82 with higher probability that stock will go around 30\$. I do not believe in this scenario due to economy being very stable and the only risk for them as of now could be more Tariffs which I also do not believe will happen in the near future.



Bullish Case:

Taking the consideration that their revenue will grow in next two years by 30% and 60%, including that into cash flows I get target price of \$53.24. This is situation that everything goes perfectly and nothing goes wrong. This is very realistic situation, however nothing can be said before Trump and Xi meeting in November.

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Margin %	5.4	5.8	6.5	11.8	7.8	8.8	9.0
EPS, Adj	1.63	1.67	1.77	3.57	2.49	2.89	3.46
Growth %, YoY	2.6	2.5	5.9	101.4	19.0	-18.9	19.5



Conclusion:

I believe that current price is not reflecting real value of the company and the reason is that Industry overall had dropped and the discussion about tariffs are still on going. If tariff situation gets stable, I believe more investors are going to be interested in this industry and the company will be valued at the right price after all. Altra has increased their EBITDA margin, increase their revenue growth and is projected to keep increasing both.

Altra Industrial Motion Corp. (AIMC)

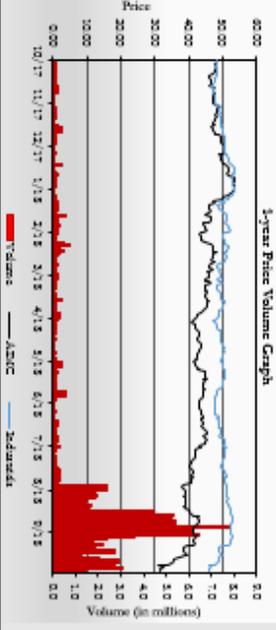
CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Marko Stojanovic 10/28/2018

Current Price: \$31.56
Dividend Yield: 2.2%

Intense Value Target Price: \$42.25
Target 1 year Return: 36.02%
Probability of Price Increase: 98%



Description

Altra Industrial Motion Corp. designs, produces, and markets mechanical power transmission components worldwide.

General Information

Industry: Industrial Machinery
Last Guidance: May 8, 2018
Next earnings date: February 18, 2019
Market Assumptions: Market Assumptions

Estimated Equity Risk Premium: 7.07%
Effective Tax Rate: 23%

Market Data

Market Capitalization: \$3,031.28
Daily Volume (mil): 1.41
Share outstanding (mil): 64.36
Diluted share outstanding (mil): 29.20
% share held by institutions: 59%
% share held by hedge funds: 3%
% share held by insider: 6%
Short Interest: 1.24%
Days to cover short interest: 5.25%
52-week high: \$53.70
52-week low: \$30.94
Volatility: 28.28%

Quarter ending

9/30/2017	2.14%
12/31/2017	3.49%
3/31/2018	4.78%
6/30/2018	0.21%
9/30/2018	1.15%
Mean	2.45%

Management

Chairman & CEO: Christopher, Carl
VP & CFO: Schuch, Christian
VP of Legal & Human Resources, General Counsel: Dawson, Glenn
Vice President of Marketing & Business Development: Schwab, Craig
Vice President of Global Sales: Ferrer, Gerald
Chief Accounting Officer, VP of Finance, Corp: Patricia, Todd

Partitions

Chairman & CEO: 11.01% per annum over 5y
VP & CFO: 11.91% per annum over 5y
VP of Legal & Human Resources, General Counsel: 15.42% per annum over 5y
Vice President of Marketing & Business Development: 13% per annum over 5y
Vice President of Global Sales: 13.21% per annum over 5y
Chief Accounting Officer, VP of Finance, Corp: 4.82%

Market and Grade Score

Recommendation (STAR5) Value: 0
Quality Ranking Value: B
Quality Ranking Description: Below Average
SmartScore: 0
Market Signal Probability of Default (Non-Rating): 1.83%

Health and Safety Information

North America (Primarily U.S.): 50%
Europe: 39%
Asia and Other: 11%
Elimination: 1%

Partner's 5 Starcer (Sector are percentage)

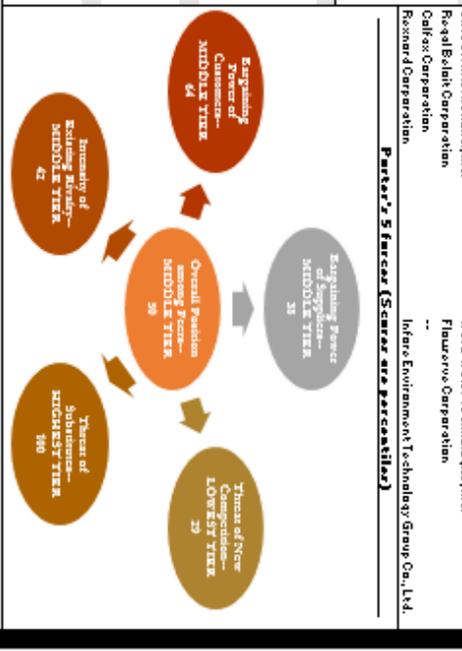
Account Corporation: The Truck Company
Olefin International, Inc.: Weyer Water Technologies, Inc.
Regal Balc Corporation: Fluorine Corporation
Calfax Corporation: Inere Environment Technology Group Co., Ltd.
Resound Corporation: ..

EBITDA

6.49%
-4.39%
-15.35%
-1.23%
-18.11%
-5.44%

AIMC (LTM)

8.02%
8.03%
8%
1.01
14.8%



Financial Ratios

Revenue Growth (GAAP): 16%
Average Operating Margin: 13%
Average Net Margin: 10%
Growth in Capital OADR: 12%
Growth in Operating OADR: 0%
Average Return on Capital: 14%
Average Return on Equity: 15%
Average Cost of Equity: 12%

Explicit Period (12 years)

2.5%
10%
8%
2%
14%
15%
10%

