

FLIR Systems, Inc. (FLIR)

\$40.81 (As of 03/04/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/02/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)
4-Sell

Zacks Style Scores:

VGM: C

Value: D

Growth: B

Momentum: C

Summary

FLIR Systems ended the fourth quarter of 2019 on a dismal note, with both its earnings and revenues missing the respective Zacks Consensus Estimate. The company continues to innovate products to capture larger market share. However, the U.S.-China tariff war may hurt its growth trajectory. Increased tariff on imports of steel and aluminum imposed by the U.S. administration may also hurt this stock's growth. This is because the U.S. aerospace and defense industry relies heavily on imported aluminum. A comparative analysis of its historical EV/EBITDA ratio reflects a relatively gloomy picture that might be a cause for concern. Nevertheless, declining cost of thermal imaging technology has created opportunity to increase the adoption of thermal technology, thereby boosting its prospects. In the past year, it has outperformed the industry.

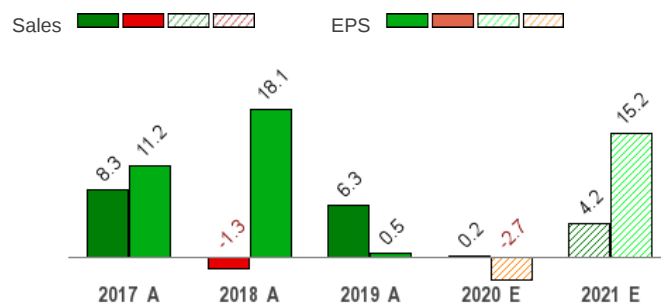
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$59.44 - \$38.43
20 Day Average Volume (sh)	1,289,458
Market Cap	\$5.5 B
YTD Price Change	-21.6%
Beta	1.23
Dividend / Div Yld	\$0.68 / 1.7%
Industry	Electronics - Military
Zacks Industry Rank	Bottom 4% (244 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-11.3%
Last Sales Surprise	-2.2%
EPS F1 Est- 4 week change	-15.0%
Expected Report Date	04/22/2020
Earnings ESP	0.0%
P/E TTM	18.3
P/E F1	18.8
PEG F1	NA
P/S TTM	2.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	470 E	509 E	516 E	539 E	1,971 E
2020	439 E	472 E	479 E	504 E	1,891 E
2019	445 A	482 A	471 A	489 A	1,887 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.59 E	\$0.65 E	\$0.65 E	\$0.70 E	\$2.50 E
2020	\$0.42 E	\$0.55 E	\$0.58 E	\$0.61 E	\$2.17 E
2019	\$0.53 A	\$0.56 A	\$0.59 A	\$0.55 A	\$2.23 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/04/2020. The reports text is as of 03/05/2020.

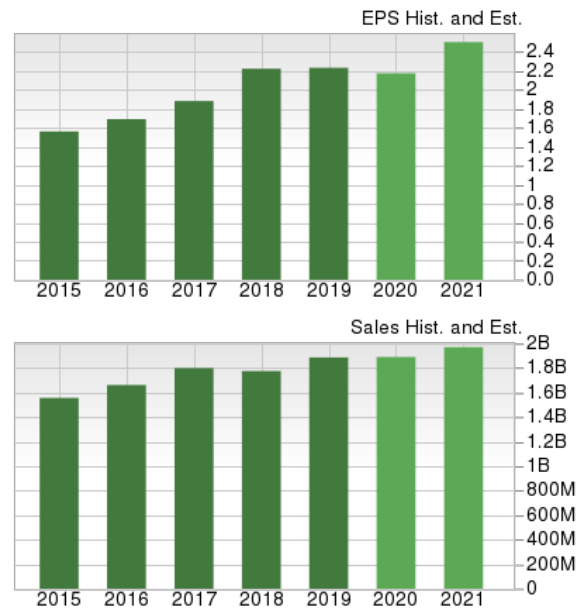
Overview

FLIR Systems, incorporated in 1978, is an Oregon-based corporation, engaged in designing, manufacturing, marketing and distributing innovative technologies like thermal imaging systems, visible-light imaging systems, locator systems, measurement and diagnostic systems, as well as advanced threat-detection solutions.

As of Jan 1, 2018, the company's realigned business segments are: **Industrial** unit manufactures thermal and visible-spectrum imaging camera cores and components. It also produces thermal imaging cameras, gas detection cameras, firefighting cameras, process automation cameras, and environmental test and measurement devices. It generated revenues of \$737.7 million and contributed 39.1% to the company's total revenues in 2019.

Government & Defense unit manufactures enhanced imaging and recognition solutions for different departments of law enforcements. Products in this unit include airborne, land, maritime and man-portable multi-spectrum imaging systems, radars, lasers, imaging components, integrated multi-sensor system platforms, chemical, biological, radiological, nuclear, and explosives (CBRNE) detectors, nano-class UAS solutions, and services related to these systems. It generated revenues of \$794.9 million and contributed 42.1% to the company's total revenues in 2019.

Commercial unit manufactures thermal and visible-spectrum security cameras, digital and networked video recorders, and related software and accessories, a full suite of networked marine electronic systems including multi-function helm displays, navigational instruments, autopilots, radars, sonar systems, thermal and visible imaging systems, and communications equipment for boats, traffic cameras, sensors and associated traffic management software, and thermal scopes and handheld thermal cameras. It generated revenues of \$354.4 million and contributed 18.8% to the company's total revenues in 2019.



Reasons To Sell:

- ▼ In July 2018, the Office of the U.S. Trade Representative announced a list of Chinese imports that previously faced 10% tariffs. In May 2019, the United States escalated a tariff war with China by hiking levies to 25% for \$200 billion worth of Chinese goods. This increase will affect the company's imports, and be forced to hike prices on such products. This in turn may harm the company's operating performance or lead to a reduction in its customer base. Further, the company's business operations will also be negatively impacted if China goes on to take retaliatory trade measures in response to such tariff hikes. In such a case, FLIR Systems' revenues will see a decline. In addition, the company may seek to shift some of the manufacturing supply chain to other countries, which could result in disruption to existing operations.
- ▼ In January 2020, the Trump administration announced plans to expand its existing tariffs on imports of steel and aluminum, starting from Feb 8. Steel and aluminum derivatives will also come under the tariff mandate. This tariff expansion is expected to deal a heavy blow to the U.S. aerospace and defense industry, which relies heavily on imported aluminum. In 2018, when the initial tariff was imposed, the AIA had expressed concern by saying that such a tariff will raise cost and disrupt the supply chain. Now that tariffs are being imposed on derivatives as well, the growth prospects for manufacturing-oriented stocks like FLIR Systems seem bleak.
- ▼ A comparative analysis of its historical EV/EBITDA ratio reflects a relatively gloomy picture that might be a cause for FLIR Systems investors' concern. The stock currently has a trailing 12-month EV/EBITDA ratio of 17.27. This level compares unfavorably with what the stock witnessed in a year's time. Moreover, the company's EV/EBITDA is higher than that of its industry's ratio of 16.49, indicating the stock is an overvalued one.

Factors like escalating U.S.-China tariff war and unfavorable valuation for the company pose risk

Risks

- Declining cost of thermal imaging technology has created opportunity to increase the adoption of thermal technology, thereby boosting growth prospects of FLIR Systems. Notably, the company offers the broadest range of infrared, also known as thermal, imaging solutions in the world. During the fourth quarter, FLIR Systems signed a new agreement to provide thermal cameras to a leading robotaxi disruptor. This deal is expected to boost the company's footprint in the developing market of advanced driver-assistance systems (ADAS). Meanwhile, FLIR thermal imaging cameras are one of the tools being used in Asia as the first step to help indicate higher-than-average skin surface temperature, a key symptom of the coronavirus. Such developments indicate solid demand for FLIR Systems' thermal imaging solutions.
 - To compete in the diverse industries in which the company caters to, FLIR Systems continue to innovate new products, to capture larger market shares. During the fourth quarter, the company unveiled its three dome-shaped, Pan-Tilt-Zoom (PTZ) security cameras, which assist perimeter protection, and the evolving security needs of critical infrastructure sites and cities. In January 2020, FLIR Systems launched its first device with both visible and thermal for Multi-Spectral Dynamic Imaging technology. The company also introduced its first fixed-mount, uncooled, lower cost, autonomous Methane detection camera. Such innovations are expected to enhance the company's product portfolio efficiently, thereby creating growth opportunities.
-

Last Earnings Report

FLIR Systems Q4 Earnings Miss Estimates, Sales Up Y/Y

FLIR Systems fourth-quarter 2019 adjusted earnings of 55 cents per share missed the Zacks Consensus Estimate of 62 cents by 11.3%. The reported figure also declined 11.3% from the 62 cents registered in the prior-year quarter.

Excluding the one-time items, the company reported GAAP earnings of a penny compared with the earnings of 71 cents recorded in the year-ago quarter.

The company's 2019 adjusted earnings of \$2.23 per share missed the Zacks Consensus Estimate of \$2.30 by 3%. However, the reported figure edged down 0.5% from the prior-year tally of \$2.22.

Quarter Ending **12/2019**

Report Date	Feb 27, 2020
Sales Surprise	-2.22%
EPS Surprise	-11.29%
Quarterly EPS	0.55
Annual EPS (TTM)	2.23

Total Revenues

FLIR Systems' revenues increased 9% year over year to \$489 million in the reported quarter. Improved sales performance of the Industrial and Government and Defense business segments primarily resulted in this year-over-year top-line growth. The top line, however, missed the Zacks Consensus Estimate of \$500.2 million by 2.2%.

Meanwhile, Organic revenues decreased 1.5%, which excludes revenues from acquisitions within the last 12 months.

FLIR Systems' 2019 revenues climbed 6.3% to \$1,887 million from the prior-year tally of \$1,775.7 million. The top-line figure, however, missed the Zacks Consensus Estimate of \$1,900 million by 0.7%. Organic revenue growth was 1.1%, which excludes revenues from acquisitions within the last 12 months and security business divestitures.

Segment Details

In the Industrial segment, revenues totaled \$192.8 million, up 6.1% on a year-over-year basis. The upside can be attributed to increased sales on continued strength in cooled cameras and components as well as machine vision. Operating income was \$63.5 million, 10.9% higher than the fourth-quarter 2018 tally.

In the Government and Defense segment, revenues summed \$210.7 million, up 23.1% on a year-over-year basis. This upswing resulted from increased contributions from the successful acquisitions of Aeryon Labs and Endeavor Robotics. Operating income for the December-end quarter decreased 0.4% year on year to of \$53.9 million.

The Commercial segment's revenues slid 10.6% to \$85.5 million from the year-ago period. The segment's revenues were adversely impacted by lower sales volume in the Outdoor and Tactical Systems and Security product businesses. Operating income was \$12.2 million, which fell 19.4% compared with the year-ago quarter's income.

Adjusted operating income came in at \$103.9 million compared with the prior-year quarter's \$107.9 million, reflecting a 3.8% decline. Also, the company's total operating expenses flared up 25.9% year over year to \$178.6 million.

Liquidity & Cash Flow

As of Dec 31, 2019, the company's cash and cash equivalents were \$284.6 million compared with \$512.1 million as of Dec 31, 2018.

Long-term debt summed \$648.4 million on Dec 31, 2019, significantly up from \$421.9 million on Dec 31, 2018.

Cash flow generated from operating activities at the end of 2019 amounted to \$370.4 million compared with the prior-year tally of \$374.1 million.

Outlook

FLIR Systems has issued its guidance for 2020. The company projects adjusted earnings per share at \$2.10-\$2.30 on revenues of \$1.85-\$1.925 billion.

Currently, the Zacks Consensus Estimate for 2020 earnings is pegged at \$2.56 on revenues of \$2 billion. Both earnings and revenue estimates come in above the projected range of the company's guidance.

Valuation

FLIR Systems' shares are down 19.8% in the past six months period and 18.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 19.8% and 6% in the past six months period, respectively. Over the past year, the Zacks sub-industry is down 18.4%, while sector was up 1.9%.

The S&P 500 index is up 6.2% in the past six months period and 14% in the past year.

The stock is currently trading at 17.7X forward 12-month earnings, which compares to 17.4X for the Zacks sub-industry, 19.5X for the Zacks sector and 17.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.9X and as low as 14.1X, with a 5-year median of 19.6X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$35 price target reflects 15.2X earnings value.

The table below shows summary valuation data for FLIR

Valuation Multiples - FLIR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	17.74	17.39	19.5	17.89
	5-Year High	26.9	25.36	21.54	19.34
	5-Year Low	14.07	14.22	14.26	15.18
	5-Year Median	19.59	18.67	16.9	17.46
P/S F12M	Current	2.72	3.29	1.25	3.3
	5-Year High	4.66	4.17	1.39	3.43
	5-Year Low	2.21	2.04	0.8	2.54
	5-Year Median	2.9	2.61	1.09	3.01
P/B TTM	Current	2.93	2.79	14.74	4.18
	5-Year High	4.64	4.64	16.72	4.54
	5-Year Low	2.03	2.03	5.26	2.85
	5-Year Median	2.84	2.84	9.22	3.62

As of 03/04/2020

Industry Analysis Zacks Industry Rank: Bottom 4% (244 out of 255)



Top Peers

Leidos Holdings, Inc. (LDOS)	Outperform
AAR Corp. (AIR)	Neutral
AeroVironment, Inc. (AVAV)	Neutral
Bae Systems PLC (BAESY)	Neutral
Northrop Grumman Corporation (NOC)	Neutral
Raytheon Company (RTN)	Neutral
VirTra Systems Inc. (VTSI)	Neutral
Astronics Corporation (ATRO)	Underperform

Industry Comparison Industry: Electronics - Military				Industry Peers		
	FLIR Underperform	X Industry	S&P 500	AIR Neutral	BAESY Neutral	LDOS Outperform
VGM Score	C	-	-	A	A	B
Market Cap	5.49 B	15.93 M	22.29 B	1.33 B	25.29 B	15.88 B
# of Analysts	5	2.5	13	2	2	6
Dividend Yield	1.67%	0.00%	1.97%	0.79%	2.94%	1.21%
Value Score	D	-	-	A	B	C
Cash/Price	0.05	0.18	0.05	0.04	NA	0.05
EV/EBITDA	15.14	9.11	13.20	11.00	NA	14.84
PEG Ratio	NA	NA	1.94	NA	4.51	2.67
Price/Book (P/B)	2.93	2.38	3.05	1.44	3.37	4.65
Price/Cash Flow (P/CF)	12.98	12.98	12.16	10.52	11.05	15.98
P/E (F1)	17.98	18.79	17.58	14.51	12.44	19.99
Price/Sales (P/S)	2.91	1.52	2.45	0.60	NA	1.43
Earnings Yield	5.32%	5.32%	5.69%	6.89%	8.04%	5.00%
Debt/Equity	0.35	0.12	0.70	0.30	NA	0.95
Cash Flow (\$/share)	3.14	0.53	7.01	3.62	2.87	7.03
Growth Score	B	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	10.70%	2.29%	10.85%	29.48%	NA	14.53%
Proj. EPS Growth (F1/F0)	-2.60%	-5.65%	6.26%	11.02%	25.00%	8.67%
Curr. Cash Flow Growth	10.47%	-3.64%	6.03%	22.00%	-10.81%	6.19%
Hist. Cash Flow Growth (3-5 yrs)	9.29%	12.25%	8.52%	-5.67%	-12.45%	6.45%
Current Ratio	2.68	2.72	1.23	2.64	NA	1.21
Debt/Capital	25.73%	10.94%	42.57%	23.31%	NA	48.76%
Net Margin	9.09%	6.98%	11.69%	0.18%	NA	6.01%
Return on Equity	16.14%	7.56%	16.66%	10.18%	NA	22.51%
Sales/Assets	0.59	0.95	0.54	1.35	NA	1.18
Proj. Sales Growth (F1/F0)	0.23%	0.00%	3.94%	9.24%	21.87%	14.01%
Momentum Score	C	-	-	B	A	C
Daily Price Chg	-1.02%	-0.66%	3.75%	4.16%	2.85%	2.74%
1 Week Price Chg	-27.22%	-9.36%	-12.06%	-24.45%	-9.52%	-12.43%
4 Week Price Chg	-24.77%	-6.38%	-7.42%	-14.56%	-5.82%	5.35%
12 Week Price Chg	-22.27%	-2.48%	-4.61%	-15.40%	6.48%	21.99%
52 Week Price Chg	-19.24%	-15.86%	7.38%	10.78%	26.42%	78.22%
20 Day Average Volume	1,289,458	4,713	2,456,671	175,170	230,666	1,209,929
(F1) EPS Est 1 week change	-15.02%	-15.02%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-14.96%	-14.96%	-0.06%	0.00%	4.08%	3.09%
(F1) EPS Est 12 week change	-14.71%	-14.71%	-0.41%	0.13%	9.91%	4.30%
(Q1) EPS Est Mthly Chg	-29.71%	-29.71%	-0.27%	0.00%	NA	-1.59%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.