

FLIR Systems, Inc. (FLIR)

\$31.09 (As of 04/03/20)

Price Target (6-12 Months): **\$33.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/02/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: B

Momentum: C

Summary

Declining cost of thermal imaging technology has created opportunity to increase the adoption of thermal technology, thereby boosting its FLIR Systems' growth prospects. To compete in the diverse industries in which the company caters to, the company continues to innovate new products, to capture larger market shares. It consistently pursues acquisitions and strategic investments to boost its core and non-core businesses. However, FLIR Systems growth trajectory is likely to receive a hit due to the increased tariff on imports of steel and aluminum imposed by the U.S. administration. 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. In the past year, it has underperformed the industry.

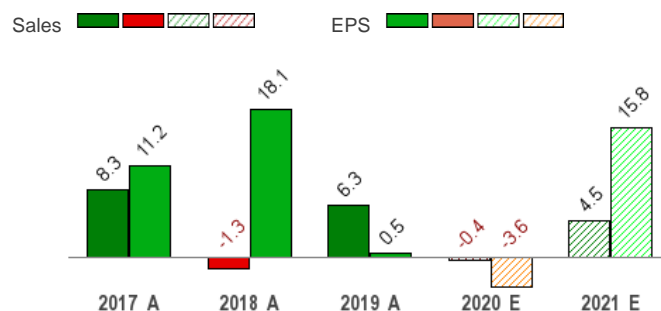
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$59.44 - \$23.85
20 Day Average Volume (sh)	2,144,394
Market Cap	\$4.2 B
YTD Price Change	-40.3%
Beta	1.36
Dividend / Div Yld	\$0.68 / 2.2%
Industry	Electronics - Military
Zacks Industry Rank	Top 40% (101 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-11.3%
Last Sales Surprise	-2.2%
EPS F1 Est- 4 week change	-1.2%
Expected Report Date	04/22/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	471 E	503 E	510 E	533 E	1,964 E
2020	439 E	467 E	473 E	498 E	1,879 E
2019	445 A	482 A	471 A	489 A	1,887 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.59 E	\$0.64 E	\$0.64 E	\$0.69 E	\$2.49 E
2020	\$0.42 E	\$0.54 E	\$0.58 E	\$0.61 E	\$2.15 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.

P/E TTM	13.9
P/E F1	14.5
PEG F1	NA
P/S TTM	2.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/03/2020. The reports text is as of 04/06/2020.

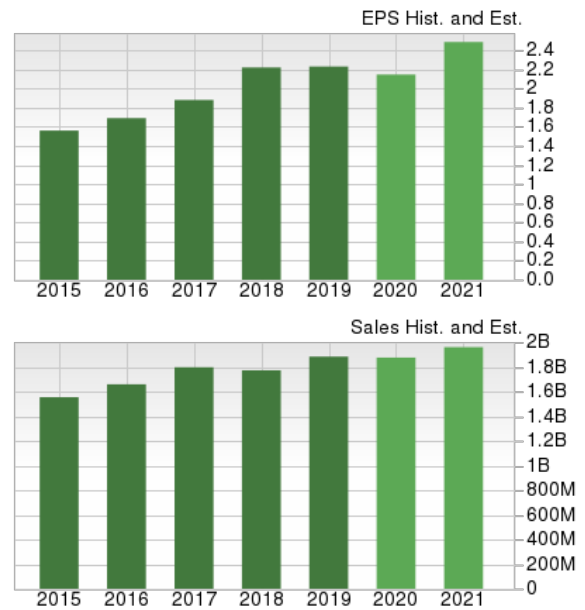
Overview

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 Buy:

- ▲ 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.
- ▲ FLIR Systems consistently pursues acquisitions and strategic investments to boost its core and non-core businesses. Keeping up with this trend, in October, the company acquired the intellectual property (IP) and certain operating assets of Aria Insights, Inc. The buyout should expand the company's industry-leading technology portfolio built from its acquisitions of Prox Dynamics in 2016 and Aeryon Labs and Endeavor Robotics earlier in 2019. In fact, the takeover of Aeryon and Endeavor aided the company in winning a two-year contract to build four Ripsaw M5 vehicles for the Army's next-generation unmanned robotic combat vehicle (RCV) program. Such meaningful acquisitions are expected to boost FLIR Systems' product portfolio, bolstering its share in the aerospace-defense space.

Product innovations and strategic investments to boost FLIR Systems' growth.

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. Notably, the company's shares declined 37% in the past year, compared to the industry's decline of 36%.
 - ▼ A comparative analysis of its historical EV/SALES 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/SALES ratio of 2.4. This level compares unfavorably with what the stock witnessed in a year's time. Moreover, the company's EV/SALES is higher than that of its industry's ratio of 1.36, indicating the stock is an overvalued one.
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Factors like escalating U.S.-China tariff war and unfavorable valuation for the company pose risk

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.

Recent News

On **March 10, 2020**, FLIR Systems announced the launch of its FLIR Ranger HDC MR, a new high-definition midrange surveillance system. The Ranger HDC MR has the ability to detect illegal activities even in degraded weather conditions, utilizing embedded analytics and image processing to reduce the cognitive workload, enabling operators to distinguish quickly between true threats and false alarms.

On **March 2, 2020**, FLIR Systems announced that the United States Air Force has ordered more than 180 of the company's Centaur™ unmanned ground vehicles (UGV), plus spares. The \$23 million contract is sourced through the Department of Defense Man Transportable Robotic System Increment II (MTRS Inc II) program.

Valuation

FLIR Systems' shares are down 40.3% in the year to date period and 36.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 40.4% and 36.5% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 36.6%, while sector is down by 33.4%.

The S&P 500 index is down 22.7% in the year to date period and 14.2% in the past year.

The stock is currently trading at 13.8X forward 12-month earnings, which compares to 13.2X for the Zacks sub-industry, 15.3X for the Zacks sector and 15.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.9X and as low as 13.8X, with a 5-year median of 19.6X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$33 price target reflects 14.6X 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	13.77	13.2	15.3	15.73
	5-Year High	26.9	25.36	21.54	19.34
	5-Year Low	13.77	13.2	14.26	15.18
	5-Year Median	19.61	18.67	16.9	17.44
P/S F 12M	Current	2.19	3.27	0.89	2.72
	5-Year High	4.66	4.17	1.39	3.43
	5-Year Low	2.19	2.04	0.8	2.54
	5-Year Median	2.91	2.62	1.09	3
EV/EBITDA TTM	Current	8.71	8.31	10.66	9.2
	5-Year High	18.26	17.41	16.88	12.88
	5-Year Low	7.26	6.95	7.15	8.27
	5-Year Median	13.14	12.24	10.05	10.79

As of 04/03/2020

Industry Analysis Zacks Industry Rank: Top 40% (101 out of 253)



Top Peers

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

Industry Comparison Industry: Electronics - Military				Industry Peers		
	FLIR Neutral	X Industry	S&P 500	AIR Underperform	BAESY Neutral	LDOS Outperform
VGM Score	B	-	-	C	A	C
Market Cap	4.18 B	10.44 M	16.73 B	523.71 M	19.60 B	12.47 B
# of Analysts	5	2.5	13	2	2	8
Dividend Yield	2.19%	0.00%	2.53%	2.01%	3.81%	1.55%
Value Score	D	-	-	A	A	C
Cash/Price	0.07	0.19	0.06	0.10	NA	0.05
EV/EBITDA	11.76	6.86	10.55	5.27	NA	12.10
PEG Ratio	NA	NA	1.71	NA	3.47	1.59
Price/Book (P/B)	2.23	1.67	2.28	0.56	NA	3.64
Price/Cash Flow (P/CF)	9.89	14.84	8.96	4.13	8.51	12.51
P/E (F1)	15.94	14.49	14.34	8.93	9.59	15.64
Price/Sales (P/S)	2.22	0.88	1.78	0.24	NA	1.12
Earnings Yield	6.92%	6.92%	6.84%	11.19%	10.43%	6.39%
Debt/Equity	0.35	0.12	0.70	0.31	NA	0.95
Cash Flow (\$/share)	3.14	0.49	7.01	3.62	2.87	7.03
Growth Score	B	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	10.70%	2.29%	10.95%	37.86%	NA	14.53%
Proj. EPS Growth (F1/F0)	-3.77%	-6.78%	1.08%	-29.24%	25.00%	8.78%
Curr. Cash Flow Growth	10.47%	-35.58%	5.92%	22.00%	-10.81%	6.19%
Hist. Cash Flow Growth (3-5 yrs)	9.29%	12.25%	8.55%	-5.67%	-12.45%	6.45%
Current Ratio	2.68	2.72	1.24	2.39	NA	1.21
Debt/Capital	25.73%	10.94%	42.29%	23.53%	NA	48.76%
Net Margin	9.09%	6.98%	11.69%	1.97%	NA	6.01%
Return on Equity	16.14%	7.56%	16.74%	9.69%	NA	22.51%
Sales/Assets	0.59	1.07	0.54	1.31	NA	1.18
Proj. Sales Growth (F1/F0)	-0.42%	0.00%	1.56%	-2.32%	21.87%	16.18%
Momentum Score	C	-	-	F	C	D
Daily Price Chg	-4.60%	0.00%	-1.59%	-13.21%	-0.77%	-0.78%
1 Week Price Chg	27.43%	2.54%	12.26%	34.55%	20.37%	28.86%
4 Week Price Chg	-22.24%	-18.12%	-22.86%	-60.38%	-21.53%	-18.25%
12 Week Price Chg	-43.02%	-20.20%	-30.01%	-68.11%	-21.76%	-13.00%
52 Week Price Chg	-35.16%	-31.61%	-23.87%	-55.54%	-7.77%	37.45%
20 Day Average Volume	2,144,394	18,368	4,256,776	726,779	269,525	1,623,555
(F1) EPS Est 1 week change	0.00%	0.00%	-0.04%	0.00%	0.00%	-0.41%
(F1) EPS Est 4 week change	-1.20%	-1.20%	-4.29%	-36.26%	0.00%	0.10%
(F1) EPS Est 12 week change	-15.73%	-15.73%	-5.40%	-36.26%	6.03%	3.19%
(Q1) EPS Est Mthly Chg	-1.46%	-1.46%	-5.90%	-129.93%	NA	-0.40%

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	B

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

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