

FLIR Systems, Inc. (FLIR)

\$44.52 (As of 05/14/20)

Price Target (6-12 Months): **\$47.00**

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:C

Value: D

Growth: B

Momentum: C

Summary

FLIR Systems' first-quarter 2020 earnings came in line with the Zacks Consensus Estimate while revenues beat the mark. Declining cost of thermal imaging technology has been boosting adoption of thermal technology, thereby enhancing FLIR Systems' growth prospects. With the rapid spread of COVID-19, the company has been steadily experiencing increased demand for its thermal cameras for use in Elevated Skin Temperature screening. In the past year, it has outperformed the industry. However, FLIR Systems growth trajectory is likely to be hit by 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. Its unfavorable financial ratios indicate that FLIR Systems may face difficulty in paying off its debt obligations.

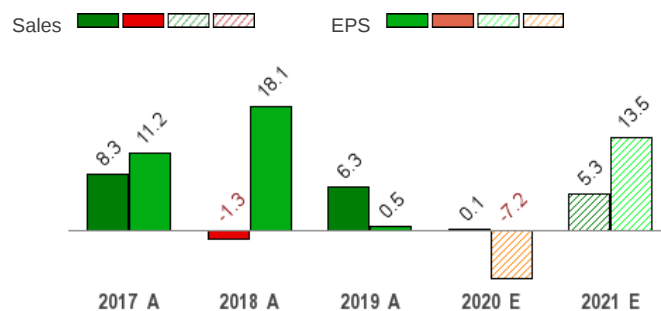
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$59.44 - \$23.85
20 Day Average Volume (sh)	3,295,176
Market Cap	\$5.8 B
YTD Price Change	-14.5%
Beta	1.57
Dividend / Div Yld	\$0.68 / 1.5%
Industry	Electronics - Military
Zacks Industry Rank	Top 30% (75 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	2.8%
EPS F1 Est- 4 week change	-3.6%
Expected Report Date	07/22/2020
Earnings ESP	0.1%
P/E TTM	21.0
P/E F1	21.5
PEG F1	NA
P/S TTM	3.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	474 E	503 E	510 E	533 E	1,990 E
2020	451 A	462 E	483 E	491 E	1,889 E
2019	445 A	482 A	471 A	489 A	1,887 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.58 E	\$0.60 E	\$0.62 E	\$0.68 E	\$2.35 E
2020	\$0.42 A	\$0.50 E	\$0.56 E	\$0.57 E	\$2.07 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 05/14/2020. The reports text is as of 05/15/2020.

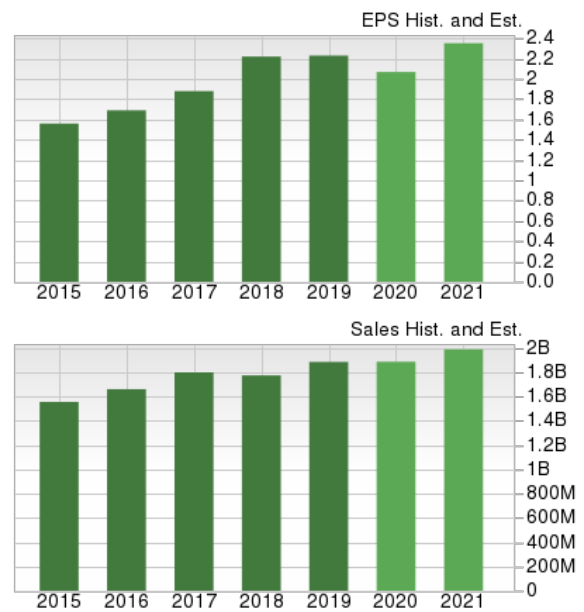
Overview

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, 2020, the company's realigned business segments are:

Industrial Technologies: This segment develops thermal and visible-spectrum imaging camera cores and components as well as fixed mounted visible and thermal imaging cameras and related analytics software. Its product portfolio includes thermal imaging cameras, analytics software, gas detection cameras, firefighting cameras, process automation cameras, environmental test and measurement devices, security cameras, marine electronics, and traffic cameras. It generated revenues of \$276.4 million and contributed 61% to the company's total revenues in the first quarter of 2020.

Defense Technologies: This segment develops enhanced imaging and recognition solutions for a wide variety of law enforcement agencies, sensor instruments and integrated platform solutions for the detection, identification, and suppression of chemical, biological, radiological, nuclear, and explosives (CBRNE) threats for military force protection, homeland security, and commercial applications. Its product portfolio includes airborne, land, maritime, and man-portable multi-spectrum imaging systems, radars, lasers, imaging components, integrated multi-sensor system platforms, CBRNE detectors, nano-class UAS solutions. The company also offers services related to these systems. It generated revenues of \$174.5 million and contributed 39% to the company's total revenues in the first quarter of 2020.



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. Notably, with the rapid spread of COVID-19, the company has been steadily experiencing increased demand for its thermal cameras for use in Elevated Skin Temperature (EST) screening. Expecting a rapid increase in demand for its EST cameras in the rest of 2020, the company is reallocating internal resources, leveraging the strength of its relationships with its world-class suppliers and optimizing manufacturing capacity through investments of relatively small amounts of capital. These initiatives will allow FLIR Systems to exponentially enhance EST camera production to meet growing customer demand, which, in turn can be expected to boost its top line in the coming days.
- ▲ To compete in the diverse industries in which the company caters to, FLIR Systems continue to innovate new products, to capture larger market shares. Evidently 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. In March, the company brought into market its FLIR Ranger HDC MR, a new high-definition midrange surveillance system. This surveillance system sets a new standard with their ability to detect illegal activities even in degraded weather conditions, utilizing embedded analytics and image processing to reduce cognitive workload, enabling operators to distinguish quickly between true threats and false alarms. Such innovations are expected to enhance the company's product portfolio efficiently, thereby creating growth opportunities.
- ▲ FLIR Systems has been witnessing growing opportunities within many of its core markets most notably defense. Within its Defense business unit, the company has been experiencing notable growth for unmanned systems. To this end, the company's latest acquisitions of Aeryon Labs and Endeavor Robotics in 2019 hold immense importance. While Aeryon Labs takeover has enhanced FLIR Systems' domain knowledge in unmanned aerial systems (UAS) and expanded its distribution channels in adjacent markets, the other buyout has expanded the company's offerings in unmanned ground systems. Impressively, revenue contributions from unmanned systems from the Aeryon Labs and Endeavor Robotics acquisitions have been partially responsible for the year-over-year top-line growth that the company experienced in the first quarter. Going ahead, we believe these two buyouts will significantly bolster FLIR Systems' position in the expanding global UAS market. This may have caused investors to gain confidence in this stock's growth. Evidently, the company's shares have declined 10% in the past year, outperforming its industry's decline of 10.3%.

Systematic product innovations and increasing demand for its thermal cameras are expected to boost FLIR Systems' growth

Reasons To Sell:

- ▼ 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 concern for FLIR Systems investors. The stock currently has a trailing 12-month EV/EBITDA ratio of 12.88. 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 12.62.
- ▼ FLIR Systems' cash and cash equivalents were \$309 million at the end of first-quarter 2020, compared with \$285 million as of Dec 31, 2019. Its long-term debt was \$636 million as of Mar 31, 2020 and current debt was \$203 million. Therefore, while its long-term debt is much higher its cash reserve, the company's current debt remains low. This reflects the fact that the company does not hold a very strong solvency position, evident from the deterioration in financial ratios. Evidently, the company's first-quarter 2020 interest coverage of 7.5 was lower than the prior-quarter figure of 9.7 and the lowest in the last four quarters.

Additionally, the company's debt-to-capital ratio of 0.28 as of Mar 31, 2020 increased sequentially from 0.26 and was the highest in the last four quarters. Its current ratio of 1.92 at the end of first-quarter 2020 declined sequentially and was the lowest in the past four quarters. Such unfavorable financial ratios indicate that FLIR Systems may face difficulty in paying off its debt obligations, at least in the near term.

Escalating tariff on import of aluminum and unfavorable financial ratios pose risk for the stock

Last Earnings Report

FLIR Systems' Q1 Earnings Match Estimates, Down Y/Y

FLIR Systems' first-quarter 2020 adjusted earnings of 42 cents per share came in line with the Zacks Consensus Estimate. The figure, however, declined 20.8% from 53 cents reported in the prior-year quarter.

The company reported GAAP earnings of 11 cents compared with earnings of 45 cents in the year-ago quarter.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	2.81%
EPS Surprise	0.00%
Quarterly EPS	0.42
Annual EPS (TTM)	2.12

Inside the Headlines

FLIR Systems' revenues inched up 1.4% year over year to \$450.9 million in the reported quarter. Also, the top line beat the Zacks Consensus Estimate of \$439 million by 2.7%. Impressive performance by the Industrial Technologies and the Defense Technologies segments led to the year-over-year increase in the top line.

Segment-wise, revenues in the Industrial Technologies segment were up 1.9% to \$276.4 million. The upside can be attributed to heightened demand for EST cameras as a result of the COVID-19 pandemic.

Revenues in the Defense Technologies segment totaled \$174.5 million, up 0.7% on a year-over-year basis. The upside can be attributed to contributions of unmanned revenues from the Aeryon Labs and Endeavor Robotics acquisitions.

Operational Statistics

The company recorded a total backlog of \$859.3 million at the end of the first quarter of 2020, reflecting a 2.8% increase relative to the prior-year quarter.

The company's total operating expenses grew 24.9% year over year to \$190.9 million. Operating income for the quarter was \$28.5 million compared with \$81.1 million in the prior-year quarter.

Operating margin decreased to 6.3% from 18.2% in the prior-year quarter, primarily attributable to product mix in the Defense Technologies segment and increases in restructuring costs, consent agreement costs, research and development expenses, and deferred compensation costs.

Liquidity & Cash Flow

As of Mar 31, 2020, the company's cash and cash equivalents were \$308.6 million compared with \$284.6 million, as of Dec 31, 2019.

Long-term debt, net of current portion, totaled \$636.3 million, down from \$648.4 million, as of Dec 31, 2019.

Cash flow from operating activities in the first quarter of 2020 amounted to \$50.9 million compared with the prior-year quarter's \$55.5 million.

Outlook

FLIR Systems has withdrawn its previously-issued guidance for 2020 due to the uncertainties concerning the COVID-19 pandemic.

Recent News

On **May 13, 2020**, FLIR Systems unveiled its C5 Compact Thermal Camera with new built-in FLIR Ignite cloud connectivity and Wi-Fi features for professionals in the building maintenance, manufacturing, and utility industries. The FLIR C5 is designed as a pocket-portable thermal camera, providing easy sharing tools and reduced diagnostic time for commercial electrical testing, mechanical engineering, home and building inspection, energy auditing, and general contracting.

On **Apr 1, 2020**, FLIR Systems announced the launch of FLIR A400/A700 Thermal Smart Sensor and Thermal Image Streaming fixed camera solutions for monitoring equipment, production lines, critical infrastructure, and screening for elevated skin temperatures.

Valuation

FLIR Systems' shares are down 14% in the year to date period and 10% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 14.4% and 37.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 10.3% while the sector is down 34.6%.

The S&P 500 index is down 10.8% in the past year-to-date period and 0.8% in the past year.

The stock is currently trading at 20X forward 12-month earnings, which compares to 19.8X for the Zacks sub-industry, 18.5X for the Zacks sector and 20.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.9X and as low as 11.4X, with a 5-year median of 19.6X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$47 price target reflects 21.2X earnings value.

The table below shows summary valuation data for FLIR

Valuation Multiples - FLIR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.04	19.83	18.54	20.67
	5-Year High	26.9	25.36	20.94	20.79
	5-Year Low	11.38	13.58	14.17	15.19
	5-Year Median	19.63	18.72	17.16	17.45
P/S F12M	Current	3.03	2.03	1	3.22
	5-Year High	4.66	4.17	1.49	3.44
	5-Year Low	1.8	2.03	0.92	2.54
	5-Year Median	2.93	2.61	1.17	3.02
EV/EBITDA TTM	Current	12.44	11.6	10.56	10.32
	5-Year High	18.26	17.41	15	12.86
	5-Year Low	7.26	6.95	7.38	8.28
	5-Year Median	13.14	12.25	10.48	10.77

As of 05/14/2020

Industry Analysis Zacks Industry Rank: Top 30% (75 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Elbit Systems Ltd. (ESLT)	Outperform	1
AAR Corp. (AIR)	Neutral	3
Astronics Corporation (ATRO)	Neutral	3
AeroVironment, Inc. (AVAV)	Neutral	3
Bae Systems PLC (BAESY)	Neutral	3
Leidos Holdings, Inc. (LDOS)	Neutral	3
Northrop Grumman Corporation (NOC)	Neutral	3
Raytheon Technologies Corporation (RTX)	Underperform	5

Industry Comparison Industry: Electronics - Military				Industry Peers		
	FLIR	X Industry	S&P 500	AIR	BAESY	LDOS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	A	A	A
Market Cap	5.83 B	10.65 M	18.95 B	529.32 M	19.49 B	13.61 B
# of Analysts	5	5	14	2	2	8
Dividend Yield	1.53%	0.00%	2.2%	1.99%	0.00%	1.42%
Value Score	D	-	-	A	A	B
Cash/Price	0.05	0.22	0.06	0.10	0.17	0.03
EV/EBITDA	15.92	11.90	11.58	5.31	6.42	12.95
PEG Ratio	NA	NA	2.60	NA	NA	1.71
Price/Book (P/B)	3.51	1.70	2.59	0.57	2.75	4.05
Price/Cash Flow (P/CF)	14.17	14.56	10.20	4.17	7.82	13.63
P/E (F1)	21.38	21.53	19.00	9.03	11.30	18.31
Price/Sales (P/S)	3.08	0.88	1.93	0.24	NA	1.19
Earnings Yield	4.65%	4.65%	5.05%	11.07%	8.85%	5.47%
Debt/Equity	0.37	0.11	0.75	0.31	0.75	0.88
Cash Flow (\$/share)	3.14	0.49	7.01	3.62	3.10	7.03
Growth Score	B	-	-	D	A	A
Hist. EPS Growth (3-5 yrs)	10.53%	2.21%	10.82%	37.86%	NA	14.53%
Proj. EPS Growth (F1/F0)	-7.26%	-10.17%	-10.48%	-29.24%	5.39%	1.26%
Curr. Cash Flow Growth	10.47%	-3.64%	5.68%	22.00%	8.10%	6.19%
Hist. Cash Flow Growth (3-5 yrs)	9.29%	10.77%	8.52%	-5.67%	-3.36%	6.45%
Current Ratio	1.92	2.67	1.27	2.39	1.01	0.67
Debt/Capital	27.18%	10.08%	44.25%	23.53%	42.87%	46.71%
Net Margin	6.62%	4.35%	10.54%	1.97%	NA	5.20%
Return on Equity	15.71%	4.28%	16.29%	9.69%	NA	22.56%
Sales/Assets	0.60	1.08	0.54	1.31	NA	1.17
Proj. Sales Growth (F1/F0)	0.09%	0.00%	-2.55%	-2.32%	17.18%	14.19%
Momentum Score	C	-	-	A	D	C
Daily Price Chg	-1.61%	-0.42%	1.17%	-0.85%	-0.84%	0.34%
1 Week Price Chg	12.25%	-0.15%	3.23%	-0.71%	2.40%	4.91%
4 Week Price Chg	32.15%	-3.75%	1.06%	-9.48%	-6.83%	3.21%
12 Week Price Chg	-23.49%	-22.60%	-22.80%	-66.31%	-28.16%	-19.65%
52 Week Price Chg	-11.33%	-21.91%	-12.40%	-53.27%	2.64%	25.61%
20 Day Average Volume	3,295,176	19,987	2,553,422	376,928	374,775	1,096,997
(F1) EPS Est 1 week change	-2.18%	-2.18%	0.00%	0.00%	0.00%	0.07%
(F1) EPS Est 4 week change	-3.63%	-3.63%	-5.57%	0.00%	-2.27%	-5.72%
(F1) EPS Est 12 week change	-19.09%	-19.09%	-16.22%	-36.26%	-12.25%	-5.99%
(Q1) EPS Est Mthly Chg	-7.04%	-7.04%	-11.63%	0.00%	NA	-16.52%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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.

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