

## FLIR Systems, Inc. (FLIR)

**\$54.66** (As of 01/20/20)

Price Target (6-12 Months): **\$58.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 08/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: A

## Summary

FLIR Systems continues to innovate new products, to capture larger market shares. Declining cost of thermal imaging technology has created opportunity to increase the adoption of thermal technology, thereby boosting its prospects. In October, it acquired the intellectual property and certain operating assets of Aria Insights, Inc. This should expand its industry-leading technology portfolio built from its acquisitions of Prox Dynamics, Aeryon Labs and Endeavor Robotics. In the past year, the stock slightly outperformed the industry. However, the U.S.-China tariff war may hurt its growth trajectory. Strong competition from various big and small industry players remains a threat to its profitability. Product performance and product reputation are some of the biggest challenges faced by FLIR Systems.

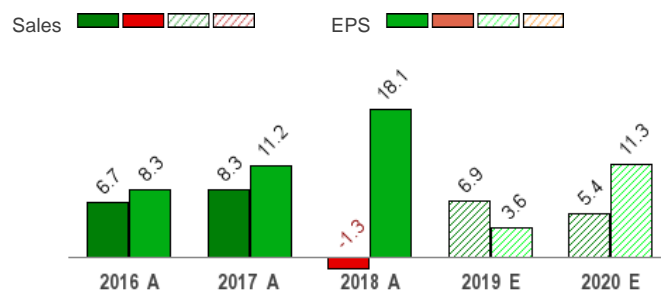
## Price, Consensus & Surprise



## Data Overview

|                            |  |
|----------------------------|--|
| 52 Week High-Low           | \$55.54 - \$44.18                      |
| 20 Day Average Volume (sh) | 473,389                                |
| Market Cap                 | \$7.3 B                                |
| YTD Price Change           | 5.0%                                   |
| Beta                       | 1.15                                   |
| Dividend / Div Yld         | \$0.68 / 1.2%                          |
| Industry                   | <a href="#">Electronics - Military</a> |
| Zacks Industry Rank        | Top 45% (114 out of 254)               |

## Sales and EPS Growth Rates (Y/Y %)



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | 1.7%       |
| Last Sales Surprise       | -3.0%      |
| EPS F1 Est- 4 week change | 0.4%       |
| Expected Report Date      | 02/12/2020 |
| Earnings ESP              | 0.0%       |
| P/E TTM                   | 23.8       |
| P/E F1                    | 21.4       |
| PEG F1                    | NA         |
| P/S TTM                   | 4.0        |

## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2020 | 479 E | 511 E | 491 E | 524 E | 2,000 E |
| 2019 | 445 A | 482 A | 471 A | 500 E | 1,898 E |
| 2018 | 440 A | 453 A | 435 A | 448 A | 1,776 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2020 | \$0.60 E | \$0.64 E | \$0.64 E | \$0.70 E | \$2.56 E |
| 2019 | \$0.53 A | \$0.56 A | \$0.59 A | \$0.62 E | \$2.30 E |
| 2018 | \$0.48 A | \$0.55 A | \$0.57 A | \$0.62 A | \$2.22 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 01/20/2020. The reports text is as of 01/21/2020.

## Overview

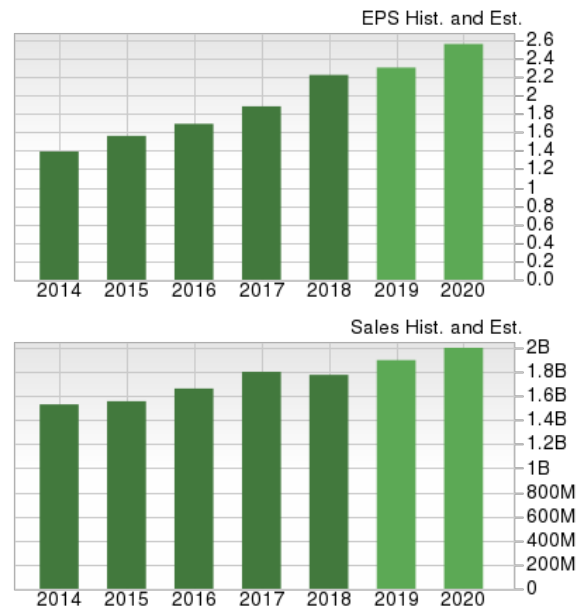
FLIR Systems, incorporated in 1978, is an Oregon-based corporation, engaged in designing, manufacturing, marketing and distributing innovative technologies like thermal imaging systems, visible-light imaging systems, locator systems, measurement and diagnostic systems, as well as advanced threat-detection 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. This unit generated revenues of \$719.9 million and contributed 40.4% to the company's total revenues in 2018.

**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. This unit generated revenues of \$663.4 million and contributed 37.4% to the company's total revenues in 2018.

**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. This unit generated revenues of \$394.4 million and contributed 22.2% to the company's total revenues in 2018.



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## 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. Over time, to better serve its customers the company has expanded its thermal product offerings with complementary sensing technologies, such as visible imaging, radar, laser, sonar, chemical sensing, and environmental sensing technologies.

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

▲ 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 third quarter, the company launched its MUV C360, the industry's first multi-gas detector specifically built for unmanned aerial systems (UAS). It also introduced the M300 Series, a new generation of maritime thermal cameras delivering advanced awareness-enhancing technologies, safer navigation, and seamless integration with onboard boat systems. FLIR Systems also introduced the T860 thermal camera, which is the first to feature onboard Inspection Route software, ideal for streamlining inspections of critical assets, like power substation components and distribution lines. 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 this year. In July, the company acquired New England Optical Systems (NEOS), a recognized designer and manufacturer of high-end optical lens assemblies used for visible, thermal and multi-spectral cameras. Their thermal zoom solutions are enabled by the NEOS electronic lens controller, which provides enhanced focus performance while zooming as well as predictive maintenance metrics. Per management, this investment reflects FLIR Systems' vertical integration strategy delivering a complete camera solution to its commercial and defense customers.

Such acquisitions are expected to boost FLIR Systems' product portfolio, bolstering its share in the aerospace-defense space. This in turn have boosted investors optimistic about the stock's performance in the past one year. Evidently, FLIR Systems' has gained 23.8% compared with the industry's 23.7% growth.

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## 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.
- ▼ Strong competition from various big and small industry players remains a threat to FLIR Systems' profitability. Identification of new applications for thermal imaging depending on customer needs, coupled with development of commercial quantities at reasonable costs, remains a primary challenge for all companies operating in this sector. Product performance, price, customer service and training and product reputation are some of the biggest challenges faced by FLIR Systems.
- ▼ 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 expanding competition pose significant risks for the company and are beyond its control.

## Last Earnings Report

### FLIR Systems Q3 Earnings Beat, Revenue View Down

FLIR Systems Inc.'s third-quarter 2019 adjusted earnings of 59 cents per share surpassed the Zacks Consensus Estimate of 58 cents by 1.7%. Also, the reported figure increased 3.5% from 57 cents in the prior-year quarter.

The company reported GAAP earnings of 46 cents per share compared with 52 cents in the year-ago quarter. The year-over-year downside can be attributed to higher operating expenses and increase in amortization of intangible assets associated with the previously announced acquisitions.

### Operational Performance

FLIR Systems' revenues increased 8.4% year over year to \$471.2 million in the reported quarter. However, the top line missed the Zacks Consensus Estimate of \$486 million by 3%. Impressive performance by the Government and Defense segment led to year-over-year increase in the top line.

Organic revenues rose 2.5% year over year. The figure excluded revenues from acquisitions within the last twelve months.

Total backlog at the end of the third quarter increased 16.7% to \$810 million on a year-over-year basis. The company's total operating expenses increased 16.2% year over year to \$155.2 million. Its adjusted operating income came in at \$101.6 million, which decreased 4.2% from the year ago quarter.

### Segmental Performance

Segment-wise, quarterly revenues in the Industrial segment were down 0.3% to \$176.6 million. The downside can be attributed to lower demand for test and measurement products, machine vision cameras, and the continuing gradual transition from handhelds to UAS-based and fixed-mount offerings.

Revenues in the Government and Defense segment totaled \$213.3 million, up 24.1% on a year-over-year basis. The upside can be attributed to acquisitions of Aeryon Labs and Endeavor Robotics earlier in the year and solid organic revenue growth of 9.8%.

Moreover, the Commercial segment revenues amounted to \$81.3 million, down 5.3% from the year-ago quarter's figure. The downside was caused by foreign exchange effects as well as lower customer demand in the Maritime business primarily related to macroeconomic conditions.

### Liquidity & Cash Flow

As of Sep 30, 2019, the company's cash and cash equivalents were \$295.4 million compared with \$512.1 million as of Dec 31, 2018. Long-term debt totaled \$644.9 million, up from \$421.9 million as of Dec 31, 2018.

Cash flow from operating activities for the nine months ended Sep 30, 2019, amounted to \$276.8 million, up 0.4% from \$276.8 million as of Sep 30, 2018.

### Outlook

FLIR Systems updated its financial guidance for 2019. The company currently expects to generate adjusted earnings per share of \$2.30 compared with the earlier guided range of \$2.30-\$2.36. Currently, the Zacks Consensus Estimate for 2019 earnings, pegged at \$2.33, lies above the company provided guidance.

The company currently expects to record revenues of \$1.90 billion compared with the prior guidance range of \$1.92-\$1.95 billion. The Zacks Consensus Estimate for 2019 revenues, pegged at \$1.93 billion, lies above the company's guidance.

The company, however, continues to expect 2019 adjusted operating income margin to be 22-23%.

Quarter Ending **09/2019**

| Report Date      | Oct 31, 2019 |
|------------------|--------------|
| Sales Surprise   | -3.04%       |
| EPS Surprise     | 1.72%        |
| Quarterly EPS    | 0.59         |
| Annual EPS (TTM) | 2.30         |

## Valuation

FLIR Systems' shares are up 1.9% in the past six months period and up 23.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are up 2% and 7% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 23.7%, while sector was up 26.1%.

The S&P 500 index is up 13.3% in the past six months period and 28.3% in the past year.

The stock is currently trading at 21.25X forward 12-month earnings, which compares to 21.19X for the Zacks sub-industry, 18.42X for the Zacks sector and 19.19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.9X and as low as 14.07X, with a 5-year median of 19.49X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$58 price target reflects 22.55X 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       | 21.25 | 21.19        | 18.42  | 19.19   |
|                            | 5-Year High   | 26.9  | 25.36        | 21.54  | 19.34   |
|                            | 5-Year Low    | 14.07 | 14.22        | 14.26  | 15.17   |
|                            | 5-Year Median | 19.49 | 18.67        | 16.82  | 17.44   |
| P/S F12M                   | Current       | 3.66  | 3.49         | 1.31   | 3.57    |
|                            | 5-Year High   | 4.66  | 4.17         | 1.39   | 3.57    |
|                            | 5-Year Low    | 2.21  | 2.04         | 0.8    | 2.54    |
|                            | 5-Year Median | 2.87  | 2.61         | 1.06   | 3       |
| EV/EBITDA TTM              | Current       | 17.27 | 16.49        | 12.94  | 12.38   |
|                            | 5-Year High   | 18.26 | 17.41        | 13.24  | 12.86   |
|                            | 5-Year Low    | 9.83  | 9.15         | 7.28   | 8.48    |
|                            | 5-Year Median | 13.1  | 12.23        | 9.94   | 10.67   |

As of 01/17/2020

## Industry Analysis Zacks Industry Rank: Top 45% (114 out of 254)



## Top Peers

|                                    |            |
|------------------------------------|------------|
| Leidos Holdings, Inc. (LDOS)       | Outperform |
| AAR Corp. (AIR)                    | Neutral    |
| 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    |

| Industry Comparison Industry: Electronics - Military |              |            |           | Industry Peers |               |                 |
|--|--------------|------------|-----------|----------------|---------------|-----------------|
|  | FLIR Neutral | X Industry | S&P 500   | AIR Neutral    | BAESY Neutral | LDOS Outperform |
| <b>VGM Score</b>                                     | <b>B</b>     | -          | -         | <b>A</b>       | <b>A</b>      | <b>A</b>        |
| Market Cap   | 7.33 B       | 19.49 M    | 24.65 B   | 1.60 B         | 26.03 B       | 14.64 B         |
| # of Analysts  | 5            | 3          | 13        | 2              | 2             | 6               |
| Dividend Yield                                       | 1.24%        | 0.00%      | 1.73%     | 0.65%          | 2.85%         | 1.32%           |
| <b>Value Score</b>                                   | <b>C</b>     | -          | -         | <b>B</b>       | <b>B</b>      | <b>B</b>        |
| Cash/Price   | 0.04         | 0.14       | 0.04      | 0.03           | NA            | 0.04            |
| EV/EBITDA  | 19.71        | 11.41      | 14.11     | 12.93          | NA            | 16.98           |
| PEG Ratio  | NA           | NA         | 2.08      | NA             | 2.84          | 2.53            |
| Price/Book (P/B)                                     | 3.92         | 2.95       | 3.39      | 1.74           | NA            | 4.50            |
| Price/Cash Flow (P/CF)                               | 19.99        | 17.06      | 13.81     | 12.67          | 11.37         | 16.52           |
| P/E (F1)   | 21.33        | 22.51      | 19.19     | 17.49          | 13.46         | 18.97           |
| Price/Sales (P/S)                                    | 3.97         | 1.45       | 2.69      | 0.73           | NA            | 1.36            |
| Earnings Yield                                       | 4.68%        | 4.46%      | 5.21%     | 5.72%          | 7.41%         | 5.27%           |
| Debt/Equity  | 0.34         | 0.12       | 0.72      | 0.30           | NA            | 1.00            |
| Cash Flow (\$/share)                                 | 2.73         | 0.53       | 6.94      | 3.62           | 2.87          | 6.26            |
| <b>Growth Score</b>                                  | <b>B</b>     | -          | -         | <b>A</b>       | <b>B</b>      | <b>A</b>        |
| Hist. EPS Growth (3-5 yrs)                           | 10.68%       | 2.28%      | 10.56%    | 29.48%         | NA            | 14.25%          |
| Proj. EPS Growth (F1/F0)                             | 11.13%       | 184.14%    | 7.57%     | 11.02%         | -6.55%        | 9.04%           |
| Curr. Cash Flow Growth                               | 13.41%       | -2.17%     | 14.73%    | 22.00%         | -10.81%       | 1.52%           |
| Hist. Cash Flow Growth (3-5 yrs)                     | 7.72%        | 11.21%     | 9.00%     | -5.67%         | -12.45%       | 37.15%          |
| Current Ratio  | 2.38         | 2.38       | 1.24      | 2.64           | NA            | 1.16            |
| Debt/Capital   | 25.65%       | 10.90%     | 42.99%    | 23.31%         | NA            | 49.88%          |
| Net Margin   | 14.54%       | 2.90%      | 11.14%    | 0.18%          | NA            | 6.25%           |
| Return on Equity                                     | 16.71%       | 2.16%      | 17.16%    | 10.18%         | NA            | 21.12%          |
| Sales/Assets   | 0.59         | 0.94       | 0.55      | 1.35           | NA            | 1.17            |
| Proj. Sales Growth (F1/F0)                           | 5.36%        | 2.68%      | 4.16%     | 9.24%          | 5.02%         | 6.47%           |
| <b>Momentum Score</b>                                | <b>A</b>     | -          | -         | <b>B</b>       | <b>B</b>      | <b>C</b>        |
| Daily Price Chg                                      | 0.42%        | 0.00%      | 0.27%     | -0.39%         | 0.83%         | 1.08%           |
| 1 Week Price Chg                                     | 2.39%        | 5.25%      | 0.39%     | 0.37%          | 1.85%         | 1.55%           |
| 4 Week Price Chg                                     | 4.26%        | 2.64%      | 2.95%     | 0.33%          | 8.54%         | 7.38%           |
| 12 Week Price Chg                                    | 1.96%        | 15.83%     | 7.76%     | 12.36%         | 13.84%        | 29.17%          |
| 52 Week Price Chg                                    | 21.76%       | 6.25%      | 22.29%    | 22.68%         | 24.33%        | 84.36%          |
| 20 Day Average Volume                                | 473,389      | 25,178     | 1,536,375 | 240,631        | 133,308       | 698,483         |
| (F1) EPS Est 1 week change                           | 0.00%        | 0.00%      | 0.00%     | 0.00%          | 0.83%         | 0.00%           |
| (F1) EPS Est 4 week change                           | 0.37%        | 0.18%      | 0.00%     | 0.13%          | 4.53%         | 0.62%           |
| (F1) EPS Est 12 week change                          | -1.57%       | 13.50%     | -0.40%    | 0.13%          | 0.41%         | 3.84%           |
| (Q1) EPS Est Mthly Chg                               | 3.02%        | 1.51%      | 0.00%     | -8.33%         | NA            | 0.00%           |

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## 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.

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### 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    | C |
| Growth Score   | B |
| Momentum Score | A |
| 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.

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### Disclosures

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