

FLIR Systems, Inc. (FLIR)

\$36.15 (As of 08/20/20)

Price Target (6-12 Months): **\$38.00**

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: B

Growth: B

Momentum: D

Summary

FLIR Systems continue to innovate new products, to capture larger market shares, to compete in the diverse industries in which the company caters to. Declining cost of thermal imaging technology has been boosting its adoption, 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. 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. Its Defense Technologies segment has been experiencing administrative processing delays, owing to coronavirus impacts, which is hurting the timing of bookings and revenues. In the past year, it has underperformed the industry.

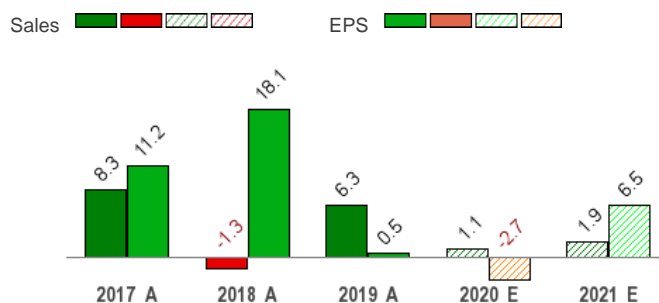
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$59.44 - \$23.85
20 Day Average Volume (sh)	1,552,661
Market Cap	\$4.7 B
YTD Price Change	-30.6%
Beta	1.55
Dividend / Div Yld	\$0.68 / 1.9%
Industry	Electronics - Military
Zacks Industry Rank	Top 49% (124 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	28.0%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	5.0%
Expected Report Date	10/29/2020
Earnings ESP	1.3%
P/E TTM	16.4
P/E F1	16.7
PEG F1	NA
P/S TTM	2.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	489 E	471 E	504 E	534 E	1,945 E
2020	451 A	482 A	471 E	506 E	1,908 E
2019	445 A	482 A	471 A	489 A	1,887 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.49 E	\$0.53 E	\$0.58 E	\$0.67 E	\$2.31 E
2020	\$0.42 A	\$0.64 A	\$0.56 E	\$0.59 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, except sales and EPS estimates, is as of 08/20/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/21/2020.

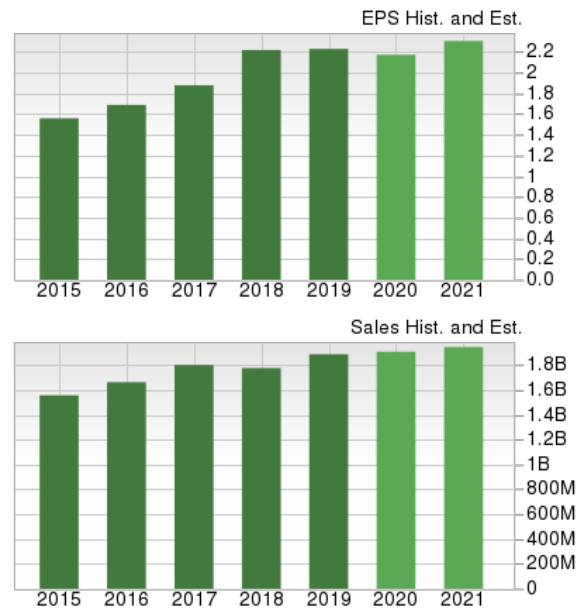
Overview

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, 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 \$300.2 million and contributed 62% to the company's total revenues in the second 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 \$181.8 million and contributed 38% to the company's total revenues in the second 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. In recent times, 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, during the second quarter, its Industrial Technologies segment introduced FLIR C5, a new pocket portable thermal camera. This is the first in this series to offer the FLIR Ignite cloud solution, which when connected to WiFi allows professionals to directly upload, store and back up images to the cloud. The company also brought in several FLIR EST thermal cameras that have been enhanced for fast and safe, non-contact elevated skin temperature screening. FLIR Systems also launched the FLIR Screen-EST software, which is designed to work with both its existing and new EST model cameras. The software provides automatic measurement tools that increase the speed and accuracy of frontline screenings. Moreover, its Defense Technologies segment announced the Star SAFIRE 380X hardware, firmware and software update to support image-aiding features for deployed Star SAFIRE gimbaled systems, including its most broadly deployed models, the 380 HD and 380 HDc. 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 in the recent past. In fact, amid the uncertainties posed by the coronavirus pandemic, its Defense Technologies segment continued to experienced steady demand for unmanned systems and solutions. Notably, during the second quarter, the company won a \$21 million contract from the U.S. Army to deliver the FLIR Black Hornet 3 personal reconnaissance system (PRS). It also clinched a \$10 million contract to deliver its R80D SkyRaider unmanned aerial system to the U.S. Marine Corps. Further, FLIR Systems received two separate orders from the U.S. Army and the Navy for a combined \$23.5 million to deliver more than 160 of FLIR's Centaur unmanned ground vehicles, plus related spares and accessories. All these contract wins are indicative of the strong demand that FLIR Systems' combat-proven UAVs enjoy in the defense space, thereby bolstering the company's position in the expanding global UAS market.

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. In the past year, it has underperformed the industry. The company's shares have declined 24.5% in the past year, slightly underperforming the industry's decline of 24.4%.

Escalating tariff on import of aluminum and unfavorable impact of coronavirus pose risk for the stock
 - ▼ FLIR Systems' cash and cash equivalents were \$333 million at the end of second- quarter 2020, compared with \$309 million as of Mar 31, 2020. Its long-term debt was \$643 million as of Jun 30, 2020, up sequentially from \$636 million. Therefore, its long-term debt is much higher than its cash reserve, which reflects the fact that the company does not hold a very strong solvency position.

Moreover, at the end of second quarter, the company had an outstanding debt worth \$846.7 million, consisting of unsecured term loans and borrowings. The prolonged impact of COVID-19 pandemic on the global supply chain may lead to sustained economic disruption, thereby hampering global credit and financial markets. FLIR Systems fear that such possible deterioration in capital market might affect its ability to duly meet this debt obligation in time.
 - ▼ The Defense Technologies segment experienced administrative processing delays, which impacted the timing of bookings and revenues. These trends are likely to affect the segment's results in subsequent quarters, which in turn might impact FLIR Systems' overall operational performance in the coming months. Moreover, the company has experienced and may continue to experience disruptions in its supply chain from the actions of governments or businesses intended to contain the spread of the virus, such as closing factories or other operations that produce components necessary for the company's products; quarantining individuals around major commercial hubs, and/or restricting the transportation of goods and services. Given the uncertainty surrounding the pandemic, such lingering disruptions are projected to hurt the company's operational results.
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Last Earnings Report

FLIR Systems Q2 Earnings Top Estimates, Revenues Match

FLIR Systems second-quarter 2020 adjusted earnings of 64 cents per share surpassed the Zacks Consensus Estimate of 50 cents by 28%. Also, the reported figure increased 23.1% from 52 cents in the prior-year quarter.

The company reported GAAP earnings of 47 cents per share compared with 34 cents in the year-ago quarter.

Total Revenues

FLIR Systems reported revenues of \$482 million in the second quarter, almost in line with the prior-year quarter's reported figure and the Zacks Consensus Estimate.

Segment Update

Segment-wise, quarterly revenues in the Industrial Technologies segment were \$300.2 million, representing an increase of 5.5% from the prior-year quarter. The increase was primarily attributable to heightened demand for EST solutions as a result of the COVID-19 pandemic.

The Industrial Technologies segment's operating income was \$107.1 million compared with \$71.6 million in the prior-year quarter.

Revenues in the Defense Technologies segment were \$181.8 million, which decreased 7.9% from the prior-year quarter. The decrease was primarily attributable to the completion of certain contracts that contributed to revenues in the prior-year quarter.

The Defense Technologies segment's operating income was \$41.2 million compared with \$45.8 million in the prior-year quarter.

Operational Statistics

The company's total operating expenses declined 10.2% year over year to \$152.4 million.

Consequently, adjusted operating income came in at \$99.81 million compared with the operating income of \$63.74 million in the second quarter of 2019.

Liquidity & Cash Flow

As of Jun 30, 2020, the company's cash and cash equivalents were \$333 million compared with \$284.6 million as of Dec 31, 2019. Long-term debt totaled \$643.3 million, down from \$648.4 million as of Dec 31, 2019.

Cash flow from operating activities for the six months ended Jun 30, 2020, amounted to \$63.1 million, down 6.9% from \$67.8 million in the first half of 2019.

Outlook

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

Quarter Ending 06/2020

Report Date	Aug 06, 2020
Sales Surprise	0.10%
EPS Surprise	28.00%
Quarterly EPS	0.64
Annual EPS (TTM)	2.20

Recent News

On **June 30, 2020**, FLIR Systems announced modified thermal cameras for fast and safe non-contact elevated skin temperature screening. The FLIR ES thermal screening solutions provide frontline screening at building entries and in high traffic areas to improve safety and help curb the spread of COVID-19. The FLIR Axxx-EST, FLIR T5xx-EST, and FLIR Exx-EST series cameras are designed to simplify the screening process, reducing the burden on screening operators and adhering to recommended social distancing guidelines.

On **June 15, 2020**, FLIR Systems announced the release of the Star SAFIRE 380X hardware, firmware and software upgrade to support advanced image-aiding features for its globally deployed Star SAFIRE gimbal systems, including Star SAFIRE 380-HD and 380-HDc.

On **June 9, 2020**, FLIR Systems announced that the United States (U.S.) Army and Navy have ordered in total more than 160 of the company's Centaur unmanned ground vehicles (UGV), plus related spares and accessories. The two contracts, totaling \$23.5 million, are being sourced through the Army's Man Transportable Robotic System Increment II (MTRS Inc II) program.

Valuation

FLIR Systems' shares are down 30.6% in the year to date period and 24.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 30.7% and 33% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 24.4% while the sector is down 34.7%.

The S&P 500 index is up 5.1% in the past year-to-date period and 16.1% in the past year.

The stock is currently trading at 16X forward 12-month earnings, which compares to 16X for the Zacks sub-industry, 21 for the Zacks sector and 22.8X for the S&P 500 index.

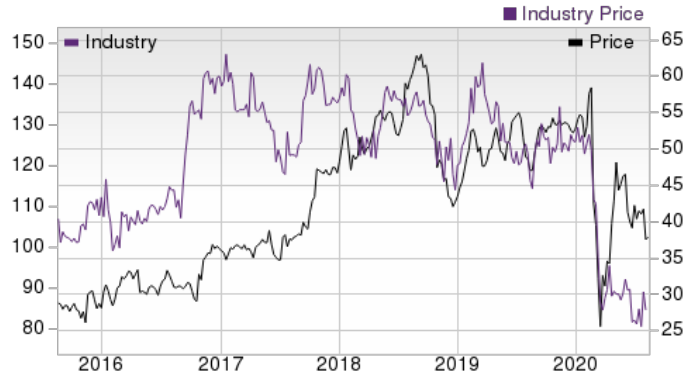
Over the past five years, the stock has traded as high as 26.9X and as low as 11.4X, with a 5-year median of 19.7X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$38 price target reflects 16.8X earnings value.

The table below shows summary valuation data for FLIR

Valuation Multiples - FLIR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16	16.04	20.96	22.83
	5-Year High	26.9	25.36	20.96	22.83
	5-Year Low	11.38	13.58	14.17	15.25
	5-Year Median	19.71	18.72	17.29	17.58
P/S F12M	Current	2.45	2.34	1.67	3.71
	5-Year High	4.66	4.17	1.67	3.71
	5-Year Low	1.8	2.03	0.92	2.53
	5-Year Median	3.02	2.66	1.18	3.05
EV/EBITDA TTM	Current	10.84	9.13	16.34	12.81
	5-Year High	14.81	17.41	16.81	12.85
	5-Year Low	7.65	6.95	7.39	8.25
	5-Year Median	11.86	12.28	10.61	10.91

As of 08/20/2020

Industry Analysis Zacks Industry Rank: Top 49% (124 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
AAR Corp. (AIR)	Neutral	4
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)	Neutral	3
Astronics Corporation (ATRO)	Underperform	4
Elbit Systems Ltd. (ESLT)	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	-	-	4	3	3
VGM Score	B	-	-	C	A	A
Market Cap	4.74 B	14.58 M	23.46 B	676.74 M	22.68 B	12.94 B
# of Analysts	5	3	14	2	2	9
Dividend Yield	1.88%	0.00%	1.65%	0.00%	4.98%	1.49%
Value Score	B	-	-	B	B	B
Cash/Price	0.07	0.19	0.07	0.60	0.16	0.04
EV/EBITDA	13.07	11.07	13.34	11.07	7.39	13.69
PEG Ratio	NA	NA	3.00	NA	12.47	1.57
Price/Book (P/B)	2.70	1.66	3.12	0.75	3.20	3.65
Price/Cash Flow (P/CF)	11.50	14.25	12.60	5.68	9.09	12.95
P/E (F1)	16.32	31.53	21.61	60.16	12.59	16.82
Price/Sales (P/S)	2.50	1.33	2.44	0.33	NA	1.12
Earnings Yield	6.00%	4.08%	4.43%	1.66%	7.94%	5.94%
Debt/Equity	0.37	0.14	0.76	0.74	0.75	1.32
Cash Flow (\$/share)	3.14	0.49	6.93	3.39	3.10	7.03
Growth Score	B	-	-	F	A	A
Hist. EPS Growth (3-5 yrs)	10.54%	0.40%	10.44%	34.85%	NA	14.85%
Proj. EPS Growth (F1/F0)	-2.51%	-5.56%	-5.53%	-85.12%	9.80%	4.68%
Curr. Cash Flow Growth	10.47%	-3.64%	5.20%	-5.56%	8.10%	6.19%
Hist. Cash Flow Growth (3-5 yrs)	9.29%	10.77%	8.52%	2.12%	-3.36%	6.45%
Current Ratio	2.03	2.64	1.33	3.76	1.01	0.89
Debt/Capital	26.87%	17.17%	44.50%	42.64%	42.87%	56.87%
Net Margin	7.42%	4.35%	10.13%	0.21%	NA	5.26%
Return on Equity	16.45%	4.31%	14.67%	8.21%	NA	23.81%
Sales/Assets	0.60	1.03	0.51	1.13	NA	1.11
Proj. Sales Growth (F1/F0)	1.09%	1.09%	-1.54%	-18.83%	16.98%	12.17%
Momentum Score	D	-	-	B	C	D
Daily Price Chg	-2.90%	-0.63%	-0.59%	-1.33%	-0.53%	-1.71%
1 Week Price Chg	0.87%	0.00%	1.09%	7.25%	5.69%	1.62%
4 Week Price Chg	-13.70%	-5.05%	1.91%	0.10%	12.89%	0.39%
12 Week Price Chg	-19.38%	-11.38%	6.82%	-7.18%	12.48%	-12.78%
52 Week Price Chg	-24.45%	-27.27%	1.47%	-54.33%	3.30%	6.38%
20 Day Average Volume	1,552,661	53,217	1,873,576	295,674	219,118	1,091,259
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	5.02%	2.51%	1.79%	0.00%	6.67%	3.20%
(F1) EPS Est 12 week change	5.13%	2.56%	3.35%	-18.99%	4.19%	4.51%
(Q1) EPS Est Mthly Chg	-0.36%	-10.18%	0.42%	0.00%	NA	-6.06%

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	B
Growth Score	B
Momentum Score	D
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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