

Fortive Corporation(FTV)

\$64.03 (As of 06/02/20)

Price Target (6-12 Months): **\$68.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/07/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: A

Summary

Fortive is benefiting from well-performing Professional Instrumentation segment. Further, strong product portfolio and positive contributions from acquisitions are driving the top-line growth of the company. The benefits from eMaint buyout are tailwinds. Additionally, solid momentum across the Industrial Technologies segment remains a positive. Further, robust Gilbarco Veeder-Root and Jacobs Vehicle Systems will uphold the company's position in North America and China. However, fluctuations in foreign exchange rates and higher expenses pose serious risks. Moreover, end-market cyclicality poses a serious threat to the company's top-line growth. Further, uncertainties related to coronavirus pandemic are headwinds. The stock has underperformed its industry on a year-to-date basis.

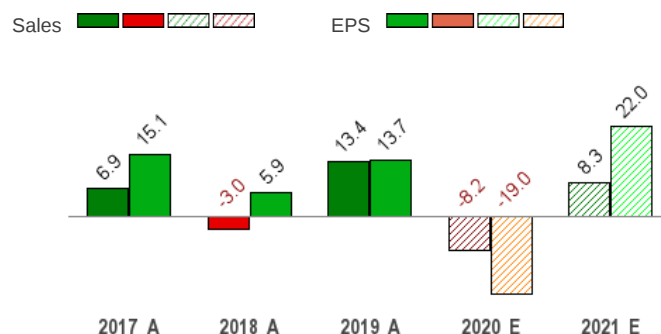
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$83.18 - \$37.31
20 Day Average Volume (sh)	2,092,909
Market Cap	\$21.6 B
YTD Price Change	-16.2%
Beta	1.23
Dividend / Div Yld	\$0.28 / 0.4%
Industry	Electronics - Testing Equipment
Zacks Industry Rank	Bottom 43% (144 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.8%
Last Sales Surprise	-6.1%
EPS F1 Est- 4 week change	-10.2%
Expected Report Date	07/23/2020
Earnings ESP	-6.7%

P/E TTM	18.1
P/E F1	22.7
PEG F1	1.8
P/S TTM	2.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,893 E	1,782 E	1,835 E	1,919 E	7,280 E
2020	1,714 A	1,495 E	1,650 E	1,875 E	6,723 E
2019	1,593 A	1,865 A	1,860 A	2,002 A	7,320 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.89 E	\$0.89 E	\$0.91 E	\$0.98 E	\$3.44 E
2020	\$0.74 A	\$0.55 E	\$0.66 E	\$0.89 E	\$2.82 E
2019	\$0.69 A	\$0.90 A	\$0.87 A	\$1.03 A	\$3.48 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 06/02/2020. The reports text is as of 06/03/2020.

Overview

Based in Washington, Fortive Corporation is a diversified industrial growth company. It provides industrial technology and professional instrumentation solutions on a global basis.

Fortive was spun out of Danaher Corp. in Jul 2016. It made its debut as an independently-traded company under the ticker FTV on Jul 5. As part of the separation from Danaher, each Danaher shareholder received one share of Fortive common stock for every two shares of Danaher stock.

The company operates through two segments: Professional Instrumentation and Industrial Technologies.

Professional Instrumentation segment manufactures instruments that measure and monitor physical parameters. For example, the company manufactures instruments to monitor electrical current, pressure and temperature. The segment consists of Fortive's Advanced Instrumentation and Solutions (including Field Solutions and Product Realization) and Sensing Technologies businesses.

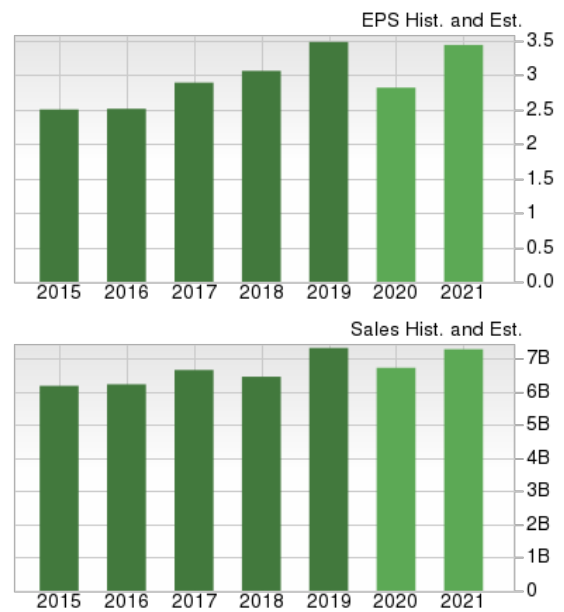
Its Industrial Technologies segment provides technical equipment, components, software and services mainly for the manufacturing and transportation markets. The segment consists of Fortive's Transportation Technologies, Automation & Specialty Components and Franchise Distribution businesses.

Segment contribution in 2019 was as follows - Professional Instrumentation accounted for 60% of the total sales and Industrial Technologies for the remaining 40%.

Fortive has its manufacturing, R&D and other facilities in more than 40 countries across North America, Asia Pacific, Europe, and Latin America.

United States was the single largest geography in 2018, with a revenue share of 55%. China accounted for 9% revenues and Germany accounted for 4%. The remaining countries accounted for less than 5% of total sales.

Fortive have a large number of competitors, although most of the competition currently comes from EMR, ROP, ST, CGNX, AME, NATi, ITRI, among others.



Reasons To Buy:

- ▲ Fortive has a well-diversified product portfolio which consists of professional and engineered products, software and services. These products are sold to a variety of end markets with secular tailwinds such as communications & networking, sensing, traffic management, and franchise distribution, among others. The company also serves industrial and automotive end markets which are performing well with robust Tektronix. Since, Fortive's end market product exposure is diverse, it gives the company a buffer against end-market downturns.
- ▲ Fortive's foray into the Cloud computing segment is very encouraging. The recent acquisition of eMaint Enterprises by Fortive's subsidiary, Fluke and the acquisition of Global Traffic Technologies has allowed Fortive to enter into the rapidly-growing cloud computing market. The deal provides cloud/SaaS solutions for asset and equipment management mainly for industrial applications. It is trying to expand its SaaS and cloud capabilities within its portfolio, most likely through merger & acquisitions. According to the market research firm Gartner, revenues in the public cloud services market is expected to grow at a CAGR of 18.48% in 2017–2021 and to reach \$302.5 billion by 2021. Given the growth potential of the market, Fortive's increased focus in this area is a big positive.
- ▲ Management is focused on improving gross and operating margins. The company is making efforts to improve its existing portfolio and acquire businesses over time that will aid the top and bottom-line trajectory of the consolidated entity. The company's Fortive Business System (FBS) which is a set of tools that include voice of the customer, value stream mapping, Kaizen basics, lean conversion, accelerated product development, daily management and problem solving is aimed to expand the company's operating margins. Fortive has also been taking restructuring actions which will help the company lower the cost structure and enable it to generate strong margins.

Fortive's leading market position, focus on cloud/SaaS solutions, margin expansion initiatives and strong free cash flow generation are the positives.

Reasons To Sell:

- ▼ Fortive generates approximately 45% of revenues outside the U.S. Also, many of its manufacturing operations, employees and suppliers are located abroad. Therefore, the company is exposed to uncertainties in the international market. These include fluctuations in foreign currency rates, changes in a country's political or economic conditions and regulatory requirements, among others, which could negatively impact the company's operations in the future.
- ▼ Acquisitions will likely remain part of Fortive's growth strategy to supplement the top line and expand margins. However, the company's inability to identify suitable acquisition candidates, unsuccessful execution and integration of new acquisitions and an increase in acquisition costs due to stiff competition could negatively impact its sales/margin performance. The large number of acquisitions increases the chances of integration issues.
- ▼ Fortive's balance sheet remains leveraged. As of Mar 31, 2020, the company's net debt amounted to \$5.2 billion compared with \$5.3 billion reported in the previous quarter. However, it had a current debt of only \$303 million at the end of Mar 31, 2020, which should not be a matter of concern. Management boosts shareholder value through regular dividends. The company has a consistently growing dividend stream. The dividend yield is currently 0.46%.

The forex headwinds and end market uncertainty may temper revenue growth of the company with the significant increase in operating expenses impacting the bottom line.

Last Earnings Report

Fortive's Q1 Earnings Beats Estimates, Revenues Miss

Fortive Corporation reported first-quarter 2020 earnings of 74 cents per share, outpacing the Zacks Consensus Estimate by 2 cents. The figure increased 7.2% from the year-ago quarter but decreased 28.2% on a sequential basis.

Revenues increased 7.6% year over year but decreased 14.4% sequentially to \$1.7 billion. Also, core revenues declined 3.8% from the year-ago quarter.

In addition, the top line missed the Zacks Consensus Estimate of \$1.83 billion due to the impacts of COVID-19 pandemic.

Top Line in Detail

Fortive operates under the following two organized segments.

Professional Instrumentation: The segment generated revenues of \$1.1 billion (64.5% of total first-quarter revenues), which increased 13% on a year-over-year basis. The increase was driven by contributions from acquisitions.

Industrial Technologies: This segment generated revenues of \$609.1 million (35.5% of total revenues), which declined 1% from the prior-year quarter.

Operating Details

In the first quarter, gross margin came in at 51.1%, which expanded 10 basis points (bps) year over year.

Total operating expenses were \$670.9 million, reflecting a 12.7% year-over-year increase. As a percentage of revenues, selling, general & administrative expenses increased from the year-ago quarter, while research & development costs decreased slightly.

Operating margin was 7%, which contracted 660 bps on a year-over-year basis.

Segment wise, operating margin from Professional Instrumentation came in at 13.1%, which contracted 150 bps year over year.

Industrial Technologies operating margins came in at (0.2%) versus 16.1% in the year-ago quarter.

Guidance

The company did not provide any guidance for the June quarter due to risks and uncertainties related to the COVID-19 crisis.

Quarter Ending 03/2020

Report Date	Apr 30, 2020
Sales Surprise	-6.14%
EPS Surprise	2.78%
Quarterly EPS	0.74
Annual EPS (TTM)	3.54

Recent News

On **Dec 11, 2019**, Fortive appointed Mark D. Morelli as President & Chief Executive Officer and David H. Naemura as Chief Financial Officer of NewCo. Notably, NewCo will be formed by Fortive, which will be focused on transportation and mobility.

On **Nov 7, 2019**, Fortive's Board of Directors approved quarterly dividend of 7 cents per share for the shareholders of the record as of Nov 29, 2019, which will be paid on Dec 27, 2019.

Valuation

Fortive shares are down 4.6% in the year-to-date period and 14.2% over the trailing 12-month period. While stocks in the Zacks sub-industry are down 12.7%, the same in the Zacks Computer & Technology sector are up 6.1% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 13% and 26.1%, respectively.

The S&P 500 index is down 4.4% in the year-to-date period but up 9.9% in the past year.

The stock is currently trading at 20.8X forward 12-month earnings, which compares to 26.03X for the Zacks sub-industry, 24.7X for the Zacks sector and 22.3X for the S&P 500 index.

Over the past three years, the stock has traded as high as 25.98X and as low as 11.03X, with a 3-year median of 21.37X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$68 price target reflects 22.09X forward 12-month earnings.

The table below shows summary valuation data for FTV

Valuation Multiples - FTV					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	20.8	26.03	24.7	22.3
	3-Year High	25.98	26.26	24.7	22.3
	3-Year Low	11.03	18.87	16.85	15.23
	3-Year Median	21.37	23.17	19.97	17.49
P/S F12M	Current	3.1	4.15	3.75	3.47
	3-Year High	4.07	4.15	3.75	3.47
	3-Year Low	1.8	3.08	2.62	2.76
	3-Year Median	3.45	3.73	3.21	3.16
EV/EBITDA TTM	Current	12.44	15.77	12.1	11.4
	3-Year High	21.31	19.06	12.71	12.86
	3-Year Low	9.76	12	8.73	8.29
	3-Year Median	17.27	16.65	11.34	11.22

As of 06/02/2020

Industry Analysis Zacks Industry Rank: Bottom 43% (144 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Agilent Technologies, Inc. (A)	Neutral	2
AMETEK, Inc. (AME)	Neutral	3
Cognex Corporation (CGNX)	Neutral	3
Emerson Electric Co. (EMR)	Neutral	3
Itron, Inc. (ITRI)	Neutral	4
Roper Technologies, Inc. (ROP)	Neutral	3
Teradyne, Inc. (TER)	Neutral	3
National Instruments Corporation (NATI)	Underperform	3

Industry Comparison Industry: Electronics - Testing Equipment				Industry Peers		
	FTV	X Industry	S&P 500	A	AME	ITRI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	2	3	4
VGM Score	C	-	-	B	B	A
Market Cap	21.57 B	10.61 B	22.11 B	27.88 B	21.32 B	2.68 B
# of Analysts	6	7	14	7	9	5
Dividend Yield	0.44%	0.51%	1.93%	0.80%	0.77%	0.00%
Value Score	D	-	-	B	D	C
Cash/Price	0.05	0.06	0.06	0.05	0.06	0.21
EV/EBITDA	18.10	18.10	12.69	23.02	16.38	14.33
PEG Ratio	1.83	2.34	2.98	2.97	3.74	1.30
Price/Book (P/B)	2.97	4.08	3.07	5.85	4.00	3.35
Price/Cash Flow (P/CF)	12.84	18.95	11.86	22.77	17.76	10.43
P/E (F1)	23.68	29.69	21.79	29.69	26.17	32.59
Price/Sales (P/S)	2.90	4.20	2.29	5.32	4.20	1.08
Earnings Yield	4.40%	3.37%	4.39%	3.37%	3.82%	3.07%
Debt/Equity	0.82	0.38	0.76	0.38	0.51	1.75
Cash Flow (\$/share)	4.99	3.96	7.01	3.96	5.23	6.39
Growth Score	B	-	-	C	A	A
Hist. EPS Growth (3-5 yrs)	10.95%	14.42%	10.87%	14.42%	13.12%	40.69%
Proj. EPS Growth (F1/F0)	-19.06%	-17.98%	-10.74%	-2.21%	-15.25%	-38.37%
Curr. Cash Flow Growth	22.89%	9.31%	5.48%	9.85%	23.89%	7.46%
Hist. Cash Flow Growth (3-5 yrs)	9.55%	9.18%	8.55%	-2.46%	10.17%	9.18%
Current Ratio	1.62	2.08	1.29	1.63	1.88	2.08
Debt/Capital	45.19%	27.27%	44.75%	27.27%	33.98%	63.65%
Net Margin	8.28%	18.48%	10.59%	13.04%	18.48%	2.40%
Return on Equity	17.55%	17.55%	16.29%	20.76%	18.77%	16.47%
Sales/Assets	0.44	0.57	0.55	0.57	0.52	0.89
Proj. Sales Growth (F1/F0)	-8.15%	-6.39%	-2.67%	0.15%	-14.41%	-5.36%
Momentum Score	A	-	-	D	C	C
Daily Price Chg	2.99%	1.03%	0.99%	0.42%	1.00%	1.06%
1 Week Price Chg	4.19%	4.85%	4.60%	3.72%	6.76%	5.52%
4 Week Price Chg	9.77%	15.66%	9.15%	18.23%	14.47%	17.97%
12 Week Price Chg	2.51%	15.34%	4.65%	23.84%	12.98%	-7.13%
52 Week Price Chg	-17.67%	11.75%	-0.30%	32.88%	11.08%	12.43%
20 Day Average Volume	2,092,909	1,646,662	2,486,038	2,365,564	1,351,296	334,165
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-10.15%	-0.49%	-0.33%	3.01%	-3.24%	-29.11%
(F1) EPS Est 12 week change	-24.57%	-24.57%	-16.13%	-10.81%	-17.86%	-42.46%
(Q1) EPS Est Mthly Chg	-14.87%	-1.32%	-0.55%	0.87%	-9.76%	-243.18%

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	A
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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