

## Fortive Corporation(FTV)

**\$79.02** (As of 02/07/20)

Price Target (6-12 Months): **\$83.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 05/21/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: F

## Summary

Fortive reported strong Q4 results, wherein both earnings and revenues surpassed the Zacks Consensus Estimate. The company's well-performing Professional Instrumentation and Industrial Technologies segments drove top-line growth. Fortive's strong product pipelines and increasing buyouts should continue to improve its market share. Further, robust Gilbarco Veeder-Root and Jacobs Vehicle Systems continue to strengthen its position in North America and China. However, Fortive faces some near-term headwinds in the Professional Instrumentation segment. Also, fluctuations in foreign exchange rates and higher expenses pose a serious risk. Moreover, end-market cyclicality pose serious threats. Notably, the stock has underperformed the industry it belongs to in the past year.

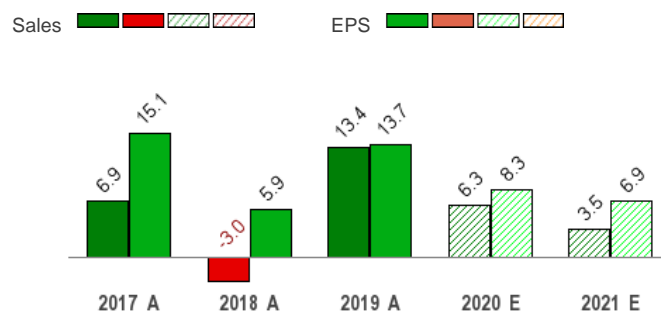
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$89.48 - \$63.51
20 Day Average Volume (sh)	1,508,057
Market Cap	\$26.5 B
YTD Price Change	3.4%
Beta	1.22
Dividend / Div Yld	\$0.28 / 0.4%
Industry	<a href="#">Electronics - Testing Equipment</a>
Zacks Industry Rank	Top 6% (15 out of 254)

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



Last EPS Surprise	6.2%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	NA
Earnings ESP	-2.9%

P/E TTM	22.6
P/E F1	21.0
PEG F1	1.6
P/S TTM	3.6

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,054 E
2020	1,849 E	1,929 E	1,923 E	2,010 E	7,780 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	\$0.98 E	\$1.00 E	\$1.01 E	\$1.04 E	\$4.03 E
2020	\$0.76 E	\$0.96 E	\$0.98 E	\$1.06 E	\$3.77 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 02/07/2020. The reports text is as of 02/10/2020.

## 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.

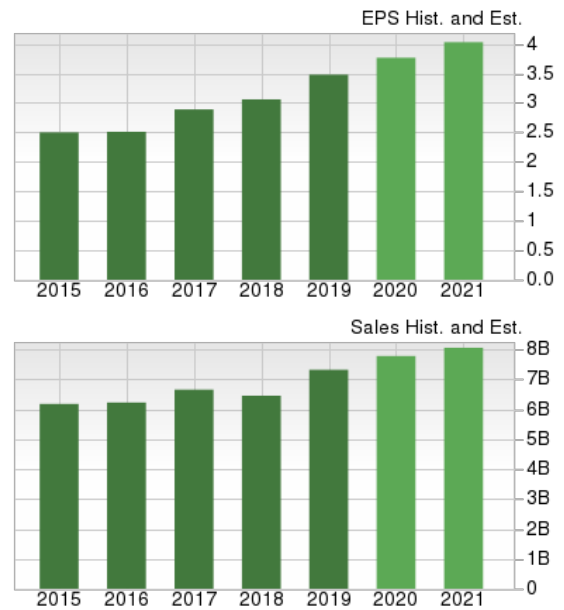
Its Industrial Technologies segment provides technical equipment, components, software and services mainly for the manufacturing and transportation markets. The segment consists of Fortive's Transportation Technologies, Automation & Specialty Components and Franchise Distribution businesses.

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.



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## 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.

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### 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 currently has a trailing 12 month P/E ratio of 23.01, which compares unfavorably with the S&P 500's 20.33. Hence, valuation looks slightly stretched from a P/E perspective.
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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 Earnings & Revenues Surpass Estimates in Q4

Fortive Corporation reported fourth-quarter 2019 earnings of \$1.03 per share, outpacing the Zacks Consensus Estimate of 97 cents. The figure increased 13.2% from the year-ago quarter and 18.4% on a sequential basis.

Revenues also increased 13.9% year over year to \$2 billion. In addition, core revenues grew 0.4% from the year-ago quarter. Also, the top line surpassed the Zacks Consensus Estimate by 1.2%.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	1.22%
EPS Surprise	6.19%
Quarterly EPS	1.03
Annual EPS (TTM)	3.49

### Top Line in Detail

Fortive operates under the following two organized segments.

Professional Instrumentation: The segment generated revenues of \$1.23 billion (61.5% of total fourth-quarter revenues), which increased 23.1% on a year-over-year basis. The increase was driven by contributions from acquisitions.

Industrial Technologies: This segment generated revenues of \$771.4 million (38.5% of total revenues), which improved 1.9% from the prior-year quarter.

### Operating Details

In the fourth quarter, gross margin came in at 51.7%, which expanded 60 basis points (bps) year over year.

Total operating expenses were \$740.7 million, reflecting a 22.7% 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 14.7%, which contracted 210 bps on a year-over-year basis.

Segment wise, operating margin from Professional Instrumentation came in at 13.9%, which contracted 220 bps year over year.

Industrial Technologies operating margins came in at 19.4%, which contracted 110 bps from the year-ago quarter.

### Balance Sheet & Cash Flow

At the end of the fourth quarter, cash and cash equivalents were \$1.2 billion and accounts receivables were \$1.38 billion.

The company generated free cash flow of more than \$450 million in the fourth quarter, up 17% from the year-ago period.

### Guidance

For first-quarter 2020, management expects adjusted net earnings in the range of 70-74 cents per share.

For 2020, Fortive expects adjusted net earnings in the range of \$3.68-\$3.78 per share.

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## 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.

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## Valuation

Fortive shares are up 14.4% in the six-month period and 2.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 19.2% and 21.8% in the six-month period, respectively. Over the past year, the Zacks sub-industry is up 17% and the sector is up 29.5%.

The S&P 500 index is up 15.9% in the six-month period and 21.9% in the past year.

The stock is currently trading at 20.93X forward 12-month earnings, which compares to 23.72X for the Zacks sub-industry, 22.83X for the Zacks sector and 19.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.98X and as low as 17.03X, with a 5-year median of 21.37X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$83 price target reflects 22.4X 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	20.93	23.72	22.83	19.13
	5-Year High	25.98	26.26	22.83	19.34
	5-Year Low	17.03	18.3	16.87	15.18
	5-Year Median	21.37	22.03	19.28	17.46
P/S F12M	Current	3.39	3.97	3.72	3.53
	5-Year High	4.07	4.12	3.72	3.53
	5-Year Low	2.6	2.63	2.3	2.54
	5-Year Median	3.37	3.51	3.02	3
EV/EBITDA TTM	Current	15.52	18.48	12.29	11.95
	5-Year High	23.01	19.05	12.59	12.85
	5-Year Low	14.33	9.04	7.68	8.49
	5-Year Median	18.16	14.82	10.53	10.66

As of 02/07/2020

## Industry Analysis Zacks Industry Rank: Top 6% (15 out of 254)



## Top Peers

Itron, Inc. (ITRI)	Outperform
National Instruments Corporation (NATI)	Outperform
Agilent Technologies, Inc. (A)	Neutral
AMETEK, Inc. (AME)	Neutral
Cognex Corporation (CGNX)	Neutral
Emerson Electric Co. (EMR)	Neutral
Roper Technologies, Inc. (ROP)	Neutral
Sensata Technologies Holding N.V. (ST)	Neutral

Industry Comparison Industry: Electronics - Testing Equipment				Industry Peers		
	FTV Neutral	X Industry	S&P 500	EMR Neutral	ROP Neutral	ST Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>D</b>	<b>D</b>	<b>B</b>
Market Cap	26.54 B	10.30 B	24.00 B	45.14 B	40.11 B	7.55 B
# of Analysts	6	5	13	10	7	7
Dividend Yield	0.35%	0.47%	1.78%	2.71%	0.53%	0.00%
<b>Value Score</b>	<b>D</b>	-	-	<b>C</b>	<b>D</b>	<b>B</b>
Cash/Price	0.04	0.05	0.04	0.03	0.02	0.10
EV/EBITDA	21.33	21.33	14.07	12.36	15.53	10.80
PEG Ratio	1.62	1.95	2.04	2.51	2.58	1.11
Price/Book (P/B)	3.70	5.02	3.28	5.34	4.23	2.90
Price/Cash Flow (P/CF)	19.37	22.16	13.58	14.56	22.34	9.34
P/E (F1)	20.99	22.72	18.86	20.18	28.43	13.01
Price/Sales (P/S)	3.63	4.37	2.65	2.46	7.47	2.19
Earnings Yield	4.77%	4.40%	5.30%	4.96%	3.52%	7.68%
Debt/Equity	0.72	0.38	0.71	0.47	0.49	1.25
Cash Flow (\$/share)	4.08	3.96	6.89	5.07	17.25	5.09
<b>Growth Score</b>	<b>B</b>	-	-	<b>C</b>	<b>C</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	12.80%	12.80%	10.80%	-1.19%	19.70%	9.72%
Proj. EPS Growth (F1/F0)	8.24%	10.67%	7.23%	-0.92%	3.90%	3.30%
Curr. Cash Flow Growth	15.50%	9.85%	9.51%	7.06%	11.79%	5.54%
Hist. Cash Flow Growth (3-5 yrs)	NA%	6.16%	8.55%	-0.68%	16.15%	8.71%
Current Ratio	1.19	1.53	1.20	1.13	0.83	3.14
Debt/Capital	41.97%	27.39%	42.90%	32.20%	32.99%	55.52%
Net Margin	10.09%	16.70%	11.76%	11.79%	32.94%	14.00%
Return on Equity	17.77%	18.69%	16.98%	25.55%	15.85%	22.78%
Sales/Assets	0.45	0.57	0.54	0.88	0.32	0.51
Proj. Sales Growth (F1/F0)	6.29%	6.29%	4.15%	0.30%	7.41%	0.08%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>D</b>	<b>C</b>	<b>C</b>
Daily Price Chg	1.53%	-1.49%	-0.64%	-1.97%	0.10%	-1.31%
1 Week Price Chg	-2.57%	-3.91%	-2.60%	-6.61%	1.28%	-6.02%
4 Week Price Chg	1.33%	-1.51%	0.72%	-5.18%	4.14%	-9.45%
12 Week Price Chg	11.09%	5.32%	4.69%	1.43%	10.40%	-9.05%
52 Week Price Chg	6.18%	10.62%	16.01%	11.20%	29.51%	1.65%
20 Day Average Volume	1,508,057	1,347,243	1,961,054	2,926,490	413,549	800,225
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	1.11%	-0.03%	-0.07%
(F1) EPS Est 4 week change	-0.18%	0.00%	-0.00%	1.19%	-0.72%	-0.27%
(F1) EPS Est 12 week change	0.84%	0.84%	-0.16%	1.25%	-0.38%	-0.68%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.99%	-7.67%	-0.48%

## 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>D</b>
Growth Score	<b>B</b>
Momentum Score	<b>F</b>
VGM Score	<b>D</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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