

Fortive Corporation(FTV)

\$73.46 (As of 08/11/20)

Price Target (6-12 Months): **\$77.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/07/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: A

Summary

Fortive reported decent Q2 results, wherein both earnings and revenues surpassed the Zacks Consensus Estimate driven by strength in the Fortive Business System. Also, recurring revenues remained strong in the quarter. However, both Professional Instrumentation and Industrial Technologies segments were impacted by COVID-19 headwinds. Nevertheless, strong product pipelines and increasing buyouts should continue to improve its market share. However, a highly uncertain operating environment due to the challenges posed by the COVID-19 pandemic remains a concern. Also, 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. Also, the stock has underperformed the industry it belongs to over a year.

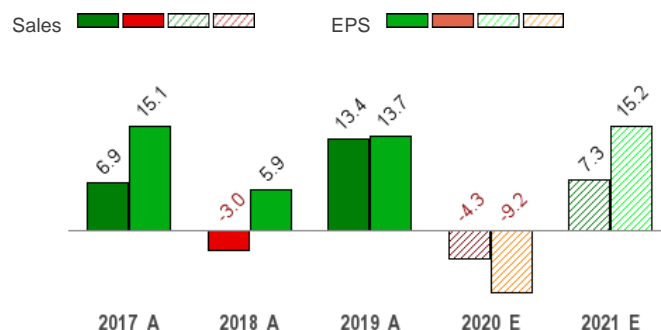
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$80.61 - \$37.31
20 Day Average Volume (sh)	2,764,810
Market Cap	\$24.8 B
YTD Price Change	-3.8%
Beta	1.23
Dividend / Div Yld	\$0.28 / 0.4%
Industry	Electronics - Testing Equipment
Zacks Industry Rank	Top 38% (95 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.2%
Last Sales Surprise	2.9%
EPS F1 Est- 4 week change	11.2%
Expected Report Date	10/22/2020
Earnings ESP	0.0%
P/E TTM	22.1
P/E F1	23.3
PEG F1	1.8
P/S TTM	3.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,860 E	1,835 E	1,875 E	1,910 E	7,521 E
2020	1,714 A	1,571 A	1,772 E	1,950 E	7,007 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	\$0.86 E	\$0.93 E	\$0.92 E	\$1.02 E	\$3.64 E
2020	\$0.74 A	\$0.68 A	\$0.77 E	\$0.98 E	\$3.16 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 08/11/2020. The reports text is as of 08/12/2020.

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.

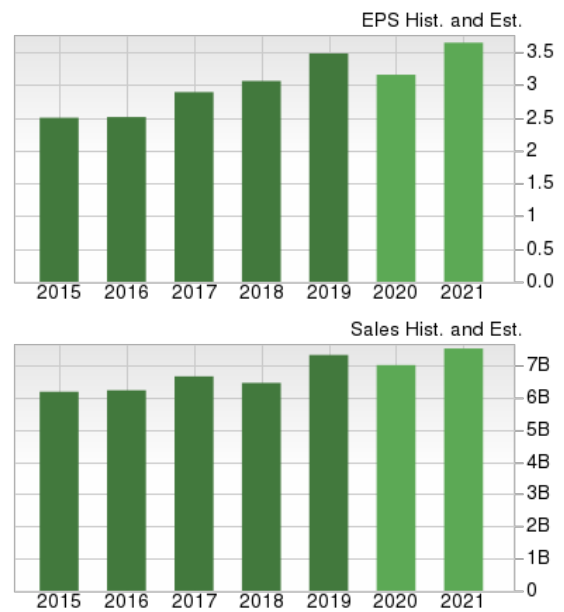
Its Industrial Technologies segment provides technical equipment, components, software and services mainly for the manufacturing and transportation markets. The segment consists of Fortive's Transportation Technologies, Automation & Specialty Components and Franchise Distribution businesses.

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 Jun 30, 2020, the company's net debt amounted to \$4.8 billion compared with \$5.2 billion reported in the previous quarter. At the end of Jun 30, the company has a current debt of \$1.05 billion. However, debt to total capital was 44.3% (less than the industry average of 56.5%) as of Jun 30, 2020.

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 Q2 Earnings and Revenues Beat Estimates

Fortive Corporation reported second-quarter 2020 earnings of 68 cents per share, which outpaced the Zacks Consensus Estimate of 58 cents. The figure decreased 24.4% from the year-ago quarter but increased 8.1% on a sequential basis.

Revenues decreased 15.7% year over year and 8.3% sequentially to \$1.57 billion. Also, core revenues declined 16.8% from the year-ago quarter.

However, the top line outpaced the Zacks Consensus Estimate by 2.9%.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	2.93%
EPS Surprise	17.24%
Quarterly EPS	0.68
Annual EPS (TTM)	3.32

Top Line in Detail

Fortive operates under the following two organized segments.

Professional Instrumentation: The segment generated revenues of \$1.03 billion (accounting for 66% of total second-quarter revenues), which decreased 11% on a year-over-year basis.

Industrial Technologies: This segment generated revenues of \$533.7 million (34% of total revenues), which declined 23.7% from the prior-year quarter.

Operating Details

In the second quarter, gross margin came in at 51.8%, which expanded 330 basis points (bps) year over year.

Total operating expenses were \$623.2 million, reflecting a 4.8% year-over-year decrease. As a percentage of revenues, both selling, general & administrative expenses as well as research & development costs increased from the year-ago quarter.

Operating margin was 12.2%, which contracted 120 bps on a year-over-year basis.

Segment wise, operating margin from Professional Instrumentation came in at 13.1%, which expanded 200 bps year over year.

Industrial Technologies operating margins came in at 15.5% versus 20.7% in the year-ago quarter.

Guidance

Though the company did not provide full guidance for the third quarter, it expects total revenues to decline 5-8% on a year-over-year basis. The projection, however, indicates a sequential improvement.

Recent News

On **May 15, 2020**, Fortive and Pioneer Square Labs (PSL) partnered to form a joint studio in a bid to create new companies to develop new solutions and technologies in the industrial technology space. These companies would either continue as standalone venture or would become a part of the Fortive family.

Valuation

Fortive shares are down 3.8% in the year-to-date period and 4.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 5%, the same in the Zacks Computer & Technology sector are up 19.9% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 23.3% and 34%, respectively.

The S&P 500 index is up 4.2% in the year-to-date period and 15% in the past year.

The stock is currently trading at 20.83X forward 12-month earnings, which compares to 26.43X for the Zacks sub-industry, 26.41X for the Zacks sector and 22.58X 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 21.23X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$77 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	20.83	26.43	26.41	22.58
	5-Year High	25.98	16.43	26.41	22.58
	5-Year Low	11.03	18.3	16.72	15.25
	5-Year Median	21.23	22.08	19.47	17.55
P/S F12M	Current	3.1	4.15	3.75	3.23
	5-Year High	4.07	4.15	3.75	3.44
	5-Year Low	1.8	3.08	2.32	2.54
	5-Year Median	3.45	3.73	3.1	3.01
EV/EBITDA TTM	Current	12.44	15.77	12.7	10.41
	5-Year High	21.31	19.06	12.7	12.86
	5-Year Low	9.76	12	8.73	8.28
	5-Year Median	17.27	16.65	11.34	10.78

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Top 38% (95 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Teradyne, Inc. (TER)	Outperform	1
Agilent Technologies, Inc. (A)	Neutral	2
AMETEK, Inc. (AME)	Neutral	3
Cognex Corporation (CGNX)	Neutral	3
Emerson Electric Co. (EMR)	Neutral	3
National Instruments Corporation (NATI)	Neutral	4
Roper Technologies, Inc. (ROP)	Neutral	3
Itron, Inc. (ITRI)	Underperform	4

Industry Comparison Industry: Electronics - Testing Equipment				Industry Peers		
	FTV	X Industry	S&P 500	A	AME	ITRI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	2	3	4
VGM Score	B	-	-	C	B	B
Market Cap	24.76 B	12.80 B	23.61 B	29.74 B	22.79 B	2.71 B
# of Analysts	6	7	14	6	8	4
Dividend Yield	0.38%	0.42%	1.69%	0.75%	0.73%	0.00%
Value Score	C	-	-	C	C	B
Cash/Price	0.04	0.05	0.07	0.04	0.05	0.20
EV/EBITDA	19.49	19.49	13.32	24.53	17.53	14.46
PEG Ratio	1.82	3.09	2.95	3.09	3.75	2.21
Price/Book (P/B)	3.34	4.15	3.22	6.24	4.15	3.36
Price/Cash Flow (P/CF)	14.73	19.03	12.79	24.29	18.97	10.50
P/E (F1)	23.64	30.90	22.02	30.90	26.69	55.33
Price/Sales (P/S)	3.46	4.75	2.57	5.68	4.75	1.15
Earnings Yield	4.29%	3.24%	4.29%	3.24%	3.75%	1.80%
Debt/Equity	0.65	0.38	0.77	0.38	0.50	1.73
Cash Flow (\$/share)	4.99	3.96	6.94	3.96	5.23	6.39
Growth Score	B	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	9.31%	14.42%	10.41%	14.42%	14.31%	30.59%
Proj. EPS Growth (F1/F0)	-9.34%	-9.13%	-6.51%	0.22%	-11.25%	-63.48%
Curr. Cash Flow Growth	22.89%	9.31%	5.22%	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	1.13	2.47	1.34	1.63	2.47	2.25
Debt/Capital	39.57%	27.27%	44.59%	27.27%	33.42%	63.38%
Net Margin	8.00%	18.52%	10.13%	13.04%	18.52%	-0.96%
Return on Equity	16.22%	16.22%	14.59%	20.76%	17.13%	11.97%
Sales/Assets	0.42	0.57	0.51	0.57	0.48	0.82
Proj. Sales Growth (F1/F0)	-4.28%	-4.28%	-1.45%	0.82%	-13.51%	-6.91%
Momentum Score	A	-	-	C	A	F
Daily Price Chg	2.23%	-0.26%	-0.17%	-0.86%	0.21%	0.93%
1 Week Price Chg	2.91%	0.95%	2.30%	1.51%	4.87%	-3.59%
4 Week Price Chg	6.22%	3.41%	6.41%	6.19%	8.13%	0.86%
12 Week Price Chg	24.28%	17.81%	15.42%	17.48%	18.14%	13.27%
52 Week Price Chg	4.93%	10.11%	2.88%	42.37%	15.29%	-1.34%
20 Day Average Volume	2,764,810	1,329,628	2,007,486	1,423,498	1,235,759	247,449
(F1) EPS Est 1 week change	0.80%	0.00%	0.00%	0.00%	3.19%	-5.46%
(F1) EPS Est 4 week change	11.22%	5.27%	1.84%	0.11%	5.27%	-18.90%
(F1) EPS Est 12 week change	6.05%	5.56%	2.40%	5.56%	4.98%	-40.74%
(Q1) EPS Est Mthly Chg	14.25%	4.79%	0.72%	0.00%	4.79%	-45.61%

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	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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