

HEICO Corporation (HEI)

\$122.43 (As of 01/31/20)

Price Target (6-12 Months): **\$141.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 12/30/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: D

Summary

HEICO Corp.'s shares have outperformed the industry in the past year. Increased demand for new products, ranging from aftermarket replacement parts to repair and overhaul parts along with services product lines, have been fueling organic growth. Its operational performance also exhibits solid inorganic growth history. Such a solid financial position must have encouraged the company's investors, as evident from its share price performance. Its disciplined acquisition strategy has been driving overall growth, further supplementing organic growth. However, HEICO Corp. competes in a fragmented marketplace with the industry's leading jet engine and aircraft component, OEM. It also competes with some of the well-capitalized peer companies.

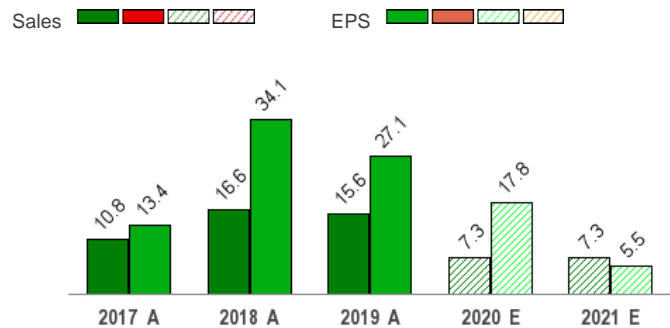
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$147.93 - \$84.02
20 Day Average Volume (sh)	445,937
Market Cap	\$16.5 B
YTD Price Change	7.3%
Beta	0.56
Dividend / Div Yld	\$0.16 / 0.1%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Bottom 28% (183 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.8%
Last Sales Surprise	2.2%
EPS F1 Est- 4 week change	2.1%
Expected Report Date	02/25/2020
Earnings ESP	8.9%
P/E TTM	53.2
P/E F1	45.2
PEG F1	3.7
P/S TTM	8.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,369 E
2020	505 E	557 E	568 E	576 E	2,207 E
2019	466 A	516 A	532 A	542 A	2,056 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.86 E
2020	\$0.72 E	\$0.67 E	\$0.70 E	\$0.66 E	\$2.71 E
2019	\$0.49 A	\$0.60 A	\$0.59 A	\$0.62 A	\$2.30 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 01/31/2020. The reports text is as of 02/03/2020.

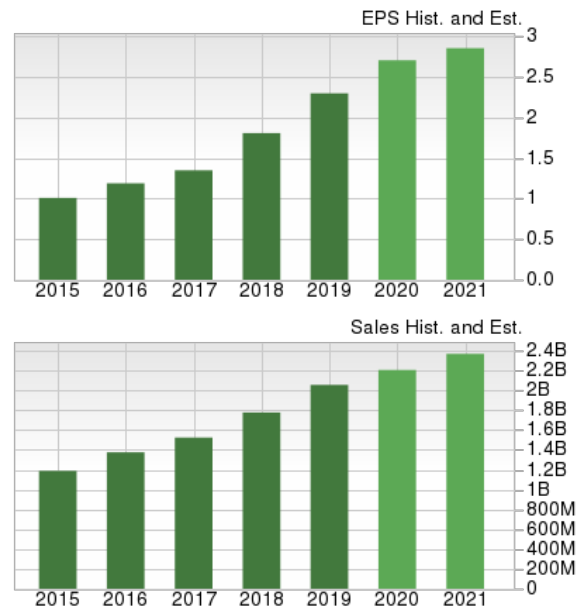
Overview

Florida-based HEICO Corporation, incorporated in 1957, is one of the world's leading manufacturers of Federal Aviation Administration ("FAA")-approved jet engine and aircraft component replacement parts. It also manufactures various types of electronic equipment for the aviation, defense, space, medical, telecommunications and electronics industries. The company's products are found on large commercial aircraft, regional, business and military aircraft, as well as on a large variety of industrial turbines, targeting systems, missiles and electro-optical devices.

HEICO Corp. operates in two segments, the Flight Support group and the Electronic Technologies group.

The **Flight Support Group** consists of HEICO Aerospace Holdings Corp. and HEICO Flight Support Corp., and their collective subsidiaries. The group uses proprietary technology to design and manufacture jet engine and aircraft component replacement parts. In addition, it repairs, overhauls and distributes jet engine and aircraft components, avionics and instruments. The segment also manufactures thermal insulation products, complex composite assemblies and other component parts, primarily for aerospace, defense, industrial and commercial applications. Net sales for this group were \$1,097.9 million in fiscal year 2018.

The **Electronic Technologies Group** consists of HEICO Electronic Technologies Corp. and its subsidiaries. It designs, manufactures and sells various types of electronic, microwave and electro-optical products. These products include infrared simulation and test equipment, laser rangefinder receivers, electrical power supplies, back-up power supplies, power conversion products, underwater locator beacons, electromagnetic interference and radio frequency interference shielding, high power capacitor charging power supplies, amplifiers, photo detectors, and radio frequency (RF) and microwave amplifiers. Net sales for this group were \$701.8 million in fiscal year 2018.



Reasons To Buy:

- ▲ Thanks to rapidly expanding commercial air traffic due to increased trade activity worldwide and rising geopolitical tensions across the globe boosting defense space, a significant expansion can be witnessed in the global aerospace market. This in turn has been instilling substantial growth for aircraft original equipment manufacturers like HEICO Corp. As a result, the company has been witnessing increased demand for its new products ranging from aftermarket replacement parts to repair and overhaul parts as well as services product lines.

HEICO Corps disciplined acquisition strategy has been an important element for the company's overall growth.

In line with this trend, HEICO Corp.'s fiscal fourth-quarter results reflected solid organic revenue growth at both its operating segments along with improved gross profit margins. Net sales in the FSG unit reflected organic growth of 12%, led by increased demand and new offerings across all product lines. ETG unit net sales reflected organic growth of 4% in the fourth quarter of fiscal 2019, led by a higher demand for defense products.

- ▲ The company's disciplined acquisition strategy has been driving the overall performance, further supplementing organic growth. To this end, in July, HEICO Corp's 3D PLUS subsidiary acquired all assets and business of Bretigny-sur-Orge. BERNIER's products will be a great addition to Heico's existing portfolio and will give 3D PLUS access to new markets. In September, its dB Control subsidiary acquired 100% of the stock of TTT-Cubed, Inc. in an all cash transaction. HEICO stated that it expects the acquisition to be accretive to its earnings in the year following the purchase. The acquisition of TTT continues HEICO's strategy of buying the best-in-class, niche electronic components companies which are known for having excellent talent serving a demanding customer base.

Recently, this December, the company announced that its ETG acquired 80.1% of the stock of rapidly-growing Quell Corporation in an all cash transaction. The company expects the acquisition to be accretive to its earnings within the first year following the closing. We expect such acquisitions to expand its product portfolio and customer base, which, in turn, should keep its cash flow in a good shape. Notably, the company has no significant debt maturities until fiscal 2023, which should offer it financial flexibility to aggressively pursue high-quality acquisitions, thereby accelerating growth.

- ▲ HEICO Corp continues to exhibit a solid financial performance. The company exited the fourth quarter of fiscal 2019 with cash and cash equivalents of \$57 million. Moreover, cash provided by operating activities was \$437.4 million at the end of the quarter compared with \$328.5 million as of Oct 31, 2018. Such a strong balance sheet and cash flow generation capacity provide the company a financial flexibility in matters of dividend hikes and earnings accretive acquisitions. Such a solid financial position must have encouraged the company's investors, as evident from its share price performance. Evidently, the company's shares have surged 42% in the past year compared with the industry's growth of 31.7%.

Risks

- HEICO Corp had a notable long-term debt of \$561 million as of Oct 31, up from \$531.6 million at the end of fiscal 2018. Moreover, the company's interest expenses increased 2.75% in the fiscal fourth quarter on a year-over-year basis. Interestingly, the company has also witnessed rising interest expenses over the past few years. On a year-over year basis, interest expenses rose 18.3% at the end of fiscal 2017 and 103.3% at the end of fiscal 2018. Such rise in debt levels and interest expenses can turn out to be a major headwind for the company, going ahead.
 - The company has a significant presence in the commercial aerospace market, which is cyclical in nature. A large portion of the company's aftermarket sales comes from third-party repair and overhaul, thus exposing it to tough competition from OEMs and third-party organizations. With volatile freight demand, outlook of the cargo market is uncertain. Additionally, the company markets its products and services to approximately 115 countries, with a significant portion of revenues being derived from sales to foreign customers. As a result, HEICO Corp is subject to risks of doing business internationally, which includes fluctuations in currency exchange rates along with imposition of taxes, export controls and tariffs.
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Last Earnings Report

HEICO Beats Earnings Estimates in Q4, Hikes Dividend

HEICO Corporation reported fourth-quarter fiscal 2019 earnings of 62 cents per share, which surpassed the Zacks Consensus Estimate of 57 cents by 8.8%. The bottom line also rose 26.5% from the prior-year quarter's figure of 49 cents. The upside can be attributed to 14% higher sales in the reported quarter and 16% increase in operating income.

In fiscal 2019, the company reported earnings of \$2.39 per share, up 25.8% from \$1.90 earnings generated in fiscal 2018.

Quarter Ending **10/2019**

Report Date	Dec 16, 2019
Sales Surprise	2.22%
EPS Surprise	8.77%
Quarterly EPS	0.62
Annual EPS (TTM)	2.30

Total Sales

Quarterly net sales of \$542 million beat the Zacks Consensus Estimate of \$530 million by 2.2%. The top line also increased 14% from the year-ago quarter's figure of \$477 million. The uptick can be primarily attributed to the company's double-digit organic net sales growth within Flight Support Group, mid-single digit organic net sales growth within the Electronic Technologies Group and impressive operating performance of fiscal 2019 acquisitions.

In fiscal 2019, the company's reported net sales amounted to \$2,055.6 million, up 25.8% from \$1,777.7 million generated in fiscal 2018.

Operational Update

HEICO's total costs and expenses increased 13% year over year to \$421 million in the quarter under review. The increase was driven by higher cost of sales as well as increased selling, general and administrative expenses.

Segmental Performance

Flight Support Group: Net sales rose 12% year over year to \$324.7 million driven by continued strong organic growth of 12% mainly due to increased demand and new offerings across all product lines.

Operating income improved 14% year over year to \$62.2 million, courtesy of net sales growth and the favorable impact from changes in the estimated fair value of accrued contingent consideration.

Also, its operating margin expanded to 19.2% in the fourth quarter of fiscal 2019, up from 18.8% in the fourth quarter of fiscal 2018.

Electronic Technologies Group: Net sales increased 15% year over year to \$219.5 million primarily owing to the favorable impact from fiscal 2019 acquisitions and organic growth of 4% mainly due to higher demand for defense products.

Operating income increased 13% year over year to \$64.6 million, primarily on account of quarterly net sales growth.

The company's operating margin came in at 29.4% in the fourth quarter of fiscal 2019, down from 29.9% in the fourth quarter of fiscal 2018.

Financial Details

As of Oct 31, 2019, cash and cash equivalents totaled \$57 million compared with \$60 million as of Oct 31, 2018.

Long-term debt (net of current maturities) totaled \$561 million as of Oct 31, up from \$531.6 million as of Oct 31, 2018.

As of Oct 31, cash provided by operating activities was \$437.4 million compared with \$328.5 million as of Oct 31, 2018.

Moreover, the company's management announced 8 cents per share of regular semi-annual cash dividend on both classes of common stock, payable on Jan 23, 2020 to shareholders of record as of Jan 9, 2020. This reflects a 14.2% increase over the prior semi-annual per share amount of 7 cents.

Fiscal 2020 Guidance

HEICO Corp anticipates fiscal 2020 net income to grow in the range of 13-14% and net sales to rise in the band of 6-8% over fiscal 2019 levels.

The company also anticipates operating margin in the range of 21.5- 22.0%.

Recent News

On **Jan 6, 2020**, HEICO Corporation announced that its Radiant Power Corp. subsidiary acquired 100% of the business and assets of the Human-Machine Interface product line of Spectralux Corporation in an all cash transaction. HEICO stated that it expects the acquisition to be accretive to its earnings within a year following the purchase. Further financial terms and details were not disclosed. The purchase is HEICO's seventh acquisition in the past year.

On **Dec 16, 2019**, HEICO Corporation today announced that its Electronic Technologies Group acquired 80.1% of the stock of rapidly-growing Quell Corporation in an all cash transaction. Additional financial details were not disclosed. HEICO expects the acquisition to be accretive to its earnings within the first year following the closing.

Valuation

HEICO Corp.'s shares are down 7.5% in the past six months period and up 42% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are up 17.2% and 10.4% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 31.7% whereas the sector rose 14%.

The S&P 500 index is up 15.1% in the past six months period and 20% in the past year.

The stock is currently trading at 44.58X of forward 12-month earnings, which compares to 20.55X for the Zacks sub-industry, 19.48X for the Zacks sector and 18.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 60.22X and as low as 22.37X, with a 5-year median of 35.69X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$141 price target reflects 51.3X forward 12-month earnings.

The table below shows summary valuation data for HEI

Valuation Multiples - HEI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	44.58	20.55	19.48	18.5
	5-Year High	60.22	20.63	21.54	19.34
	5-Year Low	22.37	14.51	14.26	15.18
	5-Year Median	35.69	17.96	16.85	17.46
P/S F12M	Current	7.32	1.89	1.34	3.43
	5-Year High	9.11	1.89	1.39	3.43
	5-Year Low	2.49	1.09	0.8	2.54
	5-Year Median	4.29	1.45	1.07	3
P/B TTM	Current	9.72	5.25	9.11	4.4
	5-Year High	11.92	5.39	13.92	4.54
	5-Year Low	3.62	2.82	5.26	2.85
	5-Year Median	5.84	3.77	9.13	3.62

As of 01/31/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (183 out of 255)



Top Peers

Leidos Holdings, Inc. (LDOS)	Outperform
AAR Corp. (AIR)	Neutral
Aerojet Rocketdyne Holdings, Inc. (AJRD)	Neutral
Bae Systems PLC (BAESY)	Neutral
Curtiss-Wright Corporation (CW)	Neutral
Hexcel Corporation (HXL)	Neutral
Teledyne Technologies Incorporated (TDY)	Neutral
Spirit Aerosystems Holdings, Inc. (SPR)	Underperform

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	HEI Outperform	X Industry	S&P 500	CW Neutral	HXL Neutral	SPR Underperform
VGM Score	D	-	-	C	C	C
Market Cap	16.47 B	1.54 B	23.55 B	6.21 B	6.26 B	6.76 B
# of Analysts	5	2.5	13	5	3	6
Dividend Yield	0.13%	0.00%	1.81%	0.47%	0.92%	0.73%
Value Score	F	-	-	C	C	D
Cash/Price	0.00	0.04	0.04	0.05	0.01	0.20
EV/EBITDA	31.25	14.54	13.97	13.76	14.78	6.87
PEG Ratio	3.73	2.44	1.97	2.30	2.04	3.78
Price/Book (P/B)	9.72	3.35	3.21	3.65	4.42	4.24
Price/Cash Flow (P/CF)	41.22	15.37	13.36	16.51	16.14	7.39
P/E (F1)	45.18	22.81	18.42	19.02	19.41	29.27
Price/Sales (P/S)	8.01	1.82	2.60	2.50	2.66	0.87
Earnings Yield	2.21%	4.40%	5.43%	5.26%	5.15%	3.41%
Debt/Equity	0.33	0.33	0.72	0.52	0.79	1.35
Cash Flow (\$/share)	2.97	2.52	6.92	8.81	4.60	8.84
Growth Score	B	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	20.89%	12.34%	10.68%	17.93%	9.61%	14.73%
Proj. EPS Growth (F1/F0)	17.74%	9.58%	7.59%	6.37%	8.31%	-64.78%
Curr. Cash Flow Growth	23.18%	9.45%	10.81%	18.64%	12.60%	9.90%
Hist. Cash Flow Growth (3-5 yrs)	20.26%	4.09%	8.78%	8.01%	9.63%	10.83%
Current Ratio	2.81	2.34	1.22	2.19	2.22	2.06
Debt/Capital	30.66%	29.72%	42.99%	34.03%	44.03%	57.37%
Net Margin	15.95%	7.81%	11.69%	12.13%	12.73%	8.27%
Return on Equity	19.15%	9.39%	17.33%	18.83%	21.74%	49.21%
Sales/Assets	0.71	0.75	0.55	0.74	0.76	1.24
Proj. Sales Growth (F1/F0)	7.35%	3.95%	4.12%	3.95%	8.07%	-29.02%
Momentum Score	D	-	-	B	D	D
Daily Price Chg	-0.55%	-0.52%	-1.98%	-2.16%	0.08%	0.37%
1 Week Price Chg	0.83%	-1.73%	-1.09%	-0.79%	-4.54%	4.68%
4 Week Price Chg	2.20%	1.62%	-2.11%	1.62%	-1.50%	-12.09%
12 Week Price Chg	0.82%	2.76%	2.15%	4.18%	-3.46%	-24.96%
52 Week Price Chg	44.89%	18.40%	14.15%	28.11%	9.61%	-21.68%
20 Day Average Volume	445,937	109,444	1,808,632	164,045	1,289,562	1,815,707
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	2.06%	0.00%	0.00%	0.03%	-1.80%	-67.39%
(F1) EPS Est 12 week change	6.40%	0.01%	-0.09%	0.03%	-2.13%	-70.90%
(Q1) EPS Est Mthly Chg	6.23%	0.00%	0.00%	0.22%	NA	-64.29%

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	F
Growth Score	B
Momentum Score	D
VGM Score	D

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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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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