

NETGEAR, Inc.(NTGR)

\$26.32 (As of 01/13/20)

Price Target (6-12 Months): **\$28.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/24/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: D

Summary

NETGEAR intends to capitalize on technology inflections, create new categories and build recurring service revenues to maintain its market leadership and drive growth. The company is confident that it will remain a leader in product introduction, based on the Wi-Fi 6 standards. Its revenues are likely to be driven by the rapid increase in Internet of Things devices and the advent of Smart Home, which have boosted the need for robust networking solutions. However, the company operates in a fast-evolving market and expects competition to intensify on price. Its future success depends on its ability to develop new products that have broad market acceptance. Dependence on third-party manufacturers, primarily based in low-cost countries like China, for most manufacturing needs increases NETGEAR's operating risks due to latent trade tensions.

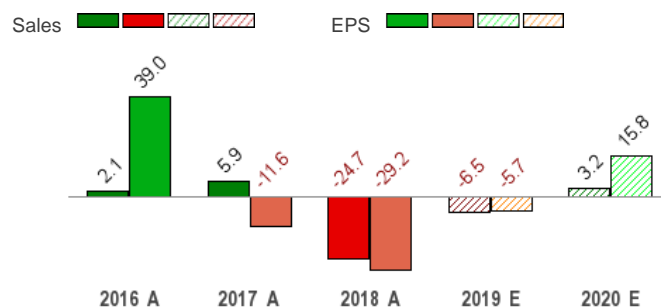
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$40.67 - \$23.69
20 Day Average Volume (sh)	277,629
Market Cap	\$793.5 M
YTD Price Change	7.4%
Beta	1.57
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Networking
Zacks Industry Rank	Top 34% (86 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.6%
Last Sales Surprise	-1.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/05/2020
Earnings ESP	0.0%
P/E TTM	11.9
P/E F1	12.4
PEG F1	NA
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	233 E	239 E	271 E	278 E	1,022 E
2019	249 A	231 A	266 A	245 E	990 E
2018	345 A	367 A	401 A	289 A	1,059 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.35 E	\$0.42 E	\$0.63 E	\$0.72 E	\$2.12 E
2019	\$0.60 A	\$0.28 A	\$0.65 A	\$0.29 E	\$1.83 E
2018	\$0.62 A	\$0.57 A	\$0.76 A	\$0.68 A	\$1.94 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 01/13/2020. The reports text is as of 01/14/2020.

Overview

Incorporated in January 1996 and headquartered in San Jose, CA, NETGEAR, Inc. is a global telecommunications firm that offers innovative networking and Internet connected products for seamless networking, broadband access and network connectivity. The company's products are built on variety of proven technologies such as wireless (Wi-Fi and LTE), Ethernet and powerline, with a focus on reliability and ease-of-use. These products are available in multiple configurations to address the evolving needs of customers in each geographic region where it operates. Leveraging its technological expertise, high volume manufacturing and engineering infrastructure, NETGEAR designs its products and services to meet the specific needs of consumer, business and service provider markets. The company customizes various elements of the software interface and product design, including component specification, physical characteristics such as casing, design and coloration to meet the individual needs of its clients.

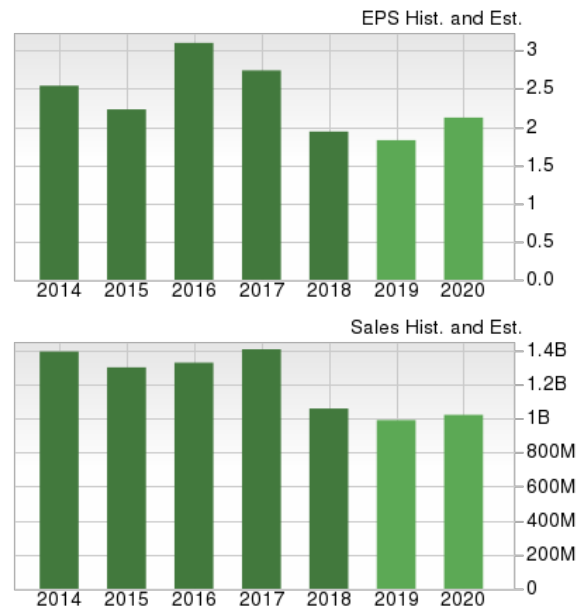
On Dec 31, 2018, NETGEAR completed the spin-off of the Arlo business through a distribution of 62,500,000 shares of Arlo Technologies stock to NETGEAR's shareholders. Prior to that, the company owned approximately 84.2% of Arlo's stock. Following the completion, the company no longer owns any shares of Arlo.

NETGEAR currently operates and reports under two segments: Connected Home, and Small and Medium Business (SMB).

Connected Home (accounting for 71.7% of net revenues in third-quarter 2019): Generating the lion's share of revenues, this segment offers high-performance, dependable and easy-to-use LTE and WiFi Internet networking solutions for consumers.

SMB (28.3%): Focused on small and medium-sized businesses, this segment comprises affordable business networking, storage and security solutions for enterprise-class functionality for small and medium-sized businesses.

The company conducts business across three geographic regions: Americas, Europe, Middle-East and Africa (EMEA) and Asia Pacific (APAC).



Reasons To Buy:

- ▲ NETGEAR continues to capitalize on technology inflections, create new categories and build recurring service revenues to maintain its market leadership position and drive future growth. The company's revenues have been driven by the rapid increase in Internet connected devices such as smart phones, laptops, tablets and the advent of Smart Home and Internet of Things devices, which have boosted the need for robust networking solutions. An increased market demand for Smart Home and Internet-connected products such as Smart TVs, game consoles, HD streaming players, security cameras, thermostats and smoke detectors continues to drive innovations in networking. NETGEAR continues to focus on introducing products into growth areas which form the basis of Smart Homes as it strives to be the provider of industry-leading networking and smart connected products for consumers, business and service provider markets.
 - ▲ NETGEAR intends to maintain a competitive edge with new product launches, which hinge on affordability, reliability and ease of use, for consumer, business and service provider markets.
 - ▲ NETGEAR is confident to retain a competitive edge in new product introductions, based on the Wi-Fi 6 standards. The company is excited to be part of AT&T's commitment to be the first to introduce mobile 5G services in the United States, and intends to launch more 5G related products in 2020. Furthermore, it has released the third generation Meural Canvas. Notably, Meural is the world's leading smart digital canvas. NETGEAR also announced an exciting new Meural content partnership with National Geographic.
 - ▲ With an exponential growth in data traffic, consumers, businesses and service providers need a complete set of wired and wireless networking and broadband products that are tailored to their specific needs and budgets. The company's products are designed with an industrial appearance, including metal cases, the ability to mount the product within standard data networking racks as well as unique mounting solutions for other uses and targeting the business market. These products typically include higher port counts, higher data transfer rates and other performance characteristics designed to meet the needs of a business user, providing a competitive edge to outsmart its rivals.
 - ▲ The company continues to introduce new products and services that hinge on affordability, reliability and ease of use. In order to capitalize on the increasing demand for cloud-based applications for small and medium-sized enterprises, NETGEAR is introducing next generation commercial products. These include PoE switches, Multi-gigabit Ethernet switches, high capacity local and remote unified storage, small to medium capacity campus wireless LAN, and security appliances. These products are likely to augment the effectiveness and efficiency of its hybrid cloud access network and strengthen its position in the market.
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Reasons To Sell:

- ▼ NETGEAR is facing headwinds in EMEA and APAC that is negatively impacting its revenues, due to geopolitical factors such as Brexit uncertainty, Yuan depreciation and the unexpected economic slowdown in the China/Hong Kong region. Moreover, the company's decision to split into two independent companies involves a fair amount of risk, which may lead to decline in the top line, earnings dilution and lower cash flow in the long term. The company has incurred high costs related to the separation of the Arlo business from NETGEAR.
- ▼ The Zacks Consensus Estimate for its current-year earnings has been revised 19.4% downward over the past 90 days to \$1.83, suggesting negative investor sentiment. NETGEAR operates in a highly competitive and dynamic environment. Hence, its future success depends on its ability to develop new products that have broad market acceptance. In order to differentiate its products, the company has to continually invest in research and development activities, which strain its margins. In addition, high technological obsolescence of its product portfolio has led to lower return on capital.
- ▼ The company functions in a rapidly evolving and fiercely competitive market and expects competition to intensify on price. Furthermore, it depends on a limited number of third-party manufacturers for substantially all of its manufacturing needs, primarily based in low-cost countries like China and Vietnam. With various trade restrictions imposed on China, NETGEAR is likely to lose its cost advantage and products can become pricier. The company's business is highly seasonal. It experiences increased sales in the third and fourth fiscal quarters primarily due to seasonal demand from consumer markets relating to the beginning of the school year and holiday season. This leads to volatility in cash flow and reduces the predictability of earnings.

NETGEAR's business is highly seasonal, which causes volatility in cash flow. The company operates in an intense, competitive and dynamic environment that further strains its margins.

Last Earnings Report

NETGEAR Q3 Earnings Beat, Revenues Miss on Macro Woes

NETGEAR reported mixed third-quarter 2019 results, wherein the top line missed estimates but the bottom line beat the same. Both earnings and revenues declined year over year.

Net Income

GAAP earnings from continuing operations for the reported quarter were \$12.5 million or 39 cents per share compared with \$16.3 million or 49 cents per share in the year-ago quarter. The year-over-year decline despite lower operating expenses was primarily due to higher cost of sales.

Non-GAAP net income from continuing operations was \$20.7 million or 65 cents per share compared with \$24.1 million or 73 cents per share in the year-ago quarter. The bottom line beat the Zacks Consensus Estimate by 4 cents.

Revenues

NETGEAR generated net revenues of \$265.9 million, down 1.3% from the previous-year quarter. The decline was largely due to macroeconomic challenges, including Brexit-related uncertainty, Yuan depreciation, German recession and sudden economic turmoil in the China-Hong Kong region due to trade war. The top line lagged the consensus estimate of \$271 million.

Region wise, net revenues from the Americas were \$178.7 million (67% of net revenues), up 1.6% year over year due to stable Wi-Fi retail market, higher subscriber base and strategic joint marketing initiatives. EMEA (Europe, Middle East and Africa) revenues were \$49.6 million (19%), down 10.6% due to lower sales in Europe. APAC (Asia Pacific Region) revenues were \$37.6 million (14%), down 6.3% due to adverse geopolitical factors, Yuan depreciation and economic downturn in China-Hong Kong region.

The number of registered app users recorded in the quarter was 3.6 million, exhibiting significant sequential growth from 2.8 million at the end of the second quarter.

Segmental Performance

Connected Home, which includes Nighthawk, Orbi, Nighthawk Pro Gaming and Meural brands, generated net revenues of \$190.7 million, down 2.1% year over year due to lower revenues from EMEA and APAC regions. Markedly, NETGEAR continues to hold about 51% market share in U.S. retail WiFi products, which include mesh, routers, gateways and extenders.

Net revenues from **SMB** increased 0.6% year over year to \$75.2 million due to strong performance of PoE+ and ProAV switching lines, its market share being 53%. NETGEAR also announced the launch of first-ever configurable commercial grade mesh network.

Other Details

Adjusted gross margin declined to 29.4% from 35.3% due to lower revenues. Non-GAAP operating margin was 7.8% compared with 10.5% a year ago due to lower operating income.

Cash Flow & Liquidity

During the third quarter, NETGEAR generated \$26.1 million of cash from continuing operations. As of Sep 29, 2019, the company had \$168 million of cash and cash equivalents. It repurchased approximately 679,000 shares at an average price of \$32.34 per share for \$22 million. Since the commencement of the repurchase program in fourth-quarter 2013, the company has repurchased approximately 14 million shares for \$506.7 million. Approximately 31.8 million shares were recorded as of the end of the reported quarter.

Q4 Guidance

For the fourth quarter of 2019, NETGEAR expects revenues between \$240 million and \$255 million due to uncertainty in Europe and China. The company anticipates GAAP operating margin to be in the range of 0.1-1.1%, and non-GAAP operating margin in the band of 4.5-5.5%.

Moving Forward

NETGEAR is confident that it will remain a leader in new product introduction, based on the efforts to reduce channel inventory for an accelerated shift toward WiFi 6 in the United States. The company also announced partnership with Broad Data, a leading ProAV equipment manufacturer, which is expected to provide cost-efficient next-gen ProAV systems by leveraging the IP technology. It also aims to reduce sales headcount in China and Europe due to the economic turmoil in the region. Moving forward, NETGEAR intends to capitalize on technology inflections and proliferate its registered app user base to pay future dividends, thereby continuing to drive the momentum.

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	-1.87%
EPS Surprise	6.56%
Quarterly EPS	0.65
Annual EPS (TTM)	2.21

Recent News

On Jan 9, 2020, NETGEAR announced that it has welcomed Laura Durr to join its board of directors. Ms. Durr joins with a valued background in finance and strategy.

On Jan 6, 2020, NETGEAR announced that it has added Orbi 4G LTE WiFi Router to its much acclaimed Orbi portfolio, as it aims to expand network connectivity of all Internet-connected devices within a household. The move has been undertaken to make the Orbi technology more accessible to a broader spectrum of audience. Demonstrated at CES 2020, the high-tech router has been designed to provide uninterrupted WiFi connection with speeds up to 1.2 Gbps and coverage of up to 2,000 square feet. Its expandable mesh architecture is compatible with Orbi AC satellites, which facilitates consistent and flawless 4K streaming and gaming applications. Backed by a robust cellular network, the WiFi router is compatible with major 4G LTE service providers.

On Dec 10, 2019, NETGEAR announced that it has welcomed Mickey Mericle to join its board of directors. Mickey joins with a valued background in global marketing.

Valuation

NETGEAR shares are down 30.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are up 8.3% and 33.7% over the past year, respectively.

The S&P 500 Index is up 25% in the past year.

The stock is currently trading at 7.77X trailing 12-month EV/EBITDA, which compares to 9.65X for the Zacks sub-industry, 12.41X for the Zacks sector and 12.12X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 14.7X and as low as 3.5X, with a 5-year median of 8.1X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$28 price target reflects 21.88X trailing 12-month book value.

The table below shows summary valuation data for NTGR

Valuation Multiples - NTGR					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	7.77	9.65	12.41	12.12
	5-Year High	14.67	13.88	12.6	12.86
	5-Year Low	3.54	5	7.68	8.48
	5-Year Median	8.13	7.24	10.52	10.67
P/B TTM	Current	1.28	5.48	5.47	4.46
	5-Year High	3.27	6.16	5.48	4.47
	5-Year Low	1.15	1.84	3.13	2.85
	5-Year Median	1.88	2.5	4.22	3.61
P/S F12M	Current	0.78	3.26	3.65	3.5
	5-Year High	1.58	4.3	3.65	3.5
	5-Year Low	0.63	2.36	2.3	2.54
	5-Year Median	1.02	3.25	3.01	3

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Top 34% (86 out of 254)



Top Peers

Digi International Inc. (DGII)	Outperform
Allot Communications Ltd. (ALLT)	Neutral
Cisco Systems, Inc. (CSCO)	Neutral
Dell Technologies Inc. (DELL)	Neutral
Extreme Networks, Inc. (EXTR)	Neutral
Infinera Corporation (INFN)	Neutral
Radcom Ltd. (RDCM)	Neutral
Seagate Technology PLC (STX)	Neutral

Industry Comparison Industry: Computer - Networking				Industry Peers		
	NTGR Neutral	X Industry	S&P 500	CSCO Neutral	EXTR Neutral	INFN Neutral
VGM Score	D	-	-	C	D	F
Market Cap	793.48 M	118.01 M	24.31 B	203.50 B	902.03 M	1.44 B
# of Analysts	4	2	13	12	1	8
Dividend Yield	0.00%	0.00%	1.76%	2.92%	0.00%	0.00%
Value Score	B	-	-	C	C	F
Cash/Price	0.22	0.16	0.04	0.14	0.18	0.07
EV/EBITDA	10.58	9.29	14.12	10.96	29.19	-21.31
PEG Ratio	NA	2.52	2.05	2.52	NA	NA
Price/Book (P/B)	1.28	1.67	3.34	5.91	9.61	3.35
Price/Cash Flow (P/CF)	38.44	15.47	13.66	13.94	12.84	130.29
P/E (F1)	12.42	15.79	18.82	14.76	12.37	NA
Price/Sales (P/S)	0.77	1.63	2.64	3.91	0.89	1.16
Earnings Yield	8.05%	5.88%	5.29%	6.78%	8.09%	-0.63%
Debt/Equity	0.04	0.07	0.72	0.42	4.42	0.90
Cash Flow (\$/share)	0.68	0.18	6.94	3.44	0.58	0.06
Growth Score	F	-	-	B	D	D
Hist. EPS Growth (3-5 yrs)	-3.09%	2.63%	10.56%	8.00%	4.42%	NA
Proj. EPS Growth (F1/F0)	16.14%	46.61%	7.49%	4.86%	71.43%	93.01%
Curr. Cash Flow Growth	-78.22%	-33.65%	14.83%	6.95%	-31.93%	-123.33%
Hist. Cash Flow Growth (3-5 yrs)	-27.84%	16.42%	9.00%	3.53%	5.33%	32.06%
Current Ratio	2.67	2.33	1.23	1.70	1.06	1.47
Debt/Capital	4.19%	6.53%	42.99%	29.63%	81.56%	47.45%
Net Margin	1.28%	-3.65%	11.08%	21.15%	-5.39%	-36.15%
Return on Equity	7.48%	2.58%	17.16%	35.01%	10.49%	-34.56%
Sales/Assets	1.05	0.88	0.55	0.53	1.25	0.78
Proj. Sales Growth (F1/F0)	3.16%	0.00%	4.23%	-1.63%	0.00%	9.59%
Momentum Score	D	-	-	B	F	B
Daily Price Chg	2.85%	1.81%	0.73%	1.78%	1.92%	1.27%
1 Week Price Chg	3.14%	0.44%	0.39%	-1.05%	-0.61%	-2.96%
4 Week Price Chg	8.36%	8.36%	1.84%	4.33%	4.95%	10.54%
12 Week Price Chg	-18.39%	5.15%	6.48%	1.22%	-0.27%	41.31%
52 Week Price Chg	-29.34%	7.56%	23.15%	11.02%	19.29%	91.59%
20 Day Average Volume	277,629	15,011	1,578,594	17,523,710	1,061,366	2,506,128
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-28.13%	2.38%	-0.48%	-3.29%	-16.28%	19.92%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	NA	0.00%

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	F
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.

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