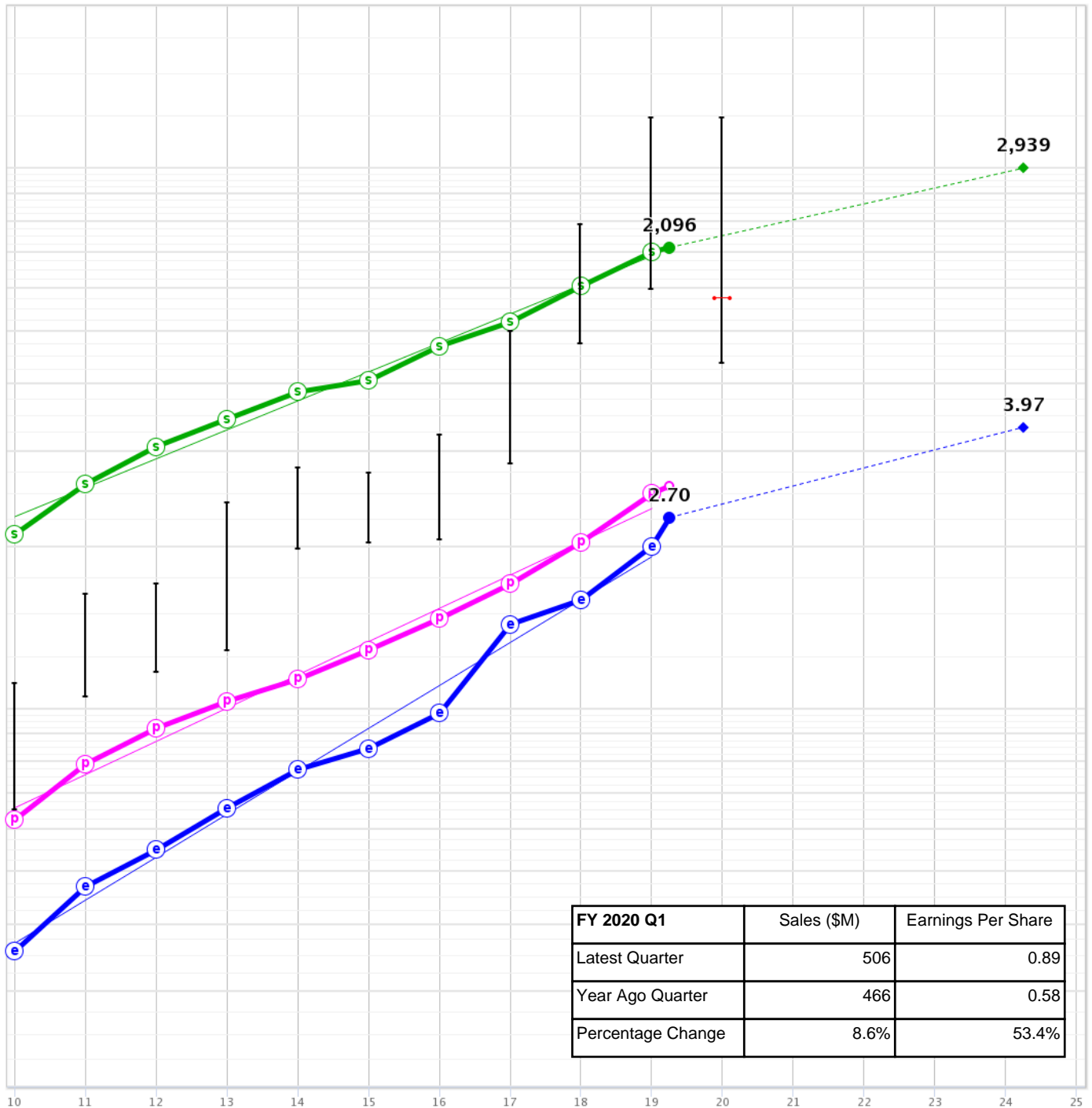


Company	Heico		Date	04/01/20	
Prepared by	MURPHY		Data taken from	BI Stock Data	
Where traded	NYS	Industry	Aerospace & Defense		
Capitalization --- Outstanding Amounts	Reference				
Preferred (\$M)	0.0	% Insiders	% Institution		
Common (M Shares)	137.4	0.7	14.5		
Debt (\$M)	568.8	% to Tot Cap	24.2	% Pot Dil	2.2

# Stock Selection Guide

Symbol: HEI

## 1 VISUAL ANALYSIS of Sales, Earnings, and Price



- |                                   |       |                                                |       |
|-----------------------------------|-------|------------------------------------------------|-------|
| (1) Historical Sales Growth       | 13.1% | (3) Historical Earnings Per Share Growth       | 20.1% |
| (2) Estimated Future Sales Growth | 7.0%  | (4) Estimated Future Earnings Per Share Growth | 8.0%  |

## 2 EVALUATING Management

Heico

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Last 5 Year Avg.
Pre-tax Profit on Sales	17.7%	18.1%	18.0%	17.9%	17.5%	18.9%	18.7%	19.5%	20.0%	21.3%	19.7%
% Earned on Equity	11.8%	13.6%	13.7%	17.6%	17.8%	17.0%	16.6%	20.3%	18.9%	19.9%	18.5%
% Debt To Capital	2.9%	7.1%	17.6%	38.4%	32.0%	31.2%	32.2%	36.7%	27.6%	25.2%	30.6%

## 3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

**CLOSING PRICE** 68.83 (04/01/20)

**HIGH THIS YEAR** 147.93

**LOW THIS YEAR** 52.01

	A	B	C	D	E	F	G	H
Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
2015	32.6	24.2	1.01	32.3	24.0	0.07	7.1	0.3
2016	38.4	24.5	1.17	32.8	20.9	0.08	7.0	0.3
2017	59.5	34.0	1.71	34.8	19.8	0.10	5.7	0.3
2018	94.1	56.5	1.90	49.5	29.7	0.12	6.1	0.2
2019	147.9	71.5	2.39	61.9	29.9	0.14	5.9	0.2
AVERAGE		42.1		33.3	21.6		6.4	
CURRENT/TTM			2.70			0.16	5.9	
AVERAGE PRICE EARNINGS RATIO: 27.4				CURRENT PRICE EARNINGS RATIO: 25.5				

## 4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

### A HIGH PRICE - NEXT 5 YEARS

Avg. High P/E 30.3 X Estimate High Earnings/Share 3.97 = Forecasted High Price \$ 120.2

### B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E 20.0 X Estimate Low Earnings/Share 2.70 = Forecasted Low Price \$ 54.0

(b) Avg. Low Price of Last 5 Years 42.1

(c) Recent Market Low Price 52.0

(d) Price Dividend Will Support  $\frac{\text{Indicated Dividend}}{\text{High Yield}} = \frac{0.16}{0.33\%} = 47.8$

Selected Forecasted Low Price \$ 54.0

### C ZONING using 25%-50%-25%

Forecasted High Price 120.2 Minus Forecasted Low Price 54.0 = 66.2 Range. 25% of Range 16.6

Buy Zone 54.0 to 70.6

Hold Zone 70.6 to 103.7

Sell Zone 103.7 to 120.2

Present Market Price of 68.83 is in the **BUY** Zone

### D UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

$\frac{\text{High Price} - \text{Present Price}}{\text{Present Price} - \text{Low Price}} = \frac{120.2 - 68.83}{68.83 - 54.0} = \frac{51.38}{14.83} = 3.5$  To 1

### E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

$\frac{\text{High Price} - \text{Closing Price}}{\text{Closing Price}} = \frac{120.2 - 68.83}{68.83} = 1.7464$  X 100 = 174.64 - 100 = 74.6 % Appreciation

## 5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

**A**  $\frac{\text{Indicated Annual Dividend}}{\text{Closing Price}} = \frac{0.14}{68.83} = 0.0023 = 0.2\%$  Current Yield

### B AVERAGE YIELD - USING FORECAST HIGH P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast High PE}} = \frac{6.4\%}{30.30} = 0.2\%$

### AVERAGE YIELD - USING FORECAST AVERAGE P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast Average PE}} = \frac{6.4\%}{25.15} = 0.3\%$

### C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Appreciation 11.8 %  
Average Yield 0.2 %  
Annualized Rate of Return 12.0 %

### COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E

Annualized Appreciation 7.7 %  
Average Yield 0.3 %  
Annualized Rate of Return 8.0 %

**Notes: HEI 4/02//20**

Date	Subject	Description	Type
04/03/20	Price crash March 2020	<p>\$113 (Mar 6) down to \$68 (3/31) as Covid-19 shuttered aviation and maybe starts recession. HEI cyclical and follows economy. Will recover when economy does. Consumer defensive.</p> <p>Advantages: Consistent business, great backlog, strong parts demand to continue even in recession as air travel ramps up. Good free cash flow. Repairs over new purchases in recession. Acquires several companies each yr but keeps debt/equity about 32%. Can cover interest on debt 23x (industry coverage only 10%)</p> <p>Wide moat. ACE long term eps 17%, Competitors LHT and UTX, both larger. MI Quality 98, PAR 19.6% Net profit margin increases yearly, 16% in 2019. Directors own 19% of stock. Morningstar FV = \$91, S&amp;P FV \$76.</p> <p>Weakness:: Cyclical. PE's always over 30 for last 6 yrs and 45 in 2019. VL has B++ for financial strength, earnings predictability 100. VI predicts 6% sales growth to 2024 and 10.5% eps growth, less than ACE. Mid-size HEI desired to have 7-12 % growth and is at low end. Gov't. contracts in defense and space best source of profits ahead, currently 31% of revenue. Commercial aviation is 48% of sales.</p>	Study
01/18/19	Class A stock	S+P notes that the Class A stock is considered a super-voting stock with 10 votes per share; S+P considers this a negative metric.	Community
01/15/19	1-15-19	VL - Design, manufacture and sale aerospace, defense, and electronics related services. Waiting for end of year numbers. Recently acquired silicone products company which it expects to add 20 million in sales. They have strong cash flow generation. Has A shares with lower price \$64.87 and reduced voting rights.	Community