HEICO Corporation

Recommendation BUY ★★★★☆

Equity Analyst Colin Scarola

Price
USD 81.71 (as of Mar 26, 2020 4:00 PM ET)

12-Mo. Target Price
USD 124.00

Report Currency
USD

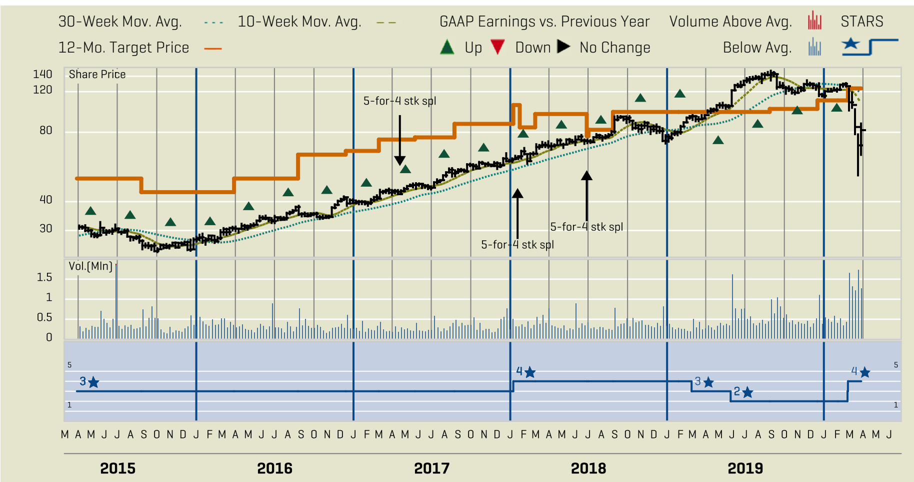
GICS Sector Industrials
Sub-Industry Aerospace & Defense

Summary HEI makes FAA-approved replacement parts for aircraft engines and structures. It also makes specialized electronic equipment for military and space applications.

Key Stock Statistics (Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports)

52-Wk Range	**USD 147.93 - 52.01**	Oper. EPS 2020**E**	**USD 2.63**	Market Capitalization[B]	**USD 10.09**	Beta	**0.46**
Trailing 12-Month EPS	**USD 2.70**	Oper. EPS 2021**E**	**USD 2.86**	Yield [%]	**0.20**	3-Yr Proj. EPS CAGR[%]	**8**
Trailing 12-Month P/E	**30.26**	P/E on Oper. EPS 2020**E**	**31.07**	Dividend Rate/Share	**USD 0.16**	SPGMI's Quality Ranking	**A**
$10K Invested 5 Yrs Ago	**$26,568**	Common Shares Outstg.[M]	**134.66**	Institutional Ownership [%]	**76**		

Price Performance



Source: CFRA, S&P Global Market Intelligence
Past performance is not an indication of future performance and should not be relied upon as such.
Analysis prepared by Equity Analyst **Colin Scarola** on Mar 10, 2020 10:16 AM, when the stock traded at **USD 96.67.**

Highlights

- HEI grew revenue 9% in its Jan-Q, continuing to gain market share in both Flight Support (59% of revenue, +5% YoY) and Electronic Technologies (41%, +13% YoY), in our view. We think Flight Support's replacement parts are generally priced below those sold by the big 3 commercial jet engine makers, giving it strong growth opportunities. Electronic Technologies is also benefitting from a healthy spending environment for military and space applications, in our view.
- We initially set our 2020 revenue growth forecast for HEI at 8%, as strong demand growth seemed probable with the airline industry at record-high load factors last year. Yet, the global spread of coronavirus abruptly reduced air travel demand starting in February, with the ultimate impact still highly uncertain. Unlike airlines, though, we still see HEI revenues growing modestly in 2020, as we think it can offset lower demand from existing customers with new business as airlines seek cost savings on replacement parts during the downturn.
- HEI's low leverage is particularly attractive during periods of economic distress, in our view. The company's annual operating income covers interest expense by 23x, well above the industry average of 10x.

Investment Rationale/Risk

- We believe HEI holds a strong competitive position in an industry with strong long-term growth prospects. HEI can achieve attractive margins on its replacement jet engine parts, while pricing below its OEM competition, making them an attractive option for airline customers. We think this inherent strength is evidenced by pretax margin expansion from 17% in FY 14 to 21% in FY 19, and also returns of over 50% on net tangible assets, among the highest in its industry. Additionally, demand for aerospace parts will grow substantially over the long-term, in our view, as global economic integration increases air travel demand and as governments continue seeking technology advancements for their air and space applications.
- Primary risks to our view include a prolonged downturn in demand for aerospace parts, particularly those used in commercial jet engines, as the airline industry will likely have to reduce fleet utilization until the global coronavirus outbreak stabilizes. Cuts to defense budgets could also reduce demand in HEI's Electronic Technologies segment.
- Our 12-month target is 43.4x our FY 21 (Oct.) EPS estimate, in line with HEI's 3-year average and well above peers due to a low debt burden.

Analyst's Risk Assessment

LOW | **MEDIUM** | HIGH

The primary risks to HEI are cyclical demand for air travel and government budget cuts impacting Defense spending, in our view. Recessions or disease outbreaks can cause sharp drops in air traffic, reducing aircraft usage and accompanying replacement part orders for HEI. In our opinion, this risk is mitigated in the near term by the cost advantage HEI offers airlines on replacement parts vs. OEMs, as periods of stress for airlines will lead more of them to opt for cheaper parts, in our view. We also see cyclical demand risk mitigated over the long-term by steadily increasing air travel demand as the global economy integrates.

Revenue/Earnings Data

Revenue (Million USD)

	1Q	2Q	3Q	4Q	Year
2020	506	--	--	--	--
2019	466	516	532	542	2,056
2018	404	431	466	477	1,778
2017	343	369	392	421	1,525
2016	306	351	356	363	1,376
2015	268	291	300	329	1,189

Earnings Per Share (USD)

	1Q	2Q	3Q	4Q	Year
2021	**E** 0.66	**E** 0.72	**E** 0.73	**E** 0.75	**E** 2.86
2020	0.89	**E** 0.57	**E** 0.58	**E** 0.59	**E** 2.63
2019	0.58	0.60	0.59	0.63	2.39
2018	0.48	0.44	0.49	0.50	1.90
2017	0.30	0.34	0.34	0.39	1.37
2016	0.24	0.29	0.31	0.33	1.17

Fiscal year ended Oct 31. Next earnings report expected: Late May. EPS Estimates based on CFRA's Operating Earnings; historical GAAP earnings are as reported in Company reports.

Dividend Data

Amount (USD)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.08	Dec 16	Jan 08	Jan 09	Jan 23 '20
0.07	Jun 12	Jun 28	Jul 01	Jul 15 '19

Dividends have been paid since 1976. Source: Company reports.

Past performance is not an indication of future performance and should not be relied upon as such.
Forecasts are not reliable indicator of future performance.

Business Summary March 09, 2020

CORPORATE OVERVIEW. HEICO Corporation makes jet engine replacement parts and electronic equipment for military and space applications. Its two operating segments for these markets are the Flight Support Group and the Electronic Technologies Group, respectively.

HEI's customers include domestic and foreign commercial and cargo airlines, aircraft repair and overhaul facilities, aftermarket suppliers of aircraft engine and airframe materials, original equipment manufacturers (OEMs), domestic and foreign military units, electronic manufacturing services companies, manufacturers for the defense industry, and medical, telecommunications, scientific, and industrial companies. No single customer accounted for more than 10% of sales in FY 2019. Sales generated from the company's five largest customers account for approximately 20% of revenue.

The Flight Support Group (59% of revenues in FY 2019) designs and manufactures FAA-approved aircraft engine replacement parts, and also services aircraft engines. The group generally sells its replacement parts at prices below those sold by the big three original equipment manufacturers in the commercial jet engine market, General Electric, Pratt & Whitney, and Rolls Royce. Other than these OEMs, HEI is the world's largest maker of FAA-approved jet engine and aircraft component replacement parts. The company estimates its market share in this business to be 2%.

Flight Support offers about 6,000 FAA-approved replacement parts (PMAs) to customers. It also has FAA approval to provide repair and overhaul on over 1,200 components and systems ("DER repairs"). In addition, the group distributes aircraft parts and provides asset management. Also, it makes thermal insulation products. Major customers include many of the world's largest airlines (including Germany's Lufthansa Technik AG, the world's biggest independent provider of airline maintenance services). Lufthansa owns 20% of Flight Supports's largest division, HEICO Aerospace. HEI believes the Lufthansa relationship has helped it significantly in identifying key replacement parts, introducing those parts and broadening its customer base. HEICO Aerospace also has joint venture jet engine and aircraft parts-making agreements with several airlines, most notably American Airlines, British Airways, United, Delta, and Japan Airlines.

The Electronic Technologies Group (41% of revenues in FY 19) primarily makes sophisticated electronic equipment and components for the military, aviation, space, medical, and telecom industries. The group designs and manufactures various types of electronic, microwave and electro-optical products, as well as other electronics-related products. ETG focuses on low-quantity, highly-customized niche parts and equipment, for which it receives high profit margins. About 65% of FY 19 sales were derived from sales to U.S. and foreign military agencies, prime defense contractors, as well as commercial and defense satellite and spacecraft makers.

CAPITAL ALLOCATION. HEI directs most of its free cash flow to strategic bolt-on acquisitions. During FY 2017 to FY 2019, the company spent roughly $720 million on numerous acquisitions, targeting opportunities that allow for a broadening of product offerings, services, and technologies, while expanding its customer base and geographic presence. HEI limits acquisition candidates to businesses that it believes will continue to grow, offer strong cash flow and earnings potential, and are available at fair prices.

COMPETITIVE LANDSCAPE. Demand for HEI's jet engine parts and services is primarily driven by growth in sales and utilization of commercial jet engines for 120+ seat commercial aircraft. Boeing has projected airline fleet growth of 3%-4% annually through 2036, which bodes well for HEI's long-term market opportunity.

The global jet engine parts industry is dominated by the Big Three jet engine makers: General Electric (GE), United Technologies' Pratt & Whitney (P&W) division, and Rolls-Royce (RR). HEI accounts for about 2% of the market for jet engine and aircraft component replacement parts, and is the world's largest maker of jet engine replacement parts outside of the Big Three jet engine makers. Industry entry barriers are high, as engine parts and services must be certified by the FAA before they can be marketed to airlines, and FAA resources are limited. In addition, airlines seek to purchase parts from a few reputable suppliers, with strong long-term records for reliability and service, making it difficult for a small parts supplier to enter the business. HEI also provides aircraft parts and services for regional airlines.

Demand for HEI's military electronics products is driven indirectly by the growth in the U.S. military budget, which accounts for over 40% of global military spending, according to independent aerospace research firm Teal Group. CFRA expects U.S. and foreign military and space spending to rise going forward, as developed nations continually seek to advance their technical capabilities to avoid being at a disadvantage to peer nations.

The Electronic Technologies Group competes with several large and small domestic and foreign competitors. The markets for electronic, data and microwave, and electro-optical equipment products are niche markets with several competitors where competition is based mainly on design, technology, quality, price, service, and customer satisfaction.

FINANCIAL TRENDS. HEI's total revenue grew from $1.4 billion in 2016 to $2.1 billion in 2019, representing a 3-year CAGR of 14%. Over the same period, adjusted pretax earnings per share, which exclude the impact of tax law changes, rose from $1.93 to $3.27, for a 3-year CAGR of 19%. The faster growth in earnings versus revenue came about through roughly 250 basis points of pretax margin expansion over the period, indicating HEI's strong pricing power and the benefits of scale and cross-selling it has achieved through its bolt-on acquisition strategy, in our view.

We view HEI as strongly better positioned to handle an industry downturn due to its low cost position versus OEMs and its low leverage. Operating income covered net interest expense by 23x in FY 2019 versus an industry average of 10x.

Corporate Information

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Officers

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L. A. Mendelson

Co-President & Director
E. A. Mendelson

Co-President & Director
V. H. Mendelson

General Counsel
J. W. Pallot

Executive VP, CFO & Treasurer
C. L. Macau

Chief Accounting Officer & Assistant Treasurer
S. M. Walker

Board Members

A. Henriques
A. Schriesheim
E. A. Mendelson
F. J. Schwitter
J. L. Neitzel
L. A. Mendelson
M. H. Hildebrandt
T. M. Culligan
V. H. Mendelson

Domicile
Florida

Founded
1957

Employees
5,900

Stockholders
305

Auditor
Deloitte & Touche LLP

HEICO Corporation

Quantitative Evaluations

Fair Value Rank	2	1 · **2** · 3 · 4 · 5 (LOWEST … HIGHEST) Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).
Fair Value Calculation	USD 76.06	Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that HEI is slightly overvalued by USD 5.65 or 6.9%.
Volatility		**LOW** · AVERAGE · HIGH
Technical Evaluation	NEUTRAL	Since February, 2020, the technical indicators for HEI have been NEUTRAL.
Insider Activity	NA	UNFAVORABLE · NEUTRAL · FAVORABLE

Expanded Ratio Analysis

	2019	2018	2017	2016
Price/Sales	8.24	6.45	5.16	3.35
Price/EBITDA	31.00	25.35	21.12	13.88
Price/Pretax Income	38.69	32.16	26.41	17.92
P/E Ratio	51.61	44.12	42.36	29.56
Avg. Diluted Shares Outsg.(M)	137	137	136	133

Figures based on fiscal year-end price

Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years
Sales	15.63	14.31	12.67
Net Income	26.49	28.04	22.01

Ratio Analysis (Annual Avg.)			
Net Margin (%)	NM	NM	NM
% LT Debt to Capitalization	22.63	NA	NA
Return on Equity (%)	20.45	NA	NA

Company Financials Fiscal year ending Oct. 31

Per Share Data (USD)	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Tangible Book Value	-1.14	-1.68	-3.47	-2.05	-1.76	-1.44	-2.50	-0.62	0.06	0.28
Free Cash Flow	3.06	2.16	1.99	1.75	1.19	1.34	0.88	0.96	0.91	0.74
Earnings	2.39	1.90	1.37	1.17	1.00	0.92	0.78	0.66	0.56	0.43
Earnings (Normalized)	1.79	1.43	1.22	1.09	0.91	0.75	0.69	0.61	0.51	0.40
Dividends	0.14	0.12	0.10	0.08	0.07	0.06	0.05	0.04	0.04	0.03
Payout Ratio (%)	6	6	7	7	7	7	7	7	6	6
Prices: High	147.93	94.12	59.52	38.41	32.63	33.30	28.72	20.31	19.48	13.30
Prices: Low	71.47	55.43	33.97	24.50	24.19	23.57	15.30	13.93	12.58	7.76
P/E Ratio: High	61.9	49.5	43.4	32.8	32.5	36.1	36.7	31.0	34.6	31.2
P/E Ratio: Low	29.9	29.2	24.8	20.9	24.1	25.6	19.5	21.3	22.3	18.2

Income Statement Analysis (Million USD)	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Revenue	2,056	1,778	1,525	1,376	1,189	1,132	1,009	897	765	617
Operating Income	463	375	308	272	230	190	182	163	142	111
Depreciation + Amortization	83.5	77.2	64.8	60.3	47.9	47.8	36.8	30.7	18.5	17.6
Interest Expense	21.70	19.90	9.79	8.27	4.63	5.44	3.72	2.43	0.14	0.51
Pretax Income	438	356	298	257	225	199	181	161	138	109
Effective Tax Rate	17.8	19.8	30.3	31.5	31.7	30.1	31.1	33.8	31.0	33.7
Net Income	328	259	186	156	133	121	102	85	73	55
Net Income (Normalized)	245	195	165	145	121	98	90	79	66	52

Balance Sheet and Other Financial Data (Million USD)	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Cash	57.0	59.6	52.1	43.0	33.6	20.2	15.5	21.5	17.5	6.5
Current Assets	814	734	632	543	504	431	441	368	317	259
Total Assets	2,969	2,653	2,512	1,998	1,736	1,489	1,533	1,193	941	782
Current Liabilities	289	282	249	214	168	152	161	132	123	82
Long Term Debt	553	532	674	458	365	326	377	131	40	14
Total Capital	2,445	2,168	2,053	1,605	1,352	1,144	1,160	919	726	624
Capital Expenditures	28.9	41.9	26.0	30.9	18.2	16.4	18.3	15.3	9.4	8.9
Cash from Operations	437	328	288	260	173	191	132	139	126	102
Current Ratio	2.81	2.60	2.53	2.53	2.99	2.83	2.74	2.80	2.57	3.17
% Long Term Debt of Capitalization	22.6	24.5	32.8	28.5	27.0	28.5	32.5	14.3	5.5	2.3
% Net Income of Revenue	16.0	14.6	12.2	11.3	11.2	10.7	10.2	9.5	9.5	8.9
% Return on Assets	10.29	9.07	8.53	9.09	8.91	7.87	8.34	9.57	10.32	9.13
% Return on Equity	20.5	19.0	16.4	16.5	17.1	17.4	15.9	14.5	14.7	12.5

Source: S&P Global Market Intelligence. Data may be preliminary or restated; before results of discontinued operations/special items. Per share data adjusted for stock dividends; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

HEICO Corporation

Sub-Industry Outlook

Our fundamental outlook for the Aerospace & Defense (A&D) sub-industry over the next 12-months is neutral. On the positive side, we expect higher Department of Defense (DoD) spending to drive growth for Defense businesses that make up roughly 60% of sub-industry revenues. This growth is likely to be mostly offset by a general downturn for commercial aviation businesses, in our view, though, as the global spread of coronavirus drastically reduces air travel demand and straps many airline customers. We expect an emergency relief law passed to be passed by Congress, however, which will mitigate some of the commercial downturn by backstopping airline customers.

DoD spending is the primary driver for the sub-industry, in our view, as we estimate government contracts comprise roughly 60% of aggregate revenues for A&D firms, with the vast majority being Defense related. In 2018 and 2019, U.S. Defense spending grew 6% and 9%, respectively, well above the 10-year average growth rate of 1%. This put the sub-industrys Defense businesses on sound footing to start 2020, in our view.

Our outlook for Defense remains positive, even with the recent threat of a coronavirus recession. In March 2020 the Congressional Budget Office forecast U.S. Defense spending to grow another 5% and 3% in 2020 and 2021, respectively. We expect no negative impact to this spending growth from the coronavirus. Actually, we see potential for spending to grow faster as the national health emergency increases military asset utilization. This healthy Defense environment should deliver strong earnings growth for U.S. Defense contractors in the coming year.

Beyond Defense, we estimate nearly 40% of sub-industry revenues come from commercial aerospace applications, and we see demand in this area experiencing a downturn for much of the next year. The coronavirus has led to government and business travel restrictions that have virtually shut down international commercial flights and drastically reduced domestic air travel as well. This has created a crisis for the airline industry, with most major airlines planning to park at least half their aircraft this Spring, and potentially longer if the dire demand conditions persist.

With their end-users in crisis mode, we expect commercial aerospace businesses to see significant revenue declines over the next year. Cash flow problems at airlines are likely to cause postponements or cancellations of new aircraft deliveries, hurting original equipment manufacturers like Boeing and United Technologies, as well as their suppliers. Further, the sharp drop in air travel will reduce aircraft utilization, reducing demand for aerospace businesses that focus on replacement parts and maintenance.

Although our current outlook for commercial aerospace is grim, we expect eventual passage of a large government relief package that will backstop airline customers. In late March the Administration was negotiating with Congress to pass an approximate $2 trillion coronavirus relief bill, and we expect it will include at least $50 billion in government loan guarantees and payroll grants for U.S. airlines. This money should allow the airlines to avoid failure and help them meet most of their commitments to equipment suppliers in the A&D sub-industry, softening the blow from the general downturn in demand for commercial aerospace products, in our view.

Year to date through March 20, the S&P Aerospace & Defense index fell 43.9% versus a 29.6% decline for the S&P Composite 1500.

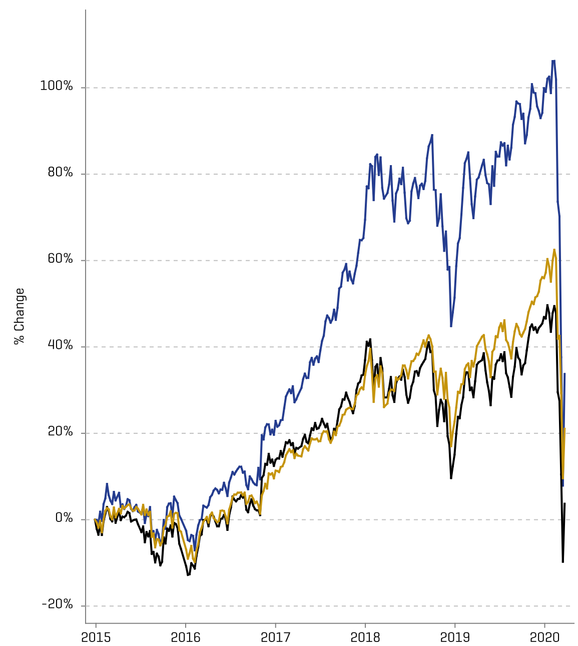
/Colin Scarola

Industry Performance

GICS Sector: **Industrials**
Sub-Industry: **Aerospace & Defense**

Based on S&P 1500 Indexes
Five-Year market price performance through Mar 27, 2020

S&P 1500 — Sector — Sub-Industry



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS).

Past performance is not an indication of future performance and should not be relied upon as such.
Source: S&P Global Market Intelligence

Sub-Industry: Aerospace & Defense Peer Group*: Aerospace & Defense

Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price	Stk. Mkt. Cap. (M)	30-Day Price Chg. (%)	1-Year Price Chg. (%)	P/E Ratio	Fair Value Calc.	Yield (%)	Return on Equity (%)	LTD to Cap (%)
HEICO Corporation	**HEI**	**NYSE**	**USD**	**81.71**	**10,091**	**-20.9**	**-12.1**	**30**	**76.06**	**0.2**	**20.5**	**22.6**
Arconic Inc.	ARNC	NYSE	USD	16.68	7,271	-47.6	-11.8	16	17.16	0.5	9.2	45.3
Axon Enterprise, Inc.	AAXN	NasdaqGS	USD	74.41	4,429	-7.5	41.7	NM	47.91	Nil	0.2	NA
BWX Technologies, Inc.	BWXT	NYSE	USD	47.17	4,492	-22.9	-2.2	18	48.78	1.6	76.5	65.5
Curtiss-Wright Corporation	CW	NYSE	USD	93.73	3,986	-28.2	-16.7	13	91.57	0.7	18.6	28.0
Elbit Systems Ltd.	ESLT	NasdaqGS	USD	120.20	5,439	-22.1	-7.1	22	NA	1.5	16.1	8.7
Huntington Ingalls Industries, Inc.	HII	NYSE	USD	185.59	7,558	-15.5	-8.6	14	201.67	2.2	35.4	41.8
Rolls-Royce Holdings plc	RYCE.F	OTCPK	USD	4.529	8,684	-42.4	-61.1	NM	NA	Nil	59.5	122.5
Singapore Technologies Engineering Ltd	SGGK.Y	OTCPK	USD	21.32	6,661	-31.5	-22.9	10	NA	5.0	47.2	4.4
Teledyne Technologies Incorporated	TDY	NYSE	USD	282.23	11,196	-20.5	22.8	26	283.13	Nil	16.3	20.2
Textron Inc.	TXT	NYSE	USD	26.69	6,654	-36.2	-46.4	8	46.17	0.3	15.2	26.3

*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.
NA-Not Available NM-Not Meaningful.
Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.

Analyst Research Notes and other Company News

February 26, 2020
12:16 pm ET... CFRA Lifts Opinion on Shares of HEICO Corporation to Buy from Hold (113.34****): We lift our target $14 to $124, 43.4x our 2021 (Oct.) EPS estimate -- in line with HEI's 3-year average. We maintain our 2020 and 2021 EPS estimates. Jan-Q EPS of $0.89 vs. $0.58 beat consensus by $0.12 on nonrecurring tax benefits. Jan-Q sales grew 9% YoY on strong organic and acquisition driven growth. Operating income grew even faster at 13% YoY on a 130 bps pretax margin improvement, demonstrating the pricing power HEI achieves on aerospace parts, in our view. Our Buy opinion is driven by our view that HEI can generate healthy earnings growth while the broader market may face coronavirus-induced demand downturns. The virus is likely to negatively impact air travel, but we think this will actually lead to new business for the Flight segment (50% of earnings), as airline customers coming under pressure may seek cost savings from its competitively priced non-OEM replacement parts. Further, primary applications for Electronic Technologies (50%) are military and space, which we see insulated from the virus. /Colin Scarola

February 25, 2020
02:41 pm ET... CFRA Lifts Opinion on Shares of HEICO Corporation to Hold from Sell (119***): We leave our 12-month target unchanged at $110, and also maintain our 2020 and 2021 EPS estimates. Our rating change to Hold is driven by our view that much of the overvaluation that was driving our Sell opinion has been corrected, as the company's estimated forward P/E multiple fell from 62x in late August to around 43x presently, while the stock price fell roughly 21% over that stretch. In addition to its more reasonable recent valuation, we think HEI has improved odds of performing well relative to Industrials peers over the next year, due to operations that are relatively insulated from the global coronavirus outbreak, in our view. We base this on the expectation that the company can operate at normal levels over the next two quarters while the virus peaks, as it had record backlog of $900 million of orders as of October 2019 (+15% YoY). We also think customer demand in replacement aerospace parts, where HEI focuses, will hold up well relative to other Industrials markets. /Colin Scarola

December 17, 2019
10:48 am ET... CFRA Maintains Sell Opinion on Shares of HEICO Corp. (121.9**): We raise our 12-month target price to $110 from $101, 41.8x our '20 (Oct.) EPS estimate of $2.63 (raised from $2.52), in line with HEI's three-year average, but above peers, reflecting HEI's strong track record of above-peer revenue and EPS growth. However, HEI's revenue and EPS growth have slowed, and we think the current valuation of about 46x forward earnings is unattractive. We start our '21 EPS estimate at $2.86. HEI's Oct-Q EPS of $0. 62 versus $0.49 beat our $0.55 estimate and the consensus of $0.58. Revenues grew 13.5% and were about 4% better than we expected, while operating income increased 15%. HEI guides to FY 20 revenue growth of 6%-8% (versus 15.6% in FY 19) and net income growth of 13%-14% (versus FY 19 growth of 48%). While we would categorize HEI's results as strong, and we think that HEI is a well-run company strongly positioned in its markets, we think decelerating top- and bottom-line growth are cause for concern amid a sky-high valuation. /Jim Corridore

August 28, 2019
01:39 pm ET... CFRA Maintains Sell Opinion on Shares of HEICO Corporation (135.63**): We raise our 12-month target price to $101 from $98, 40x our '20 (Oct.) EPS estimate of $2.52 (cut from $2.55), in line with HEI's three-year average, but above peers, reflecting HEI's strong track record of above-peer revenue and EPS growth. However, HEI's revenue and EPS growth have slowed somewhat, and we think the current valuation of about 53.5x forward earnings is unattractive. We keep our '19 EPS estimate at $2.37. HEI's July-quarter EPS of $0.59 versus $0.49 beat our $0.53 estimate and the consensus of $0.54. Revenues grew 14% and were about 4% better than we expected, while operating income increased 18% and net income rose 21%. HEI guides to FY 19 revenue growth of 14%-15% and net income growth of 23%-24% versus prior guidance of 12%-13% revenue growth and 17%-18% net income growth. While we would categorize
HEI's results as strong, we think decelerating top- and bottom-line growth are cause for concern amid a sky-high valuation. /Jim Corridore

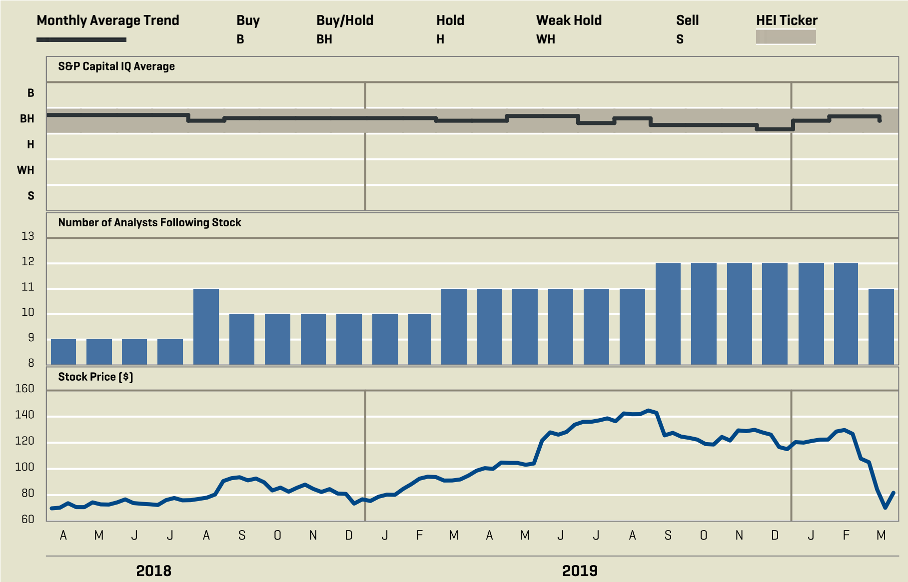
May 29, 2019
12:37 pm ET... CFRA Cuts Opinion on Shares of HEICO Corporation to Sell from Hold (111.89**): We keep our 12-month target price at $98, valuing the shares at 38x our '20 (Jan.) EPS estimate of $2.55 (raised from $2.39), well above the market and peers, and above HEI's three-year average forward P/E of 37.5x. We think the current valuation of about 44x '20 EPS and 47x '19 EPS is stretched, and see the shares likely to underperform over the next year. We raise our '19 EPS estimate to $2.37 from $2.10, after HEI's April-quarter adjusted EPS of $0.60 versus $0.44 beat our $0.51 estimate and the consensus of $0.49. Revenues grew 20% and were better than we expected on strong growth in both flight systems and electronic systems. Operating margins expanded and HEI raised '19 guidance to net income growth of 17%-19% from prior guidance of 11%-13%. The company expects to continue to make acquisitions to support revenue and EPS growth. HEI is operating well, but we see risks due to the high valuation, particularly given recent risk-off market focus and the swoon in industrial stocks. /Jim Corridore

February 27, 2019
10:18 am ET... CFRA Lowers Opinion on Shares of HEICO Corporation to Hold from Buy (93.6***): We keep our 12-month target price at $98, 41x our FY 20 (Oct.) EPS estimate of $2.39 (raised from $2.32), above HEI's 3-year average of 36x and well above peers, reflecting likely faster than peer revenue and EPS growth. However, we think that the shares, after a sharp run-up so far this year, are now trading near our estimate of fair value. We raise our FY19 EPS estimate to $2.10 from $2.08. HEI January-quarter adjusted EPS of $0.49 versus $0.36 beat our $0.46 estimate and the consensus of $0.47. Net income grew 36% on a 15% rise in revenues, both above our expectations. HEI raises FY 19 guidance to EPS growth of 11%-13% (10%) on net sales growth of 9%-11% (raised from 8%-10%). However, EPS implied by this guidance of $2.10 is short of the consensus of $2.16. We think HEI is likely to continue to be acquisitive, and this could boost revenue and EPS growth given the company's track record of making accretive acquisitions. We see overall demand for HEI's businesses as strong. /Jim Corridore

Note: Research notes reflect CFRA's published opinions and analysis on the stock at the time the note was published. The note reflects the views of the equity analyst as of the date and time indicated in the note, and may not reflect CFRA's current view on the company.

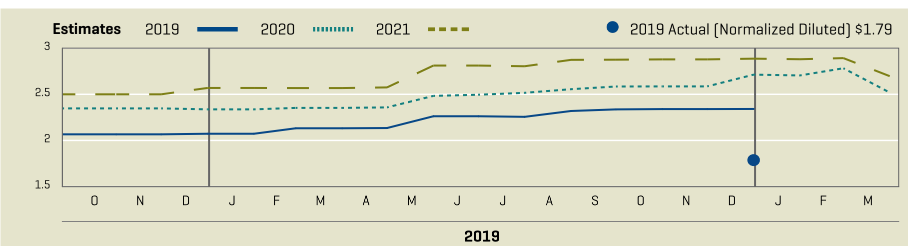
HEICO Corporation

Analysts' Recommendations



	No. of Recommendations	% of Total	1 Mo.Prior	3 Mos.Prior
Buy	5	45	6	4
Buy/Hold	2	18	3	3
Hold	3	27	2	3
Weak Hold	1	9	1	1
Sell	0	0	0	1
No Opinion	0	0	0	0
Total	**11**	**100**	**12**	**12**

Wall Street Consensus Estimates



Fiscal Years	Avg Est.	High Est	Low Est.	# of Est.	Est. P/E
2021	2.70	3.05	1.95	7	30.3
2020	2.52	2.85	1.25	8	32.4
2021 vs. 2020	**▲7%**	**▲7%**	**▲56%**	**▼-12%**	**▼-6%**
Q2'21	0.65	0.68	0.62	2	NM
Q2'20	0.53	0.62	0.17	8	NM
Q2'21 vs. Q2'20	**▲23%**	**▲10%**	**▲265%**	**▼-75%**	**NA**

Forecasts are not reliable indicator of future performance.

Note: A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

Note: For all tables, graphs and charts in this report that do not cite any reference or source, the source is S&P Global Market Intelligence.

Wall Street Consensus Opinion

BUY/HOLD

Wall Street Consensus vs. Performance

For fiscal year 2020, analysts estimate that HEI will earn USD $2.52. For the 1st quarter of fiscal year 2020, HEI announced earnings per share of USD $0.89, representing 35.3% of the total revenue estimate. For fiscal year 2021, analysts estimate that HEI's earnings per share will grow by 7% to USD $2.70.

Glossary

STARS
Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Global Market Intelligence's Quality Ranking
(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Global Market Intelligence's earnings and dividend rankings for common stocks, which are designed to capsulize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B	Below Average
A	High	B-	Lower
A-	Above Average	C	Lowest
B+	Average	D	In Reorganization
NR	Not Ranked		

EPS Estimates
CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

12-Month Target Price
The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

CFRA Equity Research
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Abbreviations Used in Equity Research Reports
CAGR - Compound Annual Growth Rate
CAPEX - Capital Expenditures
CY - Calendar Year
DCF - Discounted Cash Flow
DDM - Dividend Discount Model
EBIT - Earnings Before Interest and Taxes
EBITDA - Earnings Before Interest, Taxes, Depreciation & Amortization
EPS - Earnings Per Share
EV - Enterprise Value
FCF - Free Cash Flow
FFO - Funds From Operations
FY - Fiscal Year
P/E - Price/Earnings
P/NAV - Price to Net Asset Value PEG Ratio - P/E-to-Growth Ratio PV - Present Value
R&D - Research & Development ROCE - Return on Capital Employed ROE - Return on Equity
ROI - Return on Investment
ROIC - Return on Invested Capital
ROA - Return on Assets
SG&A - Selling, General & Administrative Expenses
SOTP - Sum-of-The-Parts
WACC - Weighted Average Cost of Capital

Dividends on American Depository Receipts (ADRs) and American Depository Shares (ADSs) are net of taxes (paid in the country of origin).

Qualitative Risk Assessment
Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:
★★★★★ **5-STARS (Strong Buy):**
Total return is expected to outperform the total return of a relevant benchmark, by a notable margin over the coming 12 months, with shares rising in price on an absolute basis.
★★★★☆ **4-STARS (Buy):**
Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.
★★★☆☆ **3-STARS (Hold):**
Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.
★★☆☆☆ **2-STARS (Sell):**
Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.
★☆☆☆☆ **1-STAR (Strong Sell):**
Total return is expected to underperform the total return of a relevant benchmark by a notable margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:
In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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Quantitative Stock Reports:

Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

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STARS Stock Reports:

Global STARS Distribution as of December 30, 2019

Ranking	North America	Europe	Asia	Global
Buy	33.4%	29.0%	41.1%	33.5%
Hold	56.1%	54.8%	46.4%	54.6%
Sell	10.5%	16.2%	12.5%	11.9%
Total	100.0%	100.0%	100.0%	100.0%

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