

Zebra Technologies (ZBRA)

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Information Technology (Peripheral and Other Commerce Equipment)

Introduction

Zebra Technologies is a global company based in Lincolnshire, Illinois, that engages in providing automatic identification and data capture markets. It manufactures and sells marking, tracking and computer printing technologies. Some of its products include enterprise mobile computers, tablets, barcode scanners, imagers, and printers for empowering the front line in retail, health care, transportation, manufacturing and other industries to achieve edge performance. Its main source of revenue is through these peripheral and other commerce equipment makers, with its business segment consisting of Enterprise Visibility & Mobility, Asset Intelligence & Tracking, and Zebra Enterprise Solutions.

Financial Analysis			
Price(\$)	178.00	Beta	1.61
Price Target(\$)	\$190-\$210	WACC (%)	9.06
52 Week H-L (\$)	101.49-184.75	Gross Margin	44%
Market Cap (mil)	9,520	Revenue (mil)	1092
Shares Outstanding(mil)	53.69	Inventory Turnover	4.67
EV/EBITDA	14.67	ROA	6.95%
EPS	2.34	ROE	30.59%
PE Ratio	30.90%	ROIC	9.83%

Recommendation

We recommend a buy on Zebra Technologies based on the following factors:

- Acquisition of Xplore Technologies
- Demand for products and solutions as IoT and Cloud usage increase
- Healthcare Specialized Programs
- Patents

Investment Thesis

Acquisition: In 2014, Zebra Technologies acquired Motorola Solutions which tripled its revenue and helped them to increase the number of combined channel partners to over 20,000 in more than 100 countries. This expansion has been crucial to achieving greater visibility for better enterprise asset intelligence. This acquisition has allowed Zebra to expand in Internet of Things for the future and has been a key driver for its stock price while increasing from \$47 to \$180 in just two years. This year, Zebra Technologies acquired Xplore Technologies which is a leading innovative developer of semi, fully, and ultra-rugged tablets, 2-in-1 laptops, and a range of performance matched accessories. Xplore's products serve existing vertical markets for Zebra like retail, manufacturing, transportation & logistics, and healthcare. In addition to this, it provides an opportunity into the new markets of oil & gas, utility, government, and public safety. As the world is transitioning to an on-demand economy, it is wise for companies like Zebra Technologies to invest in innovative companies like Xplore Technologies that can better meet customers' demand. This acquisition will enhance the product lineup and give Zebra a complete rugged tablet portfolio for customers to gain a performance edge.

Rising Demand: As the Internet of Things becomes more prevalent around the world, it will result in higher demand for Zebra Technologies' products and services within vertical markets such as health care, transportation, logistics, manufacturing and retail. In terms of solutions, Zebra Technologies was recently recognized as the "The Official On-Field Player-Tracking Provider" after few years of partnership with the NFL. It has also been providing MotionWorks solutions to many other universities and teams around the world in a similar way.

By 2021, the retailers' technology investment is expected to double the growth opportunities in Automation Inventory Visibility, Omnichannel Conversion and Fulfillment, and IoT Location Services. This will require retailers to use Zebra Technologies' products and services to make this happen. Furthermore, manufacturing companies are also focusing and increasing the use of automation, wearables and voice solutions; location tracking (real-time) and mobile technologies are expected to increase by more than 25% in 3 years. This means that manufacturers are using RFID (Radio Frequency Identification) for tracking packages and items more efficiently. We can also see that there is an increasing demand for Zebra Technologies' products and services in the healthcare industries as hospitals are requiring more IoT Technologies to be efficient in treating patients, improving quality of care, reducing medical mistakes costs, and providing bedside care. In three years, the percentage of nurses, physicians, and pharmacists using mobile devices in hospitals will double from around 52% to 97.5%.

Healthcare Specialized Program: Recently, Zebra Technologies introduced a new healthcare specialization program called "Partner Connect" to healthcare technology providers in North America, Latin America and parts of Asia like India and South Korea. This is critical to its future growth opportunities as medical facilities are increasingly investing in technologies to enhance patient care and optimize workflows performed by doctors, nurses and clinical support staff. This program offers benefits such as growth incentives and increased channel account

management, sales and technical support to qualified healthcare technology providers. The competitive advantage that Zebra Technologies offers in this program, is that it offers a “strong” preferred pricing model, instead of other competitors who offer special pricing on large deals and a new performance rebate as part of the health care specialization. As the vertical healthcare market for Zebra Technologies is expected to grow much more, this program will establish a ground for them to secure more customers for future growth.

Patents: Zebra Technologies currently has over 4000 asset management technology patents which allows them to remain strong against competitors. It is one of the largest RFID patent owners in the world and each patent does not last for short periods of time but up to 20 years after issue. This is also one of the factors for making this company more attractive than others from the investors’ perspective.

Risks

Since Zebra Technologies is a global company with several branches around the world, there are risks such as fluctuating foreign currency rates that could restrict sales and increase costs. There are also laws and regulations in different areas that could impact the company depending on changing policies which could result in large fines and penalties. For instance, the tax tariff could be one of the risks that could affect the company in January 2019. However, Zebra Technologies has a cross-functional team, that is working on ways to mitigate this risk. The tax application that was announced thus far, impacts a very limited number of its products. The company is exploring ways to shift production away from China to sourcing components elsewhere.

Even though the company is evolving and adapting to the surrounding market, there is a possibility that Zebra’s patents are not protected in all of the countries they serve. While Zebra Technologies has over 4000 patents, they must strategically enter into new markets. While patents may protect them in the United States, there is limit on intellectual property protection in some countries. This could potentially limit Zebra from entering markets in risk of product infringement.

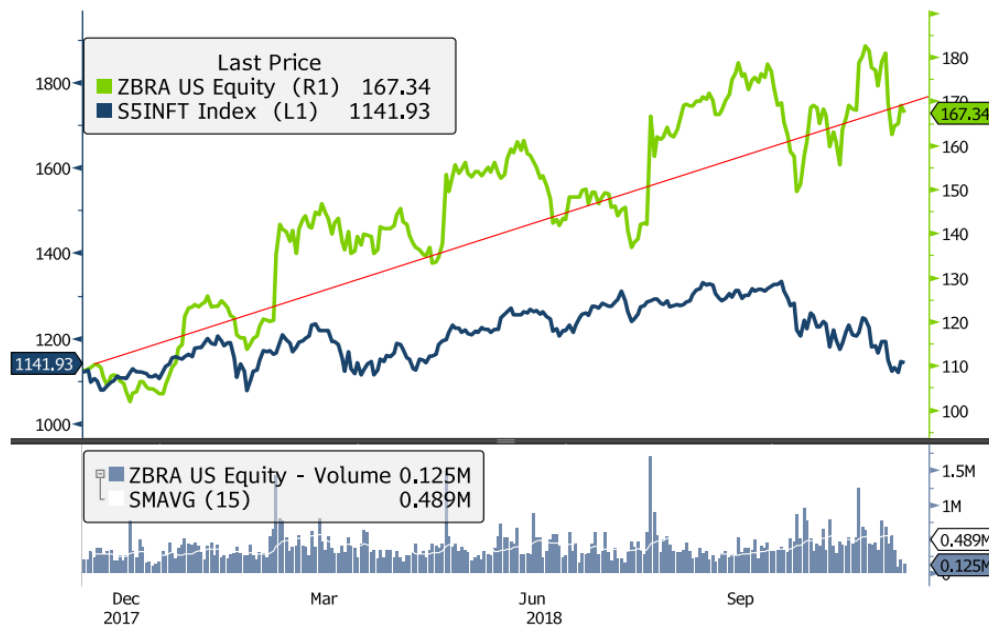
Cyber security incidents could cause a major issue or disruption to the company as everything nowadays is uploaded and processed via Internet. Due to the increase in demand of Internet of Things and production of cloud-based products, there is a chance of a breach to third party service providers or its business operations, that could affect the confidentiality, integrity, and availability of its systems and data.

Management

Zebra Technologies has 24 total members on their management team. This is made up of 16 members within management and 8 who sit on the board with an average age of 57 and average tenure of 8 years. The CEO of Zebra Technologies is Anders Gustafsson who has been with Zebra for 11 years and has served as CEO since September 2007. Before joining Zebra,

Gustafsson served as the CEO of Spirent Communications. While Gustafsson's team is filled with new members of Zebra Technologies, all the officers have a breadth of experience within the technology industry. Zebra's management team plans to use their diverse business experience to continue introducing and improving their current market-leading innovative products while also maintaining their global position and diverse market segments.

Stock Charts of Past Year Performance



Peer Analysis

Peer Analysis						
Name	Ticker	Market Cap (Millions)	Sales (Millions)	EBITDA(Million)	Dividend Yield	EV/EBITDA
Zebra Technologies	ZBRA	\$9,723.00	\$3,730.00	\$659.00	0.00%	11.67
Dover Corp.	DOV	\$12,822.00	\$7,830.00	\$1,368.00	2.20%	13.49
Datalogic S.p.A.	DAL-IT	\$139.96	\$689.02	\$114.38	2.40%	17.85
Impinj, Inc.	PI	\$418.00	\$125.30	-\$13.07	0.00%	---
Honeywell	HON	\$110,000.00	\$40,519.00	\$9,168.00	2.20%	13.35
Panasonic Corp		\$23,067.00	\$70,800.34	\$6,120.00	1.97%	5.61
Peer Average		\$29,289.39	\$23,992.73	\$3,351.46	1.75%	12.58

Valuation

Due to the irregularity of cash flows over the past several years, and the difficulty to project cash flows forward accurately for Zebra, we chose to evaluate our company based on two relative models. We first performed an EV/EBITDA multiple model and averaged out the multiples of our peer group and adjusted our multiple to reflect our expectations for 2019. Using this approach, we arrived at a one-year target price of \$199.37. Our second relative valuation consisted of a P/E multiple model where we once again averaged the multiples of our peers and adjusted our P/E based on the trend of the P/E ratio and our expectations for 2019. We arrived at a target price of \$207.50. Combining the two models EV/EBITDA and P/E, we arrived at a one-year target price of \$203.44 representing a 14.29% upside from the current price of \$177.92. We evaluated a target price range between \$190 and \$210.

Ownership of Shares

Top 5 Shareholders		
Holder	% OS	Shares
The Vanguard Group, Inc.	10.01%	25,199,000
BlackRock Fund Advisors	8.08%	5,374,000
Capital Research & Management Co.	4.59%	4,338,000
Wellington Management Co. LLP	3.37%	2,462,000
NewSouth Capital Management, Inc.	3.31%	1,808,000

Ownership	
Investment Advisors	84.33%
Hedge Fund Managers	8.41%
Pension Funds	3.19%
Other	4.07%