Company Note Overseas
2021. 09. 10

Zebra Technologies Corp. (ZBRA.US)

N/R

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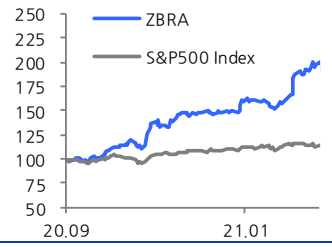
Bloomberg TP			USD 579.55
Current Price(07/15)			USD 577.47
Industry			Information Technology
S&P500 (07/15)			4,493.3
Market Cap.(USD mn)			30,838.6
Outstanding Shares(mn)			53
52week Range			594.77/246.83
Average Daily Trading Volume(3M)			209,209
Increase Rate	1M	3M	6M
Absolute Price(%)	1.8	13.5	22.7
Relative Price(%p)	0.5	7.1	6.5

Company Stock Price vs. Index



Source: Bloomberg, Hyundai Motor Securities

International Stock Market Weekly

Information Technology: Electronic Equipment Instruments: Mid Cap Growth

Zebra Technologies Corp. (ZBRA)

Zebra Technologies Corp. (ZBRA) is the dominant player in markets that are critical for businesses. The company controls an enviable share of the enterprise product and data intelligence markets thanks to its superb utilization of data analytics. More importantly, the company continues to grow its market share through innovations and adaptations. The company's seasoned management team is best-in-class and excels at identifying, adapting, and capitalizing on opportunities and continues to expand its optionality and adapt to a rapidly evolving world, which will enable it to continue to grow in the years ahead. As such, Zebra is a very attractive investment, in our view.

Zebra is the market leader in barcode scanning, specialty printing, and RFID printing, among other areas, and it dominates the markets in which it operates. Of course, this is no easy feat and has been achieved due continuous innovation and adaptation through the years. Indeed, with the latest acquisitions of autonomous mobile robot (AMR) company Fetch Robotics and graphical machine vision (MV) software (SW) provider Adaptive Vision, Zebra's versatility, and capability as a company able to position itself to remain a leader and grow is evident. The bolt-on acquisitions of the mobile robotics and machine vision companies are reminiscent of Teradyne's (TER) acquisitions of MiR and Universal Robots, both of which were highly complementary to their existing business at the time of the acquisitions. More interestingly, is that it laid a clear path to continued growth in nascent business areas. While admittedly, not as flashy as some higher-media profile and pricey robotics or AI acquisitions in the news recently, both Fetch and Adaptive, were purchased at deep discounts relative to their potential, and both possess outstanding technologies, great management, as well as strong development teams which can easily be ported to a wide range of commercial applications and will soon contribute to improving Zebra's profitability and widening its business scope.

Consensus and Valuation

	Revenue (USDmn)	EBIT (USDmn)	Net Income (USDmn)	EBITDA (USDmn)	EPS (USD)	YoY (%)	P/E (X)	P/B (X)	EV/EBITDA (X)	ROE (%)	Dividend Rate (%)
FY 2019 (19.12.31)	4,485	692	544	904	10.08	28.24	23.78	7.50	16.76	34.28	N/A
FY 2020 (20.12.31)	4,448	651	504	832	9.43	-6.45	36.40	9.58	26.11	25.31	N/A
FY 2021F (21.12.31)	5,545	1,179	935	1,266	17.62	37.66	32.77	10.44	24.88	36.48	N/A
FY 2022F (22.12.31)	5,787	1,212	998	1,348	18.93	7.44	30.50	8.05	23.38	30.04	N/A

Source: Bloomberg, Hyundai Motor Securities

현대차증권

Stock pick for the second week of September

Zebra Technologies Corp. (ZBRA.US)

About Zebra Technologies Corp. (ZBRA.US)

Zebra Technologies Corporation was founded in 1969 and is based in Lincolnshire, Il. The company and its subsidiaries provide enterprise asset intelligence solutions in the global automatic identification and data capture solutions industry. It operates in two segments, Asset Intelligence & Tracking and Enterprise Visibility & Mobility. The company designs, manufactures, and sells printers, which produce labels, plastic cards, receipts, tickets, and wristbands, RFID printers and encoders; accessories and options for printers, such as battery chargers and vehicle mounts; stock and customized thermal labels, receipts, ribbons, plastic cards, and RFID tags for printers; temperature-monitoring labels for vaccine distribution, as well as self-laminating wristbands for use in laser printers. It also sells maintenance, technical support, repair, and managed and professional services; real-time location systems and services; and tags, sensors, exciters, middleware software, and application software, as well as inventory management solutions, and tablets and enterprise-grade mobile computing products and accessories. In addition, it sells barcode scanners, image capture devices, and RFID readers, and workforce management solutions, workflow execution and task management solutions, and prescriptive analytics solutions, as well as communications and collaboration solutions. The company serves e-commerce, retail, and transportation and logistics, manufacturing, healthcare, hospitality, warehouse and distribution, energy and utilities, government, education, and banking enterprises. It sells its products, solutions, and services through distributors, independent software vendors, direct marketers, original equipment manufacturers, and value-added resellers. More recently, the company has accelerated its industrial automation (IA) and robotics endeavors via the bolt-on acquisitions of Fetch Robotics and Adaptive Vision and recently announced the acquisition of Antuit.ai.

Rationale

Zebra with a market cap of USD30bn has emerged as one of the world's most important industrial-tech companies with its leading enterprise asset intelligence solutions. Our positive view of Zebra is based on our belief that it can maintain operating and financial momentum, which will enable it to surpass expectations going forward.

Zebra shares have outperformed Amazon over the past ten years

Zebra is the market leader in automatic identification and data capture that includes barcode printing and scanners, RFID, and related workflow optimization software. While the applications here in e-commerce and retail are evident, the company's solutions are capturing considerable demand across various industries thanks to trends such as cloud computing, IoT, and mobility technologies. The company just reported 2Q results, which highlighted its continued growth momentum and healthy financials. While shares have seen a tremendous run-up YTD, we are bullish on the counter and its expansion into robotics as a growth driver. In short, Zebra is an outstanding company with a great long-term outlook.

Zebra has proven itself an incredible growth story over the past few years. Part of this amazing growth is directly connected to its relationship with Amazon (AMZN) as the e-commerce juggernaut utilizes Zebra barcode scanning technology in its global logistical infrastructure. We note that Zebra shares have outperformed Amazon over the past ten years. And while Amazon is an important component of the Zebra's business, no single customer accounts for more than 20% of total sales, which shows its diversification across several industries. What is more, we find the recent strategic steps to push into high-growth growth opportunities in IA and robotics as prudent moves that will further diversify the business.

Looking at the company's history, is immediately apparent that management has a track record of innovating and creating products, services, and solutions that are able to serve an evolving world. Indeed, the company developed the world's first handheld scanner back in 1979, and more tellingly in 2015, it recognized that rapid growth of the virtual world, and launched Zebra DNA, which integrates AI into computers and scanners. In short, Zebra excels at creating products, and then developing them to meet the demands of a rapidly changing world. And this is the key reason for their continued success—it does simply stay with a product, rather it identifies and makes the necessary changes to meet the demands of a changing world and changes along with it. Its robust financials coupled with this growth mindset is why we believe Zebra will outperform in the years ahead.

Outstanding 2Q with more to come

2Q results beat consensus with strong demand across the board. Zebra is pushing into industrial scanning, machine vision, and warehouse robotics to capture growth opportunities. The company is already the global market leader in data capture, designing and marketing specialty printers, enterprise asset intelligence, mobile computing, radio frequency identification products, and real-time locating systems. Zebra ended 2Q with USD318mn in cash against USD996mn in debt. Considering 2Q adjusted EBITDA of USD325mn, annualized to USD1.3bn, the net debt to adjusted EBITDA ratio is below 0.6x. Zebra generated USD514mn in FCF YTD. We view the BS position and liquidity as a strong point. The company reported 2Q non-GAAP EPS of USD4.57, beating expectations by USD0.45, compared to USD2.41 or up 90% YoY. Revenue of USD1.4bn was up 44% YoY, surpassing consensus. Gross margin was 47.8%, up 400 BPS YoY as high-tech solutions and services accounted for a larger portion of the sales mix. The adjusted EBITDA margin of 23.6% skyrocketed 530 BPS from 18.3% in 2Q20.

The growth in the number of retailers offering consumers the ability to shop online with delivery or in-store pickup has fueled demand for Zebra inventory management solutions. The company benefits from the "on-demand economy" with various industries like transportation and logistics, manufacturing, healthcare, and the public sector depending more and more on real-time location tracking.

Management guidance and market outlook

The acquisitions Fetch

Management guided net sales growth of 23%-25% for the full year. An estimated adjusted EBITDA

Robotics, Adaptive Vision, and Antuit AI will contribute to driving growth going forward.

margin of around 22.5%, if confirmed, would represent climbing profitability compared to 20.5% in 2020. The company also expects to generate at least USD900mn in FCF this year.

Consensus calls for revenue of USD5.55bn this year, up 25% from 2020, in line with guidance. Going forward, the market expects growth trend to moderate into the mid-single digits for 2022 and 2023. The USD17.62 EPS estimate for 2021 is 38% YoY rise. The outlook for 2022-23 are somewhat modest because of the strong 2021 comparison period, however we believe current market estimates are conservative as Zebra should be able to generate incremental growth from its recent acquisitions.

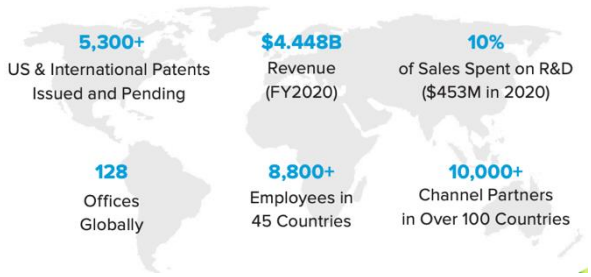
Growth through continued strategic acquisitions

In 2Q Zebra acquired Adaptive Vision, a leading provider of graphical machine vision (MV) SW for manufacturing and other industries as part of its entry into the fixed industrial scanning (FIS) and MV markets. The company is introducing more automation solutions in scanning for inventory and manufacturing processes. The tech offers efficiencies with the scanning process compared to having human employees manually tracking barcodes. In addition, Zebra announced the acquisition of Fetch Robotics, a leader in AMRs. The two acquisitions along with its latest planned acquisition of Antuit AI will contribute to driving growth going forward.

On Aug 30, Zebra announced that it will acquire Antuit AI, a provider of AI-powered SaaS solutions specific to forecasting and merchandising for retail and CPG industries. Antuit is owned by a Goldman Sachs Asset Management-led consortium and uses AI and ML algorithms to ensure customers have the right product in the right place, at the right time, at the right price based on consumer demand, store inventory, and the state of the supply chain. By adding Antuit's AI-powered demand forecasting solution into Zebra's SaaS portfolio, the company will its customers to combine planning and execution to optimize margins and drive revenue growth.

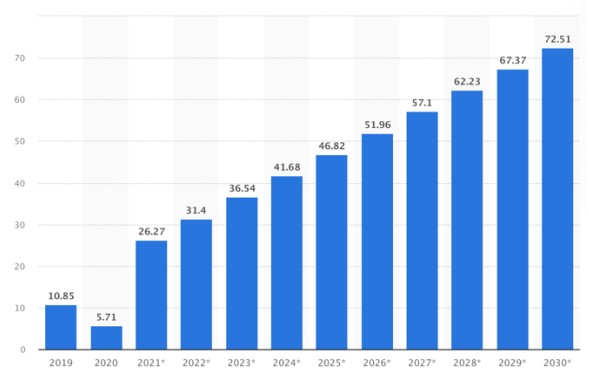
With Antuit, retailers are better able to deliver on their omnichannel strategy by expanding margins with effective prices and promotions, as well as optimizing inventory allocations and order fulfillment. Consumer products companies can improve forecast accuracy; anticipate consumer demand to meet retailers' orders; optimize pricing and trade promotions; and unify sales, trade and demand planning. Zebra's value proposition will expand with the addition of Antuit alongside the recent launch of its FIS and MV portfolio, its acquisition of graphical MV SW, Adaptive, and its recent acquisition of Fetch. These acquisitions should create considerable synergies. The Antuit acquisition is slated to close in 2021 and will be funded with cash on hand.

Fig 1. Global reach and leadership



Source: Zebra Technologies, Hyundai Motor Securities

Fig 2. Global mobile robotics market in 2019 and 2020, with forecast for 2021-30 (USD bn)

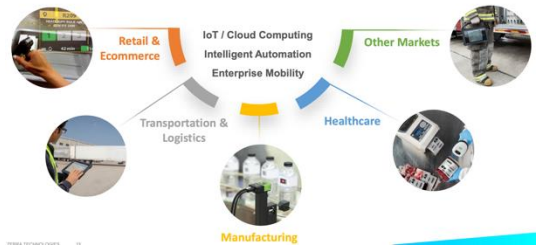


Source: Zebra Technologies, Hyundai Motor Securities

Fig 3. Digitizing and automating with HW + SW + cloud analytics

Source: Zebra Technologies, Hyundai Motor Securities

Fig 4. Optimizing workflows for the on-demand economy



Source: Zebra Technologies, Hyundai Motor Securities

Fig 5. Industry recognition

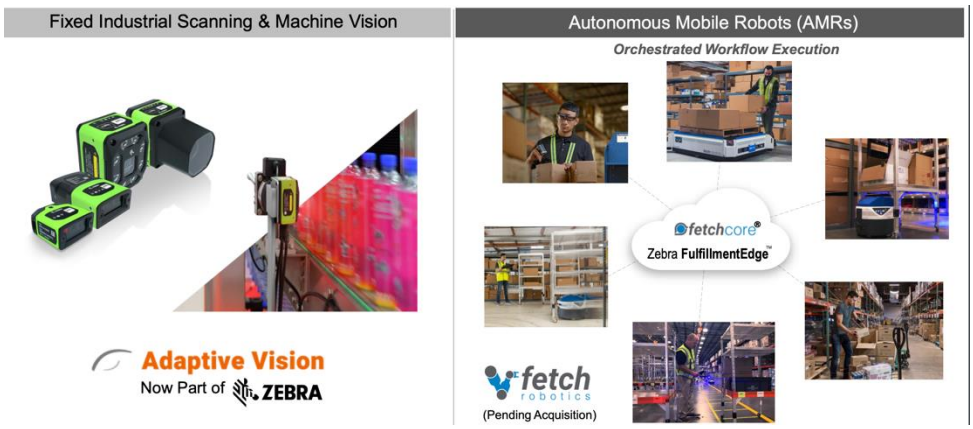
Source: Zebra Technologies, Hyundai Motor Securities

Fig 6. Recent acquisitions

- **Fetch Robotics** (2021) - Intelligent industrial automation
- **Adaptive Vision** (2021) - Machine vision software
- **Reflexis Systems** (2020) - Intelligent workforce management and execution solutions
- **Cortexica** (2019) - Computer vision solutions
- **Temptime** (2019) - Time-temperature monitoring solutions
- **Profitect** (2019) - Prescriptive analytics
- **Xplore** (2018) - Rugged tablets
- **Motorola Solutions Enterprise Business** (2014)

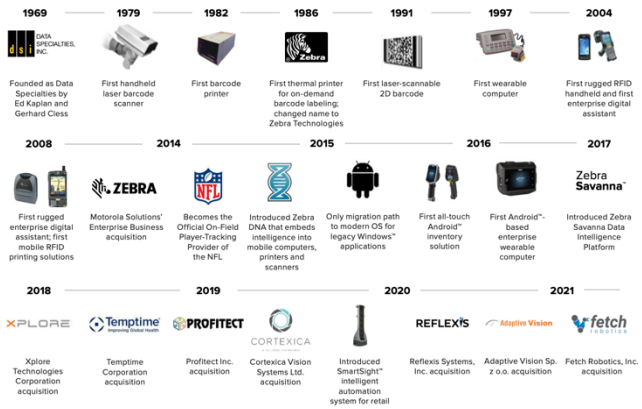
Source: Zebra Technologies, Hyundai Motor Securities

Fig 7. Entering expansion markets with strategic investments in IA for manufacturing and warehouse



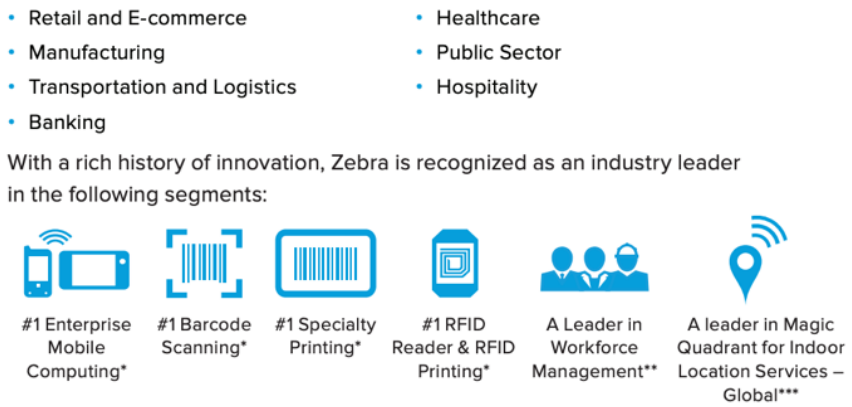
Source: Zebra Technologies, Hyundai Motor Securities

Fig 8. History of innovation



Source: Zebra Technologies, Hyundai Motor Securities

Fig 9. Products, services, and solutions intelligently connect people, assets, and data to help make business-critical decisions



Source: Zebra Technologies, Hyundai Motor Securities

Valuation and risks

While the present valuation is admittedly somewhat lofty for a business growing ~25%, the overall market is expensive and so we believe investors would do well to have Zebra in their portfolio. Of course, some may hold the view that today's prices simply too dear, and for them we recommend using corrections as buying opportunities. That said, we hold the view that Zebra is a solid investment, despite its relatively high valuation as it provides exposure to a company that supplies many of the key components required for most businesses. In short, we believe Zebra is compelling considering its leadership position, growth outlook, and financial strength. While other companies offer similar automatic identification and data capture tools, a key advantage for Zebra are the high switching costs to change to a competitor's solutions. Accordingly, there is high visibility to the product lifecycle as a recurring source of revenue through the SW systems.

With the recent acquisitions, we believe Zebra is now the strongest player in the IA and robotics space considering its more diversified exposure to several industries beyond manufacturing

The entry into IA and robotics, provides the company exposure to a segment that commands a higher growth premium based on the high-tech aspect. With the recent acquisitions, we believe Zebra is now the strongest player in the IA and robotics space considering its more diversified exposure to several industries beyond manufacturing.

As Zebra is in the Electronic Equipment, Instruments & Components industry and has positive earnings, P/E is the most appropriate valuation measure. P/B is excluded since it underestimates book value by overlooking hidden assets such as IP. P/S is not as meaningful as P/E, due to the company's positive earnings. Considering the above, the company appears somewhat expensive P/E of 41.08x, above the industry median P/E of 23.78x. In terms of profitability, Zebra is one of the more profitable companies in its industry with a net margin of 14.76%. Its operating margin at 17.43% and net margin are among the strongest of any peer while its gross margin of 46.94% is above the industry median of 35.99%. The company is consistently one of the most efficient companies in its industry. With a RoA, Revenues Per Employee, and RoE of 14.94%, USD586,818, and 34.70% respectively, it is among the best-performing companies in the industry.

There is a cyclical component to operations considering the exposure to global trends of business investment spending to implement its solutions as well as consumer demand. The main risk is a global economic slowdown that could pressure growth. The resurgence of Covid adds to near-term uncertainties which can add volatility to the stock.
Zebra operates in a highly competitive environment. Key competitive factors include the breadth, design, quality of products, and company reputation. Competitors include Sato, Toshiba, Alien Technology, Cisco, Impinj, Ubisense, Datalogic, Honeywell, Panasonic, and Samsung.

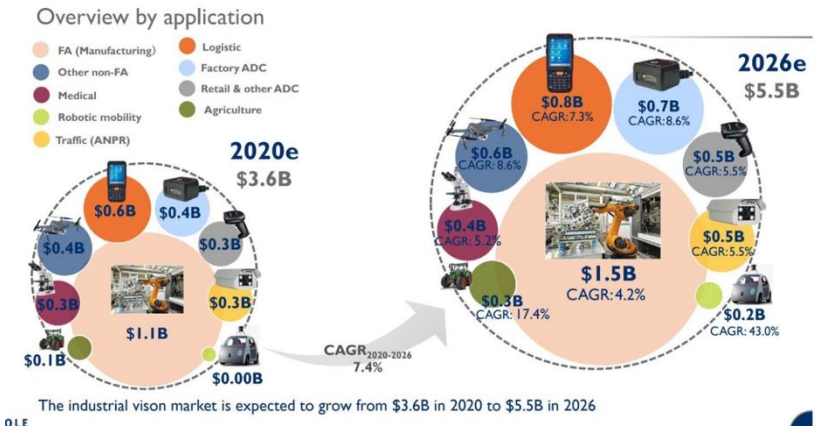
The bottom line

Zebra's outstanding financials should enable the company to continue executing and succeeding through innovation. The company's storied history of innovation is evidence that it has the capability and will to do this—more importantly, its latest moves into ML, AI, and robotics, and its proven ability

to identify winning companies to acquire at reasonable prices shows that management is steering the company to be favorability positioned to deliver outstanding results over the long term.

While the present valuation is admittedly somewhat lofty for a business growing ~25%--the overall market is expensive and so with that in mind we believe investors would do well to have Zebra in their portfolio. While some investors may hold the view that today's prices too dear, and for them we recommend using corrections as buying opportunities. That said, we hold the view that Zebra is a prudent investment, despite its relatively high valuation as it provides exposure to a company that supplies many of the key components required for most businesses.

Fig 10. Industrial machine vision market and applications

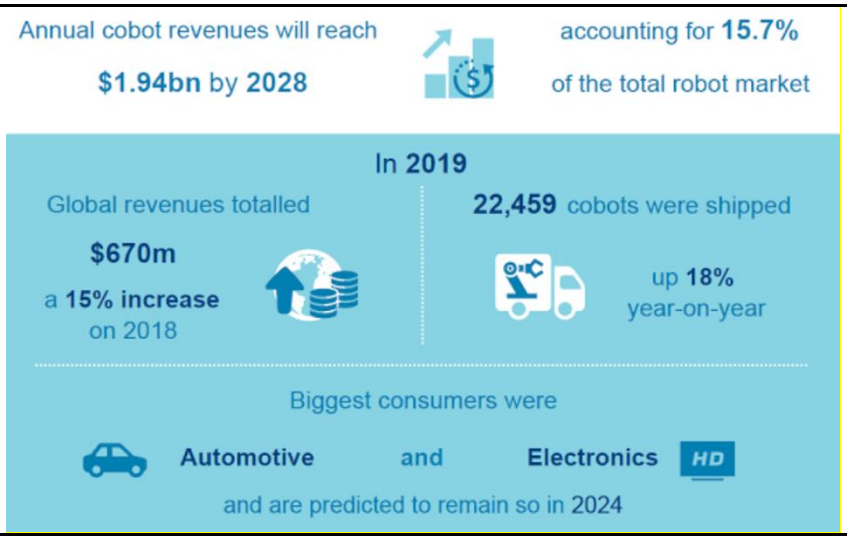


Source: Yole Development, Hyundai Motor Securities

Fig 11. Attractive opportunities in machine vision market

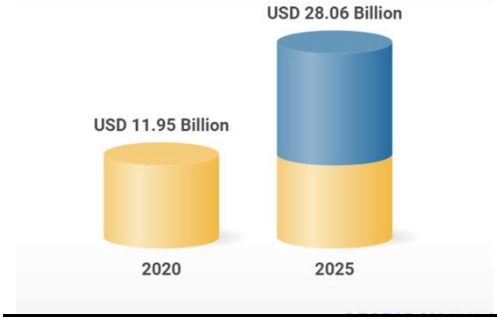
Source: Markets and Markets, Hyundai Motor Securities

Fig 12. Cobot market



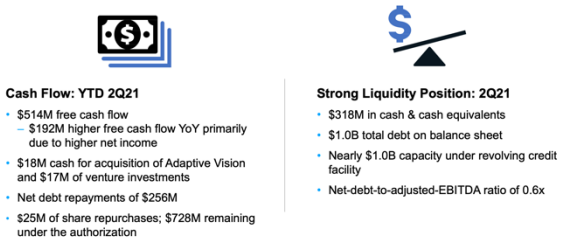
Source: Markets and Markets, Hyundai Motor Securities

Fig 13. Global mobile robot market to grow at CAGR of 18.6%



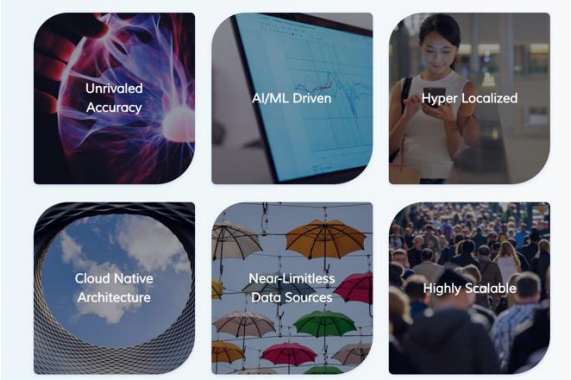
Source: Research and Markets, Hyundai Motor Securities

Fig 14. Cash flow and BS highlights



Source: Zebra Technologies, Hyundai Motor Securities

Fig 15. Antuit.ai foundation for connecting enterprise



Source: antuit.ai, Hyundai Motor Securities

Fig 16. 2Q P&L summary

In millions, except per share data	2Q21	2Q20	Change
Adjusted Net Sales	$1,380	$956	+44.4%
Organic Net Sales Growth[2,3]			+39.8%
Adjusted Gross Profit	$663	$422	+57.1%
Adjusted Gross Margin	48.0%	44.1%	+390bps
Adjusted Operating Expenses	$356	$264	+34.8%
Adjusted EBITDA	$325	$175	+85.7%
Adjusted EBITDA Margin	23.6%	18.3%	+530bps
Non-GAAP Diluted EPS	$4.57	$2.41	+89.6%

Source: Zebra Technologies, Hyundai Motor Securities

Fig 17. Outlook and assumptions

3Q21

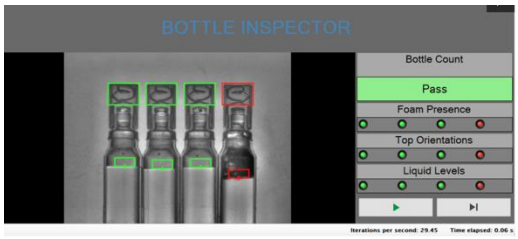
- Adjusted net sales growth ~ 21-25% YoY
  - ~ 3 percentage point additive impact from recently acquired business[2] and FX
- Adj. EBITDA margin ~ 20-21%
- Non-GAAP diluted EPS ~ $3.90 to $4.10
- ~ $45M negative gross profit impact from premium freight (~ $37M YoY increase)

FY21

- Adjusted net sales growth ~ 23-25% YoY
  - ~ 3 percentage point additive impact from recently acquired business[2] and FX
- Adjusted EBITDA margin ~ 22-23%
- Free cash flow ≥ $900M
- Capital expenditures ~ $65-75M
- Depreciation ~ $65-75M and Amortization ~ $100-105M
- Stock-based compensation expense ~ $75-85M
- Cost of debt (pre-tax) ~ 3%
- Non-GAAP tax rate ~ 18-19%
- ~ $135-140M negative gross profit impact from premium freight (~ $100M YoY increase)

Source: Zebra Technologies, Hyundai Motor Securities

Fig 18. Adaptive vision ML screenshot



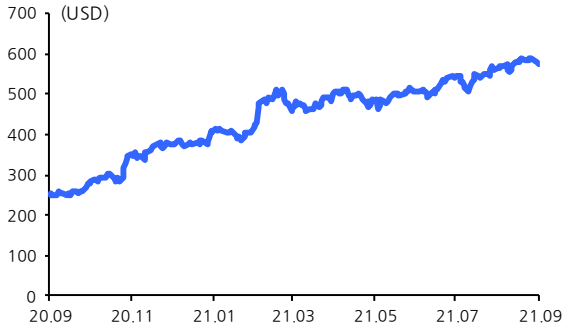
Source: Zebra Technologies, Hyundai Motor Securities

Fig 19. Peer Valuation

Company	Ticker	Market Cap(USDmn)	P/E Ratio	P/S Ratio	EV/EBITDA	Sales Growth (%)
Zebra Technologies Corp.	ZBRA	30,839	40.78	5.97	28.97	NA
Intellicheck, Inc.	IDN	158,288	NA	11.78	-120.71	NA
Rockwell Automation, Inc.	ROK	36,552	23.93	5.41	28.91	NA

Source: Thomson One, Hyundai Motor Securities

Fig 20. ZBRA Stock Price



Source: Bloomberg, Hyundai Motor Securities

Foreign Institution Recommendation

Consensus position on APD

Source: Bloomberg, Hyundai Motor Securities

Analyst Recommendation

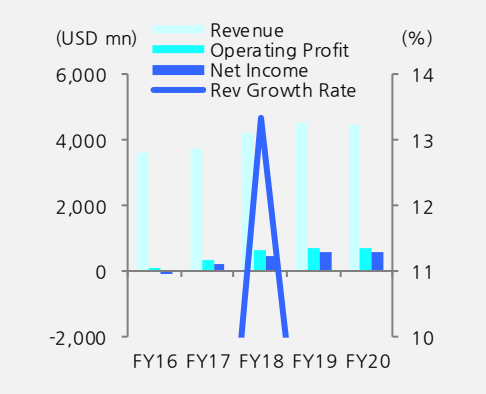
Institution	Recommendation	Scale of 5	Target Price (USD)	Published Date
Zacks Investment Research	neutral	3	620	2021-09-03
Mirae Asset Securities	buy	5	740	2021-09-01
Northcoast Research	buy	5	620	2021-08-31
Berenberg	buy	5	650	2021-08-30
Needham & Co	buy	5	600	2021-08-04
Atlantic Equities LLP	overweight	5	620	2021-08-04
Morgan Stanley	Underwt/In-Line	1	420	2021-08-03
J.P. Morgan	neutral	3	555	2021-08-03
Baird	outperform	5	560	2021-08-03
Stephens Inc	overweight	5	600	2021-08-03
William Blair & Co	market perform	3	-	2021-08-03
Morningstar, Inc	sell	1	400	2021-08-03
ISS-EVA	hold	3	-	2021-02-12

Source: Bloomberg, Hyundai Motor Securities

Income Statement

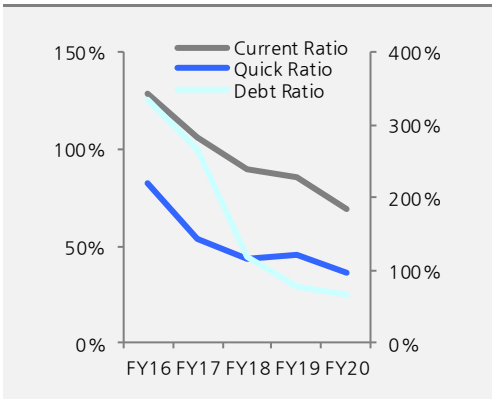
(USD mn)	FY16	FY17	FY18	FY19	FY20
Revenue	**3,574**	**3,722**	**4,218**	**4,485**	**4,448**
COGS	1,932	2,012	2,237	2,385	2,445
Gross Profit	**1,642**	**1,710**	**1,981**	**2,100**	**2,003**
SG&A	751	749	811	826	787
R&D Expense	376	389	444	447	453
Other Operating Expense	435	250	116	135	112
Operating Profit	**80**	**322**	**610**	**692**	**651**
Non-operating loss	209	234	86	94	91
Income Before Tax	**-129**	**88**	**524**	**598**	**560**
Tax Expense	8	71	103	54	56
Net Income	**-137**	**175**	**439**	**586**	**569**
Net Income to Common SH.	**-137**	**17**	**421**	**544**	**504**
EPS	**-2.65**	**0.33**	**7.86**	**10.08**	**9.43**

Revenue



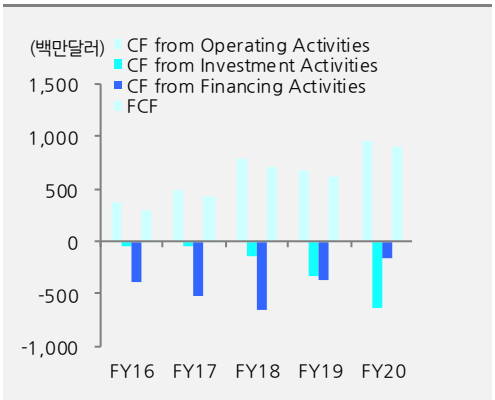
Balance Sheet

(USD mn)	FY16	FY17	FY18	FY19	FY20
Total Asset	**4,632**	**4,275**	**4,339**	**4,711**	**5,375**
Cash & Equivalent	156	62	44	30	168
Accounts Receivable	625	479	520	613	508
Inventory	345	458	520	474	511
Tangible Asset	292	264	249	366	409
Intangible Asset	2,938	2,764	2,727	2,897	3,390
Total Liability	**3,840**	**3,441**	**3,004**	**2,872**	**3,231**
Current Liability	949	1,000	1,301	1,404	1,851
Long-term Debt	2,891	2,441	1,703	1,468	1,380
Total Equity	**792**	**834**	**1,335**	**1,839**	**2,144**
Equity Capital	1	1	1	1	1
Capital Surplus	210	257	294	339	395
Retained Earnings(Loss)	1,240	1,248	1,688	2,232	2,736



CashFlow Statement

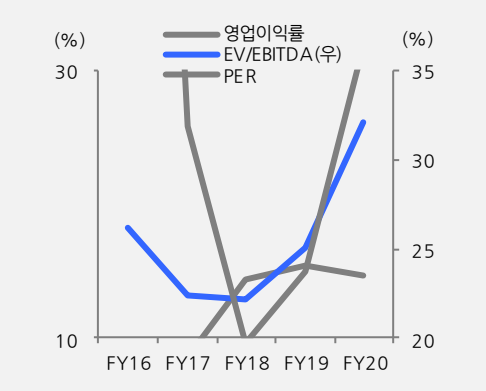
(USD mn)	FY16	FY17	FY18	FY19	FY20
CF from Operating Activities	**380**	**478**	**785**	**685**	**962**
Depreciation & Amortization	304	263	175	175	146
Changes in NWC	130	58	158	-28	249
CF from Investment Activities	**-39**	**-51**	**-137**	**-335**	**-641**
Capital Expenditure	-77	-50	-64	-61	-67
Long-term Investment	-1	-1	-1	-12	-26
M&A	39	0	-72	-262	-548
CF from Financing Activities	**-384**	**-517**	**-661**	**-365**	**-157**
Cash Dividend Payout	0	0	0	0	0
Long-term Borrowing	-382	-454	-657	-312	-40
Stock Repurchase	11	12	10	-47	-200
Cash Increase	**-36**	**-94**	**-18**	**-14**	**162**
FCF	**303**	**428**	**721**	**624**	**895**



Key Ratios

(%, X)	FY16	FY17	FY18	FY19	FY20
Gross Margin	2.24	8.65	14.46	15.43	14.64
EBITDA Margin	10.74	15.72	18.61	20.16	18.71
ROE	-16.26	2.09	38.82	34.28	25.31
ROA	-2.83	0.38	9.77	12.02	9.99
ROIC	-0.03	1.96	16.70	20.84	17.79
Debt Ratio	334.34	267.03	119.18	76.45	65.49
Current Ratio	1.29	1.06	0.89	0.85	0.69
Quick Ratio	0.82	0.54	0.43	0.46	0.37
CF/Current Liability	0.16	0.06	0.03	0.02	0.09
PER	96.51	31.85	19.69	23.78	36.40
PBR	5.73	6.63	6.43	7.50	9.58
EV/EBITDA	18.30	13.15	12.90	16.78	26.18
Dividend Yield(T12M)	—	—	—	—	—

Source: Bloomberg, Hyundai Motors Securities



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