

HEICO Corp (NYSE: HEI)

Recommendation: **LONG**

Price Target: \$296.35 ↑22.5% (Base)



HEICO

Valuation Date: 4/24/2025

Presentation: 4/26/2025

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Company Overview

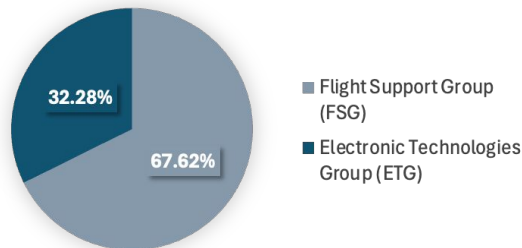
Florida-based company that designs, manufactures, and services products for the aerospace, industrial, defense, and electronics sectors globally.

Financial Summary NYSE: HEI

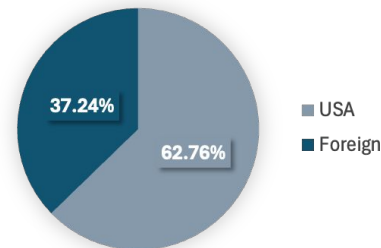
Share Price (As of 04/24/2025)	\$242.04
Diluted Shares Outstanding	138.95M
Market Cap	\$29.72B
Company P/E	66.8x
Industry P/E	45.85x
EV/EBITDA	31.78x
Industry EV/EBITDA	23.04x

Revenue Breakdown

Revenue by Segment



Revenue by Geography



CAGR TTM:
22.99%

5Y Revenue
CAGR: 13.74%

LTM Stock Performance



Stock fluctuations Q1 2025 subject to global trade tensions.

Flight Support Group (68%)

- Design and manufacture Parts Manufacturer Approval (PMA) subcomponents for commercial airlines and cargo carriers.

OEM (Original Equipment Manufacturer)	PMA
Produced by original aircraft manufacturer	Manufactured by other companies but usually approved by FAA
High quality at a high price	High quality at a lower price , 20%-80% cheaper than OEM
Single source	Serves as an additional source

Electronic Technologies Group (32%)

- Designs and manufactures highly-engineered, mission-critical subcomponents that could work in harsh environments, mostly military
- Such as simulation and testing equipments, flight deck electronics, power systems, emergency and locator devices, or specialty components.
- ETG's growth ties to global defense spending.

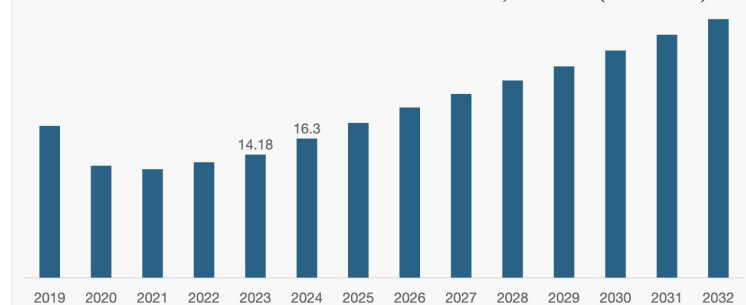


Industry Overview

The Aerospace Aftermarket & High-Tech Electronics sector is highly competitive and concentrated.

Market Size Is Growing with Multiple Factors Combined

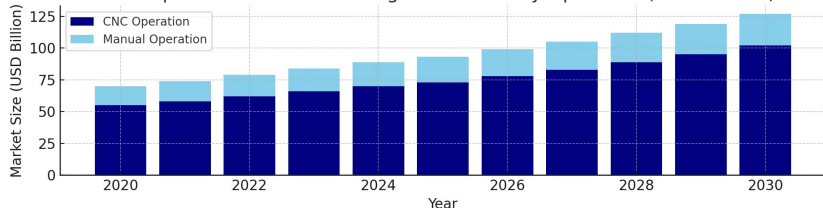
North America Aircraft Aftermarket Parts Market Size, 2019-2032 (USD Billion)



- The North America aircraft aftermarket continues to grow as the combined drivers of both aviation industry growth and the maintenance cliff of the current aircrafts

Market Size Is Also Growing for ETG Industry

Aerospace Precision Machining Market Size by Operation (2020 - 2030)



Comps Analysis

Company	Country	Ticker	Market Valuation			Multiples		
			Price	Market Cap	TEV	EV/EBIT	EV/Sales	P/E
HEICO Corp	USA	HEI	\$ 246.35	\$ 29.72B	32009.45	31.78	8.3	60.03
TransDigm Group	USA	TDG	\$ 1,362.31	\$ 75.83B	94472.04	23.86	11.9	48.22
AAR Corp	USA	AIR	\$ 47.00	\$ 1.90B	3414.57	15.7	1.47	40.81
FTAI Aviation Ltd.	USA	FTAI	\$ 101.85	\$ 9.83B	18096.92	37.23	10.43	43.28
RBC Bearings	USA	RBC	\$ 329.70	\$ 10.38B	9070.13	19.5	5.81	45.3
<i>Mean</i>						25.61	7.58	47.53
<i>Median</i>						23.86	8.30	45.30

- HEICO's P/E Ratio high in common sense while thing's different when placing into the industry landscape with different multiples look

Macro Trends

- Increasing demand retiring old, less fuel efficient-aircrafts
- Aging airframes are driving demand for replacement parts and upgrades
- The expectation for DOGE cutting the national defense expenses, driving the demand for the PMA
- More global flights, increasing aircrafts use, which drives the demand for aerospace replacement



Investment Thesis Overview

Our analysis reflects HEI is currently Undervalued by the market. We recommend a **LONG** strategy with a Price target of **\$296.35** and an upside of **22.5%** from its Current Share Price of **\$242.04**.

01

**Strong Moat in PMA Business
Combined Tailwind**

The demand for the PMA subcomponents is rapidly increasing than market expectation, for which HEICO has more expertise.

02

**Great M&A Opportunity
Driven by its Unique Business
Model**

HEICO's past acquisition history provides an opportunity to grow their business through M&A deals

03

**Current Valuation Premium is but
still not without Merit**

The valuation shows its intrinsic reason when considering its business complexity

Thesis #1: Strong Moat in PMA Business Combined Tailwind - The demand for the PMA subcomponents is rapidly increasing for which HEICO has the strong moat.

Market View

Market Sentiments

01

Market is high on OEM strategies due to its reliability and trustworthiness

- OEM strategy is often valued more in the market due to its reliability and compatibility, as aerospace is generally considered as a risky way of transportation.
- Although PMA parts are at a lower price, aircraft managers often prioritize compatibility over price.
- Only few manufacturers from PMA parts have FAA approval, which is a challenging process.
- They make the part in such a way that it's different enough that it does not infringe OEM patents, but with enough specificity to get FAA approval.

02

Market did not understand the importance of aircraft maintenance

- Market's understanding of aircraft maintenance lies on their regular maintenance checks instead of doing aftermarket repair parts.
- However, that's not the case and HEICO is well positioned in the maintenance parts industry.

Variant View

The Market's interpretation is incorrect and HEICO captures the demand

OEM struggled with their supply chains

- **Airbus fell short of its 2024 delivery target** due to persistent supply chain disruptions, including engine shortages and labor constraints.
- Aircraft engine **maintenance times have reached historic highs** driven by parts shortages, labor constraints, and delayed aircraft deliveries.

2) NDAA legislated the military repairs using PMA subcomponents

“Not later than 180 days after the date of the enactment of this Act, the Secretary of the Air Force, with respect to the Air Force, and the Secretary of the Navy, with respect to the Navy, shall develop and implement processes and procedures for: the acquisition of used, overhauled, reconditioned, and remanufactured **commercial** dual-use parts.”



1) HEICO effectively captured the excess demand from OEM's struggles

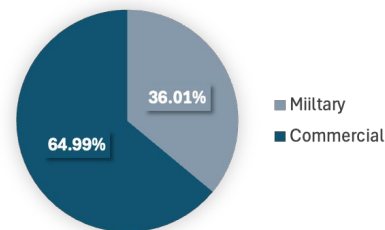
- Through R&D, HEICO reverse-engineers parts that meet **FAA approval** standards at **lower cost** to consumers.
- Roll-up allows HEICO to acquire better engineers and better technologies for it to meet FAA approval

30-50% lower in price

40% shorter delivery time

3) HEICO balances between military and commercial aircraft, diversifying their customer base

HEICO Military Aircraft Opportunity

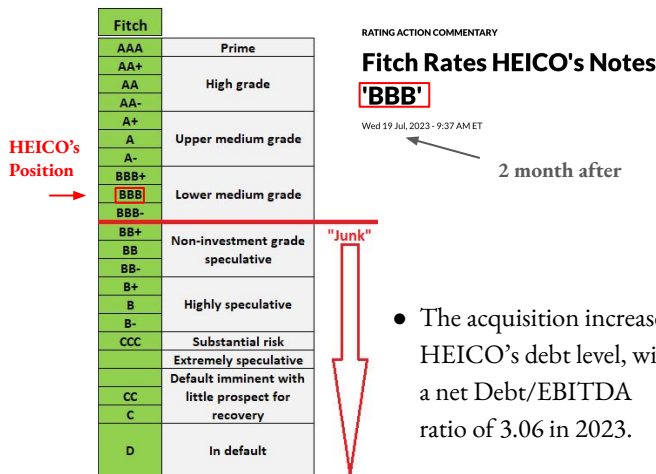


Thesis #2: Great M&A Opportunity Driven by its Unique Business Model – facilitates growth over the long term

Market View

The increase of debt level from acquiring Wencor Group

- HEICO acquired Wencor Group in May 2023, causing market concerns of its high leverage.

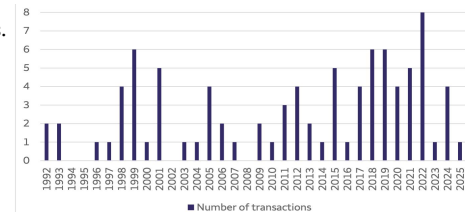
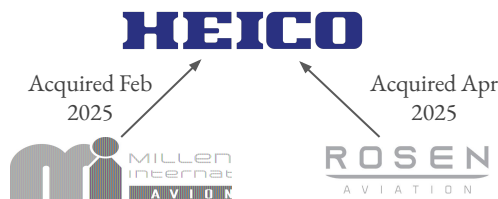


- The Market interpreted this as a more constrained capital allocation associated with the increasing debt level. This also adds to a cut in acquisition spending in 2024 and early 2025.
- In the short term, the market is pessimistic for its cut on spending and their increase in debt level

Variant View

1) HEICO's Tradition of Acquiring Companies to Grow

- Over the last decade, HEICO spent \$4.4B in acquisitions.
- It implements acquisition as a strategy to expand their businesses and gain competitive advantage.

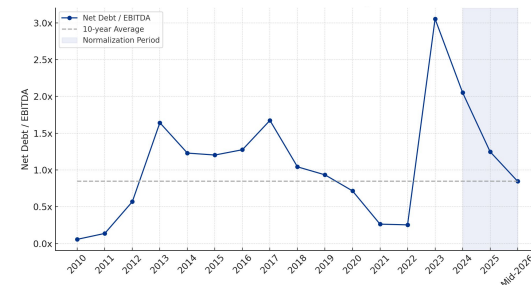


“Acquisition opportunities and M&A diligence efforts within both of our operating segments **remain highly active**, reflecting a robust pipeline of potential par targets.”
 – Laurans Mendelson - Chairman and CEO

2) HEICO is recovering from their debt problem and their acquisitions increased

HEICO's high debt level is temporary: it's strong profitability proves its ability to repay the debt.

“Our Net Debt/EBITDA would return to a **historical level** within **roughly one year to 18 months** following the Wencor acquisition.”



Thesis #3: Current Valuation Premium is but still not without Merit - The valuation shows its intrinsic reason when considering its business complexity

Market View

The Valuation is too high compared to their peers

Comps Analysis Based on Traditional OEM Manufacturers

Comparables Analysis (OEMs)

Stock prices and multiples as of 04/23/2025, Monetary Figures in \$Millions, except for stock price, multiples and market cap

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AAR Corp	USA	AIR	\$ 47.00	\$ 1.90B	3414.57	15.7	1.47	40.81
RTX Corporation	USA	RTX	\$ 121.05	\$ 162.95B	191638.25	13.61	2.37	35.76
Moog Inc	USA	MOG	\$ 155.00	\$ 5.56B	7613.94	16.27	2.11	25.74
Honeywell International	USA	HON.O	\$ 199.24	\$ 129.13B	167572.38	17.81	4.35	23.06
Mean						22.40	5.05	39.45
Median						17.81	4.35	40.81

- The current valuation of HEICO is exceptionally high compared to its competitors doing component manufacturing business
- Despite they have the favorable intrinsic factors, as well as the high growth prospect within the aircraft aftercare as well as the high-tech electronics production

“HEI's valuation looks expensive to us vs. peers.”

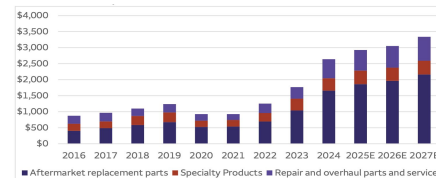
- Wells Fargo



Variant View

1) HEICO's FSG Business Model's difference compared to traditional aircraft manufacturer

- HEICO's FSG Group mainly produces FAA-approved PMA (80%) replacement instead of being OEM
- Their market positioning is more tend to service aircraft aftermarket



Commercial OEM
40.81x P/E Median

HEICO

Middle Ground
Unique Business
Structure



Aircraft
Aftermarket

46.76x P/E Median



Military
High-tech
Components

48.92x P/E Median

“We're fundamental believers in **commercial** and **military** aviation. We think that these are really good spaces to be in.”

- HEICO Q2 2024

2) HEICO ETG's Biggest Client is Military Defense

- HEICO ETG group's biggest client is from military defense
- Military Defense industry typically has higher P/E premium because of the stable contract relationship and high technological barriers.

Catalysts

Demand Side

Cause

DOGE's Potential Military Budget Cut & Change of the Military Guideline to Use PMA

Effect

HEICO is well positioned to benefit from PMA adoption that accelerates under this policy shift

8% Cut of military spending in the next 5 years

\$50 Million Cut per year and prioritize 17 military areas

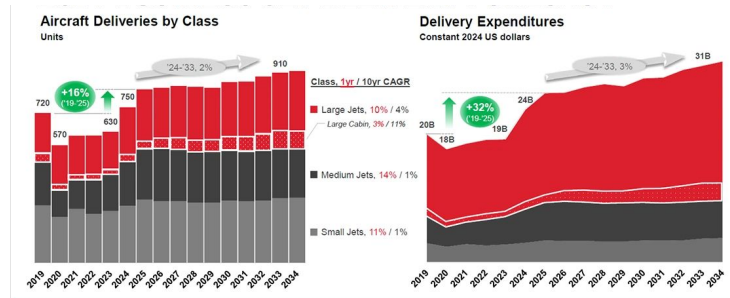
Supply Side

Cause

OEMs Persistent Production Bottlenecks

Effect

Pushing the clients switching from OEMs to the potential PMA products with cost-effectiveness



Risk and Mitigants

Potential Risk

1. OEMs in the aviation industry pushback against usage of PMA parts

OEMs pushback through marketing and lobbying the FAA. This is due to concerns about safety, quality, and wanting to stay competitive with PMAs.



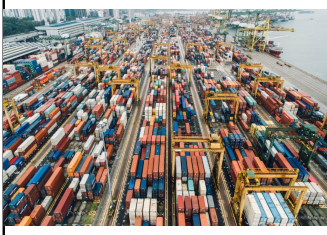
2. HEICO operates with a decentralized structure

With over 100 subsidiaries, conflicting goals and challenges integrating acquired companies can arise.



3. HEICO is reliant on supply chain status and single-suppliers for some products

HEICO produces thousands FAA approved parts, many of which are high precision, low volume components. Such parts require specific materials and manufacturing capabilities that are only sourced from specific suppliers.



Mitigant

Airlines still continue to use PMA parts to keep a cost competitive advantage. PMA parts have also been proven to be just as safe and reliable as OEM parts because they have to be FAA approved. HEICO long performance track overcomes stigma of OEMs and offer warranties for PMA parts.

HEICO uses its own business leaders at each of its own subsidiaries. They keep a strong oversight on finance and compliance in addition to being actively involved in the integrations. The subsidiaries greatly benefit from HEICO expertise and getting FAA approvals.

HEICO's acquisitions give them more control over quality and scheduling delivery of parts in addition to maintaining a large inventory of parts. For suppliers HEICO doesn't acquire, HEICO creates Long-Term Supply Agreements (LTAs) to lock in pricing and maintain delivery priority.