

# Zebra Technologies Corp.

NYSE : ZBRA

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By: Eric Almon

## Company Description

Zebra Technologies is the global leader in the provision of enterprise-grade barcode printers, scanners and mobile computers, as well as an expanding software business and is mission critical to most industries from e-commerce to healthcare. These products include mobile computers, barcode scanners and imagers, radio frequency identification device readers (“RFID”) readers, specialty printers for barcode labeling and personal identification, real-time location systems (“RTLS”), related accessories and supplies such as self-adhesive labels and other consumables and related software applications. Zebra also provides a full range of services, including maintenance, technical support, repair, managed and professional services, various cloud-based software and robotic process automation (“RPA”) solutions for workflow optimization. Zebra does business in North America, EMEA, APAC, and LatAm regions. It provides services in 180 countries, with a network of over 10,000 channel partners. Its growth is underpinned by structural trends towards automation, mobility, IoT and cloud, all of which have been accelerated by the pandemic.

The company operates through two segments, Asset Intelligence & Tracking (AIT) and Enterprise Visibility & Mobility (EVM).

### Asset Intelligence & Tracking (AIT) (30% of FY21 Revs):

In AIT, the company designs, manufactures, and sells printers, which produce labels, wristbands, tickets, receipts, and plastic cards on demand. Its customers use its printers in a range of applications, including routing and tracking, patient safety, transaction processing, personal identification, and product authentication. The company provides

accompanying maintenance, technical support, and repair services and a range of location tracking devices that generate precise, on-demand information about the physical location and status of high-valued assets, equipment, and people.

**Enterprise Visibility & Mobility (EVM) (70% of FY21 Revs):** The EVM segment includes mobile computing, data capture, RFID, fixed industrial scanning and machine vision, services and workflow optimization solutions. Mobile computing products are designed to provide inventory management in warehouses and distribution centers; field mobility applications (field services, post and parcel, direct store delivery), retail and customer facing applications including e-commerce, staff collaboration, and inventory lookup. The company has a portfolio of barcode scanners, RFID readers, industrial machine vision cameras, and fixed industrial scanners. They are used in a range of applications, ranging from supermarket checkouts to industrial warehouse optimization to patient management in hospitals. The company also provides software-based solutions, helping customers analyze/manage operational workflows and tasks in real-time, manage inventory, optimize prices, and forecast demand.

80% of manufacturing is outsourced through electronics manufacturing services companies (EMSs) and joint design manufacturers (JDMs) which allows scaling up and scaling down. Their product sourcing footprint is spread across Taiwan, Vietnam, Malaysia,

Actual Price	\$425.06
52w High/Low	\$615/\$375
Market Cap (M)	\$22,562
Enterprise Value (M)	\$23,363
Cash (M)	\$344
Debt (M)	\$1,145
Shares Out. (M)	53,079
Yield (%)	0.00%



## Key Financials

	2021A	2022E	2023E	2024E
Revenue (\$M)	5,627	5,949	6,307	6,772
EBITDA (\$M)	1,297	1,382	1,547	1,704
EV/EBITDA	17.27x	14.87x	13.33x	12.07x
Non-GAAP EPS (\$)	15.15	16.59	19.59	22.23
PE	23.32x	19.06x	16.78x	15.31x

### Eric Almon

Investment Analyst Intern  
Galliant Advisors LP  
514-788-5544 ext 210  
[ecalmon@galliantcapital.com](mailto:ecalmon@galliantcapital.com)

and China, and the company has taken steps to drastically reduce exposure to China. Zebra is a capital light business despite having a large hardware component.

**Estimated Customer Split by Revenues:** Zebra is diversified across a range of industries including retail and e-commerce, transportation and logistics, manufacturing, healthcare, hospitality, warehouse and distribution, energy and utilities, government, public safety, education, and banking enterprises around the world. **The benefits of a highly diversified customer base have meant that the business has been highly resilient over the last two years of the pandemic.** As some customers have experienced significant disruption (such as retail and hospitality), this has been offset by others who have seen significant growth (such as e-commerce, logistics and certain segments of healthcare).

## **Market**

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They allow customers digitize and automate their workflows, improving productivity, operational efficiency, regulatory compliance, and customer experience. Zebra is leading the evolution of the AIDC industry into EAI, which encompasses solutions that sense key operational information such as packages moving through a supply chain, equipment in a factory, workers and robots in a warehouse, shoppers in a store, and patients in a hospital. ZBRA management estimates the Capture (AIDC) Industry presents a 30B TAM opportunity which can achieve a 5-7% long-term through the cycle growth rate, which is comprised of the following:

**Core Market:** Mobile computing, data capture, barcode printing. 10-12bn TAM, growing at 4-5% (slightly faster than average world GDP growth around 2-3%).

**Adjacencies:** Mainly products like RFID, rugged tablets and adjacent services. \$12-14bn TAM, growing at high-single digit.

**Expansion:** New expansion areas which the company has recently entered, together comprising a \$6bn TAM growing at double digits. The company breaks this down as fixed industrial scanning/machine vision (\$2bn), warehouse automation robots (\$1bn), and software solutions (\$3bn).

Its market share is the following: mobile computing: 50%+, with #2 at a 12-13% market share, Data Capture and Scanning: 30%+, and Printing: 40%, with #1 & 2 comps having 11-12% market share. (See exhibit 2 for graph)

Zebra's main competitor, Honeywell, is a large conglomerate for who mobile computers and scanners is a small part of their business and not really a focus area. There is something to be said about a pure-play focused provider like Zebra who excels in its niche and can accrue marginal gains over time. We see the same dynamic often when niche players outcompete larger companies who try to offer a similar service (Etsy vs. Amazon Handmade, or Match vs. Facebook dating).

## **Investment Thesis**

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**Zebra is the market leader in the Automatic Identification and Data Capture (AIDC) industry and will continue to be with scale, differentiated comprehensive offerings, and a first-mover's advantages with a clear advantage in technology/software.**

**First Movers Advantage (Creation of EVM):** In 2014, Zebra merged with Motorola's Solutions Enterprise divisions, creating its EVM division. In the transaction it made the decision to completely switch its mobile devices to Android, when Windows was the enterprise software of choice. In 2015, Microsoft announced that it would discontinue support of mobile devices in late 2020. With 2.5x more Android-based products than its nearest competitor and leading in software and R&D, Zebra is poised to capitalize on companies making the switch from legacy Windows devices. Zebra's long-standing investment in Android systems has allowed them to stay ahead of the technology adoption curve and increase their commanding lead in the market.

The transition from Microsoft OS to Android OS in mobile computers puts Zebra at a significant advantage vs. competitors. Zebra was one of the earlier and larger investors into software applications on the Android OS which the company claims have given it an edge over rivals like Honeywell who devoted a meaningful amount of investment into the Microsoft OS up until recently. Zebra enjoys 60% market share in all new Android wins, so its overall share of mobile computers should grow towards that over time.

**Comprehensive Solution Offerings Offering Margin Expansion Opportunity in Software:** Through significant investment in R&D as well as acquisitions ZBRA has build out adjacent capabilities, including:

**Inventory management solutions:** A range of solutions that help retailers have real-time inventory visibility, automatic restocking and replenishment, forecasting, and omnichannel integration.

**Workforce Connect:** Productivity tools that enable scheduling and planning of frontline workers, seamless communication between teams, and workflow consolidation. More efficient utilisation of workers allows customers to generate significant payroll savings. Most of this new solution came from the acquisition of Reflexis.

**Machine vision and fixed industrial scanning:** Advanced cameras that can be used in a warehouse with conveyancing system to track fast-moving packages. This solution is getting good traction with management claiming a big win recently in the automotive space.

**Margin Expansion:** While services and software have remained at 13% - 14% of total revenues, the segment gross margin has drastically increased from ~33% to 47.7% while tangible products has remained flat.

**Scale Advantages:** Many manufacturers do not have in-house integration capabilities, and therefore rely on third party distributors, value-added resellers (VARs), independent software vendors (ISVs), direct marketers, and OEMs expertise. Zebra leverages its channel partners go-to market strategy to reach various industry segments and geographies, with more than 10,000 partners in 45 countries. For example, because of its size and reputation, Zebra can attract and onboard specialists for RFID or machine vision (sometimes from competitors) who understand lighting and other manufacturing settings. Zebra is in a unique position to provide specialized integration consulting by outsourcing to third party partners, and which is not easily replicated by smaller players.

## Drivers

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Here are some trends that will drive further growth in 2022 and beyond. Management has raised long-term growth from 3-4% to 5-7%+. With a 7.5% historical growth from '15-'21, Zebra has easily surpassed long-term guidance over the past decade, and I expect it to continue to do so.

**E-commerce adoption as retailers looking to make e-commerce operations profitable:** According to a McKinsey report, shipping and warehousing costs are higher for online sales for several reasons, including choppy ordering patterns, which make forecasting more difficult, lower order quantities and higher penalties from online retailers. This results in lower margins in e-commerce sales in traditional brick & mortar sales, despite being the future for revenue growth.

**Resumed IT capex spending after COVID (healthcare / hospitals):** A 2Q21 Gartner research report projects a 7.9% CAGR in healthcare IT spending as hospitals emerge from the pandemic, with a renewed focus on digital transformation. AI, RPA, digital workplace, and cloud are key deployment priorities, and Zebra is poised capitalize on these trends.

**Labour shortages (attracting and retaining labour) driving investment in automation:** Many manufacturers who are already free from supply constraints are seeing a surge in demand, while labour is constrained. These manufacturers will integrate robots into the warehouse in addition to humans, which results in an increase in productivity by 2-3 times. Moreover, many manufacturers, carriers, and shipping companies still operate on a paper-based system. The pandemic has magnified these inefficiencies and will drive further capex spending for operational excellence in supply chains.

**Shorter replacement cycles in mobile:** With advances in mobile computing, more hardware memory is required for new software updates. As a result, replacement cycles have shortened from 5-6 years to 3-4 years.

## Risks

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**Technological Disruption:** The largest risk to ZBRA's products is technological disruption to barcodes. RFID or NFC technologies are often considered superior to barcodes, but implementation and costs, with imbedded chips, can be 10x times more expensive. Zebra is also selling RFID tags and scanners and should be able to lean into its existing business should RFID start to disrupt barcodes in a material way.

“So if you want to say, print and encode an RFID label, it is one of our traditional label printers with an RFID encoder attached to it. And similar, if you want to read the labels, that is an attachment to Sled or something like that on our mobile computers. So it is an incremental part of our core business...**it's a supplement, but not a substitute for our core**”

Anders Gustafsson (CEO), Q4'21 Earnings Call

**M&A Execution:** ZBRA management has engaged in 10 transactions in the past three years, which have bolstered adjacent offerings, including software. While integration has risk, I believe ZBRA management is well tenured for execution.

**Revenue Concentration in Top 3 Channel Partners:** Zebra's top 3 customers (Scansource, Bluestar, and Ingram Micro) account for 50.9% of accounts receivable as of FY'21 year end, however no single end consumer accounts for any meaningful percent of revenues.

**Cyclical / macro conditions:** Zebra is prone to some cyclical as demand for printers, mobile computers and consumables is driven in part by volume of manufactured goods and other economic activity. Spend on Zebra products tends to come out customers' capex budgets, and capex spend is usually more vulnerable to being deferred in cyclical downturns due to the perception of it being more discretionary (compared to say opex). However, Zebra has become somewhat less sensitive to business cycles over time due to the secular tailwinds of industrial digitization and e-commerce growth, as well as its strengthening market position. We could see that in 2020 during the impact of the pandemic. The complete lockdown of manufacturing and industrial activities that happened that year only resulted in Zebra revenues declining 1%, as the business was supported by strong e-commerce volumes and trends in digitisation of supply chains.

## Valuation

I recommend a BUY at ZBRA's current price of \$433.68 with a blended price target of \$576.71, representing a 31.9% upside. ZBRA is a profitable industrial company with minimal debt (nebt debt to EBITDA of 0.58x) but not afraid to leverage credit to do smart M&A deals and a clear runway for continued compounding. I've used 2022 Adjusted P/E as ZBRA will continue to do accretive M&A deals that bolster its position as the market leader with conservative debt financing. The 2022 Adjusted PEGY is appropriate as I believe the market is not pricing in its growth potential and continued market share gains in adjacent markets as it provides a comprehensive offering. (Comps Table Attached)

<b>ZBRA</b>	\$437.18
DEBT	1,145
CASH	344
EV	24,006
Shares Outstanding	53.08

2022 Adj. PEGY		2022 Adj P/E	
Applied Multiple	1.4x	Applied Multiple	5.5x
Implied Share Price	\$486.55	Implied Share Price	\$666.88
Weight	50%	Weight	50%

**Blended Upside Target**                      \$576.71  
31.9%

## Recommendation

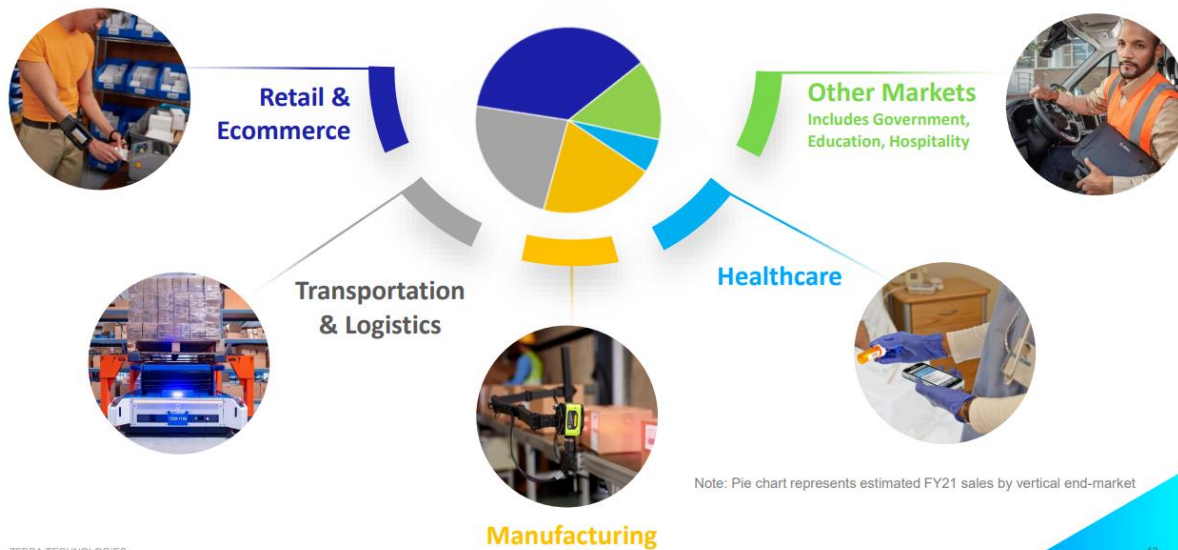
**I recommend a BUY** on Zebra Technologies. ZBRA is a quality compounder with secular tailwinds, able to weather most macroeconomic environments with its diversified customer base. It is a SPGI-esque business that will continue to grow through the cycle. At current prices, ZBRA is forming a short-term bottom. **I would set a 25 BPS limit order at current prices (~\$410 – 420, 26x P/E, 21x NTM P/E) and add another 50 BPS as it retraces to its' 200 DMA.**

## Appendix

### Exhibit 1

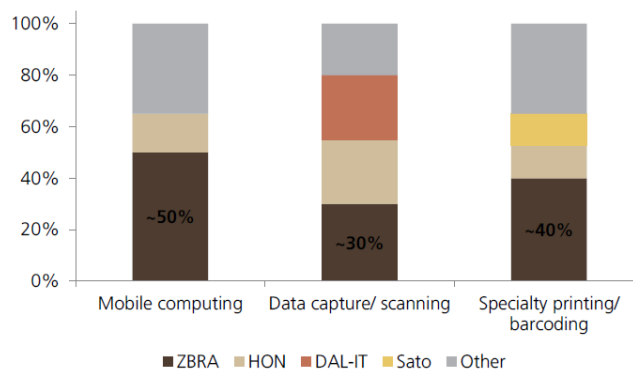
# Zebra Optimizes Workflows for the On-Demand Economy

Trusted Strategic Partner to Industry Leaders



ZEBRA TECHNOLOGIES

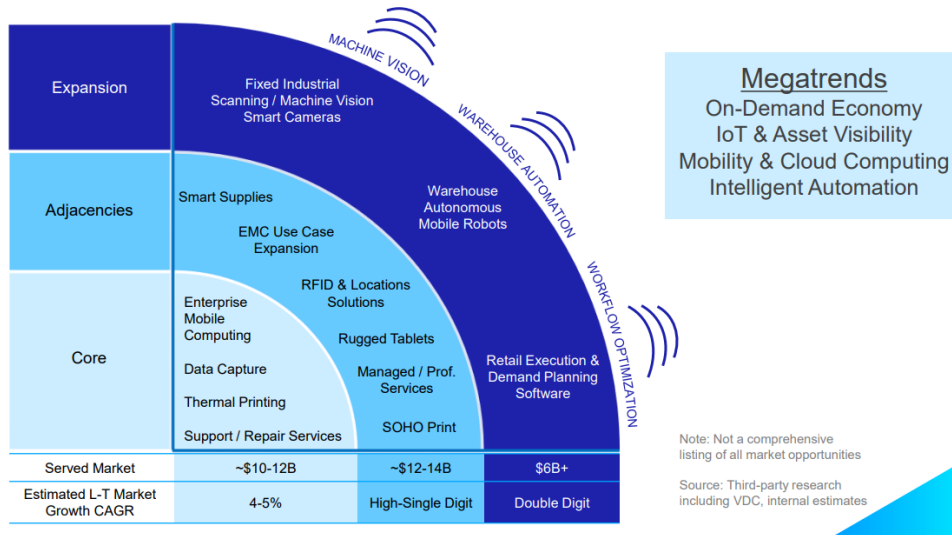
**Exhibit 2**



**Exhibit 3**

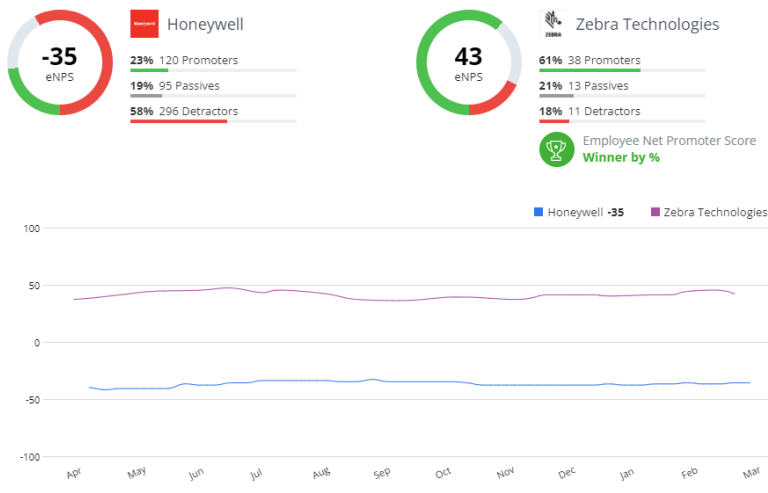
## Zebra Well Positioned for 5-7% L-T Organic Sales Growth in \$30B Served Market

### Attractive Adjacent & Expansion Opportunities Augment Our Vibrant Core



## Exhibit 4

Employee Net Promoter Score at Honeywell vs Zebra Technologies



## Example Use Cases:

### Warehouse Real-Time Tracking:

Toyota Material Handling is responsible for producing 180 industrial trucks every day, and products can easily be misplaced among the whirlwind of moving pieces. It worked with Zebra to come up with a real-time location solution that would reliably work in its industrial manufacturing facilities so it could automatically monitor and analyze product movements. Employees can now identify abnormal excursions and take corrective action quickly, a necessity as the company moves toward "smart factory" automation.

### CHALLENGE

Toyota Material Handling needed to ensure products flowed from Point A to Point Z without disruption or delay to meet production quotas and customer demands. With the right ultra wideband (UWB) and radio frequency identification (RFID) solution deployed throughout its facilities, it would be able to gain a holistic, real-time view of its facilities and product flows.

### SOLUTION(S)

Zebra MotionWorks Enterprise

Zebra Ultra Wideband Tags

Zebra RFID Sensors

### RESULT(S)

Since installing the Zebra MotionWorks solution, UWB tags and RFID sensors, Toyota Material Handling has been able to automate analysis of product flow distributions and improve excursion response times to avoid disruptions or delays in production and delivery. The real-time monitoring of product movements has also helped the company increase employee productivity, streamline workflows, and meet customer expectations. It plans to expand its use of MotionWorks Enterprise for production, parts delivery and distribution to optimize the tracking and tracing of its entire value stream and ensure every product moves efficiently from the initial manufacturing stage to the last mile of just-in-time delivery.

#### **Hospital Patient Tracking:**

Calderdale and Huddersfield NHS Foundation Trust treats more than one million people annually. It worked with Zebra and Dakota to come up with a multi-functional healthcare mobile computing solution that could simplify workflows and connect staff with one another, as well as with patient information, no matter where they were on campus. Clinicians can now document patient data in real time at the bedside, plus connect patients with their families via virtual visits.

#### **CHALLENGE**

Calderdale and Huddersfield NHS Foundation needed to untether clinicians to unburden patient care, especially as patient levels increased and staff availability decreased. It also sought a reliable mobile device that could be easily and frequently disinfected to prevent the spread of infectious diseases and other pathogens.

#### **SOLUTION(S)**

Zebra TC51-HC Touch Computer

#### **RESULT(S)**

Since giving clinicians the Zebra TC5x Series healthcare mobile touch computers, Calderdale and Huddersfield NHS Foundation Trust has seen an improvement in staff connectivity. It has also been able to simplify workflows, with staff now able to retrieve and update each patient's electronic medical record (EMR) in real time at the bedside, even when wearing gloves. Additionally, the devices can withstand frequent cleaning and disinfecting with more than 30 Zebra-approved products. The Zebra mobility solution has also been used to connect patients to loved ones during the pandemic. There were more than 14,000 virtual visits conducted in its first year alone.

#### **Grocery Store Customer Self-Scanning**

European retailer Waitrose pioneered "scan and pack" shopping when it became the first supermarket to roll out the Quick Check app across its stores in 1998. Since then, the application – run on early generations of Zebra personal shopping devices – has become hugely popular with its customers. In line with its reputation as a technology innovator, Waitrose set out to further enhance its self scan platform and increase the synergies between its in-store and online services – and it has succeeded.

#### **CHALLENGE**

Waitrose was looking to improve the shopping experience with the introduction of a modern personal shopping device that could run more advanced and intuitive applications. It asked Zebra to help it create a powerful standardized technology platform across its store estate.

#### **SOLUTION(S)**

Zebra MC18 Personal Shopper

#### **RESULT(S)**

Waitrose has seen an increased usage of personal shopping services. In fact, the retailer seamlessly coped with a huge spike in usage during the COVID-19 pandemic, as many people switched to the service to minimise contact. It now maintains a powerful platform to offer new services, give customers an easy way track and control their spend, and expedite checkouts.

#### **Retail Product Tracking:**

Havan (Brazilian Retailer) wanted to create a more positive experience for customers and employees. It used Zebra RFID solutions to streamline fulfillment processes, maximize delivery speeds, and make it easier to locate stock in the store and warehouse.

#### **CHALLENGE**

Havan stocks a high volume and wide variety of products in its retail stores, and it was becoming difficult to track inventory using manual barcode scans alone.

#### **SOLUTION(S)**

RFD8500 Handheld RFID Sled

ZT230 Industrial Printer

ZT410 Industrial Printer

## RESULT(S)

Inventory can be traced easily and quickly using the RFID tags within each item's label, which helps associates more efficiently fulfill e-commerce and m-commerce orders. The combination of Zebra RFID and printing technology has also helped Havan achieve greater customer satisfaction, as it has become easier to deliver orders as promised, whether sent to customers' homes or picked up by customers in store.

### **Bolt-on M&A (From 10-K)**

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In addition to its main printing and barcode business, Zebra has been making acquisitions that bolster its software offerings and expand its capabilities to adjacent markets.

*Matrox Imaging:* On March 15, 2022, ZBRA acquired Matrox Imaging for 875M in cash along with fully committed financing under its credit facility. Matrox Imaging expands the portfolio of machine vision products, software and services Zebra can offer customers to help them thrive in the on-demand economy that is constrained by both labor shortages and limited supply of upstream goods and materials. Matrox Imaging's solutions complement Zebra's recently launched fixed industrial scanning and machine vision portfolio as well as significantly augment Zebra's growing expertise in software, machine learning and deep learning.

*Antuit:* On October 7, 2021, ZBRA acquired Antuit Holdings Pte. Ltd. ("Antuit") for \$145 million in cash, net of cash acquired. Antuit is a provider of demand-sensing and pricing optimization software solutions for retail and consumer products companies. Through this acquisition, the Company expands its portfolio of software solution offerings to customers in these industries by combining Antuit's platform with its existing software solutions and EVM products. The operating results of Antuit are included in the EVM segment.

*Fetch:* On August 9, 2021, the ZBRA acquired Fetch Robotics, Inc. ("Fetch") for total purchase consideration of \$301 million, which consisted of \$290 million in cash paid, net of cash acquired, and the fair value of the Company's existing minority ownership interest in Fetch of \$11 million, as remeasured upon acquisition. Fetch is a provider of autonomous mobile robot solutions for customers who operate in the manufacturing, distribution, and fulfillment industries, enabling customers to optimize workflows through robotic automation. Through this acquisition, the Company intends to expand its automation solution offerings within these industries. The operating results of Fetch are included within the EVM segment.

*Adaptive Vision:* On May 17, 2021, ZBRA acquired Adaptive Vision Sp. z o.o. ("Adaptive Vision") for \$18 million in cash, net of cash acquired. Adaptive Vision is a provider of graphical machine vision software with applications in the manufacturing industry, as well as a provider of libraries and other offerings for machine vision developers. The operating results of Adaptive Vision are included within the EVM segment.

*Reflexis:* On September 1, 2020, ZBRA acquired Reflexis Systems, Inc. ("Reflexis") for \$547 million in cash, net of cash acquired. Reflexis is a provider of task and workforce management, execution, and communication solutions for customers in the retail, food service, hospitality, and banking industries. Through this acquisition, the Company intends to enhance its solution offerings to customers in those industries by combining Reflexis' platform with its existing software solutions and EVM products. The operating results of Reflexis are included within the EVM segment.

CEO Anders Gustafsson Highlights how Reflexis is garnering wide adoption with tangible ROI to customers:

"We have expanded our relationship with a leading international energy company to empower thousands of convenience store associates in the United Kingdom with Workforce Connect and Reflexis workforce management applications on their Zebra mobile computers and tablets. Our solution enables the store associates to automate their daily responsibilities, maximizing productivity and streamlining task management and administration."

*Cortexica:* On November 5, 2019, the ZBRA acquired Cortexica Vision Systems Limited ("Cortexica") for \$7 million in cash. Cortexica is a provider of computer vision-based artificial intelligence solutions primarily serving the retail industry. The operating results of Cortexica are included within the EVM segment.

*Profitect:* On May 31, 2019, ZBRA acquired Profitect, Inc. ("Profitect") for total purchase consideration of \$79 million, which consisted of \$75 million in cash paid, net of cash acquired, and the fair value of the Company's existing minority ownership interest in Profitect of \$4 million, as remeasured upon acquisition. Profitect is a provider of prescriptive analytics primarily serving the retail industry. Through this acquisition, the Company intends to enhance its solution offerings to customers in the retail



industry by combining Profitect's platform with its existing software solutions and EVM products. The operating results of Profitect are included within the EVM segment.

*Temptime:* On February 21, 2019, ZBRA acquired Temptime Corporation ("Temptime") for \$180 million in cash, net of cash acquired. Temptime is a developer and manufacturer of temperature-monitoring labels and devices. Through this acquisition, the Company expanded its product offerings within the healthcare industry, with possible future applications in other industries involving temperature-sensitive products. The operating results of Temptime are included within the AIT segment.