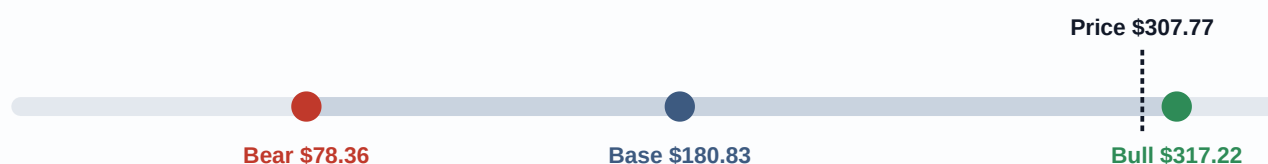


Initiated 2026-09-23 · Price \$307.77 (as of 2026-09-22, stockanalysis.com) · Mkt cap \$36.4bn (blended, both share classes) · Industrials / Aerospace & Defense · Model: verified

Rating: Sell — Conviction: Medium

One of the best industrial businesses in the United States, priced as though it stays that way forever. The model's bull case — 15% compound revenue growth for five years, margins pushing 32%, an exit multiple of 28x — implies **+3%**. When the optimistic case barely reaches today's price, the distribution is one-sided. The tape agrees: down 3% over twelve months, 18% below its high, *while* nine-month EPS grew 31%. The de-rating has started and has far to run before the arithmetic works.

MODEL VALUE RANGE VS PRICE



Business overview

HEICO sells replacement parts and subsystems for aircraft already flying. Flight Support (~70% of revenue, \$3.12bn FY2025) is the core: FAA-approved PMA parts — legally interchangeable substitutes for engine OEM components sold at a 25–50% discount to OEM list — plus repair and distribution. Electronic Technologies (~30%, \$1.41bn) makes defense, space, medical and industrial electronics and is the faster-growing, more acquisitive half. Three variables drive earnings: flight hours and engine shop-visit volume (demand), PMA catalog penetration (share of that demand), and acquisition cadence, since roughly half of reported growth is bought rather than grown. The Mendelson family controls the vote through the Common class.

Bull case

- PMA scale is a compounding moat** — roughly 19,500–20,000 approved parts (secondary-source estimate) against a certification process that is slow and expensive per part. Each approval is permanent and additive. Plays out if flight hours keep growing and airline unit-cost pressure persists. *Model: rev_growth, terminal_growth*
- Margin leverage is still running** — consolidated operating margin hit 25.1% in Q3 FY2026 against 23.1%, with ETG at 26.0% from 22.8%; nine-month EBITDA margin of 28.6% is 140bp above FY2025. Plays out if aftermarket mix keeps shifting and recent deals season. *Model: ebitda_margin*
- The acquisition machine is intact and cheaply funded** — 1.57x net leverage, \$2.06bn undrawn revolver, \$1.2bn raised in July 2026 at 4.95%/5.40%. Plays out if the family keeps buying at its historical discipline. *Model: rev_growth*
- Aftermarket demand may be structural, not cyclical** — shop-visit backlogs and new-engine durability problems keep older, PMA-rich aircraft in service. Plays out if the backlog persists past FY2027. *Model: rev_growth*

Bear case

1. **The price embeds the premium permanently** — ~26x EV/EBITDA and ~38x forward earnings on the blended price. A multiple that has to stay at 26x for five years to justify today's price is an assumption, not an argument. *Model: exit_ev_ebitda*
2. **Growth is decelerating from a very high base** — Q3's 23% sales growth was 14% organic; base case converges toward the high-single-digit algorithm the last two decades delivered outside the post-COVID recovery. *Model: rev_growth, terminal_growth, nwc_pct_rev*
3. **OEM counterattack on PMA access** — engine OEMs increasingly bundle aftermarket work into long-term service agreements and restrict data and approvals. This is the one thing that can break the moat, and it is intent, not accident. *Model: rev_growth, ebitda_margin, terminal_growth*
4. **HEI buyers pay ~34% for votes they will never cast** — 84.5mm Class A shares carry identical economics and closed at \$229.22 the day HEI closed at \$307.77. The family controls the vote regardless. *Model: exit_ev_ebitda*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/EBITDA (blended equity + debt – cash / TTM EBITDA \$1.47bn)	26.3x	26.3–37.2x at FY2021–FY2025 year-ends (published definition)	TDG 18.1x	stockanalysis.com, 2026-09-23
Forward P/E (blended \$260.28/sh; 44.7x on HEI's price)	37.8x	trailing 47.8–58.4x at the last five year-ends	TDG 24.0x	stockanalysis.com, 2026-09-23
FCF yield (TTM FCF \$1.03bn / blended market value)	2.8%	2.1–2.3% (P/FCF 43.5–48.3x, FY2021–FY2025)	TDG 3.1%	stockanalysis.com, 2026-09-23
Net debt / EBITDA (company definition, TTM)	1.57x	2.06x → 1.60x (FY2024 → FY2025)	TDG 6.57x	Q3 FY2026 release, 2026-07-31

Definition warning. Quote sites publish HEICO's market cap as \$43.01bn and EV/EBITDA as 30.74x by applying HEI's \$307.77 to all 139.76mm shares — including the 84.5mm Class A trading at \$229.22. The correct blended equity value is \$36.37bn (\$260.28/share) and the correct EV/EBITDA 26.3x. Both are expensive; the corrected figure is the honest starting point.

Model-implied value range (from `model-summary.json`; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$78.36 · Base \$180.83 · Bull \$317.22 per share, i.e. implied returns of –74% / –41% / +3% vs \$307.77. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The market price sits *above* the bull case — that is the whole finding. Against the economically identical Class A at \$229.22, the same values imply –66% / –21% / +38%: still short of the base case, but a materially different distribution for identical cash flows.

Model and rating agree — and the model is generous. Unlevered FCF charges nothing for acquisition purchase price while the revenue paths include acquisition contribution, so the DCF gets HEICO's M&A growth free; the only charge is `capital_return_pct` (base 0.85), which stops the model deleveraging with the same cash. Correct that bias and the base case worsens.

Balance sheet: net leverage 1.57x (company, TTM) or 1.89x in the model (FY0 EBITDA denominator); coverage 9.2x at FY0 rising to 12.8x in Y1; liquidity \$241.0mm cash plus \$2,055mm undrawn revolver; nearest material maturity \$600mm of 5.25% notes on 2028-08-01; all debt unsecured; ratings n/a (unverified — investment grade is referenced in the July 2026 prospectus, no agency action retrieved).

Model note: Built and verified — LibreOffice matched Python across all 3,188 formula cells. One unverified input: `credit.debt.` "Finance leases and notes payable" (\$15.838mm, 0.6% of debt) — amount sourced, 2029 maturity and 5.0% coupon estimated. The \$19.665mm of unamortized discount and issuance costs is netted against the 2036 notes so the ladder ties to the \$2,541.173mm carrying value (that series' face is \$650.0mm). FY2025 D&A of \$200.5mm is derived. No assumptions lack a basis; no consistency CHECKs. Generator note (2026-09-24): in this module `share_change`, `capital_return_pct` and `cost_of_debt` move EPS and the net-cash path only, and `peer_pe` feeds a cross-check only; none changes the value range, so bull/bear tags no longer cite them. Scenario deltas were rebuilt after `multiple_pct` shocks were extended to the Gordon method (previously they moved only the exit-multiple half), and EPS now uses average diluted shares.

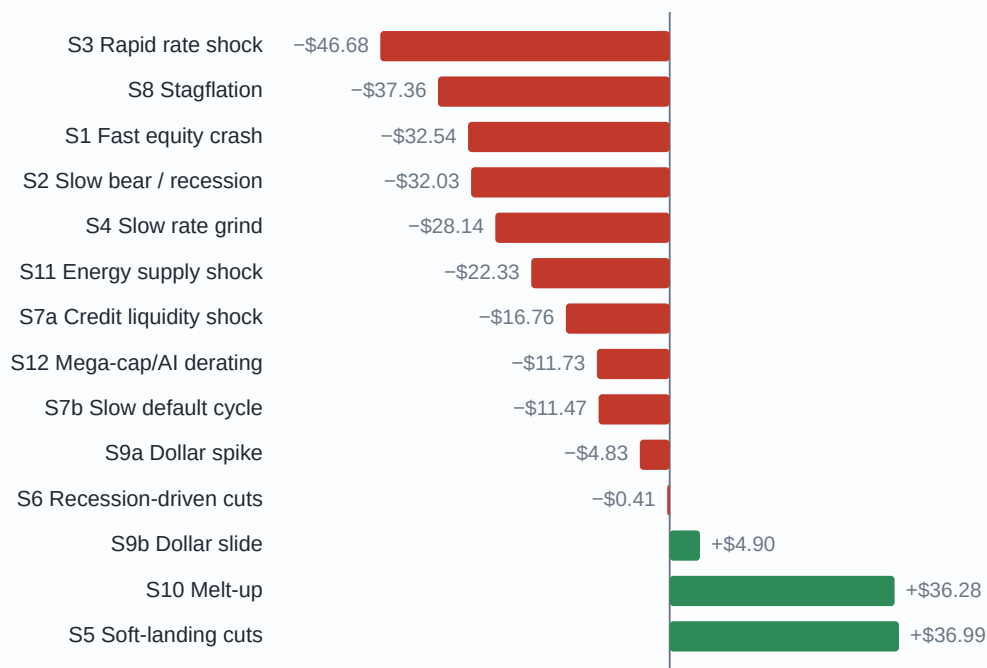
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	Long-duration 26x multiple compresses first in a de-risking; cash flows untouched	Med	–\$32.54
S2 Slow bear / recession	–	Defensive on demand (airlines fly older aircraft longer, which raises PMA demand) but seat-mile growth slows and ETG's industrial/medical end markets soften	Med	–\$32.03
S3 Rapid rate shock	–	Worst row in the table: nearly all the value is terminal, so a term-premium spike hits discount rate and exit multiple simultaneously, and the 2028 maturity refinances into it	High	–\$46.68
S4 Slow rate grind	–	Same duration channel delivered over five years instead of one	Med	–\$28.14
S5 Soft-landing cuts	+	Best case for a long-duration compounder: discount rate and multiple both improve while air travel is untouched, and deal funding cheapens	Med	+\$36.99
S6 Recession-driven cuts	±	Two-sided — rate relief supports the multiple, a breaking labor market cuts discretionary air travel and therefore flight hours	Low	–\$0.41
S7a Credit liquidity shock	–	Fundamentally insulated (IG unsecured, 1.57x, \$2.06bn undrawn, nothing due before Aug 2028); damage is to the multiple and the cost of the next deal	Low	–\$16.76
S7b Slow default cycle	–	Weak channel: some receivable exposure to thin regional and cargo operators, dearer acquisition	Low	–\$11.47
S8 Stagflation	–	Revenue is inflation-protected (PMA is priced off an escalating OEM list) but input and labor costs lead that repricing, and the rate/multiple damage matches S3	High	–\$37.36
S9a Dollar spike	–	Foreign airline and European ETG revenue translates back at weaker local currencies	Low	–\$4.83
S9b Dollar slide	+	Same translation effect in reverse	Low	+\$4.90
S10 Melt-up	+	A blue-chip compounder is a natural momentum destination; the multiple has room back to the 33x printed at two of the last five year-ends	Med	+\$36.28
S11 Energy supply shock	–	Jet fuel is ~25% of airline operating cost, so a sustained Brent spike compresses carrier profitability and eventually capacity growth. Partly self-offsetting: expensive fuel makes airlines readier to swap in a PMA part at a 25–50% saving	Med	–\$22.33
S12 Mega-cap/AI derating	–	No AI exposure, modest space/defense content, but a high-multiple leadership unwind drags any 26x name with it	Low	–\$11.73

Currently active/on watch per the playbook: S3 partially active (price-level leg no longer met at 4.96% on 2026-09-21); S8, S10 and S11 on watch — note that S3 and S8, the two worst rows here, are the two closest to live.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: blended EV/EBITDA falls below roughly 20x (which alone takes the base case near flat); or organic growth holds above 12% through FY2027 with FSG margin above 26%. **Downgrades if:** consolidated organic growth prints below 8% in any quarter while the multiple is still above 24x; or an engine OEM restricts data or approvals a specific PMA line depends on.

Watch items

- **W1:** FY2026 full-year organic growth — below 10% confirms base-case deceleration, above 14% argues the bull path — Q4 FY2026 earnings release — mid-December 2026 — *Model: rev_growth*
- **W2:** FSG operating margin — above 26% supports the bull path, below 24.5% breaks the base path — Q4 FY2026 release and FY2026 10-K — December 2026 — *Model: ebitda_margin*
- **W3:** OEM action on PMA access — any restriction on PMA data or approvals, or a bundled service-agreement structure that forecloses PMA parts — trade press, 10-K risk factors — no expected date — *Model: rev_growth, terminal_growth*
- **W4:** The multiple — blended EV/EBITDA below 20x or back above 30x — continuous — *Model: exit_ev_ebitda, peer_pe*

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Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.