

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended January 31, 2020**

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number: 001-04604**

**HEICO CORPORATION**

(Exact name of registrant as specified in its charter)

**Florida**

(State or other jurisdiction of  
incorporation or organization)

**65-0341002**

(I.R.S. Employer Identification No.)

**3000 Taft Street, Hollywood, Florida**

(Address of principal executive offices)

**33021**

(Zip Code)

**(954) 987-4000**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
<b>Common Stock, \$.01 par value per share</b>	<b>HEI</b>	<b>New York Stock Exchange</b>
<b>Class A Common Stock, \$.01 par value per share</b>	<b>HEIA</b>	<b>New York Stock Exchange</b>

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐  
Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of each of the registrant's classes of common stock as of February 25, 2020 is as follows:

Common Stock, \$.01 par value	54,149,118 shares
Class A Common Stock, \$.01 par value	80,510,464 shares

**HEICO CORPORATION****INDEX TO QUARTERLY REPORT ON FORM 10-Q**

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**PART I. FINANCIAL INFORMATION; Item 1. FINANCIAL STATEMENTS**  
**HEICO CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED**  
**(in thousands, except per share data)**

	<u>January 31, 2020</u>	<u>October 31, 2019</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$63,971	\$57,001
Accounts receivable, net	252,050	274,326
Contract assets	44,823	43,132
Inventories, net	441,250	420,319
Prepaid expenses and other current assets	22,616	18,953
Total current assets	<u>824,710</u>	<u>813,731</u>
Property, plant and equipment, net	172,299	173,345
Goodwill	1,301,316	1,268,703
Intangible assets, net	556,718	550,693
Other assets	242,078	162,739
Total assets	<u><u>\$3,097,121</u></u>	<u><u>\$2,969,211</u></u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$932	\$906
Trade accounts payable	95,385	106,225
Accrued expenses and other current liabilities	144,472	178,957
Income taxes payable	2,742	3,050
Total current liabilities	<u>243,531</u>	<u>289,138</u>
Long-term debt, net of current maturities	567,864	561,049
Deferred income taxes	29,835	51,496
Other long-term liabilities	250,751	184,604
Total liabilities	<u>1,091,981</u>	<u>1,086,287</u>
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interests (Note 3)	<u>195,893</u>	<u>188,264</u>
Shareholders' equity:		
Preferred Stock, \$.01 par value per share; 10,000 shares authorized; none issued	—	—
Common Stock, \$.01 par value per share; 150,000 shares authorized; 54,149 and 54,143 shares issued and outstanding	541	541
Class A Common Stock, \$.01 par value per share; 150,000 shares authorized; 80,484 and 80,353 shares issued and outstanding	805	804
Capital in excess of par value	287,779	284,609
Deferred compensation obligation	4,232	4,232
HEICO stock held by irrevocable trust	(4,232)	(4,232)
Accumulated other comprehensive loss	(19,263)	(16,739)
Retained earnings	1,508,784	1,397,327
Total HEICO shareholders' equity	<u>1,778,646</u>	<u>1,666,542</u>
Noncontrolling interests	<u>30,601</u>	<u>28,118</u>
Total shareholders' equity	<u>1,809,247</u>	<u>1,694,660</u>
Total liabilities and equity	<u><u>\$3,097,121</u></u>	<u><u>\$2,969,211</u></u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**HEICO CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS – UNAUDITED**  
(in thousands, except per share data)

	<b>Three months ended January 31,</b>	
	<b>2020</b>	<b>2019</b>
Net sales	\$506,275	\$466,146
Operating costs and expenses:		
Cost of sales	308,228	283,909
Selling, general and administrative expenses	87,057	84,290
Total operating costs and expenses	395,285	368,199
Operating income	110,990	97,947
Interest expense	(4,283)	(5,489)
Other income (expense)	195	(332)
Income before income taxes and noncontrolling interests	106,902	92,126
Income tax (benefit) expense	(22,900)	4,100
Net income from consolidated operations	129,802	88,026
Less: Net income attributable to noncontrolling interests	7,914	8,694
Net income attributable to HEICO	\$121,888	\$79,332
Net income per share attributable to HEICO shareholders:		
Basic	\$.91	\$.60
Diluted	\$.89	\$.58
Weighted average number of common shares outstanding:		
Basic	134,523	132,933
Diluted	137,421	136,978

The accompanying notes are an integral part of these condensed consolidated financial statements.

**HEICO CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF**  
**COMPREHENSIVE INCOME – UNAUDITED**  
**(in thousands)**

	<b>Three months ended January 31,</b>	
	<b>2020</b>	<b>2019</b>
Net income from consolidated operations	\$129,802	\$88,026
Other comprehensive income:		
Foreign currency translation adjustments	(2,678)	4,374
Amortization of unrealized loss on defined benefit pension plan, net of tax	24	6
Total other comprehensive (loss) income	(2,654)	4,380
Comprehensive income from consolidated operations	127,148	92,406
Net income attributable to noncontrolling interests	7,914	8,694
Foreign currency translation adjustments attributable to noncontrolling interests	(130)	193
Comprehensive income attributable to noncontrolling interests	7,784	8,887
Comprehensive income attributable to HEICO	\$119,364	\$83,519

The accompanying notes are an integral part of these condensed consolidated financial statements.

**HEICO CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY - UNAUDITED**  
(in thousands, except per share data)

	Redeemable Noncontrolling Interests	HEICO Shareholders' Equity								Total Shareholders' Equity
		Common Stock	Class A Common Stock	Capital in Excess of Par Value	Deferred Compensation Obligation	HEICO Stock Held by Irrevocable Trust	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interests	
Balances as of October 31, 2019	\$188,264	\$541	\$804	\$284,609	\$4,232	(\$4,232)	(\$16,739)	\$1,397,327	\$28,118	\$1,694,660
Comprehensive income	4,767	—	—	—	—	—	(2,524)	121,888	3,017	122,381
Cash dividends (\$.08 per share)	—	—	—	—	—	—	—	(10,762)	—	(10,762)
Issuance of common stock to HEICO Savings and Investment Plan	—	—	—	1,298	—	—	—	—	—	1,298
Share-based compensation expense	—	—	—	2,646	—	—	—	—	—	2,646
Proceeds from stock option exercises	—	—	1	1,527	—	—	—	—	—	1,528
Redemptions of common stock related to stock option exercises	—	—	—	(2,562)	—	—	—	—	—	(2,562)
Noncontrolling interests assumed related to acquisitions	7,540	—	—	—	—	—	—	—	—	—
Distributions to noncontrolling interests	(4,347)	—	—	—	—	—	—	—	(534)	(534)
Adjustments to redemption amount of redeemable noncontrolling interests	(331)	—	—	—	—	—	—	331	—	331
Other	—	—	—	261	—	—	—	—	—	261
Balances as of January 31, 2020	\$195,893	\$541	\$805	\$287,779	\$4,232	(\$4,232)	(\$19,263)	\$1,508,784	\$30,601	\$1,809,247

	Redeemable Noncontrolling Interests	HEICO Shareholders' Equity								Total Shareholders' Equity
		Common Stock	Class A Common Stock	Capital in Excess of Par Value	Deferred Compensation Obligation	HEICO Stock Held by Irrevocable Trust	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interests	
Balances as of October 31, 2018	\$132,046	\$534	\$796	\$320,994	\$3,928	(\$3,928)	(\$15,256)	\$1,091,183	\$104,757	\$1,503,008
Cumulative effect from adoption of ASC 606	819	—	—	—	—	—	—	13,373	326	13,699
Comprehensive income	3,639	—	—	—	—	—	4,187	79,332	5,248	88,767
Cash dividends (\$.07 per share)	—	—	—	—	—	—	—	(9,305)	—	(9,305)
Issuance of common stock to HEICO Savings and Investment Plan	—	—	—	1,046	—	—	—	—	—	1,046
Share-based compensation expense	—	—	—	2,439	—	—	—	—	—	2,439
Proceeds from stock option exercises	—	—	—	66	—	—	—	—	—	66
Redemptions of common stock related to stock option exercises	—	—	—	(150)	—	—	—	—	—	(150)
Noncontrolling interests assumed related to acquisitions	5,116	—	—	—	—	—	—	—	2,355	2,355
Distributions to noncontrolling interests	(2,397)	—	—	—	—	—	—	—	(398)	(398)
Adjustments to redemption amount of redeemable noncontrolling interests	(228)	—	—	—	—	—	—	228	—	228
Deferred compensation obligation	—	—	—	—	115	(115)	—	—	—	—
Balances as of January 31, 2019	\$138,995	\$534	\$796	\$324,395	\$4,043	(\$4,043)	(\$11,069)	\$1,174,811	\$112,288	\$1,601,755

The accompanying notes are an integral part of these condensed consolidated financial statements.

**HEICO CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED**  
(in thousands)

	<b>Three months ended January 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Operating Activities:</b>		
Net income from consolidated operations	\$129,802	\$88,026
Adjustments to reconcile net income from consolidated operations to net cash provided by operating activities:		
Depreciation and amortization	21,583	20,037
Share-based compensation expense	2,646	2,439
Employer contributions to HEICO Savings and Investment Plan	2,613	2,153
Increase in accrued contingent consideration	408	1,862
Deferred income tax (benefit) provision	(25,718)	3,798
Payment of contingent consideration	(175)	(67)
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	23,734	4,982
(Increase) decrease in contract assets	(1,719)	7,270
Increase in inventories	(20,449)	(24,284)
Increase in prepaid expenses and other current assets	(3,303)	(7,921)
Decrease in trade accounts payable	(10,678)	(19,832)
Decrease in accrued expenses and other current liabilities	(48,319)	(34,537)
Decrease in income taxes payable	(1,334)	(3,636)
Net changes in other long-term liabilities and assets related to HEICO Leadership Compensation Plan	11,315	9,143
Other	730	133
Net cash provided by operating activities	81,136	49,566
<b>Investing Activities:</b>		
Acquisitions, net of cash acquired	(45,343)	(101,039)
Investments related to HEICO Leadership Compensation Plan	(11,800)	(8,700)
Capital expenditures	(6,850)	(5,907)
Other	439	72
Net cash used in investing activities	(63,554)	(115,574)
<b>Financing Activities:</b>		
Borrowings on revolving credit facility	45,000	93,000
Payments on revolving credit facility	(38,000)	(17,000)
Cash dividends paid	(10,762)	(9,305)
Distributions to noncontrolling interests	(4,881)	(2,795)
Redemptions of common stock related to stock option exercises	(2,562)	(150)
Payment of contingent consideration	(325)	(283)
Proceeds from stock option exercises	1,528	66
Other	(213)	29
Net cash (used in) provided by financing activities	(10,215)	63,562
Effect of exchange rate changes on cash	(397)	703
Net increase (decrease) in cash and cash equivalents	6,970	(1,743)
Cash and cash equivalents at beginning of year	57,001	59,599
Cash and cash equivalents at end of period	\$63,971	\$57,856

The accompanying notes are an integral part of these condensed consolidated financial statements.

## **HEICO CORPORATION AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of HEICO Corporation and its subsidiaries (collectively, “HEICO,” or the “Company”) have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions to Form 10-Q. Therefore, the condensed consolidated financial statements do not include all information and footnotes normally included in annual consolidated financial statements and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended October 31, 2019. The October 31, 2019 Condensed Consolidated Balance Sheet has been derived from the Company’s audited consolidated financial statements. In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments (consisting principally of normal recurring accruals) necessary for a fair presentation of the condensed consolidated balance sheets, statements of operations, statements of comprehensive income, statements of shareholders' equity and statements of cash flows for such interim periods presented. The results of operations for the three months ended January 31, 2020 are not necessarily indicative of the results which may be expected for the entire fiscal year.

The Company has two operating segments: the Flight Support Group (“FSG”), consisting of HEICO Aerospace Holdings Corp. and HEICO Flight Support Corp. and their respective subsidiaries; and the Electronic Technologies Group (“ETG”), consisting of HEICO Electronic Technologies Corp. (“HEICO Electronic”) and its subsidiaries.

#### **New Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, which, as amended, was codified as Accounting Standards Codification (“ASC”) Topic 842, “Leases” (“ASC 842”). ASC 842 requires recognition of lease assets and lease liabilities on the balance sheet of lessees. The Company adopted ASC 842 as of November 1, 2019 using a modified retrospective transition approach with the election to apply the guidance as of the adoption date instead of at the beginning of the earliest comparative period presented. The adoption of this guidance resulted in an increase in the Company's assets and liabilities due to the recognition of right-of-use (“ROU”) assets and corresponding lease liabilities for leases that are currently classified as operating leases.

Upon adoption, the Company elected the package of transitional practical expedients, which allowed the Company to not reassess its prior conclusions about lease identification, lease classification, and initial direct costs. In addition, the Company elected the short-term lease practical expedient, which allows HEICO to not record an ROU asset and lease liability for any



lease with a term of twelve months or less, and also elected the single component practical expedient for all asset classes, which allows the Company to include both lease and non-lease components associated with a lease as a single lease component when determining the value of the ROU asset and lease liability.

The adoption of this guidance resulted in the Company recording ROU assets and corresponding lease liabilities of \$63.4 million and \$64.1 million, respectively, in the Company's Condensed Consolidated Balance Sheet. The adoption of ASC 842 did not have a material impact on the Company's Condensed Consolidated Statement of Operations or Statement of Cash Flows. See Note 9, Leases, for additional information regarding the Company's accounting policy for leases and disclosures required by ASC 842.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment," which is intended to simplify the current test for goodwill impairment by eliminating the second step in which the implied value of a reporting unit is calculated when the carrying value of the reporting unit exceeds its fair value. Under ASU 2017-04, goodwill impairment should be recognized for the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 must be applied prospectively and is effective for any annual or interim goodwill impairment test in fiscal years beginning after December 15, 2019, or in fiscal 2021 for HEICO. Early adoption is permitted. The Company is currently evaluating the effect the adoption of this guidance will have on its consolidated results of operations, financial position and cash flows.

## **2. ACQUISITIONS**

In December 2019, the Company, through a subsidiary of HEICO Electronic, acquired 100% of the business and assets of the Human-Machine Interface ("HMI") product line of Spectralux Corporation. HMI designs, manufactures, and repairs flight deck annunciators, panels, indicators, and illuminated keyboards, as well as lighting controls, and flight deck lighting.

In December 2019, the Company, through HEICO Electronic, acquired 80.1% of the stock of Quell Corporation ("Quell"). Quell designs and manufactures electromagnetic interference (EMI)/radio-frequency interference (RFI) and transient protection solutions for a wide variety of connectors that principally serve customers within the aerospace and defense markets. The remaining 19.9% continues to be owned by certain members of Quell's management team (see Note 3, Selected Financial Statement Information - Redeemable Noncontrolling Interests, for additional information).

The purchase price of each fiscal 2020 acquisition was paid in cash, principally using proceeds from the Company's revolving credit facility, and is not material or significant to the Company's condensed consolidated financial statements. The allocation of the total consideration for the fiscal 2020 acquisitions to the tangible and identifiable intangible assets acquired and liabilities and noncontrolling interests assumed is preliminary until the Company

obtains final information regarding their fair values. However, the Company does not expect any adjustment to such allocations to be material to the Company's consolidated financial statements. The operating results of the fiscal 2020 acquisitions were included in the Company's results of operations from each of the effective acquisition dates. The amount of net sales and earnings of the fiscal 2020 acquisitions included in the Condensed Consolidated Statement of Operations for the three months ended January 31, 2020 is not material. Had the fiscal 2020 acquisitions occurred as of November 1, 2018, net sales, net income from consolidated operations, net income attributable to HEICO, and basic and diluted net income per share attributable to HEICO shareholders on a pro forma basis for the three months ended January 31, 2020 and 2019 would not have been materially different than the reported amounts.

### 3. SELECTED FINANCIAL STATEMENT INFORMATION

#### Accounts Receivable

(in thousands)	January 31, 2020	October 31, 2019
Accounts receivable	\$256,678	\$277,992
Less: Allowance for doubtful accounts	(4,628)	(3,666)
Accounts receivable, net	<u>\$252,050</u>	<u>\$274,326</u>

#### Inventories

(in thousands)	January 31, 2020	October 31, 2019
Finished products	\$211,279	\$199,880
Work in process	38,184	32,548
Materials, parts, assemblies and supplies	191,787	187,891
Inventories, net of valuation reserves	<u>\$441,250</u>	<u>\$420,319</u>

#### Property, Plant and Equipment

(in thousands)	January 31, 2020	October 31, 2019
Land	\$6,819	\$6,820
Buildings and improvements	117,111	116,997
Machinery, equipment and tooling	256,262	253,127
Construction in progress	10,743	8,382
	<u>390,935</u>	<u>385,326</u>
Less: Accumulated depreciation and amortization	(218,636)	(211,981)
Property, plant and equipment, net	<u>\$172,299</u>	<u>\$173,345</u>

## Accrued Customer Rebates and Credits

The aggregate amount of accrued customer rebates and credits included within accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheets was \$19.4 million as of January 31, 2020 and \$18.0 million as of October 31, 2019. The total customer rebates and credits deducted within net sales for the three months ended January 31, 2020 and 2019 was \$2.1 million and \$1.4 million, respectively.

## Research and Development Expenses

The amount of new product research and development ("R&D") expenses included in cost of sales for the three months ended January 31, 2020 and 2019 is as follows (in thousands):

	<b>Three months ended January 31,</b>	
	<b>2020</b>	<b>2019</b>
R&D expenses	\$17,103	\$15,200

## Redeemable Noncontrolling Interests

The holders of equity interests in certain of the Company's subsidiaries have rights ("Put Rights") that may be exercised on varying dates causing the Company to purchase their equity interests through fiscal 2029. The Put Rights, all of which relate either to common shares or membership interests in limited liability companies, provide that the cash consideration to be paid for their equity interests (the "Redemption Amount") be at fair value or a formula that management intended to reasonably approximate fair value based solely on a multiple of future earnings over a measurement period. Management's estimate of the aggregate Redemption Amount of all Put Rights that the Company could be required to pay is as follows (in thousands):

	<b>January 31, 2020</b>	<b>October 31, 2019</b>
Redeemable at fair value	\$144,240	\$136,611
Redeemable based on a multiple of future earnings	51,653	51,653
Redeemable noncontrolling interests	\$195,893	\$188,264

As discussed in Note 2, Acquisitions, the Company, through HEICO Electronic, acquired 80.1% of the stock of Quell in December 2019. As part of the shareholders' agreement, the noncontrolling interest holders have the right to cause the Company to purchase their equity interests over a four-year period beginning in fiscal 2025, or sooner under certain conditions, and the Company has the right to purchase the same equity interests over the same period.

## Accumulated Other Comprehensive Loss

Changes in the components of accumulated other comprehensive loss for the three months ended January 31, 2020 are as follows (in thousands):

	Foreign Currency Translation	Defined Benefit Pension Plan	Accumulated Other Comprehensive Loss
Balances as of October 31, 2019	(\$14,989)	(\$1,750)	(\$16,739)
Unrealized loss	(2,548)	—	(2,548)
Amortization of unrealized loss	—	24	24
Balances as of January 31, 2020	(\$17,537)	(\$1,726)	(\$19,263)

## 4. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill by operating segment for the three months ended January 31, 2020 are as follows (in thousands):

	Segment		Consolidated Totals
	FSG	ETG	
Balances as of October 31, 2019	\$410,044	\$858,659	\$1,268,703
Goodwill acquired	—	33,268	33,268
Foreign currency translation adjustments	(200)	(540)	(740)
Adjustments to goodwill	—	85	85
Balances as of January 31, 2020	\$409,844	\$891,472	\$1,301,316

The goodwill acquired pertains to the fiscal 2020 acquisitions described in Note 2, Acquisitions, and represents the residual value after the allocation of the total consideration to the tangible and identifiable intangible assets acquired and liabilities and noncontrolling interests assumed. Foreign currency translation adjustments are included in other comprehensive income (loss) in the Company's Condensed Consolidated Statements of Comprehensive Income. The adjustments to goodwill represent immaterial measurement period adjustments to the purchase price allocation of certain fiscal 2019 acquisitions. The Company estimates that \$10 million of the goodwill acquired in fiscal 2020 will be deductible for income tax purposes.

Identifiable intangible assets consist of the following (in thousands):

	As of January 31, 2020			As of October 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Amortizing Assets:</b>						
Customer relationships	\$422,609	(\$172,037)	\$250,572	\$411,076	(\$162,722)	\$248,354
Intellectual property	222,315	(74,021)	148,294	216,359	(70,169)	146,190
Licenses	6,559	(4,244)	2,315	6,559	(4,102)	2,457
Patents	992	(680)	312	986	(666)	320
Non-compete agreements	812	(812)	—	813	(813)	—
Trade names	450	(190)	260	450	(180)	270
	<u>653,737</u>	<u>(251,984)</u>	<u>401,753</u>	<u>636,243</u>	<u>(238,652)</u>	<u>397,591</u>
<b>Non-Amortizing Assets:</b>						
Trade names	154,965	—	154,965	153,102	—	153,102
	<u>\$808,702</u>	<u>(\$251,984)</u>	<u>\$556,718</u>	<u>\$789,345</u>	<u>(\$238,652)</u>	<u>\$550,693</u>

The increase in the gross carrying amount of customer relationships, intellectual property and trade names as of January 31, 2020 compared to October 31, 2019 principally relates to such intangible assets recognized in connection with the fiscal 2020 acquisitions (see Note 2, Acquisitions).

Amortization expense related to intangible assets for the three months ended January 31, 2020 and 2019 was \$13.7 million and \$12.8 million, respectively. Amortization expense related to intangible assets for the remainder of fiscal 2020 is estimated to be \$41.4 million. Amortization expense for each of the next five fiscal years and thereafter is estimated to be \$52.5 million in fiscal 2021, \$46.0 million in fiscal 2022, \$40.7 million in fiscal 2023, \$36.2 million in fiscal 2024, \$32.3 million in fiscal 2025, and \$152.7 million thereafter.

## 5. LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	January 31, 2020	October 31, 2019
Borrowings under revolving credit facility	\$560,000	\$553,000
Finance leases and note payable	8,796	8,955
	<u>568,796</u>	<u>561,955</u>
Less: Current maturities of long-term debt	(932)	(906)
	<u>\$567,864</u>	<u>\$561,049</u>

The Company's borrowings under its revolving credit facility mature in fiscal 2023. As of January 31, 2020 and October 31 2019, the weighted average interest rate on borrowings under the Company's revolving credit facility was 2.7% and 3.0%, respectively. The revolving credit facility contains both financial and non-financial covenants. As of January 31, 2020, the Company was in compliance with all such covenants.

## 6. REVENUE

### Contract Balances

Contract assets (unbilled receivables) represent revenue recognized on contracts using an over-time recognition model in excess of amounts invoiced to the customer. Contract liabilities (deferred revenue) represent customer advances and billings in excess of revenue recognized and are included within accrued expenses and other current liabilities in the Company's Condensed Consolidated Balance Sheet.

Changes in the Company's contract assets and liabilities for the three months ended January 31, 2020 are as follows (in thousands):

	January 31, 2020	October 31, 2019	Change
Contract assets	\$44,823	\$43,132	\$1,691
Contract liabilities	26,148	23,809	2,339
Net contract assets	<u>\$18,675</u>	<u>\$19,323</u>	<u>(\$648)</u>

The increase in the Company's contract assets during the first quarter of fiscal 2020 mainly occurred within the ETG and principally reflects additional unbilled receivables on certain customer contracts using an over-time recognition model in excess of billings on certain customer contracts made during the quarter.

The increase in the Company's contract liabilities during the first quarter of fiscal 2020 mainly occurred within the FSG and principally reflects the receipt during the quarter of new customer deposits on certain customer contracts in excess of reductions to contract liabilities from customer deposits recognized as revenue.

The amount of revenue that the Company recognized during the first quarter of fiscal 2020 that was included in contract liabilities as of the beginning of fiscal 2020 was \$13.4 million.

### Remaining Performance Obligations

As of January 31, 2020, the Company had \$403.8 million of remaining performance obligations associated with contracts with an original duration of greater than one year pertaining to the majority of the products offered by the ETG and the FSG's specialty products and

aftermarket replacement parts product lines. The Company will recognize net sales as these obligations are satisfied. The Company expects to recognize \$214.9 million of this amount during the remainder of fiscal 2020 and \$188.9 million thereafter, of which the majority is expected to occur in fiscal 2021.

## Disaggregation of Revenue

The following table summarizes the Company's net sales by product line for each operating segment (in thousands):

	Three months ended January 31,	
	2020	2019
<b>Flight Support Group:</b>		
Aftermarket replacement parts <sup>(1)</sup>	\$168,267	\$159,497
Repair and overhaul parts and services <sup>(2)</sup>	69,287	67,163
Specialty products <sup>(3)</sup>	63,513	60,553
<b>Total net sales</b>	<b>301,067</b>	<b>287,213</b>
<b>Electronic Technologies Group:</b>		
Electronic component parts for defense, space and aerospace equipment <sup>(4)</sup>	160,713	137,750
Electronic component parts for equipment in various other industries <sup>(5)</sup>	47,698	46,679
<b>Total net sales</b>	<b>208,411</b>	<b>184,429</b>
<b>Intersegment sales</b>	<b>(3,203)</b>	<b>(5,496)</b>
<b>Total consolidated net sales</b>	<b>\$506,275</b>	<b>\$466,146</b>

<sup>(1)</sup> Includes various jet engine and aircraft component replacement parts.

<sup>(2)</sup> Includes primarily the sale of parts consumed in various repair and overhaul services on selected jet engine and aircraft components, avionics, instruments, composites and flight surfaces of commercial and military aircraft.

<sup>(3)</sup> Includes primarily the sale of specialty components such as thermal insulation blankets, renewable/reusable insulation systems, advanced niche components, complex composite assemblies, and expanded foil mesh.

<sup>(4)</sup> Includes various component parts such as electro-optical infrared simulation and test equipment, electro-optical laser products, electro-optical, microwave and other power equipment, high-speed interface products, power conversion products, underwater locator beacons, emergency locator transmission beacons, traveling wave tube amplifiers, microwave power modules, three-dimensional microelectronic and stacked memory products, crashworthy and ballistically self-sealing auxiliary fuel systems, radio frequency (RF) and microwave amplifiers, transmitters and receivers, high performance communications and electronic intercept receivers and tuners, high performance active antenna systems, and technical surveillance countermeasures equipment.

- <sup>(5)</sup> Includes various component parts such as electromagnetic and radio interference shielding, high voltage interconnection devices, high voltage advanced power electronics, harsh environment connectivity products, custom molded cable assemblies and silicone material for a variety of demanding applications.

The following table summarizes the Company's net sales by industry for each operating segment (in thousands):

	Three months ended January 31,	
	2020	2019
<b>Flight Support Group:</b>		
Aerospace	\$239,923	\$235,173
Defense and Space	50,253	41,534
Other <sup>(1)</sup>	10,891	10,506
<b>Total net sales</b>	<b>301,067</b>	<b>287,213</b>
<b>Electronic Technologies Group:</b>		
Defense and Space	133,110	115,219
Other <sup>(2)</sup>	54,963	49,915
Aerospace	20,338	19,295
<b>Total net sales</b>	<b>208,411</b>	<b>184,429</b>
<b>Intersegment sales</b>	<b>(3,203)</b>	<b>(5,496)</b>
<b>Total consolidated net sales</b>	<b>\$506,275</b>	<b>\$466,146</b>

<sup>(1)</sup> Principally industrial products.

<sup>(2)</sup> Principally other electronics and medical products.

## 7. INCOME TAXES

The Company incurred an income tax benefit of \$22.9 million in the first quarter of fiscal 2020 compared to income tax expense of \$4.1 million in the first quarter of fiscal 2019. The Company recognized a discrete tax benefit from stock option exercises in both the first quarter of fiscal 2020 and 2019 of \$47.6 million and \$16.6 million, respectively. The \$31.0 million larger benefit from stock option exercises recognized in the first quarter of fiscal 2020 was the result of more stock options exercised and the strong appreciation in HEICO's stock price during the optionees' holding periods. The Company recognized a \$25.7 million non-cash deferred income tax benefit in the first quarter of fiscal 2020 that is principally attributable to the tax benefit from stock option exercises, which it expects to realize during the remainder of fiscal 2020.



## 8. FAIR VALUE MEASUREMENTS

The Company's assets and liabilities that were measured at fair value on a recurring basis are set forth by level within the fair value hierarchy in the following tables (in thousands):

As of January 31, 2020				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets:</b>				
Deferred compensation plan:				
Corporate-owned life insurance	\$—	\$166,275	\$—	\$166,275
Money market funds	3,832	—	—	3,832
Total assets	\$3,832	\$166,275	\$—	\$170,107
<b>Liabilities:</b>				
Contingent consideration	\$—	\$—	\$18,234	\$18,234
As of October 31, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets:</b>				
Deferred compensation plan:				
Corporate-owned life insurance	\$—	\$151,871	\$—	\$151,871
Money market funds	20	—	—	20
Total assets	\$20	\$151,871	\$—	\$151,891
<b>Liabilities:</b>				
Contingent consideration	\$—	\$—	\$18,326	\$18,326

The Company maintains the HEICO Corporation Leadership Compensation Plan (the "LCP"), which is a non-qualified deferred compensation plan. The assets of the LCP principally represent cash surrender values of life insurance policies, which derive their fair values from investments in mutual funds that are managed by an insurance company and are classified within Level 2 and valued using a market approach. Certain other assets of the LCP represent investments in money market funds that are classified within Level 1. The assets of the LCP are held within an irrevocable trust and classified within other assets in the Company's Condensed Consolidated Balance Sheets. The related liabilities of the LCP are included within other long-term liabilities in the Company's Condensed Consolidated Balance Sheets and have a value of \$168.9 million as of January 31, 2020 and \$151.1 million as of October 31, 2019.

As part of the agreement to acquire a subsidiary by the FSG in fiscal 2019, the Company may be obligated to pay contingent consideration of \$6.4 million in fiscal 2022 should the acquired entity meet a certain earnings objective during the second and third years following the

acquisition. As of January 31, 2020, the estimated fair value of the contingent consideration was \$1.2 million.

As part of the agreement to acquire a subsidiary by the ETG in fiscal 2017, the Company may be obligated to pay contingent consideration of \$20.0 million in fiscal 2023 should the acquired entity meet a certain earnings objective during the first six years following the acquisition. As of January 31, 2020, the estimated fair value of the contingent consideration was \$17.1 million.

The estimated fair value of the contingent consideration arrangements described above are classified within Level 3 and were determined using probability-based scenario analyses. Under this method, a set of discrete potential future subsidiary earnings was determined using internal estimates based on various revenue growth rate assumptions for each scenario. A probability of likelihood was assigned to each discrete potential future earnings estimate and the resultant contingent consideration was calculated. The resulting probability-weighted contingent consideration amounts were discounted using a weighted average discount rate reflecting the credit risk of HEICO. Changes in either the revenue growth rates, related earnings or the discount rate could result in a material change to the amount of contingent consideration accrued and such changes will be recorded in the Company's condensed consolidated statements of operations.

The Level 3 inputs used to derive the estimated fair value of the Company's contingent consideration liability as of January 31, 2020 were as follows:

	<b>Fiscal 2019 Acquisition</b>	<b>Fiscal 2017 Acquisition</b>
Compound annual revenue growth rate range	(7%) - 9%	(3%) - 10%
Weighted average discount rate	5.4%	4.3%

Changes in the Company's contingent consideration liability measured at fair value on a recurring basis using unobservable inputs (Level 3) for the three months ended January 31, 2020 are as follows (in thousands):

	<b>Liabilities</b>
Balance as of October 31, 2019	\$18,326
Increase in accrued contingent consideration	408
Payment of contingent consideration	(500)
Balance as of January 31, 2020	<u>\$18,234</u>

The Company's contingent consideration liability is included in other long-term liabilities in its Condensed Consolidated Balance Sheet and the Company records changes in accrued contingent consideration within selling, general and administrative expenses in its Condensed Consolidated Statement of Operations.

The Company did not have any transfers between Level 1 and Level 2 fair value measurements during the three months ended January 31, 2020.

The carrying amounts of the Company's cash and cash equivalents, accounts receivable, trade accounts payable and accrued expenses and other current liabilities approximate fair value as of January 31, 2020 due to the relatively short maturity of the respective instruments. The carrying amount of long-term debt approximates fair value due to its variable interest rates.

## 9. LEASES

The Company's lease arrangements primarily pertain to manufacturing facilities, office buildings, equipment, land and vehicles. The Company evaluates whether a contractual arrangement that provides it with control over the use of an asset is, or contains, a lease at the inception date. The term of a lease is inclusive of any option to renew, extend, or terminate the lease when it is reasonably certain that the Company will exercise such option. The Company classifies a lease as operating or finance using the classification criteria set forth in ASC 842. Finance leases are not material to the Company's condensed consolidated financial statements. HEICO recognizes operating lease right-of-use ("ROU") assets and corresponding lease liabilities as of the lease commencement date based on the present value of the lease payments over the lease term. The discount rate used to calculate the present value of the Company's leases is based on HEICO's incremental borrowing rate and considers credit risk, the lease term and other available information as of the commencement date since the leases do not provide a readily determinable implicit rate. Variable lease payments that depend on an index or a rate are included in the determination of operating ROU assets and lease liabilities using the index or rate at the lease commencement date. Variable lease payments that do not depend on an index or rate or resulting from changes in an index or rate subsequent to the lease commencement date, are recorded as lease expense in the period in which the obligation for the payment is incurred. The Company's operating ROU assets are increased by any prepaid lease payments and initial direct costs and reduced by any lease incentives. The Company's leases do not contain any material residual value guarantees or restrictive covenants.

HEICO's operating lease ROU assets represent its right to use an underlying asset during the lease term and its operating lease liabilities represent the Company's obligation to make lease payments arising from the lease. HEICO's operating lease ROU assets are included within other assets and its operating lease liabilities are included within both accrued expenses and other current liabilities and other long-term liabilities in the Company's Condensed Consolidated Balance Sheet. For additional information on the Company's finance leases, see Note 5, Long-term Debt, of the Notes to Condensed Consolidated Financial Statements of this quarterly report and Note 5, Long-term Debt, and Note 3, Selected Financial Statement Information - Property, Plant and Equipment, of the Notes to Consolidated Financial Statements of the Company's Annual Report on Form 10-K for the year ended October 31, 2019. The following table presents the Company's operating lease ROU assets and lease liabilities as of January 31, 2020 (in thousands):

	<b>January 31, 2020</b>
Right-of-use assets	\$62,114
Current lease liabilities	\$13,114
Long-term lease liabilities	49,797
Total operating lease liabilities	\$62,911

The Company's operating lease expense is recorded as a component of cost of sales and/or selling, general, and administrative expenses in the Company's Condensed Consolidated Statements of Operations. The following table presents the components of operating lease expense for the three months ended January 31, 2020 (in thousands):

	<b>Three months ended January 31, 2020</b>
Operating lease expense	\$4,260
Variable lease expense	615
Total operating lease expense <sup>(1)</sup>	\$4,875

<sup>(1)</sup> Excludes short-term lease expense, which is not material.

The following table presents a maturity analysis of the Company's operating lease liabilities as of January 31, 2020 for the remainder of fiscal 2020 and the next five fiscal years and thereafter (in thousands):

Year ending October 31,	
2020	\$11,759
2021	15,776
2022	13,859
2023	8,536
2024	4,755
2025	3,998
Thereafter	18,055
Total minimum lease payments	76,738
Less: amount representing interest	(13,827)
Present value of minimum lease payments	\$62,911

Prior to the adoption of ASC 842, the Company's future minimum lease payments under non-cancelable operating leases on an undiscounted basis as of October 31, 2019 were \$15.5 million in fiscal 2020, \$15.6 million in fiscal 2021, \$13.8 million in fiscal 2022, \$8.5 million in fiscal 2023, \$4.7 million in fiscal 2024 and \$18.8 million thereafter.

The Company does not have any material leases that have been signed but have yet to commence as of January 31, 2020.

The following table presents the weighted average remaining lease term and discount rate of the Company's operating leases as of January 31, 2020:

	<b>January 31, 2020</b>
Weighted average remaining lease term (years)	7.1
Weighted average discount rate	5.2%

The following table presents supplemental disclosures of cash flow information associated with the Company's operating leases for the three months ended January 31, 2020 (in thousands):

	<b>Three months ended January 31, 2020</b>
Cash paid for amounts included in the measurement of lease liabilities	\$4,243
Right-of-use assets obtained in exchange for new lease liabilities	\$5,162

## 10. NET INCOME PER SHARE ATTRIBUTABLE TO HEICO SHAREHOLDERS

The computation of basic and diluted net income per share attributable to HEICO shareholders is as follows (in thousands, except per share data):

	<b>Three months ended January 31,</b>	
	<b>2020</b>	<b>2019</b>
Numerator:		
Net income attributable to HEICO	\$121,888	\$79,332
Denominator:		
Weighted average common shares outstanding - basic	134,523	132,933
Effect of dilutive stock options	2,898	4,045
Weighted average common shares outstanding - diluted	137,421	136,978
Net income per share attributable to HEICO shareholders:		
Basic	\$.91	\$.60
Diluted	\$.89	\$.58
Anti-dilutive stock options excluded	117	760

## 11. OPERATING SEGMENTS

Information on the Company's two operating segments, the FSG and the ETG, for the three months ended January 31, 2020 and 2019, respectively, is as follows (in thousands):

	<b>Segment</b>		<b>Other, Primarily Corporate and Intersegment <sup>(1)</sup></b>	<b>Consolidated Totals</b>
	<b>FSG</b>	<b>ETG</b>		
Three months ended January 31, 2020:				
Net sales	\$301,067	\$208,411	(\$3,203)	\$506,275
Depreciation	3,617	2,928	255	6,800
Amortization	4,859	9,678	246	14,783
Operating income	62,045	57,491	(8,546)	110,990
Capital expenditures	4,118	2,727	5	6,850
Three months ended January 31, 2019:				
Net sales	\$287,213	\$184,429	(\$5,496)	\$466,146
Depreciation	3,355	2,606	251	6,212
Amortization	4,803	8,776	246	13,825
Operating income	52,880	51,602	(6,535)	97,947
Capital expenditures	2,849	3,058	—	5,907

<sup>(1)</sup> Intersegment activity principally consists of net sales from the ETG to the FSG.

Total assets by operating segment are as follows (in thousands):

	<b>Segment</b>		<b>Other, Primarily Corporate</b>	<b>Consolidated Totals</b>
	<b>FSG</b>	<b>ETG</b>		
Total assets as of January 31, 2020	\$1,182,947	\$1,712,901	\$201,273	\$3,097,121
Total assets as of October 31, 2019	1,149,737	1,643,032	176,442	2,969,211

## 12. COMMITMENTS AND CONTINGENCIES

### Guarantees

As of January 31, 2020, the Company has arranged for standby letters of credit aggregating \$4.8 million, which are supported by its revolving credit facility and pertain to payment guarantees related to potential workers' compensation claims and a facility lease as well as performance guarantees related to customer contracts entered into by certain of the Company's subsidiaries.

### Product Warranty

Changes in the Company's product warranty liability for the three months ended January 31, 2020 and 2019, respectively, are as follows (in thousands):

	Three months ended January 31,	
	2020	2019
Balances as of beginning of fiscal year	\$2,810	\$3,306
Accruals for warranties	1,007	694
Acquired warranty liabilities	50	—
Warranty claims settled	(459)	(829)
Balances as of January 31	<u>\$3,408</u>	<u>\$3,171</u>

### Litigation

The Company is involved in various legal actions arising in the normal course of business. Based upon the Company's and its legal counsel's evaluations of any claims or assessments, management is of the opinion that the outcome of these matters will not have a material adverse effect on the Company's results of operations, financial position or cash flows.

## **Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Overview**

This discussion of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and notes thereto included herein. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates if different assumptions were used or different events ultimately transpire.

Our critical accounting policies, which require management to make judgments about matters that are inherently uncertain, are described in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” under the heading “Critical Accounting Policies” in our Annual Report on Form 10-K for the year ended October 31, 2019. There have been no material changes to our critical accounting policies during the three months ended January 31, 2020.

Our business is comprised of two operating segments: the Flight Support Group (“FSG”), consisting of HEICO Aerospace Holdings Corp. and HEICO Flight Support Corp. and their respective subsidiaries; and the Electronic Technologies Group (“ETG”), consisting of HEICO Electronic Technologies Corp. and its subsidiaries.

Our results of operations for the three months ended January 31, 2020 have been affected by the fiscal 2019 acquisitions as further detailed in Note 2, Acquisitions, of the Notes to Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended October 31, 2019.



## Results of Operations

The following table sets forth the results of our operations, net sales and operating income by segment and the percentage of net sales represented by the respective items in our Condensed Consolidated Statements of Operations (in thousands):

	<b>Three months ended January 31,</b>	
	<b>2020</b>	<b>2019</b>
Net sales	\$506,275	\$466,146
Cost of sales	308,228	283,909
Selling, general and administrative expenses	87,057	84,290
Total operating costs and expenses	395,285	368,199
Operating income	\$110,990	\$97,947
Net sales by segment:		
Flight Support Group	\$301,067	\$287,213
Electronic Technologies Group	208,411	184,429
Intersegment sales	(3,203)	(5,496)
	\$506,275	\$466,146
Operating income by segment:		
Flight Support Group	\$62,045	\$52,880
Electronic Technologies Group	57,491	51,602
Other, primarily corporate	(8,546)	(6,535)
	\$110,990	\$97,947
Net sales	100.0%	100.0%
Gross profit	39.1%	39.1%
Selling, general and administrative expenses	17.2%	18.1%
Operating income	21.9%	21.0%
Interest expense	(.8%)	(1.2%)
Other income (expense)	—%	(.1%)
Income tax (benefit) expense	(4.5%)	.9%
Net income attributable to noncontrolling interests	1.6%	1.9%
Net income attributable to HEICO	24.1%	17.0%

## Comparison of First Quarter of Fiscal 2020 to First Quarter of Fiscal 2019

### *Net Sales*

Our consolidated net sales in the first quarter of fiscal 2020 increased by 9% to \$506.3 million, up from net sales of \$466.1 million in the first quarter of fiscal 2019. The increase in consolidated net sales principally reflects an increase of \$24.0 million (a 13% increase) to \$208.4 million in net sales within the ETG as well as an increase of \$13.9 million (a 5% increase) to \$301.1 million in net sales within the FSG. The net sales increase in the ETG reflects net sales of \$14.9 million contributed by our fiscal 2019 and 2020 acquisitions as well as organic growth of 6%. The ETG's organic growth is mainly attributable to increased demand for our defense products resulting in a net sales increase of \$19.3 million partially offset by lower demand for our space products resulting in a net sales decrease of \$7.5 million. The net sales increase in the FSG reflects organic growth of 4%. The FSG's organic growth is mainly attributable to increased demand and new product offerings within our aftermarket replacement parts, repair and overhaul parts and services, and specialty products product lines resulting in net sales increases of \$8.8 million, \$2.1 million and \$1.5 million, respectively. Sales price changes were not a significant contributing factor to the ETG and FSG net sales growth in the first quarter of fiscal 2020.

### *Gross Profit and Operating Expenses*

Our consolidated gross profit margin was 39.1% in both the first quarter of fiscal 2020 and 2019 principally reflecting an increase of 1.1% in the FSG's gross profit margin offset by a 1.5% decrease in the ETG's gross profit margin. The increase in the FSG's gross profit margin principally reflects a more favorable product mix within all of its product lines. The decrease in the ETG's gross profit margin principally reflects a decrease in net sales of certain space products partially offset by increased net sales of certain defense products. Total new product research and development expenses included within our consolidated cost of sales were \$17.1 million in the first quarter of fiscal 2020 compared to \$15.2 million in the first quarter of fiscal 2019.

Our consolidated selling, general and administrative ("SG&A") expenses were \$87.1 million and \$84.3 million in the first quarter of fiscal 2020 and 2019, respectively. The increase in consolidated SG&A expenses principally reflects \$4.2 million attributable to the fiscal 2019 and 2020 acquisitions partially offset by \$1.5 million of lower expenses related to changes in the estimated fair value of accrued contingent consideration.

Our consolidated SG&A expenses as a percentage of net sales decreased to 17.2% in the first quarter of fiscal 2020, down from 18.1% in the first quarter of fiscal 2019. The decrease in consolidated SG&A expenses as a percentage of net sales is mainly due to a .3% impact from the previously mentioned lower expenses related to changes in the estimated fair value of accrued contingent consideration as well as a .3% impact from a decrease in performance-based compensation expense as a percentage of net sales and efficiencies realized from the net sales growth.

### *Operating Income*

Our consolidated operating income increased by 13% to \$111.0 million in the first quarter of fiscal 2020, up from \$97.9 million in the first quarter of fiscal 2019. The increase in consolidated operating income principally reflects a \$9.2 million increase (a 17% increase) to \$62.0 million in operating income of the FSG and a \$5.9 million increase (an 11% increase) to \$57.5 million in operating income of the ETG. The increase in operating income of the FSG principally reflects the previously mentioned improved gross profit margin and net sales growth as well as a \$1.2 million favorable impact from lower expenses related to changes in the estimated fair value of accrued contingent consideration. The increase in operating income of the ETG principally reflects the previously mentioned net sales growth partially offset by the previously mentioned lower gross profit margin.

Our consolidated operating income as a percentage of net sales improved to 21.9% in the first quarter of fiscal 2020, up from 21.0% in the first quarter of fiscal 2019. The increase principally reflects an increase in the FSG's operating income as a percentage of net sales to 20.6% in the first quarter of fiscal 2020, up from 18.4% in the first quarter of fiscal 2019 partially offset by a decrease in the ETG's operating income as a percentage of net sales to 27.6% in the first quarter of fiscal 2020 as compared to 28.0% in the first quarter of fiscal 2019. The increase in the FSG's operating income as a percentage of net sales principally reflects the previously mentioned improved gross profit margin and a 1.1% decrease in SG&A expenses as a percentage of net sales mainly from the previously mentioned efficiencies realized from the net sales growth and lower expenses related to changes in the estimated fair value of accrued contingent consideration. The decrease in the ETG's operating income as a percentage of net sales principally reflects the previously mentioned lower gross profit margin partially offset by a 1.1% decrease in SG&A expenses as a percentage of net sales mainly from a decrease in performance-based compensation expense and efficiencies realized from the net sales growth.

### *Interest Expense*

Interest expense decreased to \$4.3 million in the first quarter of fiscal 2020, down from \$5.5 million in the first quarter of fiscal 2019. The decrease was principally due to a lower weighted average interest rate on borrowings outstanding under our revolving credit facility.

### *Other Income (Expense)*

Other income (expense) in the first quarter of fiscal 2020 and 2019 was not material.

### *Income Tax (Benefit) Expense*

HEICO incurred an income tax benefit of \$22.9 million in the first quarter of fiscal 2020 compared to income tax expense of \$4.1 million in the first quarter of fiscal 2019. We recognized a discrete tax benefit from stock option exercises in both the first quarter of fiscal 2020 and 2019 of \$47.6 million and \$16.6 million, respectively. The \$31.0 million larger benefit from stock option exercises recognized in the first quarter of fiscal 2020 was the result of more

stock options exercised and the strong appreciation in HEICO's stock price during the optionees' holding periods.

#### *Net Income Attributable to Noncontrolling Interests*

Net income attributable to noncontrolling interests relates to the 20% noncontrolling interest held by Lufthansa Technik AG ("LHT") in HEICO Aerospace Holdings Corp. ("HEICO Aerospace") and the noncontrolling interests held by others in certain subsidiaries of the FSG and ETG. Net income attributable to noncontrolling interests was \$7.9 million in the first quarter of fiscal 2020 as compared to \$8.7 million in the first quarter of fiscal 2019. The decrease in net income attributable to noncontrolling interests in the first quarter of fiscal 2020 principally reflects the impact of a dividend paid by HEICO Aerospace in June 2019 that effectively resulted in the transfer of the 20% noncontrolling interest held by LHT in eight of our existing subsidiaries within HEICO Aerospace that are principally part of the FSG's repair and overhaul parts and services product line to HEICO Flight Support Corp., a wholly owned subsidiary of HEICO, partially offset by improved operating results of certain subsidiaries of the FSG and ETG in which noncontrolling interests are held.

#### *Net Income Attributable to HEICO*

Net income attributable to HEICO increased to a record \$121.9 million, or \$.89 per diluted share, in the first quarter of fiscal 2020, up from \$79.3 million, or \$.58 per diluted share, in the first quarter of fiscal 2019 principally reflecting the previously mentioned income tax benefit and increased net sales and operating income.

### **Outlook**

As we look ahead to the remainder of fiscal 2020, we anticipate net sales growth within the FSG's commercial aviation and defense product lines. We also expect growth within the ETG, principally driven by demand for the majority of our products. Also, we plan to continue our commitments to developing new products and services, further market penetration, and an aggressive acquisition strategy while maintaining our financial strength and flexibility. Based on our current economic visibility, we are continuing to estimate our consolidated fiscal 2020 year-over-year growth in net sales to be 6% - 8% and increasing our estimate of fiscal 2020 year-over-year growth in net income to be 14% - 15%, up from our prior growth estimate of 13% - 14%. This outlook excludes the impact of additional acquired businesses, if any. Additionally, this outlook excludes any potential impact from the recent coronavirus outbreak as the impact to our businesses is uncertain and difficult to predict.

## Liquidity and Capital Resources

Our principal uses of cash include acquisitions, capital expenditures, cash dividends, distributions to noncontrolling interests and working capital needs. We continue to anticipate fiscal 2020 capital expenditures to be approximately \$42 million. We finance our activities primarily from our operating and financing activities, including borrowings under our revolving credit facility. The revolving credit facility contains both financial and non-financial covenants. As of January 31, 2020, we were in compliance with all such covenants. As of January 31, 2020, our total debt to shareholders' equity ratio was 31.4%.

Based on our current outlook, we believe that our net cash provided by operating activities and available borrowings under our revolving credit facility will be sufficient to fund cash requirements for at least the next twelve months.

### *Operating Activities*

Net cash provided by operating activities was \$81.1 million in the first quarter of fiscal 2020 and consisted primarily of net income from consolidated operations of \$129.8 million, depreciation and amortization expense of \$21.6 million (a non-cash item), net changes in other long-term liabilities and assets related to the HEICO Leadership Compensation Plan ("LCP") of \$11.3 million (principally participant deferrals and employer contributions), \$2.6 million in share-based compensation expense (a non-cash item), and \$2.6 million in employer contributions to the HEICO Savings and Investment Plan (a non-cash item), partially offset by a \$62.1 million increase in working capital and a \$25.7 million deferred income tax benefit. The increase in working capital is inclusive of a \$48.3 million decrease in accrued expenses and other current liabilities mainly reflecting the payment of fiscal 2019 accrued performance-based compensation, a \$20.4 million increase in inventories to support the growth of our businesses and backlog, and a \$10.7 million decrease in trade accounts payable partially offset by a \$23.7 million decrease in accounts receivable resulting from the timing of payments and collections, respectively. The deferred income tax benefit principally reflects the previously mentioned income tax benefit from stock option exercises, which the Company expects to realize during the remainder of fiscal 2020.

Net cash provided by operating activities increased by \$31.6 million in the first quarter of fiscal 2020 from \$49.6 million in the first quarter of fiscal 2019. The increase is principally attributable to a \$41.8 million increase in net income from consolidated operations and a \$15.9 million decrease in net working capital partially offset by a \$29.5 million increase in deferred income tax benefits. The decrease in net working capital primarily resulted from the timing associated with the collection of accounts receivable and payment of trade accounts payable and accrued expenses and other current liabilities. The increase in deferred income tax benefits is attributable to the previously mentioned income tax benefit from stock option exercises.

### *Investing Activities*

Net cash used in investing activities totaled \$63.6 million in the first quarter of fiscal 2020 and related primarily to acquisitions of \$45.3 million (net of cash acquired), investments related to the HEICO LCP of \$11.8 million and capital expenditures of \$6.9 million. Further details regarding our fiscal 2020 acquisitions may be found in Note 2, Acquisitions, of the Notes to Condensed Consolidated Financial Statements.

### *Financing Activities*

Net cash used in financing activities in the first quarter of fiscal 2020 totaled \$10.2 million. During the first quarter of fiscal 2020, we made \$38.0 million in payments on our revolving credit facility, paid \$10.8 million in cash dividends on our common stock, made \$4.9 million of distributions to noncontrolling interests and redeemed common stock related to stock option exercises aggregating \$2.6 million. Additionally, we borrowed \$45.0 million under our revolving credit facility to fund our fiscal 2020 acquisitions and received \$1.5 million in proceeds from stock option exercises.

### **Contractual Obligations**

There have not been any material changes to the amounts presented in the table of contractual obligations that was included in our Annual Report on Form 10-K for the year ended October 31, 2019.

### **Off-Balance Sheet Arrangements**

#### *Guarantees*

As of January 31, 2020, we have arranged for standby letters of credit aggregating \$4.8 million, which are supported by our revolving credit facility and pertain to payment guarantees related to potential workers' compensation claims and a facility lease as well as performance guarantees related to customer contracts entered into by certain of our subsidiaries.

### **New Accounting Pronouncements**

See Note 1, Summary of Significant Accounting Policies - New Accounting Pronouncements, of the Notes to Condensed Consolidated Financial Statements for additional information.

## Forward-Looking Statements

Certain statements in this report constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained herein that are not clearly historical in nature may be forward-looking and the words “anticipate,” “believe,” “expect,” “estimate” and similar expressions are generally intended to identify forward-looking statements. Any forward-looking statement contained herein, in press releases, written statements or other documents filed with the Securities and Exchange Commission or in communications and discussions with investors and analysts in the normal course of business through meetings, phone calls and conference calls, concerning our operations, economic performance and financial condition are subject to risks, uncertainties and contingencies. We have based these forward-looking statements on our current expectations and projections about future events. All forward-looking statements involve risks and uncertainties, many of which are beyond our control, which may cause actual results, performance or achievements to differ materially from anticipated results, performance or achievements. Also, forward-looking statements are based upon management’s estimates of fair values and of future costs, using currently available information. Therefore, actual results may differ materially from those expressed in or implied by those forward-looking statements. Factors that could cause such differences include: lower demand for commercial air travel or airline fleet changes or airline purchasing decisions, which could cause lower demand for our goods and services; product specification costs and requirements, which could cause an increase to our costs to complete contracts; governmental and regulatory demands, export policies and restrictions, reductions in defense, space or homeland security spending by U.S. and/or foreign customers or competition from existing and new competitors, which could reduce our sales; our ability to introduce new products and services at profitable pricing levels, which could reduce our sales or sales growth; product development or manufacturing difficulties, which could increase our product development costs and delay sales; our ability to make acquisitions and achieve operating synergies from acquired businesses; customer credit risk; interest, foreign currency exchange and income tax rates; economic conditions within and outside of the aviation, defense, space, medical, telecommunications and electronics industries, which could negatively impact our costs and revenues; defense spending or budget cuts, which could reduce our defense related revenue; and any impact from the recent coronavirus outbreak. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except to the extent required by applicable law.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have not been any material changes in our assessment of HEICO's sensitivity to market risk that was disclosed in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in our Annual Report on Form 10-K for the year ended October 31, 2019.

### **Item 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that HEICO's disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

#### **Changes in Internal Control Over Financial Reporting**

During the first quarter ended January 31, 2020, we adopted Accounting Standards Update 2016-02, which, as amended, was codified as Accounting Standards Codification ("ASC") Topic 842, "Leases" ("ASC 842"). See Note 1, Summary of Significant Accounting Policies - New Accounting Pronouncements, and Note 9, Leases, of the Notes to Condensed Consolidated Financial Statements for additional information. As a result of adopting ASC 842, we have implemented certain changes to our internal controls over financial reporting to support the recognition and disclosure requirements under ASC 842, including changes to our accounting policies and internal control procedures.



**PART II. OTHER INFORMATION****Item 6. EXHIBITS**

<b><u>Exhibit</u></b>	<b><u>Description</u></b>
31.1	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.</a> *
31.2	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.</a> *
32.1	<a href="#">Section 1350 Certification of Chief Executive Officer.</a> **
32.2	<a href="#">Section 1350 Certification of Chief Financial Officer.</a> **
101.INS	Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL Document. *
101.SCH	Inline XBRL Taxonomy Extension Schema Document. *
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document. *
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document. *
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document. *
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document. *
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101). *

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\* Filed herewith.

\*\* Furnished herewith.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HEICO CORPORATION

Date: February 27, 2020

By: /s/ CARLOS L. MACAU, JR.

Carlos L. Macau, Jr.  
Executive Vice President - Chief  
Financial Officer and Treasurer  
(Principal Financial Officer)

By: /s/ STEVEN M. WALKER

Steven M. Walker  
Chief Accounting Officer  
and Assistant Treasurer  
(Principal Accounting Officer)

**RULE 13a-14(a)/15d-14(a) CERTIFICATION**

I, Laurans A. Mendelson, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of HEICO Corporation;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2020

/s/ LAURANS A. MENDELSON

Laurans A. Mendelson  
Chief Executive Officer  
(Principal Executive Officer)

**RULE 13a-14(a)/15d-14(a) CERTIFICATION**

I, Carlos L. Macau, Jr., certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of HEICO Corporation;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2020

/s/ CARLOS L. MACAU, JR.  
Carlos L. Macau, Jr.  
Chief Financial Officer  
(Principal Financial Officer)

## SECTION 1350 CERTIFICATION

In connection with the Quarterly Report of HEICO Corporation (the “Company”) on Form 10-Q for the period ended January 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Laurans A. Mendelson, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 27, 2020

/s/ LAURANS A. MENDELSON

Laurans A. Mendelson  
Chief Executive Officer  
(Principal Executive Officer)

## SECTION 1350 CERTIFICATION

In connection with the Quarterly Report of HEICO Corporation (the “Company”) on Form 10-Q for the period ended January 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Carlos L. Macau, Jr., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 27, 2020

/s/ CARLOS L. MACAU, JR.  
Carlos L. Macau, Jr.  
Chief Financial Officer  
(Principal Financial Officer)