

TASER International, Inc.

TASR

Analyst: Kyle Ritchie
Sector: Industrials

BUY on TASR

Price Target: \$26.26

Key Statistics as of 4/15/16

Market Price:	\$19.14
Industry:	Aerospace and Defense
Market Cap:	\$1.023 billion
52-Week Range:	\$13.56 – \$35.95
Unlevered Beta:	1.37
Trading Volume:	480,000

Thesis Points:

- Changing social and demographic trends toward less lethal weapons
- Consistent double-digit revenue growth over the last four years
- Strong balance sheet

Company Description

TASER International, Inc. develops, manufactures, and sells conducted electrical weapons (CEWs) worldwide. The company operates through two segments, TASER Weapons and Axon. Its CEWs transmit electrical pulses along the wires and into the body affecting the sensory and motor functions of the peripheral nervous system. The company sells its products to military forces, private security, and consumer personal protection markets, as well as to federal, state, and local law enforcement agencies and corrections through its direct sales force, distribution partners, online store, and third-party resellers. TASER International, Inc. was founded in 1993 and is headquartered in Scottsdale, Arizona.



Thesis

TASER International is the market leader in the development, manufacture and sale of conducted electrical weapons (CEW's). The company is also the market leader in connected wearable on-officer cameras which utilize cloud-based digital evidence management solutions referred to as the company's Axon solution. Unlike other weapons manufacturers, TASER does not supply lethal weapons to its customers. The weapons (which will be explained in greater detail below) are intended to protect officers of the law and also the well-being of the individuals that pose potential threats. The company's product has proven to be successful given its historical revenue growth and furthermore, analysts forecast substantial revenue growth in the upcoming years. Another appealing feature is how the company has developed purchasing programs for agencies. Thereby, proving that they are more concerned that law enforcement agencies have the standard and latest technologies. The purchasing programs allow agencies to spread the cost of ownership over extended time-periods to help alleviate the needs for large up-front capital expenditures. The company is truly one of a kind and has flown under the radar. Through a valuation using a discounted cash flow model with a focus on ROIC, it will become clear that TASER is currently undervalued and has great upside potential.

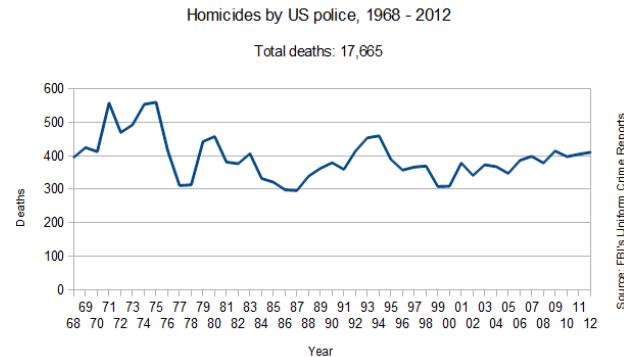
Industry Outlook

As you can see from the chart below, TASER has experienced almost identical market behavior as the Russell 2000 index.



The company's stock price reached a low of \$14.50/share in the beginning of January when the rest of the market was still recovering from the

downturn in late 2015. Since then, the company's stock has reverted to around \$19.00/share. What will continue to drive growth for this company is the public's perspective towards law enforcement. Articles are being released constantly titled, "Police Brutality" or "Excessive Force." Coupled with how dramatically the media portrays law enforcement, the public also has such a poor image towards these agencies, particularly in the United States.



The chart above shows the rather alarming upward trend in police shootings. As society grows aware of this frightening trend, social and political changes are leading to the development of non-lethal police enforcement measures. This leaves TASER poised to capitalize on bolstered agreements with law enforcement agencies as they attempt to prevent any further lethal tragedies.

Consistent Double Digit Rev. Growth

Since 2012, TASER's revenue has grown year over year by 27.5%, 20.1%, 19.4%, and 20.3% respectively.

The reason this company has been able to sustain this revenue growth is the demand for non-lethal weapons. The success of this company's revenue is attributable to its following products: TASER X26P, TASER X2, TASER C2, TASER Pulse, and Replacement Cartridges. The X2 is designed for law enforcement agencies but is also available to the professional consumer. The C2 is the currently the company's primary model for the consumer market.

Overall, the market for TASER consists of more than 17,000 law enforcement agencies in nearly 150 countries and have made initial purchases of TASER brand devices for testing and/or deployment.

Additionally, in the year ended 2015 and 2014, the company reported backlog of \$183.9 million and \$75.3 million respectively.

In regards to 2016 & 2017, the company is focused on penetrating the untapped markets in Europe such as France, the UK, Canada, and Australia. These countries have large police forces and represent a considerable market opportunity to increase sales. The demand in the market is clearly present for TASER. Through its innovative technologies and increasing geographic reach, the company has proven to be successful. A five-year average of its ROIC/WACC ratio of 1.64 demonstrates value creation.

	2010	2011	2012	2013	2014	2015
ROIC	8.6%	8.6%	17.1%	13.5%	10.9%	32.9%
WACC	10.1%	10.1%	4.6%	10.1%	16.7%	13.4%
ROIC/WACC	0.85	0.85	3.70	1.33	0.65	2.47
					5-Year Avg.	1.64

Strong Balance Sheet

TASER international has managed to sustain business operations without incurring an unbearable amount of debt. Within the past five years, the company has only reported \$100,000-\$200,000 in short and long term debt for the year ended. Therefore, the company's D/E ratio has been less than .01 demonstrating their ability to grow without debt financing. Also, the company's cash balance has been steadily growing since 2010 starting at \$42 million and now reaching \$100 million.

Valuation

The valuation of TASER International is based on a valuation computed by a pro forma using a DCF method with a main focus on return on capital. Attached to this report is an overview containing the assumptions, inputs, and significant market data that have been used in the valuation.

When valuing TASER International a moderate approach has been applied. Due to the nature of the business, a 10 year period to convergence has been used. Emerging innovations and advancements in technology suggest this company will certainly be around after 10 years. In the base year of the forecast, TASER International's revenue growth was 20%. The pro forma has used the average of analysts' estimates for revenue growth in the upcoming years.

Siena Market Line 3rd week of April 2016

In 2016, TASER International's revenue is expected to notably increase to approximately 35%. An adjustment has been made to have this revenue growth taper down to 3%, the average historical GDP. Since TASER International operates primarily in the United States, a tax rate of 40% has been applied along with a discount rate (risk premium) of 6.00 %. However, an additional premium of approximately 1% has been added since the company's international revenue as a percentage of total revenue has been increasing in recent years.

The financial metrics of the firm were made to converge with the industry averages that have been provided by Capital IQ which include total operating costs as a percentage of revenue, revenue, beta, and the D/E level. In 2015, TASER's adjusted operating costs/revenue was 80.6%. The average operating costs/revenue for the industry is 85% and its historical average is 81%. The pro forma has estimated these costs to remain fairly constant since its operating costs have been made to converge with 81%.

Inputting the aforementioned assumptions and inputs, the pro forma calculated an intrinsic value of \$22.76 compared to its market price of \$19.14 with a one-year target of \$26.26.

Using a Monte Carlo simulation in order to conduct a sensitivity analysis, the data indicates that Operating Costs and Revenue are the primary determinants for the company's future standing at 38.1% and 53.5% respectively. The target price distribution indicates a probability of 98% that this stock will increase.

Conclusion

After a thorough analysis, it is clear that TASER is an efficiently operated company and shows great potential for intelligent investors. The company has consistently shown revenue growth and margin expansion. Coupled with its historical performance, the positive outlook for the aforementioned demographic changes poses an opportune time for investors. Within the last twelve months, TASER's stock has recovered nicely and the DCF valuation proves an ideal time to buy. Of the eight analysts covering this stock, six have a median one-year target price of \$26.00. The analytics above and qualitative data point to only one direction, BUY.

**TASER International Inc.
(TASR)**
CENTER FOR GLOBAL FINANCIAL STUDIES
BULLISH

Analysis by P.C. Principal 4/15/2016	Current Price: \$19.14	Intrinsic Value \$22.75	Target 1 year Return: 37.2%																																																				
Dividend Yield: 0.0%	Target Price \$26.26	Probability of Price Increase: 98.6%	Market Data																																																				
Description			TASER International, Inc. develops, manufactures, and sells conducted electrical weapons (CEWs) worldwide.																																																				
General Information																																																							
Sector Industries Industry Last Guidance Next earnings date Estimated Country Risk Premium Effective Tax rate Effective Operating Tax rate			Industrials Aerospace and Defense November 3, 2015 April 28, 2016 6.66% 38% 33%																																																				
Peers			Orbital ATK, Inc.																																																				
Past Earning Surprises																																																							
Quarter ending	Revenue	EBITDA																																																					
12/31/2014	5.80%	-1.43%																																																					
3/31/2015	4.83%	20.87%																																																					
6/30/2015	-2.88%	-25.63%																																																					
9/30/2015	5.61%	-23.17%																																																					
12/31/2015	8.33%	44.94%																																																					
Mean	4.34%	3.11%																																																					
Standard error	1.9%	13.4%																																																					
Management																																																							
Smith, Patrick	Position	Total compensations growth	Total return to shareholders																																																				
Larson, Luke	Co-Founder, Chief Executive Officer	30.81% per annum over 6y	2.12% per annum over 6y																																																				
Behrendt, Daniel	President	354.91% per annum over 1y	-34.71% per annum over 1y																																																				
Klind, Douglas	Chief Financial Officer	26.4% per annum over 6y	2.12% per annum over 6y																																																				
Isner, Joshua	General Counsel, Senior Vice President	1.29% per annum over 5y	5.68% per annum over 5y																																																				
Womack, Marcus	Executive Vice President of Evidence	N/M	N/M																																																				
	General Manager of Evidence	-14.85% per annum over 2y	4.35% per annum over 2y																																																				
Profitability																																																							
ROIC	TASR (LTM)	TASR (5 years historical average)	Industry (LTM)																																																				
NOPAT Margin	32.9%	11.72%	14.63%																																																				
Revenue/Invested Capital	19%	10.26%	8.2%																																																				
ROE	1.70	1.14	1.78																																																				
Adjusted net margin	24.3%	10.92%	17.10%																																																				
Revenue/Adjusted Book Value	19%	8.83%	7.6%																																																				
Invested Funds																																																							
Total Cash/Total Capital	TASR (LTM)	TASR (5 years historical average)	Industry (LTM)																																																				
Estimated Operating Cash/Total Capital	52.4%	41.4%	20%																																																				
Non-cash working Capital/Total Capital	28.4%	28.1%	N/A																																																				
Invested Capital/Total Capital	6.5%	13.6%	13%																																																				
Capital Structure																																																							
Total Debt/Common Equity (LTM)	TASR (LTM)	TASR (5 years historical average)	Industry (LTM)																																																				
Cost of Existing Debt	72.4%	83.2%	79%																																																				
Estimated Cost of new Borrowing	0.01	0.02	0.21																																																				
CGES Risk Rating	6.15%	60.46%	4.20%																																																				
Unlevered Beta (LTM)	2.02%	2.08%	4.20%																																																				
WACC	AA	AA	BBB																																																				
	1.39	0.91	0.86																																																				
	13.35%	10.34%	9.17%																																																				
Porter's 5 forces (scores are out of 100)																																																							
																																																							
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