

**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.

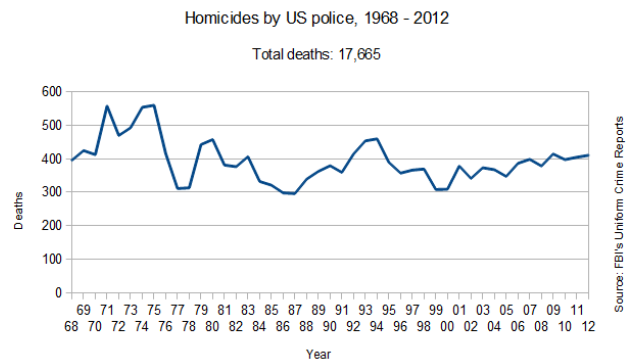
## Industry Outlook

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.

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)**

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**BULLISH**

Analysis by P.C. Principal  
4/15/2016

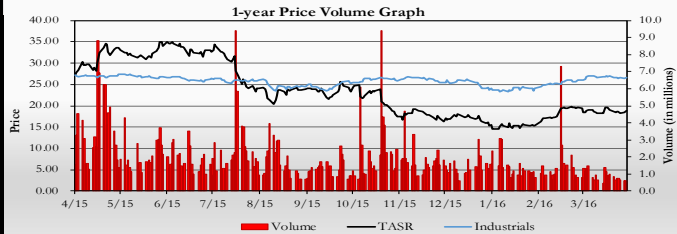
Current Price:  
Dividend Yield:

\$19.14  
0.0%

Intrinsic Value  
Target Price:

\$22.75  
\$26.26

Target 1 year Return: 37.2%  
Probability of Price Increase: 98.6%

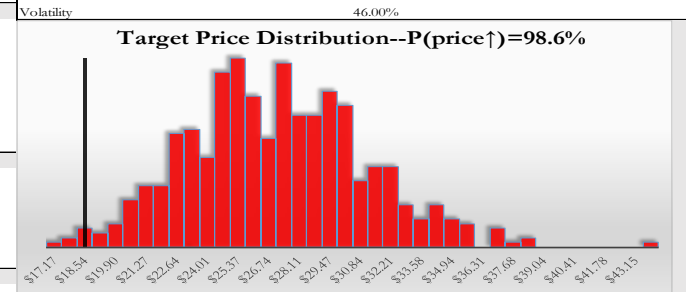


Description	
TASER International, Inc. develops, manufactures, and sells conducted electrical weapons (CEWs) worldwide.	
General Information	
Sector	Industrials
Industry	Aerospace and Defense
Last Guidance	November 3, 2015
Next earnings date	April 28, 2016
Estimated Country Risk Premium	6.66%
Effective Tax rate	38%
Effective Operating Tax rate	33%

Market Data	
Market Capitalization	\$1,022.96
Daily volume (mil)	0.48
Shares outstanding (mil)	53.45
Diluted shares outstanding (mil)	54.64
% shares held by institutions	74%
% shares held by investments Managers	64%
% shares held by hedge funds	2%
% shares held by insiders	1.96%
Short interest	19.06%
Days to cover short interest	8.17
52 week high	\$35.95
52-week low	\$13.56
Levered Beta	1.38
Volatility	46.00%

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%

Peers	
Orbital ATK, Inc.	



Management		Position	
Smith, Patrick	Co-Founder, Chief Executive		
Larson, Luke	President		
Behrendt, Daniel	Chief Financial Officer		
Klint, Douglas	General Counsel, Senior Vice		
Isner, Joshua	Executive Vice President of		
Womack, Marcus	General Manager of Evidence.		

Profitability		Invested Funds	
ROIC	32.9%	TASR (LTM)	41.4%
NOPAT Margin	19%	TASR (5 years historical average)	28.1%
Revenue/Invested Capital	1.70	Industry (LTM)	N/A
ROE	24.3%	Industry (LTM)	13%
Adjusted net margin	19%	Industry (LTM)	79%
Revenue/Adjusted Book Value	1.26	Industry (LTM)	79%
Invested Funds	TASR (LTM)	TASR (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	52.4%	41.4%	20%
Estimated Operating Cash/Total Capital	28.4%	28.1%	N/A
Non-cash working Capital/Total Capital	6.5%	13.6%	13%
Invested Capital/Total Capital	72.4%	83.2%	79%

Capital Structure		Porter's 5 forces (scores are out of 100)	
Total Debt/Common Equity (LTM)	0.01	Overall	58
Cost of Existing Debt	6.15%	Bargaining Power of Suppliers	44
Estimated Cost of new Borrowing	2.02%	Bargaining Power of Customers	50
CGFS Risk Rating	AA	Threat of New Competition	71
Unlevered Beta (LTM)	1.39	Intensity of Existing Rivalry	42
WACC	13.35%	Threat of Substitutes	75

Total compensations growth		Total return to shareholders	
30.81% per annum over 6y	-1.43%	2.12% per annum over 6y	
354.91% per annum over 1y	20.87%	-34.71% per annum over 1y	
26.4% per annum over 6y	-25.63%	2.12% per annum over 6y	
1.29% per annum over 5y	-23.17%	5.68% per annum over 5y	
N/M	44.94%	N/M	
-14.85% per annum over 2y	3.11%	4.35% per annum over 2y	

Sensitivity Attribution Analysis	
Revenue	53.5%
Operating Expenses	38.1%
Dividends	0.1%
NWC	0.2%
CAPEX	8.0%
Operating Cash	0.1%

Valuation	
NOPAT margin	ROIC/WACC
Base Year	2.47
12/31/2016	1.48
12/31/2017	1.54
12/31/2018	2.47
12/31/2019	2.66
12/31/2020	2.58
12/31/2021	2.40
12/31/2022	2.25
12/31/2023	2.02
12/31/2024	1.80
12/31/2025	1.58
Continuing Period	1.37
Net Claims	Price per share
Base Year	\$22.32
12/31/2016	\$25.44
12/31/2017	\$28.91
12/31/2018	\$33.06
12/31/2019	\$38.21
12/31/2020	\$44.85
12/31/2021	\$52.59
12/31/2022	\$61.77
12/31/2023	\$72.38
12/31/2024	\$84.08
12/31/2025	\$96.27
Continuing Period	

Porter's 5 forces (scores are out of 100)	
Overall	58
Bargaining Power of Suppliers	44
Bargaining Power of Customers	50
Threat of New Competition	71
Intensity of Existing Rivalry	42
Threat of Substitutes	75