CalAmp Corp.

NASDAQ: CAMP

Analyst: Kyle White
Sector: Technology

Limit Buy: $16.50

Price Target: $24.00

Key Statistics as of 3/18/2015

Market Price:	$17.54
Industry:	Communications Equipment
Market Cap:	$635 M
52-Week Range:	$14.74-34.47
Beta:	0.94

Thesis Points:

- Leader in Wireless Data Communications, a new business space with incredible potential
- Great financials, minimal debt, strong cash flows, strong and improving margins
- Extremely diverse when compared to similar companies
- Past stock movements have left investors reluctant to move into stock
- Current state of technology is first stable platform for industry to take off

Company Description:

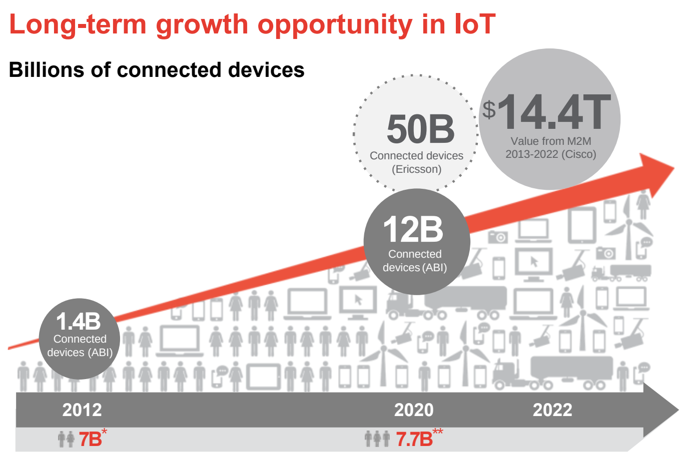
CalAmp Corp. develops and markets wireless communications products and solutions for various applications worldwide. It operates in two segments, Wireless DataCom and Satellite. The Wireless DataCom segment offers solutions for mobile resource management applications, machine-to-machine communications space, and other emerging markets that require connectivity anytime and anywhere. Its M2M and MRM solutions enable customers in energy, government, and transportation markets to optimize their operations by collecting, monitoring, and reporting business-critical data and required intelligence from high-value remote and mobile assets. This segment offers a portfolio of wireless communications products, such as asset tracking devices, targeted telematics platforms, fixed and mobile wireless gateways, and multi-mode wireless routers. It also offers cloud-based telematics platform-as-a-service and targeted software-as-a-service applications that facilitate the integration of the company's and third party applications through application protocol interfaces. The Satellite segment develops, manufactures, and sells direct-broadcast satellite outdoor customer premise equipment and whole home video networking devices for digital and high definition satellite television services.

Thesis

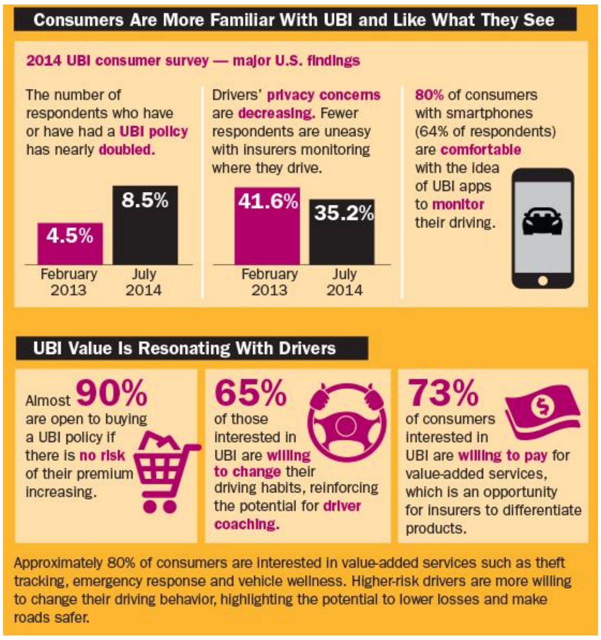
One of the miracles of the Internet is how it fundamentally changed the interconnectedness of the human race. What were once far-flung and diverse corners of the globe were suddenly brought together through a complex global network where ideas could flow freely, and saw many aspects of our lives strengthened. The greatest invention in human history had achieved a global scale down that had never been witnessed and will likely never be replicated, no matter how specular a means we could produce to physically propel ourselves through time and space. However far we are now able to travel in the span of a second, many of our technological achievements achieved quite the opposite, always being right where we left them; stuck in a world where a mile away was still some unfathomable difference. But why couldn't the internet change that too? CalAmp Corp. is on the cusp of answering that very question. In the not so distant future, everything from your toaster to your car will in some way be directly integrated into the internet, constantly relaying convenient, usable, and most importantly secure data to everyone from the manufacturer to your insurance company. The Internet of Things will soon be an integral part of every single persons lives, and with an extremely attractive piece of the proverbial pie, in terms of an unparalleled product portfolio, strong global distribution channel, and proven effectiveness in the space, CalAmp certainly deserves the attention of prospective investors.

Industry Leadership

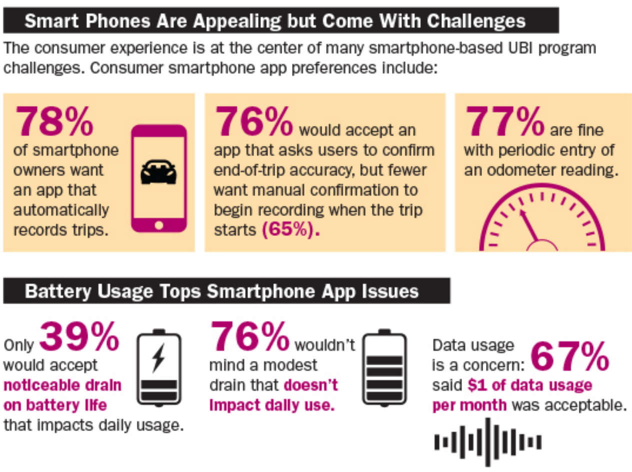
As of today Machine-to-Machine connected devices number 91 million units, moving to 128 million units by the end of 2015, and reach a whopping 180 million units in 2016, and will only grow from there. Of this constantly increasing base, CalAmp's machine-to-machine business represents 4.5 million units, and in the near term expects to add a million units are year. In what can only be described as a fiercely competitive market environment, this nearly 5% market share is huge. While other companies, like primary competitor Sierra Wireless may command the lions share of the revenues in the industry at roughly 34%, CalAmp is more than happy to approach the situation from another direction. While CalAmp truly wants to represent itself as a well-managed, diversified company with incredible product offerings, it's key interests lie in two areas that would drive business towards what would be typically viewed as a market niche. Heavy equipment manufacturing and insurance telematics are extremely nubile markets, but with huge potential, and when combined, they look to represent a majority of future machine-to-machine applications as well as mobile resource management. It is often the case that in terms of new, innovative technologies, you often see small firms boldly embracing new ideas, while larger more complex companies timidly test the waters. Refreshingly this has not been the case for these two segments. Caterpillar the world's largest producer of heavy equipment has had no qualms about making moves into the market. Due in large part to the small profit margins associated with construction projects, it is important to maintain accurate records concerning equipment utilization, repairs and maintenance. Before bringing on CalAmp as part of the value chain, CAT had no compelling way of dampening these fears in potential customers, which surely had some impact on top line growth as consumers skittishly moved around the decision to purchase. Now with the ability to remotely track asset utilization, location, and maintenance schedules, the single biggest cost for CAT customers could be effectively and tangibly cut, and increased the likelihood of purchase. And Caterpillar is likely only the first step in a long, long journey. With major players like Komatsu, Volvo, and Hitachi-Hitachi up for grabs, the sky is the limit, especially as CalAmp moves from hardware sales to subscription based fees within their product ecosystem. Just to provide an idea of the scope the industry is expected to achieve:



While extremely similar to the applications available in the heavy equipment field, the insurance telematics end of CalAmp's ambitions is far more untested. While some big auto insurers have moved into the space, such as Progressive and Allstate, it has yet to find it's footing among the insured. Data collected by Tower Watson, an auto insurance group, does however provide an extremely attractive picture moving into the future, shown below.



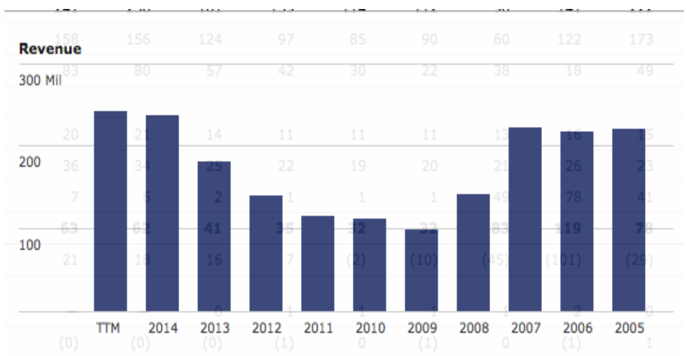
While CalAmp does provide some software services through the Android platform, it would represent a less then ideal situation for the company and insurers due to inadequate data collection.



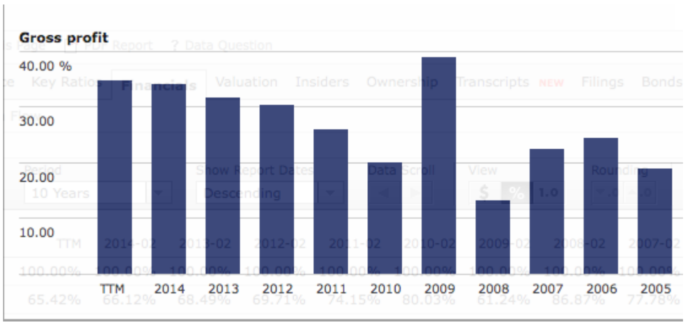
The second part of the survey provides extremely attractive data for both CalAmp hardware and its developing ecosystem, simultaneously allowing for increasing topline growth while drawing down on operating costs. While the company currently has running agreements Modus, Himex, and RAC (small firms), short run guidance for the service is guiding down, and most likely will not become a large driver of revenue growth until late 2016, 2017. While the company doesn't draw a lot of attention to it, it does have a successful satellite business to draw on. Primarily partnered with EchoStar, who in turn does the majority of its business with DIRECTV, CalAmp's satellite business tends to be variable, shifting with year-to-year product mix. It is clear from earnings calls and investor material, the business is of secondary importance to the company, and in the long run the CalAmp simply wishes to normalize the revenue stream. Once this is accomplished, there may be significant chance of divestiture as its wireless data com segment continues to catch fire.

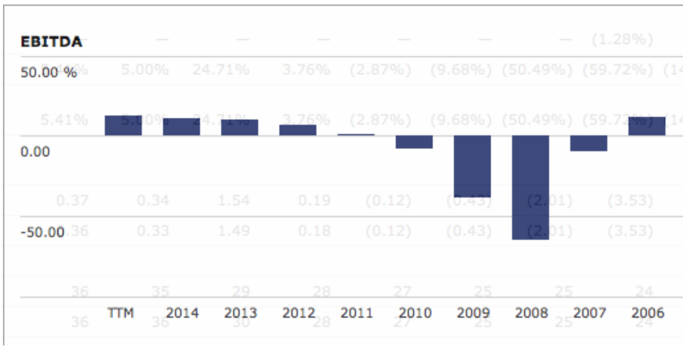
Strong Financials

While CalAmp's brightest days lie in the future, there current financial situation is one that is truly impressive. Looking at revenue growth alone we can see that year-over-year the company has achieved growth on average of 22% per year since 2011. Coming out of the financial crisis (which proved to be a real disaster for the company) it's renewed strength should be a reminder that this is a strong company with proven ability to survive through hard times, having survived both the dot.com bubble in the late 90's and the pricing bubble that proceeded it in 1997. Much of this revenue growth comes in large part due to the company's growth in its wireless datacom business, which has grown substantially since inception, and is continuing to find serviceable markets all over the world. The companies satellite segment on the other hand, while strong, has produced flat revenue over the past few years, as focus shifts, but this is made up for in the fact that operating costs have managed to come down significantly.

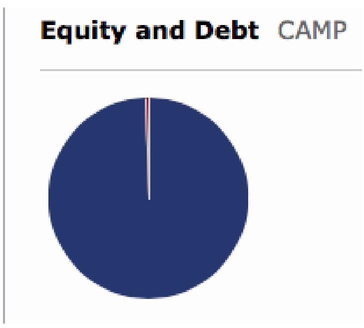


The observed increases in revenue is one of the key drivers in the price of the stock, and going into the future it will play an even more prevalent part as opportunities present themselves in a rapidly expanding marketplace which is projected to grow to 20 billion devices by 2020 from the 128 million we see today. Another area that CalAmp shown strength in is its ability to decrease COGS and operating expenses, increasing margins and delivering more value to shareholders.

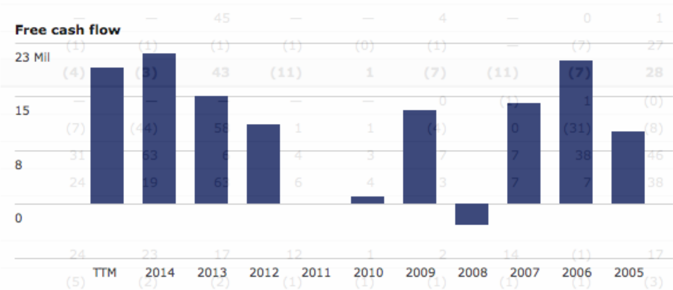




Looking at the charts above, it is immediately clear that the company is quickly and effectively taking steps to bring down costs a leave more on the table for its investors. Much of the company is witnessing in terms of success are attributed to its continued plays into the IoT, which while hardware intensive, look to provide a significant level of minimal cost SaaS and PaaS moving into the future. With these primary goals in mind, it isn't unrealistic that this company has much more room to bring down operating costs as we move into the future. The company's ability to achieve this demonstrates that management is looking leverage their unique position to create as much return as possible on invested capital, which leads to the topic of debt. Compared to many of the company's peers, debt for CalAmp is nearly nonexistent.



At $800,000, debt represents only the most miniscule part of the company's total invested value, which has a number of benefits. The first of these is that the company isn't saddled down with interest payments, which would otherwise dilute value. Secondly, the companies low debt profile means that in the future, the company should experience little to no issue in terms of debt financing, which given the charted growth of the company may be beneficial. A final note on debt is that the very lack of its presence on the balance sheet makes CalAmp that much more desirable as an acquisition target in a highly competitive industry. The ground laid by the company and it promising paths for growth, makes CalAmp a small but tasty fish, in a pond full of sharks. However given various poison pills within the company, CalAmp seems to believe that it is more than capable of creating value into the future without being brought into the fold of a larger company such as Cisco or Sierra Wireless. Final house keeping notes in terms of financials; the company, through feast or famine has been able to sustain sizable free cash flows.

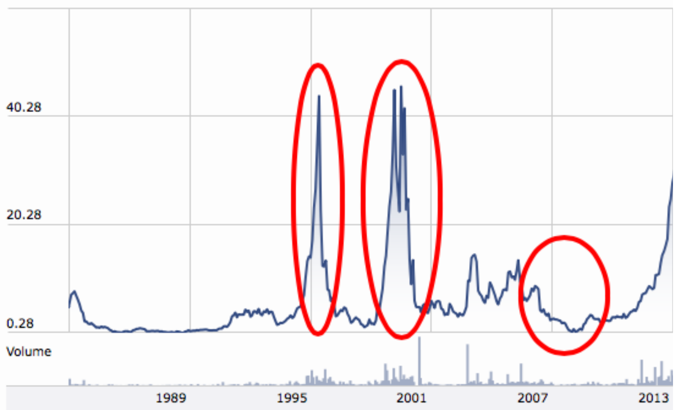


Having consistently produced FCF that represented 10% of the company's overall revenue, funds continue to flow into their war chest, year-over-year that can be used in future acquisitions and organic growth plans. As CalAmp continues to increase revenues faster than its costs, the cash flows can only balloon going forward, very quickly transforming the company into a cash cow.

Diversified Product Portfolio

In terms of sheer product offering, most of the wireless datacom industry can hardly hope to match CalAmp. While many companies attempt to make it in just one vertical market segment, CalAmp is making plays across the board including construction, field service/delivery, local government, oil/gas, public safety, rail, small/medium sized businesses, transportation, utilities, vehicle finance, and water/wastewater programs. While tending to a wide range of customer bases is certainly strength, constantly keeping competition on its toes, it hardly begins to scratch the surface of what CalAmp offers. In conjunction with industries that it serves, CalAmp offers over 70 unique products and services, all of which can be tailored in one way or another to a customers unique position. Many of the product offerings of the company are designed to seamlessly work together add incremental value to every single product. Still though the true benefit of this companies services are through its SaaS and PaaS systems and its in house app store ecosystem. Built with inherent flexibility, the app store has the ability to allow third parties to develop and host material that could be sold to customers. Customers too have the ability to create their own unique solutions that can seamlessly integrate with CalAmp's existing software and hardware, further enriching the ecosystem. A large part of what CalAmp will be in the future, is organizing and streamlining the data provided by customers, and offering cloud based services to ensure maximize security and efficiency of operation, which will serve to drive down cost both at CalAmp and its business and government partners. Based on the promise of efficient government alone, this company is a clear winner!

Rich Ratio/Volatile Past Making for Skittish Investors



Observing the course of CalAmp stock, it is no secret that life has been rocky for investors at best. Spending the large majority of its life as a penny stock, CalAmp has experienced two major periods of speculation, only to plummet shortly after when the promise of true M2M faded into the sunset. Many expect this trend to continue into the future, which could prove detrimental for nervous long-term investors. For short-term value investor though, rapid short-term appreciation is exactly the type of thing that makes a stock a buy. While this price movement may apply to the downside, it is more probably that the stock has found a price floor, which is supported by future growth. It would take a string of bad quarters to squash investor confidence in this stock. Another concern is shown below

Company	P/E Ratio
CalAmp	52.22
Freescale Semiconductor	48.39
NXP Semiconductors	45.14
Ambarella	43.18

are the companies P/E ratios. At 52.22 times earnings, CalAmp at glance seems like a very, very expensive stock. Compared with companies operating in a similar space however, it becomes much more reasonable, but still outside the norm of the over tech industry at just 15 times earnings. Given the strength of the company's balance sheet, and much lower forward multiples shouldn't foster too many timid feelings based on what only appears expensive.

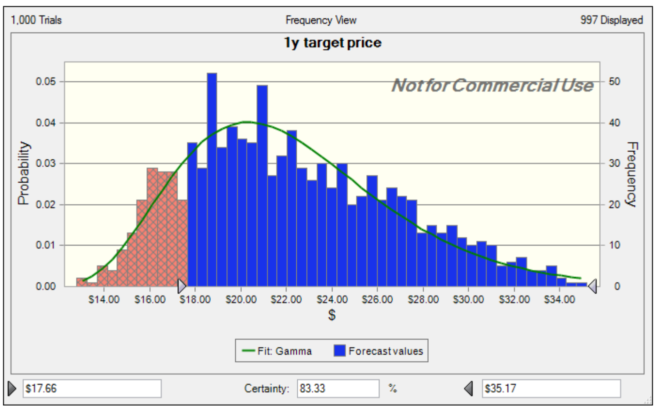
Technology Finally Ready

While it should be recognized that massive growth in M2M (connections and revenue) has been predicted every year for at least the last decade, only for realized growth to fall short of most of these lofty expectations. However due to two key factors, it is a fair bet that this time around M2M and wireless datacom are here to stay. The first factor is the increased interest in M2M by wireless carriers, and the widespread proliferation of smart devices (smartphones, tablets), which work in tandem to create a sustainable environment for the fledgling technologies. These factors represent positive fundamental developments that will most likely drive increasingly stronger M2M adoption and thus, revenue growth.

Increased carrier support. Wireless carriers are finally showing greater interest in M2M as a way to monetize their networks. On the surface, wireless carriers have shown M2M support for many years, creating special initiatives and business units. However, the core strategic focus of the carriers had remained voice subscriber acquisition and the monetization of SMS and voice capabilities. In the grand scheme of things, M2M was not strategically important to carriers. In the last few years, the North American market has become saturated – there are few new voice subscribers to add, with many existing subscribers already having data and SMS plans as well. The operators have been forced to look beyond traditional human-linked phone subscribers for meaningful growth. Similar to smart device adoption, this is a new and recent dynamic. Carriers are finally seeing M2M for what it truly is: a viable margin play, creating an opportunity for them to monetize data with manageable strain on the network. Carriers are now, at the highest executive levels, embracing M2M, and this is creating better, more industry friendly and creative pricing options and substantial carrier resources to assist solution providers in selling and implementing M2M solutions.

Proliferation of smart devices, applications. With the widespread acceptance of smartphones, tablets, and the applications used with them is creating a mobile information-centric culture: individuals are becoming used to accessing highly-dynamic data about various things (e.g., traffic, weather, stocks) at any time and any location, typically experiencing such real-time information every day. Based on these every-day experiences, which influence the decisions people make, users are increasingly recognizing how such real-time data could have tremendous value in the business environment. As individuals all over the world become more and more accustomed to the increasing prevalence of these devices, barriers for M2M and other wireless data communication systems will begin to fall by the wayside.

Forecasts



CalAmp finds itself in an excellent opportunity. It finds itself the center of a revolution in the way we live our lives, conduct our business, and run our governments. With an already proven track record, deep customer channels and new and exciting partnerships with Caterpillar and insurance companies should prove to be nothing if not exceptional. With some short-term confusion on the direction of the tech industry, coupled with increasingly likely corrective forces in the market, there may be some downward pressure on the stock. Examining the output of a Monte Carlo simulation run through the pro forma, there is roughly a 15% of this lower movement. A likely low point for this stock in that event would be around $13 to $14. However given the 30% upside with a $24.00 target price, and the high probability of such an event make this stock both cheap (intrinsic value $20.00), but a great long term pick.

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CalAmp Corp.	CAMP	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	BULLISH
		Kyle White	$17.54	$20.53	$23.47	0%	33.79%	

General Info

Sector	Information Technology
Industry	Communications Equipment
Last Guidance	Dec-23-2014
Next earnings date	4/24/2015

Market Data

Enterprise value	$594.37
Market Capitalization	$933.35
Daily volume	0.86
Shares outstanding	35.95
Diluted shares outstanding	36.48
% shares held by institutions	77.02%
% shares held by insiders	4.19%
Short interest	10.69%
Days to cover short interest	7.02
52 week high	$32.69
52-week low	$14.74
5y Beta	0.99
6-month volatility	48.96%

Peers	Market Cap.
Digi International Inc.	$251.62
Ruckus Wireless, Inc.	$1,073.70
Sierra Wireless Inc.	$1,393.50
Novatel Wireless Inc.	$215.46
Microelectronics Technology Inc.	$4,492.83
MOBI Development Co., Ltd.	$1,468.53
Wuhan Fingu Electronic Technology Co.,	$7,726.73
Aviat Networks, Inc.	$76.66
Numerex Corp.	$209.95
KVH Industries Inc.	$222.58

Current Capital Structure

Total debt/market cap	0.13%
Cost of Borrowing	12.54%
Interest Coverage	10542.64%
Altman Z	10.11
Debt Rating	AA
Levered Beta	1.42
WACC (based on market value weights)	9.00%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Burdiek, Michael	Chief Executive Officer, Presiden	$ 1,628,862.00	$ 1,621,018.00	$ 1,853,276.00
Vitelle, Richard	Chief Financial Officer, Principal	$ 724,076.00	$ 840,555.00	$ 841,580.00
Sarkissian, Garo	Senior Vice President of Corpora	$ 543,634.00	$ 656,313.00	$ 647,726.00
Friedlander, Neil	Vice President of Operations	$ -	$ -	$ -
Schmid, Justin	Senior Vice President of Marketir	$ -	$ -	$ -
Hannah, Robert	Vice President and General Mana	$ -	$ -	$ -

Historical Performance

	CAMP	Peers	Industry	All U.S. firms
Growth	2.9%	10.0%	10.4%	6.0%
Retention Ratio	22.5%	-149.7%	70.4%	61.6%
ROIC		0.3%	17.1%	11.8%
EBITA Margin	6.6%	6.4%	12.1%	13.7%
Revenues/Invested capital	116.6%	101.6%	127.2%	202.3%
Excess Cash/Revenue	11.8%	33.8%	44.2%	18.5%
Unlevered Beta	1.78	1.06	1.26	0.95
TEV/REV	0.8x	1.9x	2.2x	2.4x
TEV/EBITDA	11.4x	48.1x	14.2x	11.3x
TEV/EBITA	13.1x	41.7x	17.8x	15.4x
TEV/UFCF	10.4x	8.9x	25.4x	26.8x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-0.1%	4.2%	8.7%
Last Quarter-1	0.2%	5.4%	10.5%
Last Quarter -2	1.6%	4.5%	5.6%
Last Quarter -3	-2.6%	-17.2%	-9.1%
Last Quarter -4	3.7%	-0.7%	9.5%

Non GAAP Adjustments

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	0%	N/A	N/A

Proforma Assumptions

Operating. Cash/Cash	0.0%
Unlevered Beta	1.40
Rev/Invested Capital	117.0%
Continuing Period Revenue Growth	3.0%
Long Term ROIC	11.9%
Invested Capital Growth	Follows Forward Rev. Growth
Justified TEV/REV	2.0x
Justified TEV/EBITDA	11.4x
Justified TEV/EBITA	13.1x
Justified TEV/UFCF	10.4x

Forecasted Profitability

Period	Rev. Growth	Adj. Op. Cost/Rev	Revenue	NOPLAT	Invested capital	UFCF
LTM	10%	81%	$241.26	$22.29	$195.85	$24.68
LTM+1Y	12%	78%	$271.36	$27.15	$241.27	$2.97
LTM+2Y	19%	78%	$322.47	$32.63	$268.16	$5.74
LTM+3Y	24%	79%	$399.67	$40.70	$299.65	$9.21
LTM+4Y	29%	79%	$515.46	$52.54	$336.31	$15.88
LTM+5Y	22%	79%	$628.82	$64.11	$378.65	$21.77
LTM+6Y	16%	80%	$729.82	$74.81	$414.94	$38.52
LTM+7Y	11%	80%	$810.82	$83.80	$445.50	$53.24
LTM+8Y	8%	79%	$879.37	$91.81	$472.42	$64.89
LTM+9Y	6%	79%	$936.18	$98.63	$499.27	$71.78

Valuation

	ROIC	WACC	EVA	Enterprise Value	Total Debt	Other claims	Equity	Adjusted Price
LTM	11.2%	9.0%	$6.64	$731.78	$0.77	-$12.22	$743.22	$21.49
LTM+1Y	12.5%	9.1%	$8.22	$819.76	$0.77	-$21.80	$840.79	$24.22
LTM+2Y	13.5%	9.2%	$11.52	$890.82	$0.77	-$42.72	$932.77	$26.81
LTM+3Y	15.1%	9.2%	$17.54	$967.49	$0.77	-$70.57	$1,037.29	$29.71
LTM+4Y	17.5%	9.3%	$27.30	$1,047.34	$0.77	-$94.14	$1,140.70	$32.59
LTM+5Y	19.0%	9.4%	$36.15	$1,126.53	$0.77	-$119.73	$1,245.48	$35.64
LTM+6Y	19.7%	9.5%	$42.06	$1,193.27	$0.77	-$161.50	$1,354.00	$38.59
LTM+7Y	20.2%	9.6%	$46.67	$1,250.73	$0.77	-$217.22	$1,467.18	$41.78
LTM+8Y	20.6%	9.7%	$50.98	$1,302.23	$0.77	-$283.56	$1,585.01	$45.08
LTM+9Y	20.9%	9.8%	$54.74	$1,351.10	$0.77	-$355.69	$1,706.01	$47.46

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0	10%	N/A	N/A	Normal
Op. Costs Variation	0	10%	N/A	N/A	Normal
Market Risk Premium	5%	N/A	5%	7%	Triangular
Long term Growth	3%	N/A	3%	10%	Triangular
Terminal Value	0	0.1	N/A	N/A	Normal

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$21.49	$24.22
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$20.53	$23.47
Current Price	$17.54	
Analysts' median est.		$26.15