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TASER International, Inc. (TASR)

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Sector: Industrial Goods

Industry: Aerospace/Defense Products & Services

TASER International Inc. develops, manufactures and sales conducted electrical weapons used by police, military, private security personnel, and private individual. They are also engaged into the development of connected wearable camera, which use cloud-based digital evidence management solution (AXON).

BUY

Current Price: \$22.35
 Target Price: \$26.43
 Market Cap: 1.17B
 Beta: 1.38

Thesis: Taser faces new contracts signed, and an unexpected growth in term of revenue and has made several acquisitions, which ones will permit to increase their sales in the future. Taser is expecting to sign more contracts with the police departments and the federal and army personnel, according to the new budget allocated by Donald Trump. They also face a real demand for Axon, which product ensure a revenue for several years since it is a subscription model. Then face increasing operating expenses, which ones are explained by high investments into R&D department. This department is essential for the development of the sales and the new products offered by Taser. Finally, the development of Taser at the international is promising since the sales have grown from \$36.1M to \$49.5M between 2015 and 2016.

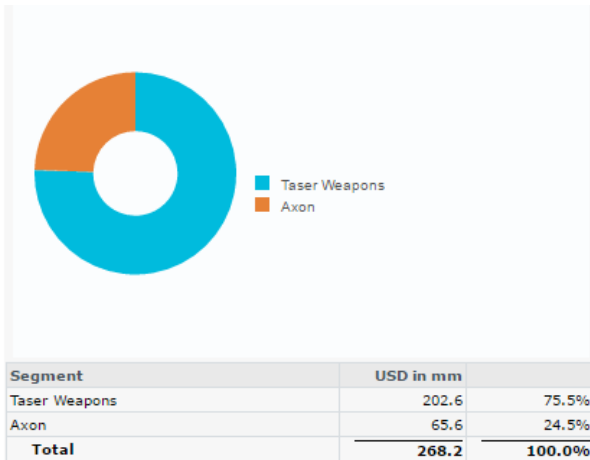
Catalysts:

- **Short Term:** The launch of AXON AI.
- **Mid Term:** New contracts with police department and military through the increase of their budget.
- **Long Term:** Increase of their revenue and decrease of the operating expenses.



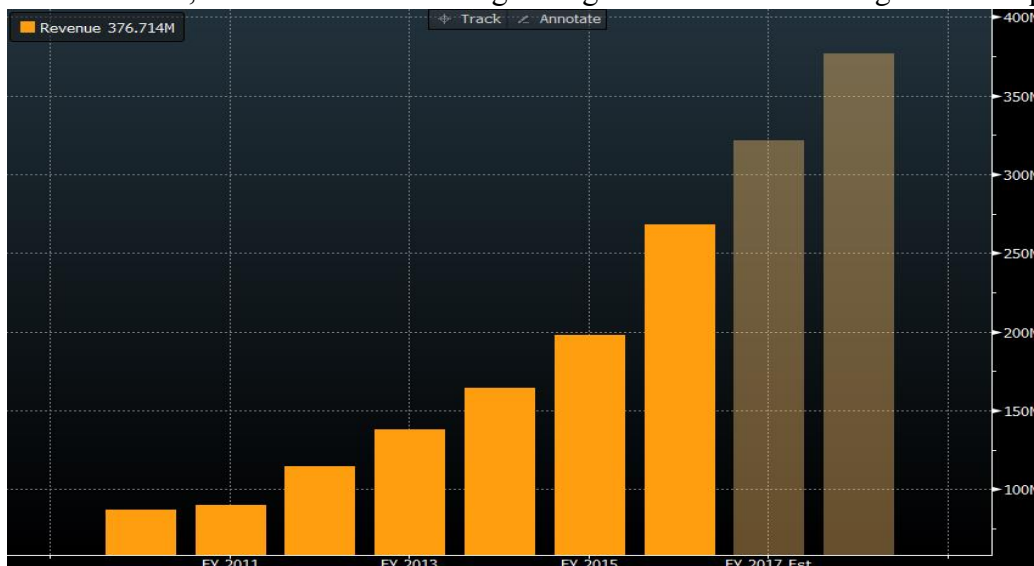
Sales:

Taser is able to propose a big range of products. In fact, they propose Tasers as self-defense product for anyone. They also propose different products for the police, they offer Tasers, body-camera and car-camera through their line called Axon. They also propose products to the army and the federal personnel. Through Axon, Taser has made a good move. In fact, the weapon growth has decreased.



Indeed, the weapon growth was +34% in Q3 2016 vs Q3 2015 and +25% in Q4 2016 vs Q4 2015. Axon represent an increase into this segment revenue of +154% in Q4 2016 vs Q4 2015 while it was +75% in Q3 2016 vs Q3 2015. This has helped Taser's Q4 revenue to grow by 46%. In fact, their revenue growth has been driven by Axon segment. Overall Axon sales represents 24.5% of Taser's total sales, while in 2015 it represented 17.9%.

Furthermore, Axon has now equipped more than 50% of the major cities in the US and is expected to equip more for the next few years. Their revenue has grown from \$197.9 to \$268.2, which represents an increase of 35.52%. This increase can be explain by different new contracts such as the body-camera, which has been signed with the NYPD to equip a certain amount of patrols but also the contract signed with the first three state patrol. In fact, these contracts have been signed because Taser will launch their car-camera soon. This implies new future contracts. Furthermore, Taser has successfully launch their products in UK with a two years long contract, in Australia and New Zealand, where they will equip the police with Tasers. Furthermore, the US Air Force will also be equipped of Tasers. Their revenue in other countries than the US represented \$36.1M in 2015, now it represents \$49.5M (18.4% of their sales). They also will be able to launch in late 2017 new products through the group called "Axon AI", thanks to two new acquisition: Dextro and Fossil Group. This will provide intelligent video in order to help the police to provide "smarter services". This new line product is expected on a long term to create a new line of revenue for Taser. Through these different contracts and new products they expect to have revenue over \$500M for the three years. On an overall, the Taser's revenue is growing much faster than the guidance expected.



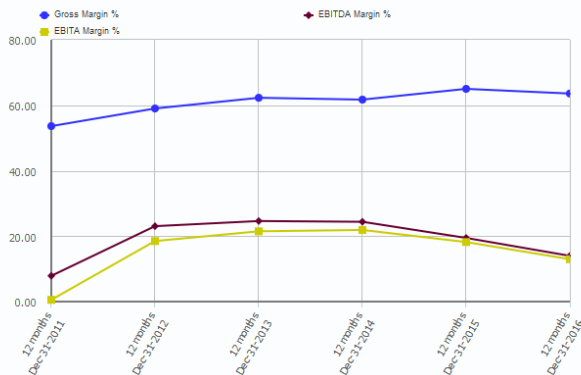
Margin:

In order to face this unexpected growth, Taser had to decrease their profit margin. We also can see that their gross margin and EBIT margin and EBITDA margin are decreasing, but the guidance tells us that these margins will increase in the future since the intelligent cameras will have a higher average selling price and the management expect margins of about 50%.

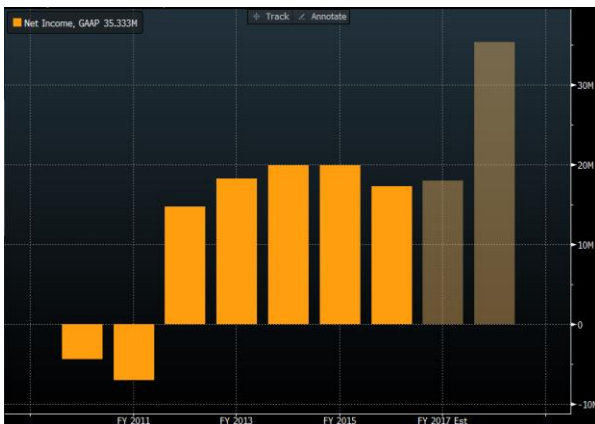
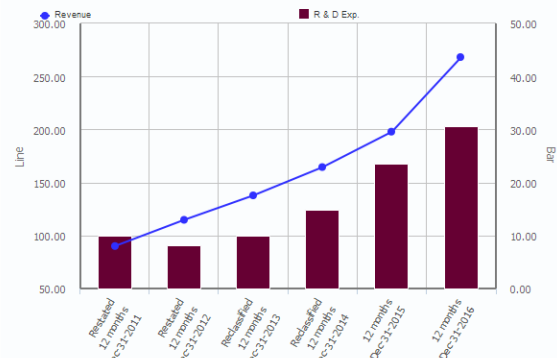
In fact, we can see that their operating expenses are increasing faster than their revenue.

This is the result of their numerous investments into the R&D department. In fact, their R&D department is one of the biggest department since they are producing intelligent weapons and cameras. Without these investments they would not have been able to develop Axon, Axon Fleet, which one is the car-camera and Axon AI in late 2017. Furthermore, we can see on the chart that the revenue is growing on the same R&D investments. They are expecting that their expenses into R&D department will drive their revenue by an increase of 15% per year. In fact, the guidance tells us that the operating expenses are going to increase but slower than the last few years and also they will keep an important watch on it.

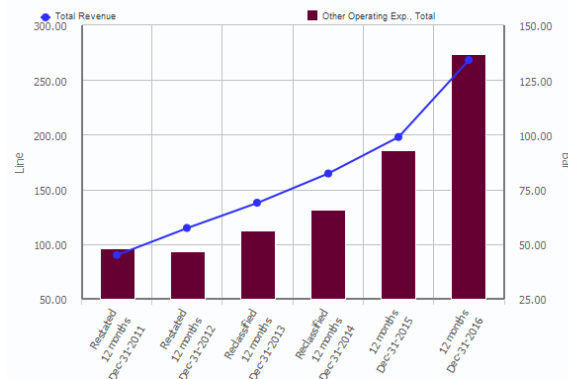
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Conclusion:

To conclude. We can see that TASER International, Inc. is facing an unexpected growth. In fact, its products are able to be sold to the police department, federal, military and individuals. They also have been able to sign new contracts to the international, and they sold the AXON service to the 50 major cities in the US, which is a strong signal for the rest of the country even to the rest of the world. Furthermore, they have made two acquisitions in order to develop AXON, and to create AXON AI, which will ensure an increase of revenue and an expected new revenue segment. Because of their unexpected growth, they have seen their costs increasing, mainly based on the research and development department. This one is one of the most important department since their products are intelligent weapons and new on the market, which ensures them a long future growth. They also expect their margin to increase on the next launches. This would be a buy on the long term.

