

Mossberg's Investor Digest

Best Idea Profile:

Avigilon Corporation (TSX:AVO.TO)

DESCRIPTION:

Avigilon Corporation designs and manufactures all aspects of high-definition security solutions; software, cameras, lenses, encoders, network switches, workstations, analytics. These components can be sold separately or in combination to provide customers with a customizable end-to-end video surveillance solution. Its systems, installed in more than 24,000 sites in 113 countries, allow high image quality, and less bandwidth and storage than its competitors. Avigilon products are found in schools, casinos, airports, health care centers, government facilities, financial institutions, and retailers. Founded in 2004, the company first offered its stock publicly in 2011. It is headquartered in Vancouver, Canada.

KEY INVESTMENT CONSIDERATIONS:

Dynamic Industry – The video surveillance market is rapidly growing as the need increases for public safety, asset protection, theft prevention, liability management, and regulatory compliance. Industry experts forecast the surveillance security system industry is growing at a 16.4% compound annual growth rate from \$12.6 billion in 2012 to \$23.2 billion in 2016. The growth is driven by the emphasis put on security in all corners of the world. The industry is transitioning from analog, which is in most surveillance cameras in use today, to digital surveillance technologies. Suppliers are rushing to convert their current customers to digital from their legacy systems, while new businesses are implementing the updated technologies. It is a very fragmented industry; therefore, even with industry-leading technology, Avigilon may soon achieve a miniscule 2% of the market, and the largest player has less than 6%.

Superior Offerings – Avigilon's uniqueness is in its complete end-to-end offerings. It has a superior software platform, which is the critical differentiator as hardware becomes more of the commodity piece of the puzzle. Its software records, replays and analyzes data and is extremely easy to integrate with most all existing hardware platforms.

Scalable Business – As the installed base increases, selling expenses will decrease and margins will increase as Avigilon can resell and upgrade significantly more efficiently. Approximately 80% of new customers already have some type of surveillance solution but are upgrading to digital. Avigilon uses more than 2,000 resellers, as well as an inside sales department and a business development department focused on longer

lead-time enterprise opportunities, to sell in more than 113 countries. Capturing market share is a primary objective for Avigilon at this critical juncture in the industry's evolution.

Acquisition – Avigilon acquired VideoIQ, Inc. in January 2014. The benefit of its real-time intelligent video analytics is the ability to pick up visual cues and provide a proactive way of not just recording, but preventing criminal activity. The software is customizable, can deliver real time data, and can also learn over time. VideoIQ has a strong patent portfolio with 40 patents granted or pending internationally. Full integration will be completed within a year and a half.

VALUATION:

Avigilon stock rose rapidly until second quarter results caused the stock to drop 20% as investors were concerned about the rise in expenses. However, management has explained its willingness to sacrifice some short-term margins in order to bolster its sales and marketing efforts and continue its investment in research and development. With expectations of revenues doubling to \$500 million by 2016 while still achieving EBITDA of up to 25%, as well as an attractive cash position and the possibility of a NASDAQ listing, this stock is an attractive investment. Third-quarter results will be reported on November 4.

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Investment Data (as of 10/28/14)

Recent Price	\$15.88
52-Week Range	\$13.15 - \$34.50
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	46.5 M
Average Trading Volume (3 mos)	431k
Market Capitalization	\$742 M
Cash	\$157 M
Long-term Debt	0
Enterprise Value (EV)	\$556 M
Book Value	\$5.90
TTM Revenue	\$228 M
P/ Revenue	3x
TTM EPS	\$0.60
P/ EPS	27x
TTM EBITDA	\$39 M
EV/ EBITDA	14x

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