

Mossberg's Investor Digest

Best Idea Profile:

LRAD Corporation (NASDAQ:LRAD)

DESCRIPTION:

The long range acoustic device was developed following terrorist attacks on a French tanker and the USS *Cole* for the purpose of enabling security and military forces to broadcast warnings and to determine the intent of potential threats at safe distances. This provides the necessary time and distance to employ escalation of force if necessary. LRAD Corporation products use a concentrated beam of sound to broadcast highly intelligible, multilingual voice message or loud deterrent tones that can be heard up to three kilometers away. LRAD systems are implemented in more than 60 countries in applications including: military, maritime security, commercial security, border and port security, critical infrastructure and perimeter security, emergency warning and mass notification, law enforcement, emergency responders, and wildlife preservation and control. LRAD, founded in 1980, is based in San Diego.

KEY INVESTMENT CONSIDERATIONS:

Essential and Growing Markets – LRAD's highest profile market, non-lethal weapons, is forecast to triple in ten years, from \$1.5 billion in 2011 to \$4.4 billion. This growth is being driven by the increasing demand for methods of enforcement that avoid non-combatant casualties. Although U.S. government sequestration has delayed funding of many projects, the demand is still there. LRAD is also heavily targeting mass notification markets, which include systems with uses ranging from tsunami warning systems to mobile communications networks set up in disaster areas.

Dominance in U.S. Market – All U.S. Navy contracts are competitively bid; however, LRAD products continue to be the preferred provider, with more than 450 LRAD systems sold to the Navy. LRAD is also aggressively pursuing U.S. Army and international military business.

International Opportunities are Increasing – LRAD is strengthening its international distribution network and partners with large defense contractors to include its systems into international products with acoustic hailing device requirements. China is a tremendous growth opportunity, especially for public safety, and LRAD recently signed an agreement with a Chinese-based company to develop Chinese military and public safety markets. Although development will take time to evolve, the relationship puts LRAD in a strong position to pursue this lucrative space. Additionally, earlier in August, LRAD received a \$1 million Asian order for public safety, wildlife control and emergency systems;

and a \$760,000 order from the Middle East for a system to be used for crowd and riot control. They are both scheduled to ship in the fourth quarter.

Expect Fiscal Fourth Quarter Recovery – Fiscal third quarter revenue was down in large part because of military delays. However, a \$12 million Navy contract in the works for over a year was recently approved, and LRAD has received more than \$3 million of non-military orders since the end of the third quarter alone. If orders can be shipped as expected in the fourth quarter, it may be the second best quarter in company history. Even more importantly, LRAD believes 2014 looks good without relying on military orders.

Share Buyback – In July, shareholders approved a new board of directors, several of whom are buying shares. In addition, the board approved a share buyback program of up to \$3 million of outstanding shares. In light of improved cash flow expected in the fourth quarter, this will be funded by organic growth and no debt.

VALUATION:

With good cash flow and no debt on the balance sheet, the company can aggressively pursue its buyback program, which is likely an accretive use of cash and a support to the stock.

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Investment Data (as of 8/30/13)

Recent Price	\$1.55
52-Week Range	\$0.80 - \$1.66
Fiscal Year End	Sep
Dividend	NA
Yield	NA
Shares Outstanding	32.5 M
Average Trading Volume (3 mos)	190k
Market Capitalization	\$52 M
Cash	\$15 M
Long-term Debt	0
Enterprise Value (EV)	\$30 M
Book Value	\$0.66
TTM Revenue	\$14 M
P/ Revenue	3.7x
TTM EPS	\$(0.02)
P/ EPS	NA
TTM EBITDA	\$(300)K
EV/ EBITDA	N/A

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