



Date: 11/24/2020
Company Ticker: CAMP
Sector: IT
Industry: Telecommunications Services
All numbers in thousands

Firm P/E: -3.32
Sector Forward P/E: 24.5
Current Price: \$9.33
Target Price: \$12.49

Recommendation: HOLD

Company Summary:

CalAmp Corp provides Internet-of-Things products and wireless communications solutions applications to customers. The company's products, software, and application services are sold into a broad array of market verticals including transportation, government, construction, and automotive to customers in the United States, Latin America, Western Europe, Asia Pacific, Middle East and Africa. CAMP's main product lines are mobility products and cloud-based services. At CAMP's core are telematics and Software-as-a-Service (SaaS) products. Telematics involves IoT devices in automobiles as well as other mobile heavy machinery. In this regard, CAMP's biggest customer is Caterpillar (CAT), and this company's transition from 3G to 4G has been a steady and reliable source of revenue for CAMP amid Covid-19 related challenges. Currently, CAMP is in a transition into a company focused on its SaaS business, a subscription-based cloud computing service. In the past year, the firm has acquired three SaaS businesses as part of their effort to increase their presence in this space.

Industry Outlook:

Telematics has been an up-and-coming industry for some years now. As both the global transportation industry and the pervasive presence of "smart" connected devices have been on the rise, telematics has resultantly experienced mass growth. The pandemic has caused some troubles as there has been less transportation taking place and more activities being done remotely. However, this appears to be a small downturn on a broader climb, fueled especially by the increasing use of digital interconnected devices. SaaS is a relatively new market and has also been experiencing great growth. It provides a simpler and cheaper alternative to purchasing a license to a cloud software. In a sense, SaaS is like renting an apartment while purchasing a cloud software license is like buying a house.

Earnings Forecast

	FY 2016A	FY 2017A	FY 2018A	FY 2019A	FY 2020A	FY 2021E	FY 2022E	FY 2023E	FY 2024E
Revenue	\$ 280,719	\$ 351,102	\$ 365,912	\$ 363,800	\$ 366,107	\$ 330,008.85	\$ 345,519.27	\$ 361,758.67	\$ 378,761.33
COGS	\$ 177,760	\$ 207,750	\$ 215,022	\$ 216,306	\$ 222,804	\$ 199,043.04	\$ 208,398.06	\$ 218,192.77	\$ 228,447.83
Gross Profit	\$ 102,959	\$ 143,352	\$ 150,890	\$ 147,494	\$ 143,303	\$ 130,966	\$ 137,121	\$ 143,566	\$ 150,314
R&D	\$ 19,803	\$ 22,005	\$ 25,761	\$ 27,656	\$ 29,436				
S&A Exp.	\$ 48,445	\$ 106,163	\$ 102,185	\$ 80,962	\$ 118,203				
Intangible asset amortization	\$ 6,626	\$ 15,061	\$ 14,989	\$ 11,436	\$ 12,321				
Impairment loss	\$ -	\$ -	\$ -	\$ -	\$ 19,143				
Restructuring	\$ -	\$ -	\$ -	\$ 8,015	\$ 4,400				
Total operating expenses	\$ 74,874	\$ 143,229	\$ 142,935	\$ 128,069	\$ 183,503	\$ 148,504	\$ 155,484	\$ 162,791	\$ 170,443
Operating income (loss)	\$ 28,085	\$ 123	\$ 7,955	\$ 19,425	\$ (40,200)	\$ (17,538)	\$ (18,362)	\$ (19,225)	\$ (20,129)
Non-operating income (expense)									
Investment income	\$ 1,871	\$ 1,691	\$ 2,256	\$ 5,258	\$ 4,497				
Interest expense	\$ (7,595)	\$ (9,896)	\$ (10,280)	\$ (16,726)	\$ (20,096)				
Gain on legal settlement	\$ -	\$ -	\$ 28,333	\$ 18,333	\$ -				
Loss on extinguishment of debt	\$ -	\$ -	\$ -	\$ (2,033)	\$ (2,408)				
Other income (expense), net	\$ (20)	\$ (101)	\$ 445	\$ (672)	\$ (113)				
Income (loss) before income taxes and equity in net loss of affiliate and related impairment loss	\$ 22,341	\$ (8,183)	\$ 28,709	\$ 23,855	\$ (58,320)	\$ 23,100.62	\$ 24,186.35	\$ 25,323.11	\$ 26,513.29
Income tax benefit (provision)	\$ (4,572)	\$ 1,563	\$ (10,681)	\$ 1,330	\$ (20,454)	\$ (1,669)	\$ (1,747)	\$ (1,829)	\$ (1,915)
Income (loss) before equity in net loss of affiliate and related impairment loss	\$ 17,769	\$ (6,620)	\$ 18,028	\$ 25,185	\$ (78,774)	\$ 21,432	\$ 22,439	\$ 23,494	\$ 24,598
Equity in net loss of affiliate and related impairment loss	\$ (829)	\$ (1,284)	\$ (1,411)	\$ (6,787)	\$ (530)	\$ (530)	\$ (530)	\$ (530)	\$ (530)
Net income (loss)	\$ 16,940	\$ (7,904)	\$ 16,617	\$ 18,398	\$ (79,304)	\$ 20,902	\$ 21,909	\$ 22,964	\$ 24,068

In the 2021E revenue projection, we used a growth rate of -9.86% to get a revenue amount of about \$330 million. We decided upon this after doing some research and looking at some analysts' projections (JPMorgan's prediction was \$333 million while Value Line's prediction was \$325 million). We did not include those certain line items as you can see above are not filled out in the forecasted years. This is because we decided it may be worth it to simplify the model by cutting out the line items of lesser magnitude and instead listing only the line items of greater magnitude, which affect the bottom line more directly.

Valuation

Net income (loss)	\$ 16,940	\$ (7,904)	\$ 16,617	\$ 18,398	\$ (79,304)	\$ 20,902	\$ 21,909	\$ 22,964	\$ 24,068
Depreciation & Amortization	\$ 10,208	\$ 23,469	\$ 22,957	\$ 20,016	\$ 31,987	\$ 21,727	\$ 24,031	\$ 24,144	\$ 24,381
CAPEX	\$ 4,317	\$ 7,962	\$ 8,339	\$ 12,007	\$ 22,192	\$ 10,963	\$ 12,293	\$ 13,159	\$ 14,123
Change in NWC	\$ 180,153	\$ (120,338)	\$ 51,492	\$ 139,549	\$ (203,514)	\$ 77,978	\$ 9,135	\$ 9,565	\$ 10,014
NetNewDebt	\$ 142,360	\$ 35,303	\$ 25,160	\$ 109,669	\$ (60,934)	\$ 5,000	\$ 19,724	\$ 18,365	\$ (4,461)
FCFE	\$ (14,962)	\$ 163,244	\$ 4,903	\$ (3,473)	\$ 73,071	\$ (41,312)	\$ 44,236	\$ 42,749	\$ 19,851
PV FCFE						\$ (6,711)	\$ 39,922	\$ 35,722	\$ 15,359
Terminal Value									\$ 456,562
Sum of Discounted FCFE	\$ 84,291								
Discounted Terminal Value	\$ 353,254								
Discounted Equity Value	\$ 437,546								
Shares Outstanding	35,020,000								
Target Share Price	\$ 12.49								
Current Price	\$ 9.33								

Forward P/E	24.5
Growth Rate	3.50%
Discount Rate	8.00%

Amid Covid-19, CalAmp has been hesitant to take out significant levels of additional debt as they are looking to ensure their balance sheet is strong. The research and analyst reports which we saw had target stock prices ranging from around \$9.00 to \$13.00. With fiscal year-end at the end of February, we discounted 2021's cash flows 4 months, 2022's cash flows 16 months, 2023's cash flows 28 months, and so on.

Sensitivity Analysis

Sensitivity Analysis		2020-2021 revenue growth rate				
	\$ 12.49	-11.86%	-10.86%	-9.86%	-8.86%	-7.86%
Discount Rate	5.00%	35.25	35.53	35.80	36.08	36.35
	6.00%	21.51	21.67	21.83	21.99	22.15
	7.00%	15.61	15.72	15.83	15.95	16.06
	8.00%	12.33	12.41	12.49	12.58	12.66
	9.00%	10.23	10.29	10.36	10.43	10.50
	10.00%	8.77	8.83	8.88	8.94	8.99

The dark blue shaded cell is our target value. The light blue shaded cells surrounding it are all prices which we determined are within reason for where the stock price might go to in the short term, given our model.