

US Equity Research

19 May 2015

BUY

unchanged

PRICE TARGET US\$26.00

unchanged

Price (19-May) US\$20.07

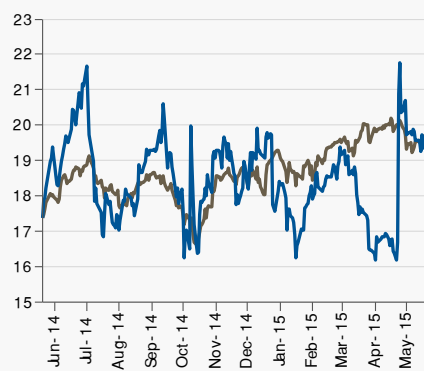
Ticker CAMP-NASDAQ

52-Week Range (US\$):	15.32 - 22.36
Avg Daily Vol (M) :	0.6
Shares Out. (M) :	36.0
Market Cap (US\$M):	727

FYE Feb	2015A	2016E	2017E
EPS Adj&Dil (US\$)	0.96	1.06↓	1.32↓
Previous	0.96	1.13	1.39
Sales (US\$M)	250.6	283.5	321.9

Quarterly EPS Adj&Dil	Q1	Q2	Q3	Q4
2015A	0.19	0.21	0.25	0.32
2016E	0.25	0.26	0.26	0.29
2017E	0.30	0.32	0.34	0.36

Quarterly Sales	Q1	Q2	Q3	Q4
2015A	59.0	59.2	63.2	69.2
2016E	65.4	69.0	73.2	75.9
2017E	76.6	78.6	82.1	84.6



Source: FactSet

CalAmp supplies integrated M2M hardware with its COLT AEP cloud to several M2M markets including fleet management, usage based insurance, and vehicle finance.

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Estimates Revised

Upbeat investor meetings: Convertible debt offering could fund accretive acquisitions

Investment recommendation: We hosted upbeat investor meetings with CalAmp CEO Michael Burdick on April 29th, in the mid-Atlantic region. Following our meetings, we maintain our belief CalAmp is well positioned for solid long-term growth in the Industrial IoT market through both organic initiatives that include entering new markets and through potential acquisitions. In fact, we believe CalAmp's recent \$150M low-interest rate convertible offering provides the company with increased financial flexibility for its M&A strategy focused on accretive acquisitions in targeted IoT verticals. We remain impressed with management's longer-term strategy to build upon its strong hardware portfolio and offer an increasing mix of higher-margin recurring revenue solutions. Finally, as evidenced by the strong Q4/F2015 results, we believe CalAmp's Wireless DataCom business is well positioned to drive strong F2016 and F2017 sales and earnings growth driven by ramping sales to Caterpillar, growing insurance telematics sales, ramping international sales, a growing product portfolio, an increasing list of new customer opportunities, and anticipated steady growth of higher-margin recurring revenue sales. We maintain our BUY rating and \$26 PT.

Investment highlights

- Consistent with our IoT report published today titled '**Following Q1/15 earnings and meetings at IoT conferences, we anticipate steady market growth,**' we believe CalAmp is well positioned to benefit from strong trends in the Industrial IoT market. Further, we believe the company's new initiatives such as its hardware-as-a-service offerings and its recent CrashBoxx acquisition should drive long-term revenue growth with potential for stronger margins and an increased mix of recurring revenue. We believe the relatively small Crashboxx acquisition provides CalAmp with unique technology developed by a team from the airbag industry with the potential to offer a differentiated solution for the insurance telematics industry.
- On May 1st, CalAmp issued \$150M in 1.625% convertible notes due 2020 at an initial conversion price of \$27.59 and granted initial purchasers of the notes a 30-day option to buy an additional \$22.5M of the convertible debt. Further, CalAmp entered into a series of negotiated hedge transactions and warrant sales. We believe the structure of the hedge contracts and the \$39.72 strike price of the warrants minimizes the potential dilution to existing shareholders as the stock price would have to essentially double before the warrants are in the money. We believe this low-interest convertible debt offering provides funds for the company's M&A strategy focused on vertical market alignment, non-GAAP earnings accretion, margin accretion, and ease of integration. While we do not believe an acquisition is imminent, we believe management continues to explore several opportunities.
- We have updated our model for the \$172.5M convertible debt offering assuming the exercise of \$22.5M option and consequently lower our 2015/2016 pro forma EPS estimate from \$1.13/\$1.39 to \$1.06/\$1.32. Our adjusted EBITDA estimates and price target remain unchanged.

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Target Price / Valuation Methodology:

CalAmp - CAMP

Our \$26 price target is based on shares trading at roughly 15x EV/EBITDA based on our F2017 estimates.

Risks to achieving Target Price / Valuation:

CalAmp - CAMP

Risks to our price target include 1. Global subscriber growth for M2M applications could be slower than our estimates 2. Carrier network coverage or data subscription pricing plans may change and hinder M2M subscription growth assumed in our analysis 3. Sales and margins in CalAmp's legacy Satellite business could prove less stable than we forecast 4. Slowing of the global economic macro environment could reduce enterprise and government spending on M2M technology below our estimates

Distribution of Ratings:

Global Stock Ratings (as of 05/19/15)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	580	58.06%	32.07%
Hold	334	33.43%	17.07%
Sell	40	4.00%	5.00%
Speculative Buy	45	4.50%	55.56%
	999*	100.0%	

*Total includes stocks that are Under Review

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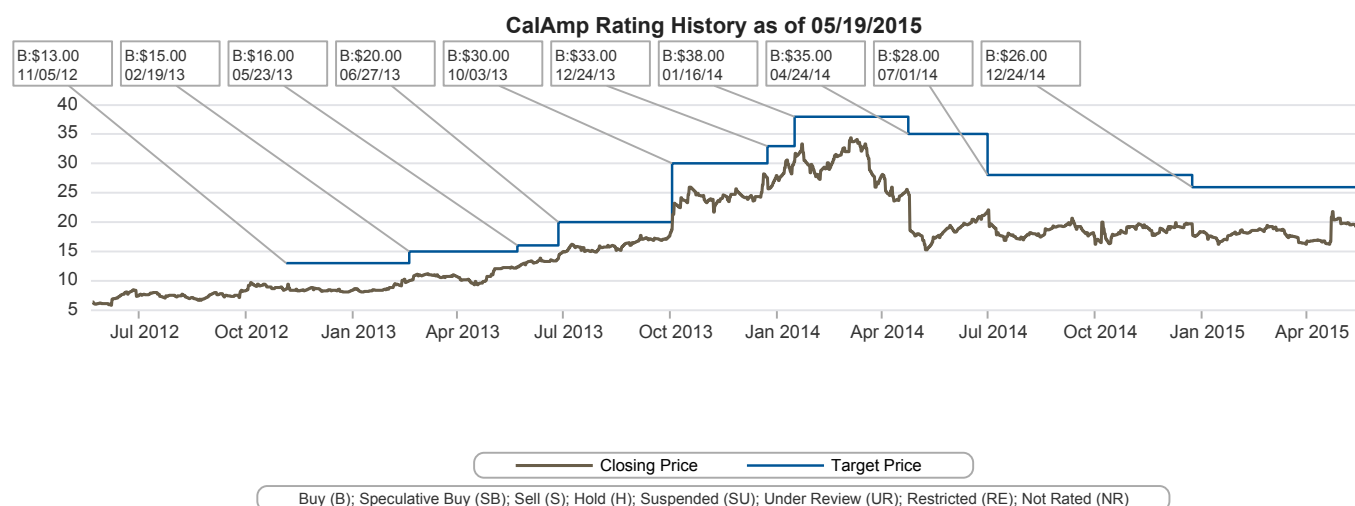
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