

# PowerFleet

## IoT, Security & Communications Software

**Rating**  
**BUY**  
unchanged

**Price Target**  
**US\$6.00**  
unchanged

**PWFL-NASDAQ**

**Price**  
**US\$2.48**

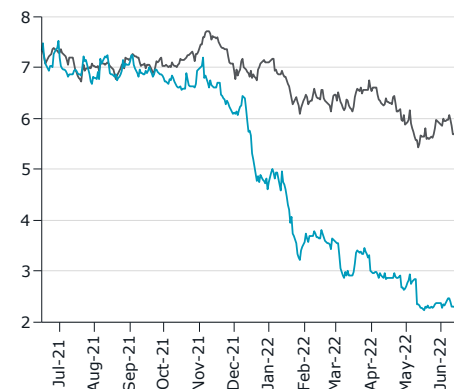
### Market Data

52-Week Range (US\$) :	2.16 - 7.74
Avg Daily Vol (M) :	0.08
Market Cap (US\$M) :	89.5
Shares Out. (M) :	36.1

FYE Dec	2021A	2022E	2023E
Revenue (US\$M)	126.2	141.3	159.2
EBITDA Adj (US\$M)	6.2	1.7	18.9

Quarterly Revenue	Q1	Q2	Q3	Q4
2021A	29.0	33.5	29.2	34.4
2022E	33.2A	34.0	35.9	38.2
2023E	37.0	38.8	40.7	42.8

Quarterly EBITDA Adj	Q1	Q2	Q3	Q4
2021A	1.4	2.8	1.0	1.0
2022E	(1.0)A	(0.6)	0.9	2.4
2023E	3.4	4.3	5.1	6.1



— PWFL.US  
— Russell 2000 (rebased)

Source: FactSet

Priced as of close of business 14 June 2022

PowerFleet designs and manufactures wireless machine-to-machine (M2M) enterprise asset management solutions across three segments – PowerFleet for Industrial, PowerFleet for Logistics, and PowerFleet for Vehicles.

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## Analyst Day highlights strong long-term growth opportunities with expanding margins

### Investment Recommendation

We attended PowerFleet's virtual analyst day and were impressed with the new management team and their vision to transform the company into a global SaaS leader with mission critical insights focused on leading industries such as logistics, Industrial, Fleet, and connected car solutions. With roughly 600K subscribers, PowerFleet has the scale and international footprint to compete for global tenders against leading fleet and asset tracking competitors, and several large deals demonstrate traction with larger customers. For fleet management, PowerFleet is one of the only true end-to-end solutions in the market spanning in-cab, refrigerated trailers, dry vans, and containers. Along with leading solutions for industrial fleet, PowerFleet also has a leading connected rental car fleet solution as evidenced by its success with Avis Budget Group, and Pointer's globally proven Cellocator and MRM solutions.

We believe PowerFleet has a strong and growing solutions platform to grow its market share. This strength is demonstrated by its expansive global customer base, including Jungheinrich, Nestle, Walmart, Michelin, Caterpillar, Ford, Amazon, and others. We believe PowerFleet has the leadership team in place to execute on its growth strategy and anticipate recovering sales and expanding margins as management executes on its strategy shared at the analyst day. Given our confidence new CEO Steve Towe and management will execute on its roadmap and achieve longer-term growth and profitability objectives, we reiterate our BUY rating and \$6 price target.

### Expanding solutions offering to cross-sell and upsell strong customer base:

Through leveraging its strong IP and technology platforms as a pioneer in the IoT industry, management shared its vision for a modular approach to sales for an expanding set of solutions targeted for large and growing IoT vertical markets. With a base of over 8K enterprise customers, management highlighted its focus to move up the IoT value chain from its core telematics offerings to an increasing mix of data driven AI software and solutions. We anticipate strong long-term cross-sell opportunities from its growing platform of SaaS applications and upsell opportunities from expanding within its customer base and providing a greater mix of consulting services. Execution on this strategy should result in growing wallet share with its customer base to drive improving ARPU trends and expanding margins.

**Growing solutions ecosystem:** Management shared its modular approach to selling SaaS business application solutions including advanced fuel management, vehicle and asset health to save on maintenance, regulatory management, resource management, business optimization, sustainability, and safety & security. Combining these solutions with PowerFleet's industry leading hardware and sensors position the company for very competitive solutions to grow share in its targeted markets. PowerFleet management also showcased its ability to work with multiple third-party hardware vendors to enable its clients with mixed fleets to benefit from one platform of powerful data analytics to more effectively and efficiently manager their assets. While we believe PowerFleet has differentiated hardware offerings, the ability to work with leading third-party hardware vendors should help drive increasing share with some of its large customers and help win share from new customers.

**Building a new management team with a proven track record:** In order to transform the company, we anticipate the new management team will continue to recruit talent while also streamlining operations to reach its longer-term profitable goals. Management is actively recruiting and anticipates filling most of the targeted positions by the end of C2022. During the Analyst Day, PowerFleet's new management team presented the company's plans to transform its business toward more recurring revenue. The presenters included several of the new management team, including CEO Steve Towe, CTO Jim Zeitunian, CRO Patrick Maley, and VP, Transformation and Growth Melissa Ingram. Steve Towe brings over 25 years of SaaS IoT and Enterprise Software experience to the company including as the Chief Commercial Officer of Masternaut (global telematics provider) and President of Aptos (leader in omnichannel SaaS retail). Jim Zeitunian brings significant supply chain industry experience including most recently at Llamasoft (leader in AI-powered supply chain design and planning). Patrick Maley brings over 25 years of SaaS and Software experience including most recently as the CMO of BluJay Solutions (global trade management software company) and the President of MAM Software (ERP solution for the auto aftermarket). Melissa Ingram brings significant corporate transformation experience including most recently at Aptos (leader in omnichannel SaaS retail) as well as British Telecom. We are encouraged by PowerFleet's recently appointed management team, which we think arms the company with the necessary leadership to steer the company toward their growth and profitability targets discussed below.

**Four-year financial targets consistent with our model:** Management shared it areas for improving profitability despite investing in talent. Focus areas include improving systems and platforms, improving hosting and tooling including a smaller number of cloud vendors, lowering third-party spend through greater scale, redesigning products to lower component costs, and more areas to streamline operations. With 2022 an investment year, we are maintaining our estimates for 1% adjusted EBITDA margins. However, management shared its four-year target for over \$200M in annual revenue, with recurring revenue greater than 50% of the mix, and adjusted EBITDA margins north of 25%. As management executes on its roadmap and tracks towards these metrics, we believe the share price should improve consistent with our BUY rating and \$6 price target.

**Long-term targets intact despite lingering pandemic and supply constraint headwinds:** Given the disciplined cost structure, growing pipeline, and anticipated greater mix of higher-margin software and services, we maintain our belief PowerFleet is on track for solid long-term growth with expanding margins. PowerFleet has a strong new management team and global footprint to generate cross-selling and upselling opportunities, along with a growing suite of software solutions to drive faster growth for higher-margin services revenue. We thought management had a strong analyst day sharing their vision to create a leading SaaS and AI platform to take advantage of PowerFleet's strong IP and technology across its impressive and growing customer base. We reiterate our BUY rating and \$6 price target.

Consolidated Income Statement

(in millions, except per share information)

Period Date	Q1-21 A 3/31/2021	Q2-21 A 6/30/2021	Q3-21 A 9/30/2021	Q4-21 A 12/31/2021	Q1-22 A 3/31/2022	Q2-22 E 6/30/2022	Q3-22 E 9/30/2022	Q4-22 E 12/31/2022	Q1-23 E 3/31/2023	Q2-23 E 6/30/2023	Q3-23 E 9/30/2023	Q4-23 E 12/31/2023	CY-21 A 12/31/2021	CY-22 E 12/31/2022	CY-23 E 12/31/2023
Notes to Income Statement	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Services	17.57	18.08	18.46	19.11	18.77	19.14	19.62	20.31	20.82	21.34	21.87	22.42	73.23	77.85	86.45
Products	11.42	15.47	10.79	15.31	14.39	14.82	16.31	17.94	16.14	17.43	18.83	20.34	52.98	63.46	72.74
<b>Total net revenues</b>	<b>28.99</b>	<b>33.55</b>	<b>29.25</b>	<b>34.42</b>	<b>33.16</b>	<b>33.97</b>	<b>35.93</b>	<b>38.25</b>	<b>36.96</b>	<b>38.77</b>	<b>40.70</b>	<b>42.75</b>	<b>126.21</b>	<b>141.30</b>	<b>159.19</b>
Cost of Services	6.37	6.64	6.81	6.76	6.78	6.89	6.87	7.01	7.16	7.32	7.48	7.64	26.58	27.55	29.60
Services revenue gross margin	63.8%	63.3%	63.1%	64.6%	63.9%	64.0%	65.0%	65.5%	65.6%	65.7%	65.8%	65.9%	63.7%	64.6%	65.8%
Cost of Products	8.15	10.86	8.17	12.26	11.98	12.30	13.04	13.63	12.27	13.08	13.93	14.85	39.45	50.96	54.12
Products revenue gross margin	28.6%	29.8%	24.2%	19.9%	16.8%	17.0%	20.0%	24.0%	24.0%	25.0%	26.0%	27.0%	25.5%	19.7%	25.6%
Total cost of goods sold	14.52	17.50	14.98	19.02	18.76	19.20	19.91	20.64	19.43	20.39	21.41	22.49	66.03	78.51	83.73
<b>Gross Profit</b>	<b>14.47</b>	<b>16.05</b>	<b>14.27</b>	<b>15.40</b>	<b>14.40</b>	<b>14.77</b>	<b>16.02</b>	<b>17.61</b>	<b>17.53</b>	<b>18.38</b>	<b>19.29</b>	<b>20.26</b>	<b>60.18</b>	<b>62.80</b>	<b>75.46</b>
Selling, general and administrative expense	13.61	13.42	13.96	16.11	14.91	14.76	14.61	14.75	14.75	14.70	14.85	15.00	57.10	59.04	59.30
Research & development expenses	2.75	2.78	2.74	2.80	3.23	3.26	3.29	3.31	3.31	3.36	3.41	3.44	11.06	13.09	13.53
Total Operating Expenses	16.35	16.20	16.69	18.91	18.14	18.02	17.90	18.07	18.07	18.06	18.26	18.44	68.16	72.13	72.83
<b>Operating Earnings</b>	<b>(1.88)</b>	<b>(0.15)</b>	<b>(2.43)</b>	<b>(3.51)</b>	<b>(3.74)</b>	<b>(3.25)</b>	<b>(1.89)</b>	<b>(0.46)</b>	<b>(0.53)</b>	<b>0.32</b>	<b>1.03</b>	<b>1.82</b>	<b>(7.98)</b>	<b>(9.34)</b>	<b>2.63</b>
Interest Income (Expense)	(0.46)	(0.60)	(0.51)	(0.35)	(0.43)	(0.43)	(0.43)	(0.43)	(0.43)	(0.43)	(0.43)	(0.43)	(1.91)	(1.72)	(1.72)
Other Income (Expense)	0.00	(0.62)	0.01	0.00	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.61)	(0.00)	(0.00)
Foreign currency translation	1.03	(0.00)	(0.26)	(0.96)	0.54	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(0.20)	0.54	0.00
Total Other Income, net	0.57	(1.22)	(0.76)	(1.31)	0.11	(0.43)	(0.43)	(0.43)	(0.43)	(0.43)	(0.43)	(0.43)	(2.71)	(1.18)	(1.73)
Income before taxes	(1.31)	(1.37)	(3.19)	(4.81)	(3.63)	(3.68)	(2.32)	(0.89)	(0.97)	(0.12)	0.60	1.39	(10.69)	(10.52)	0.90
Provision for income taxes	0.47	0.07	0.16	1.91	(0.70)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	2.61	0.80	2.00
<b>GAAP Net Income</b>	<b>(1.79)</b>	<b>(1.44)</b>	<b>(3.35)</b>	<b>(6.72)</b>	<b>(2.93)</b>	<b>(4.18)</b>	<b>(2.82)</b>	<b>(1.39)</b>	<b>(1.47)</b>	<b>(0.62)</b>	<b>0.10</b>	<b>0.89</b>	<b>(13.29)</b>	<b>(11.32)</b>	<b>(1.10)</b>
Preferred stock dividends	(1.20)	(1.20)	(1.20)	(1.20)	(1.20)	(1.20)	(1.20)	(1.20)	(1.20)	(1.20)	(1.20)	(1.20)	(4.78)	(4.79)	(4.79)
<b>stockholders</b>	<b>(2.98)</b>	<b>(2.63)</b>	<b>(4.54)</b>	<b>(7.91)</b>	<b>(4.12)</b>	<b>(5.38)</b>	<b>(4.02)</b>	<b>(2.59)</b>	<b>(2.66)</b>	<b>(1.81)</b>	<b>(1.10)</b>	<b>(0.31)</b>	<b>(18.07)</b>	<b>(16.10)</b>	<b>(5.89)</b>
<b>GAAP EPS (diluted)</b>	<b>(0.09)</b>	<b>(0.08)</b>	<b>(0.13)</b>	<b>(0.23)</b>	<b>(0.12)</b>	<b>(0.12)</b>	<b>(0.09)</b>	<b>(0.06)</b>	<b>(0.06)</b>	<b>(0.04)</b>	<b>(0.02)</b>	<b>(0.01)</b>	<b>(0.52)</b>	<b>(0.38)</b>	<b>(0.13)</b>
Preferred stock dividends	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	4.78	4.79	4.79
Interest Income (Expense)	0.46	0.60	0.51	0.35	0.43	0.43	0.43	0.43	0.43	0.43	0.43	0.43	1.91	1.72	1.72
Other Income (Expense)	0.00	0.00	(0.01)	(0.00)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(0.01)	0.00	0.00
Income tax (benefit) expense	0.47	0.07	0.16	1.91	(0.70)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	2.61	0.80	2.00
Depreciation and amortization	2.14	2.09	2.15	2.18	2.09	2.19	2.29	2.39	2.59	2.69	2.79	2.89	8.55	8.96	10.96
Stock-based compensation	1.10	1.10	0.93	1.30	0.46	0.46	0.47	0.47	1.30	1.31	1.33	1.34	4.42	1.86	5.28
Foreign currency translation	(1.03)	0.39	0.62	1.05	(0.34)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.04	(0.34)	0.00
Other non-recurring expenses	0.00	0.00	0.00	0.95	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.95	0.00	0.00
<b>Adjusted EBITDA</b>	<b>1.36</b>	<b>2.80</b>	<b>1.00</b>	<b>1.01</b>	<b>(0.99)</b>	<b>(0.60)</b>	<b>0.87</b>	<b>2.40</b>	<b>3.35</b>	<b>4.32</b>	<b>5.14</b>	<b>6.05</b>	<b>6.18</b>	<b>1.68</b>	<b>18.86</b>
Adjusted EBITDA Margin	4.7%	8.4%	3.4%	2.9%	-3.0%	-1.8%	2.4%	6.3%	9.1%	11.1%	12.6%	14.2%	4.9%	1.2%	11.9%
<b>Non GAAP Net Income</b>	<b>0.06</b>	<b>1.37</b>	<b>(0.36)</b>	<b>(0.24)</b>	<b>(2.24)</b>	<b>(1.95)</b>	<b>(0.58)</b>	<b>0.86</b>	<b>1.61</b>	<b>2.47</b>	<b>3.20</b>	<b>4.00</b>	<b>0.82</b>	<b>(3.91)</b>	<b>11.28</b>
<b>Non-GAAP EPS (diluted)</b>	<b>0.00</b>	<b>0.03</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>(0.06)</b>	<b>(0.04)</b>	<b>(0.01)</b>	<b>0.02</b>	<b>0.04</b>	<b>0.05</b>	<b>0.07</b>	<b>0.09</b>	<b>0.02</b>	<b>(0.10)</b>	<b>0.24</b>
Basic	33.26	34.90	35.02	35.08	35.33	35.47	35.62	35.76	35.90	36.04	36.19	36.33	34.56	35.54	36.12
Diluted	41.77	43.08	35.02	35.08	35.33	44.50	45.00	45.34	45.68	46.02	46.37	46.71	38.74	42.54	46.19
<b>Cost as % of Revenue</b>															
Gross Profit	49.9	47.8	48.8	44.7	43.4	43.5	44.6	46.0	47.4	47.4	47.4	47.4	47.7	44.4	47.4
Operating Earnings	-6.5	-0.5	-8.3	-10.2	-11.3	-9.6	-5.3	-1.2	-1.4	0.8	2.5	4.3	-6.3	-6.6	1.7
Income before taxes	-4.5	-4.1	-10.9	-14.0	-10.9	-10.8	-6.5	-2.3	-2.6	-0.3	1.5	3.3	-8.5	-7.4	0.6
<b>Quarter/Quarter % change:</b>															
Revenue	-1.5%	15.7%	-12.8%	17.7%	-3.7%	2.4%	5.8%	6.4%	-3.4%	4.9%	5.0%	5.0%			
Operating Income	-1861.5%	91.8%	-1467.1%	-44.4%	-6.7%	13.1%	42.0%	75.8%	-16.9%	159.0%	225.8%	77.4%			
<b>Year/Year % change:</b>															
Revenue	-5.9%	30.2%	6.0%	17.0%	14.4%	1.3%	22.9%	11.1%	11.5%	14.1%	13.3%	11.8%	11.1%	12.0%	12.7%
Adjusted EBITDA	791.4%	33.7%	-72.1%	-68.8%	-173.3%	-121.4%	-13.5%	137.2%	437.8%	820.3%	491.9%	151.8%	-32.0%	-72.8%	1023.7%
Pro-forma Net income															

For important information, please visit Canaccord Genuity's Online Disclosure Database: <https://canaccordgenuity.bluematrix.com/sellside/Disclosures.action>

Notes to Income Statement

1. Pro-forma results exclude stock based compensation, intangible amortization, and other one-time items

Source: Company reports and Canaccord Genuity estimates

A more detailed financial model, including balance sheet, income statement, and cash flow projections, if available, may be obtained by contacting your Canaccord Genuity Sales Person or the Authoring Analyst, whose contact information appears on the front page of this report.

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Last Updated: May 10, 2022

## Appendix: Important Disclosures

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Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

### Investment Recommendation

Date and time of first dissemination: June 14, 2022, 23:00 ET

Date and time of production: June 14, 2022, 21:03 ET

### Target Price / Valuation Methodology:

PowerFleet - PWFL

Our \$6 price target is based on ~13x EV/Adjusted EBITDA on our 2023 estimate.

### Risks to achieving Target Price / Valuation:

PowerFleet - PWFL

Risks to our price target include: 1. Execution risks on merging and achieving synergies between the previous I.D. Systems and Pointer Telocation companies. 2. PowerFleet competes in highly competitive markets and pricing pressure and other competitive threats from larger companies could result in PowerFleet not achieving our anticipated revenue growth and margin expansion targets. 3. Pointer Telocation has a large percent of sales in Israel and currency fluctuations could adversely impact our estimates.

### Distribution of Ratings:

#### Global Stock Ratings (as of 06/14/22)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	650	68.35%	36.77%
Hold	129	13.56%	15.50%
Sell	11	1.16%	18.18%
Speculative Buy	156	16.40%	44.87%
	951*	100.0%	

\*Total includes stocks that are Under Review

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**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

### Risk Qualifier

**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

**12-Month Recommendation History** (as of date same as the **Global Stock Ratings** table)

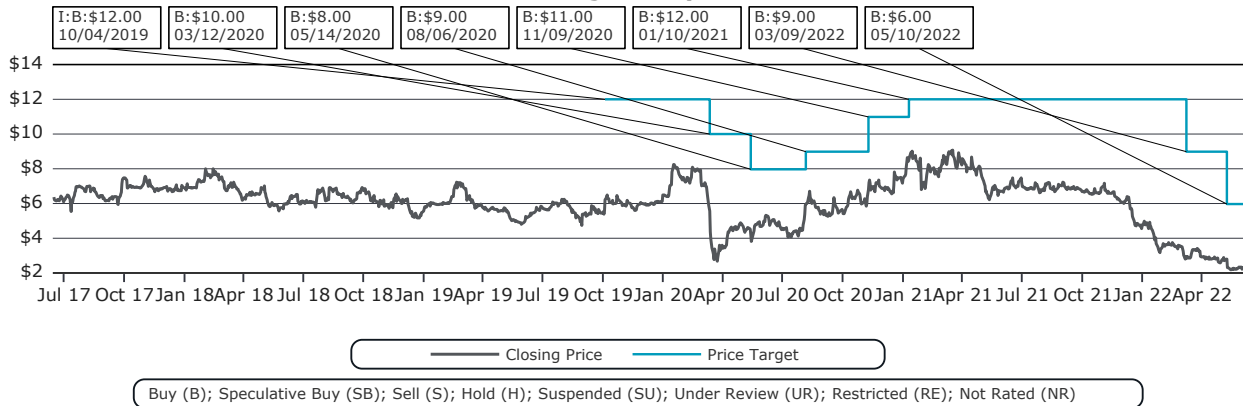
A list of all the recommendations on any issuer under coverage that was disseminated during the preceding 12-month period may be obtained at the following website (provided as a hyperlink if this report is being read electronically) <http://disclosures-mar.canaccordgenuity.com/EN/Pages/default.aspx>

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PowerFleet Rating History as of 06/13/2022



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#### Past performance

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