

# PowerFleet, Inc.

(PWFL – \$2.48)

**Buy**

Price Target: \$5

**Jaeson Schmidt**  
 Senior Research Analyst  
 612-260-6170  
 Jaeson.Schmidt@lakestreetcm.com

**Max Michaelis**  
 Research Analyst  
 612-255-0831

[www.lakestreetcapitalmarkets.com](http://www.lakestreetcapitalmarkets.com)

## Recap From Investor Day; Reiterate Buy Rating And \$5 PT

Yesterday, we attended PowerFleet’s inaugural Investor Day in New York. The Company laid out financial targets, its competitive differentiation within its software platform, data evolution, and potential margin and cost improvements. We think management did a solid job outlining the significant growth opportunity the Company has across numerous markets and applications. However, we understand some investors will be disappointed about the long-term financial targets which are unchanged from the numbers previously laid out. We believe shares will likely remain relatively rangebound in the near term until investors gain better line of sight of the new SaaS strategy taking hold. We are maintaining our Buy rating and \$5 price target (1.2x our `23 rev).

### HIGHLIGHTS

- Financial Targets** – PowerFleet laid out its long-term target model calling for revenue of \$200M, recurring revenue comprising 50% of the mix, gross margin of 55%, and an adjusted EBITDA margin of 25%. Management indicated these are 2026 targets, and they noted recurring revenue could eventually be much higher than 50% once the software rollout reaches scale. We note this is not a new target model as it matches the one the Company has previously discussed. We understand the hesitancy to alter these targets given significant changes at the C-suite level this year, including currently not having a CFO. However, we believe some investors will be disappointed in the lack of an update as this target model is similar to the one PowerFleet hoped to achieve in 2020 after the 2019 combination of the two companies. The Company did not provide any guidance for Q2 or 2022 but believes business has trended in a positive direction over the course of this current quarter.
- Software Focused** – Management reiterated their focus on expanding the software and critical data insight capabilities. The unification of its hardware and software solutions on its PowerFleet One platform enables customers to not only put the Company’s devices to work but can now capture key data insights to drive greater product efficiency. We look for the increased software emphasis to drive stickier customer relationships, an improved P&L, and ultimately, multiple expansion in shares.
- Margin Improvement** – The Company laid out a series of cost-cutting initiatives it expects to take to improve the P&L. First, PowerFleet will be integrating its system platforms (ERP & Global HR Systems) to gain better control and visibility. Secondly, the Company will be reducing its urgent air freight, switching to sea, and localizing some of its manufacturing. Finally, it will be reducing underutilized facilities and redesigning some components to reduce component costs. The Company believes by 2023 it will experience annualized cost savings of \$5M.

Changes	Previous	Current
Rating:	--	Buy
Price Target:	--	\$5
FY22E Rev (M):	--	\$139.2
FY23E Rev (M):	--	\$155.4
FY22E Adj. EPS:	--	(\$0.20)
FY23E Adj. EPS:	--	\$0.01

### Profile

Price:	\$2.48
Shares Out (M):	35.3
Market Cap (M):	\$90
Avg. Daily Vol (K):	75
Insiders Own:	10%
Book Val / Sh:	\$2.51
Net Cash / Sh:	(\$0.05)
Div / Yield:	\$0.00 / 0%

Rev (M)	2021A	2022E	2023E
Mar	\$29.0	\$33.2A	--
Jun	\$33.5	\$34.6	--
Sep	\$29.2	\$35.3	--
Dec	\$34.4	\$36.1	--
FY	\$126.2	\$139.2	\$155.4
Y/Y Growth	11.1%	10.3%	11.7%

Adj. EPS	2021A	2022E	2023E
Mar	\$0.00	(\$0.06)A	--
Jun	\$0.03	(\$0.06)	--
Sep	(\$0.01)	(\$0.05)	--
Dec	(\$0.01)	(\$0.03)	--
FY	\$0.02	(\$0.20)	\$0.01

Valuation	2021A	2022E	2023E
P/S	0.7x	0.6x	0.6x
P/E	NM	NM	NM

### Management

CEO	Steve Towe
CFO	N/A

### Company Description

PowerFleet develops and sells wireless machine-to-machine (M2M) solutions that target high-value enterprise assets such as forklifts, airport ground support equipment, rental vehicles, and transportation assets.

- **Improved GTM Strategy** – We believe the new and improved GTM strategy will help drive greater wallet share from customers. We highlight a few of the initiatives below.
  - *Cross and Up-Sell Opportunities*: Currently, 60% of PowerFleet’s install base has been up-sold on a particular product, but the Company is trying to drive greater cross-selling with its traditional hardware products and new software solutions (API Integrations, Data Solutions, SaaS Application).
  - *Sales and Marketing Investment*: The Company intends to expand its sales and marketing department by adding SaaS experienced inside and outside sales reps, along with digital marketing and content resource talent throughout all geographies. It expects to begin hiring in the fall and will be fully staffed by the beginning of 2023.
  - *Account-Based Marketing*: PowerFleet wants to build a more efficient and effective way to engage with its target audience. Through its Account-Based Marketing program, the sales and marketing teams will work together to build improved lead generation campaigns to drive greater account conversion.
- **CFO Search** – The Company indicated the search for a new CFO has trended in a positive direction. However, management did not provide a definitive timeline on when investors could expect a new hire. Notably, once the CFO has been hired, PowerFleet will have filled out its entire C-Suite.

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## INVESTMENT THESIS & VALUATION

We think PowerFleet can drive meaningful growth in the M2M and IoT markets. We believe the Company can drive meaningful top line growth and improving earnings leverage as it benefits from tailwinds across all three of its segments.

### VALUATION

Our \$5 price target is based on a P/S multiple of 1.2x using our 2023 revenue estimate of \$155.4M.

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## RISKS

We believe an investment in PowerFleet involves the following risks.

- **Competition** – The machine-to-machine (M2M) industry is one that is characterized by numerous sub-segments and a long list of suppliers. It is important that the Company continues to introduce products that are both competitive from a performance and cost standpoint in order to win new orders.
- **M2M Adoption** – The Company’s future growth is largely predicated on the continued adoption of M2M solutions. If the expansion of these types of products slows, PowerFleet’s growth is likely to be negatively impacted.
- **Pricing Pressure** – Similar to other technology companies, aggressive pricing in the end markets the Company supplies would likely have a negative impact on the Company’s results.
- **Business Can Be Lumpy** – Given the spending habits by its customers, orders can sometimes be lumpy. This lumpiness may cause increased volatility in the Company’s quarterly results.

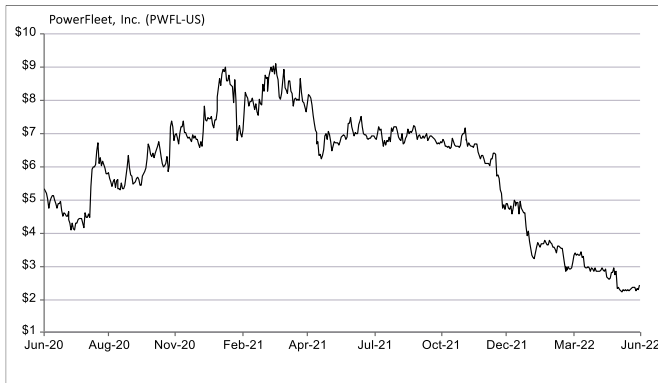
# FINANCIAL MODEL

Jaeson Schmidt  
 Lake Street Capital Markets, LLC  
 T: 612.260.6170 | M: 612.269.4298  
 E: [jaeson.schmidt@lakestreetcm.com](mailto:jaeson.schmidt@lakestreetcm.com)

## PowerFleet

	2020	2021				2022E				2023E		
		1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
<i>FY Ends Dec, (in 000s, except per share data)</i>												
Products Revenue	45,651	11,420	15,466	10,785	15,310	52,981	14,392	15,200	15,400	15,600	60,592	68,400
Services Revenue	67,942	17,571	18,082	18,461	19,113	73,227	18,769	19,400	19,900	20,500	78,569	87,000
<b>Total Revenue</b>	<b>113,593</b>	<b>28,991</b>	<b>33,548</b>	<b>29,246</b>	<b>34,423</b>	<b>126,208</b>	<b>33,161</b>	<b>34,600</b>	<b>35,300</b>	<b>36,100</b>	<b>139,161</b>	<b>155,400</b>
Total Cost of Revenue	54,576	14,521	17,503	14,981	19,020	66,025	18,762	19,520	19,686	19,914	77,881	83,971
<b>Gross Profit - GAAP</b>	<b>59,017</b>	<b>14,470</b>	<b>16,045</b>	<b>14,265</b>	<b>15,403</b>	<b>60,183</b>	<b>14,399</b>	<b>15,080</b>	<b>15,614</b>	<b>16,187</b>	<b>61,280</b>	<b>71,429</b>
Selling, General, and Administrative	51,878	13,608	13,421	13,959	16,112	57,100	14,912	15,000	15,050	15,050	60,012	61,000
Research and Development	10,597	2,745	2,779	2,735	2,799	11,058	3,229	3,250	3,300	3,350	13,129	13,900
Total Operating Expenses	62,475	16,353	16,200	16,694	18,911	68,158	18,141	18,250	18,350	18,400	73,141	74,900
<b>Operating Profit (Loss) - GAAP</b>	<b>(3,458)</b>	<b>(1,883)</b>	<b>(155)</b>	<b>(2,429)</b>	<b>(3,508)</b>	<b>(7,975)</b>	<b>(3,742)</b>	<b>(3,170)</b>	<b>(2,736)</b>	<b>(2,214)</b>	<b>(11,861)</b>	<b>(3,471)</b>
<b>Adjusted EBITDA</b>	<b>8,967</b>	<b>1,363</b>	<b>2,802</b>	<b>1,004</b>	<b>1,014</b>	<b>6,183</b>	<b>(1,196)</b>	<b>75</b>	<b>632</b>	<b>1,203</b>	<b>714</b>	<b>9,998</b>
Interest Income	55	12	12	11	10	45	13	10	10	10	43	40
Other Income	(4,569)	557	(1,228)	(770)	(1,315)	(2,756)	99	(350)	(350)	(350)	(951)	(1,400)
<b>Pre-Tax Income (Loss) - GAAP</b>	<b>(7,972)</b>	<b>(1,314)</b>	<b>(1,371)</b>	<b>(3,188)</b>	<b>(4,813)</b>	<b>(10,686)</b>	<b>(3,630)</b>	<b>(3,510)</b>	<b>(3,076)</b>	<b>(2,554)</b>	<b>(12,769)</b>	<b>(4,831)</b>
GAAP Net Income (Loss)	(13,606)	(2,983)	(2,633)	(4,541)	(7,915)	(18,072)	(4,124)	(4,760)	(4,376)	(3,854)	(17,113)	(10,151)
GAAP EPS	(\$0.46)	(\$0.09)	(\$0.08)	(\$0.13)	(\$0.23)	(\$0.52)	(\$0.12)	(\$0.13)	(\$0.12)	(\$0.11)	(\$0.48)	(\$0.28)
<b>Pro Forma Net Income (Loss)</b>	<b>3,670</b>	<b>61</b>	<b>1,368</b>	<b>(364)</b>	<b>(245)</b>	<b>820</b>	<b>(2,243)</b>	<b>(2,160)</b>	<b>(1,626)</b>	<b>(1,104)</b>	<b>(7,132)</b>	<b>399</b>
<b>Pro Forma EPS</b>	<b>\$0.10</b>	<b>\$0.00</b>	<b>\$0.03</b>	<b>(\$0.01)</b>	<b>(\$0.01)</b>	<b>\$0.02</b>	<b>(\$0.06)</b>	<b>(\$0.06)</b>	<b>(\$0.05)</b>	<b>(\$0.03)</b>	<b>(\$0.20)</b>	<b>\$0.01</b>
Diluted Shares Outstanding - Non-GAAP	37,057	41,771	43,083	35,019	35,083	42,720	35,332	35,400	35,500	35,550	35,446	35,725
<b>Margin &amp; Expense Analysis</b>												
Products Revenue	40.2%	39.4%	46.1%	36.9%	44.5%	42.0%	43.4%	43.9%	43.6%	43.2%	43.5%	44.0%
Services Revenue	59.8%	60.6%	53.9%	63.1%	55.5%	58.0%	56.6%	56.1%	56.4%	56.8%	56.5%	56.0%
Total Cost of Revenue	48.0%	50.1%	52.2%	51.2%	55.3%	52.3%	56.6%	56.4%	55.8%	55.2%	56.0%	54.0%
Total Gross Margin	52.0%	49.9%	47.8%	48.8%	44.7%	47.7%	43.4%	43.6%	44.2%	44.8%	44.0%	46.0%
Selling, General, and Administrative	45.7%	46.9%	40.0%	47.7%	46.8%	45.2%	45.0%	43.4%	42.6%	41.7%	43.1%	39.3%
Research and Development	9.3%	9.5%	8.3%	9.4%	8.1%	8.8%	9.7%	9.4%	9.3%	9.3%	9.4%	8.9%
Total Operating Expenses	55.0%	56.4%	48.3%	57.1%	54.9%	54.0%	54.7%	52.7%	52.0%	51.0%	52.6%	48.2%
Operating Margin	-3.0%	-6.5%	-0.5%	-8.3%	-10.2%	-6.3%	-11.3%	-9.2%	-7.8%	-6.1%	-8.5%	-2.2%
Adjusted EBITDA	7.9%	4.7%	8.4%	3.4%	2.9%	4.9%	-3.6%	0.2%	1.8%	3.3%	0.5%	6.4%
Tax Rate	-13.0%	-36.0%	-4.9%	-5.1%	-39.6%	-24.4%	19.4%	-1.4%	-3.3%	-3.9%	3.5%	-10.8%
Net Margin - Pro Forma	3.2%	0.2%	4.1%	-1.2%	-0.7%	0.6%	-6.8%	-6.2%	-4.6%	-3.1%	-5.1%	0.3%
<b>Growth Analysis (Q/Q)</b>												
Products Revenue		-5.9%	35.4%	-30.3%	42.0%		-6.0%	5.6%	1.3%	1.3%		
Services Revenue		1.6%	2.9%	2.1%	3.5%		-1.8%	3.4%	2.6%	3.0%		
Total Revenue		-1.5%	15.7%	-12.8%	17.7%		-3.7%	4.3%	2.0%	2.3%		
Gross Profit		-4.7%	10.9%	-11.1%	8.0%		-6.5%	4.7%	3.5%	3.7%		
Total Operating Expenses		7.0%	-0.9%	3.0%	13.3%		-4.1%	0.6%	0.5%	0.3%		
Operating Income		-1861.5%	91.8%	-1467.1%	-44.4%		-6.7%	15.3%	13.7%	19.1%		
Net Income - Pro Forma		-97.0%	2142.6%	-126.6%	32.7%		-815.5%	3.7%	24.7%	32.1%		
<b>Growth Analysis (Y/Y)</b>												
Products Revenue	0.5%	-13.5%	64.6%	-1.2%	26.2%	16.1%	26.0%	-1.7%	42.8%	1.9%	14.4%	12.9%
Services Revenue	86.1%	-0.1%	10.5%	10.6%	10.5%	7.8%	6.8%	7.3%	7.8%	7.3%	7.3%	10.7%
Total Revenue	38.7%	-5.9%	30.2%	6.0%	17.0%	11.1%	14.4%	3.1%	20.7%	4.9%	10.3%	11.7%
Gross Profit	53.8%	-2.7%	14.3%	-4.4%	1.4%	2.0%	-0.5%	-6.0%	9.5%	5.1%	1.8%	16.6%
Total Operating Expenses	28.7%	-10.5%	9.8%	17.8%	23.8%	9.1%	10.9%	12.7%	9.9%	-2.7%	7.3%	2.4%
Operating Income	66.0%	44.8%	78.0%	-423.0%	-3554.2%	-130.6%	-98.7%	-1945.0%	-12.6%	36.9%	-48.7%	70.7%
Net Income - Pro Forma	-178.2%	104.7%	73.4%	-116.7%	-112.2%	-77.7%	-3777.0%	-257.9%	-346.7%	-350.4%	-969.8%	105.6%
<b>Key Balance Sheet Metrics</b>												
Cash and Marketable Securities		\$40,951	\$39,861	\$33,821	\$26,452		\$20,559					
Debt		26,614	25,933	25,250	24,224		22,264					
Net Cash		\$14,337	\$13,928	\$8,571	\$2,228		(\$1,705)					
Shareholder Equity		102,842	102,364	98,707	92,111		88,516					
<b>Book Value/Share</b>		<b>\$3.09</b>	<b>\$2.93</b>	<b>\$2.82</b>	<b>\$2.63</b>		<b>\$2.51</b>					
<b>Net Cash/Share</b>		<b>\$0.43</b>	<b>\$0.40</b>	<b>\$0.24</b>	<b>\$0.06</b>		<b>(\$0.05)</b>					

**IMPORTANT DISCLOSURES**



Source: FactSet

March 12, 2020 – Rating: Buy - Price Target: \$7.50  
 May 14, 2020 – Rating: Buy - Price Target: \$6  
 August 7, 2020 – Rating: Buy - Price Target: \$7  
 November 9, 2020 – Rating: Buy - Price Target: \$9  
 February 25, 2021 – Rating: Buy - Price Target: \$11  
 November 4, 2021 – Rating: Buy - Price Target: \$9  
 March 9, 2022 – Rating: Buy - Price Target: \$7  
 May 10, 2022 – Rating: Buy - Price Target: \$5

**RATINGS DEFINITION**

**Buy** rated stocks are expected to generate greater than 10% returns during the next 12 months. **Hold** rated stocks are expected to generate returns of 0% to 10% during the next 12 months. **Sell** rated stocks are expected to generate negative returns over the next 12 months and generally do not have a price target. **Information on our valuation methodology and risks can be found in the “Investment Thesis & Valuation” and “Risks” sections above.**

**RATINGS DISTRIBUTION**

(as of Jun 1, 2022)

Rating	All Covered Companies (%)	Investment Banking Clients (%)
Buy	93.4%	19.4%
Hold	6.6%	8.3%
Sell	0.0%	0.0%

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