



## Is Avigilon Corp. Your Growth Company?

### Description

While attending CIBC's 14th Annual Eastern Institutional Investor Conference via webcast, I had the opportunity to learn more about **Avigilon Corp.** (TSX:AVO), and I'm sharing that knowledge in this article.

### The big picture

In 2014, IHS Inc. indicated the global video surveillance and electronic access control market was US\$18.5 billion and estimated it would grow to US\$28.4 billion by 2018. While the target market has been growing 10-12% annually, Avigilon has been growing at a faster pace than that, indicating that Avigilon is gaining market share.

### The business

Avigilon is a B2B business that specializes in end-to-end security solutions with an emphasis on video analytics and the transition from analog to high definition. Since it had its first full year of sales in 2008 and its initial public offering in 2011, the company now sells to 120 countries with a global network of over 2,000 resellers.

### The security solutions

Avigilon's end-to-end security solutions include cameras (from one megapixel to 30 megapixels), video analytics, video management software, network video recorders, analog encoders, and access control, so that live footage can be accessed anywhere with a mobile device by the people who have the access rights.

Avigilon's video analytics have self-learning capabilities that make cameras smarter for operational and business intelligence purposes.

### Restructuring

In early September, Avigilon's share price fell 11% in a day to about \$12 as the company announced a

more streamlined management structure. This reorganization of the senior management team increases operational efficiency.

So, the seven core departments now report directly to Alexander Fernandes, Avigilon's founder, president, chief executive officer, and chairman of the board.

In connection with the reorganization, Bryan Schmode has resigned as Avigilon's chief operating officer. To ensure business continuity, he will provide consulting services to Avigilon over the next year.

In the last 18 months, Avigilon has been building a investor relations team as well as a legal departments team. Growing businesses change as needed, so the restructuring above may not necessarily be a bad thing.

### **Growth and recurring revenue**

For the past 24 months, Avigilon has been busy with technology and patent acquisitions. Avigilon has built a strong patent portfolio that covers areas of video analytics, high-definition video surveillance, and integrated access control.

As of July 29, 2015, the business has 273 U.S. and international patents and 279 U.S. and international patent applications. Other than giving the business the freedom to operate, the patents are also a part of the patent licensing program that generates a high margin, recurring royalty revenue stream.

### **In-house manufacturing**

Avigilon manufactures its cameras in North America. It has a manufacturing facility with a \$500 million revenue capacity in Richmond, British Columbia, and it's opening a facility with a \$500 million capacity in the U.S. this year.

The reasons for in-house manufacturing instead of outsourcing at a lower cost enables Avigilon

- to maintain higher quality for the products,
- to bring new products to market faster, since 95% of sales are outside of Asia; and
- to protect intellectual property.

### **In conclusion**

Avigilon is shaping the security solutions industry. It sees a growing need in video analytics and plays a necessary role in security solutions. With about one in 50 cameras requiring analytics currently, there's much growth potential.

By mid-2015, Avigilon has reached annual revenue of \$360 million, and it's on target to reach \$500 million annual revenue by the end of 2016. At \$12 per share, Avigilon is priced at a multiple of 16, which is a good deal for a high-growth company.

Avigilon is confident it is set for continued growth because of its strong team, a proven strategy, and a large and growing market with the best-of-breed products. However, investors should be aware that Avigilon is a relatively new company and has small market capitalization of \$536 million, so its share

price could be more volatile and unpredictable than bigger companies.

Still, it could fit in a Foolish investor's portfolio as a small percentage for the chance to spur higher growth.

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