How Avigilon Corp. Has the Potential to Change the Surveillance Industry

Description

The market for surveillance systems is one which tends to be a low-margin business driven by outsourcing and hardware product development in lower-cost markets throughout the world. With the intensity of competition in this industry picking up, companies such as **Avigilon Corp.** (TSX:AVO) have seen their market capitalizations drop substantially in recent years, as investors turn their focus towards software-oriented firms and companies operating in "hot" industries such as e-commerce or blockchain currencies.

As it is with most industries, Avigilon has seemingly begun to hear the message loud and clear from investors — a message that has stung many Canadian companies in the past (think **BlackBerry Ltd.**), and that is, hardware is great, but the real money (profit) is made in software and, more specifically, innovation within the software space.

Originally a hardware-centred company, Avigilon has begun to shift its product offering more towards its software platforms, using its hardware as a selling tool to deliver the company's higher-margin software products to consumers. As the company's product mix has continued to evolve, Avigilon has begun to post much better earnings in recent quarters. Is this some sort of trend which has only just begun, or is it a blip in time for a company that will forever have difficulty turning a profit?

Targets aren't everything

The management team at Avigilon made it clear at the time of the company's initial public offering that the five-year target for the business would be a $500 million run rate. Over the course of the past five years, Avigilon's management team has indeed hit their goal, although as I have pointed out, growth at the expense of profitability is something that investors in the technology sector do not look favourably upon, especially for a company on the more mature end of the business cycle, as is Avigilon.

While the surveillance company still has a significant amount of room to run, it appears that generating growth has become more difficult, and investors have begun to wonder if growing at a significant, yet profitable, pace would be possible in the long run.

Avigilon upping their game

As it turns out, the past two quarterly earnings releases have surprised investors in a good way with the company's share price rebounding accordingly. Over the past 12 months, Avigilon's share price has more than doubled, and many once-naysayers have begun to take another look at this business, given the ability of Avigilon's management team to expand margins of late.

Over the past two quarters, EBITDA margins have increased from 11.8% last quarter to 17.9% this quarter, nearly doubling year over year. The improvement in margins has been attributed to a company-wide focus on increasing margins through operational improvements, cost-cutting measures, and margin expansion initiatives. Forward guidance remains positive, and a number of analysts and investors have begun to shift their long-term views on Avigilon accordingly.

Bottom line

Avigilon has turned itself into an interesting tech company to consider on the TSX. While the numbers have indeed improved for Avigilon, I would recommend investors take a long-term view with a company like Avigilon and consider buying on dips moving forward, given the volatile nature of Avigilon's quarterly performance of late.

Stay Foolish, my friends.

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