

## International Road Dynamics, Inc. (IRD:TSE)

Engineering & Construction - Services

### "The Road to Capital Gains"

#### Company Profile

International Road Dynamics Inc. (IRD) is a leading manufacturer of integrated systems and solutions for the global Intelligent Transportation Systems (ITS) Industry. IRD is headquartered in Saskatoon, Saskatchewan with corporate subsidiaries around the globe. IRD is a world leader in the highway traffic management and in-vehicle systems solutions industry.

#### Thesis: Faster than expected Earnings Growth

IRD is positioned in an industry which is set to double in market size in the next 6 years. Increasing government interests around the world to invest in roadway infrastructure as a means to facilitate economic growth, improve transportation efficiency, increase safety and productivity IRD will benefit from additional streams to revenue. The increase in infrastructure projects will cause an increase in demand for the company's ITS products and services over the medium and long run across all business segments. IRD expects its maintenance and service business to expand which will provide recurring revenue over the long term. IRD is the only company in the market offering services from installation to data collection all under one roof. The market is not accounting for the catalysts which are on the verge of driving revenues for IRD; such catalysts include increased infrastructure spending in North America and the rest of the world as well as the rise of autonomous vehicles and the growing ITS industry. These catalysts to revenue will ensure faster than expected bottom line growth.

#### Valuation & Recommendation

International Road Dynamics is currently undervalued in the market. Utilizing a comparable company analysis alongside a discounted cash flow analysis, we determined a target share price of \$4.25, which represents a 41.6% upside. We recommended a BUY for this stock.

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**Analyst:** Balreet Bhangoo, BComm 20

Contact@westpeakresearch.com

#### Equity Research Canada

<b>Price Target</b>	<b>CAD\$ 4.25</b>
<b>Rating</b>	Buy
<b>Current Share Price, close</b>	CAD\$ 3.00
<b>Total Return</b>	41.6%

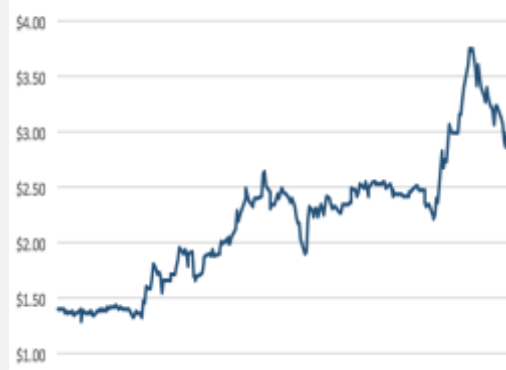
#### Key Statistics

<b>52 week H/L</b>	\$3.88/\$1.27
<b>Market Capitalization</b>	\$44M
<b>Net Debt</b>	\$6.2M
<b>Enterprise Value</b>	\$47.6M
<b>Net Debt/Enterprise Value</b>	13%
<b>Diluted Shares Outstanding</b>	15.1M
<b>Dividend Yield</b>	N/A
<b>LTM P/E</b>	17.64x
<b>LTM EV/EBITDA</b>	9.3x

#### WestPeak's Forecast

	<u>2017E</u>	<u>2018E</u>	<u>2019E</u>
<b>Revenue</b>	\$61M	\$66M	\$72M
<b>EBITDA</b>	\$5.7M	\$6.5M	\$7.6M
<b>EBIT</b>	\$5.0M	\$5.6M	\$6.5M
<b>Net Income</b>	\$3.5M	\$3.9M	\$4.6M

IRD Share Price (1-year)



Source: CapIQ, Bloomberg

# Business Overview/Fundamentals

## Revenue Streams & Products

IRD has three main categories which it derives revenue from; products, services and contracted projects. The products section consists of physical devices IRD sells. Services include long term reoccurring revenue on running toll systems and collecting data. Contracted Project consists of contract revenue through installing data collection and toll systems.

### Products

*Counters & Classifiers* - Accumulators, traffic classifiers, people counters, rack mounted traffic data computers, and radar-based non-intrusive traffic counter/classifiers. This equipment collects information on traffic patterns.

*Axle Sensors & Grout* - Sensors which can detect and report the presence of a vehicle axle.

*Toll Treadles* - Ped independent axle sensing systems that consist of sensors mounted in a metal insert installed directly into a treadle frame in the road surface. This design eliminates the need for subsequent roadway excavation to replace sensors, making it ideal for use in toll and traffic monitoring applications.

*Portable Axle Weighers* - Electronic, low profile scale providing easy access for static vehicle weighing.

*Access Control & Security* - Products that help protect facilities from hidden explosives and unauthorized entrance/egress.

*Software* - Processes and analyze traffic data collected by Traffic Counters, Classifiers, IRD Virtual Weigh Station Systems and WIM (Weigh-In-Motion) systems.

*Traffic Products* - Include Rubber Parking Curbs, Emergency Call Boxes (ECB), and radar speed signs

*WIM Controllers* - Electronics system which performs a broad range of Intelligent Transportation System (ITS) functions from data collection and web-based traffic monitoring to weigh-station automation.

*WIM Systems* - Weigh-in-Motion scale and sensor systems for applications including weight enforcement, weight-based tolling, traffic data collection, border/port security and weighing at freight terminals.



Source: Company Website

## Services

The category of Services is comprised of Transponder Services, Enterprise Traffic Data Reporting, Installation and Maintenance. Transponder Services includes preclearance programs which allow participating transponder-equipped commercial vehicles to bypass inspection and weighing stations.

The Enterprise Traffic Data reporting includes using sensors and enterprise software to collect data on road systems which provide information to enhance decision making.



*Source: Company Website*

The Installation service includes using a dedicated team of engineers and professionals who are factory trained to install the products of IRD in road networks.

Lastly, the Maintenance services include maintaining existing products and software systems alongside in-house technical support and on-site field personnel to perform diagnostics. In an earnings call, IRD mentions an increasing trend of government agencies to contract out maintenance contracts resulting in a positive catalyst.

## Contracted Projects

The category of Contracted projects is comprised of contract revenue from the company's customers including government transportation agencies, traffic engineering companies, city and municipal agencies and may include concessionaires, public transit operators, industrial, mining, and service companies around the world. IRD derives most of its contract revenue from Canada & the United States, in FY 2016 89% of total revenue came from these two countries.



*Source: Company Website*

Developing countries such as Latin America, Mexico and India follow in terms of revenue. The contracts themselves fit in a range of services including installing Weigh-In-Motion (WIM) data collection systems, Automatic Vehicle Identification (AVI) systems, License Plate Readers (LPR) and road toll systems.

## Geographic & Product Revenue Segmentation

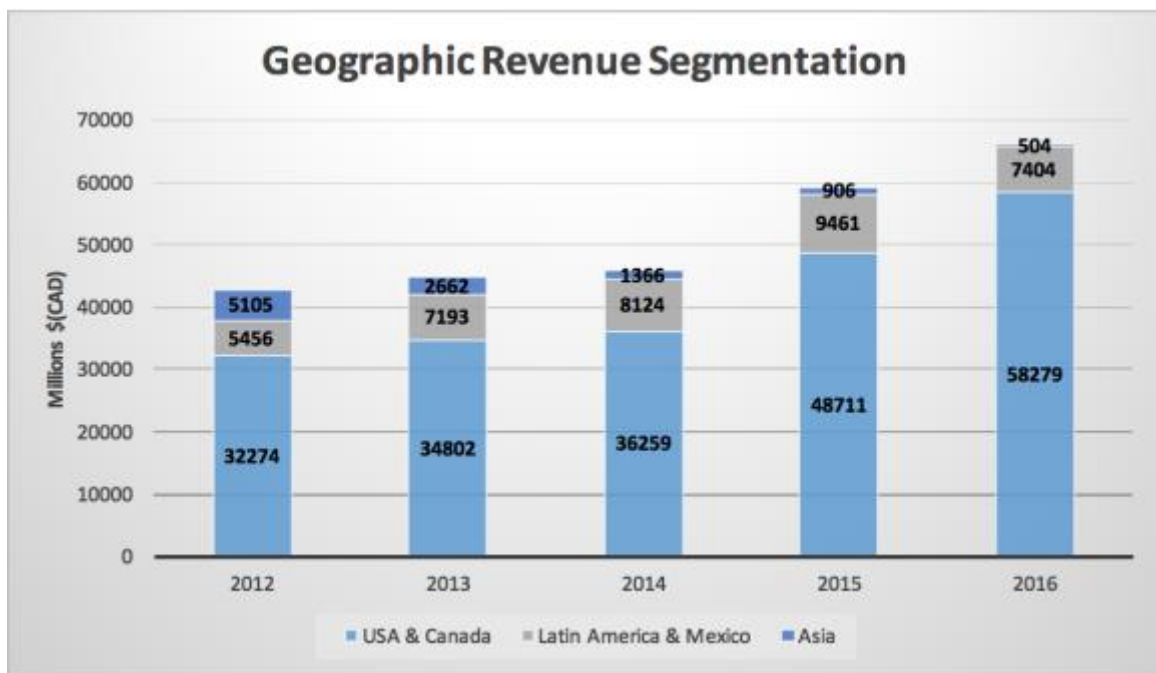
In terms of geographic location, the US and Canada are by far the largest contributor, accounting for 88% of total revenue in fiscal year 2016. It may seem IRD is dependent on two countries for most of its revenue. Although, both countries have stable and reliable economies and the governments of both countries have committed to increased infrastructure spending. This paves the way for long-term reoccurring revenue for IRD in this major geographic segment.

In terms of total revenue, the largest contributor is Contracted Project which makes up 51% of total revenue in fiscal year 2016. Contracted Projects are a reliable source of future income due to planned increased government infrastructure expenditure on roads. Furthermore, Services are an increasing revenue segment.

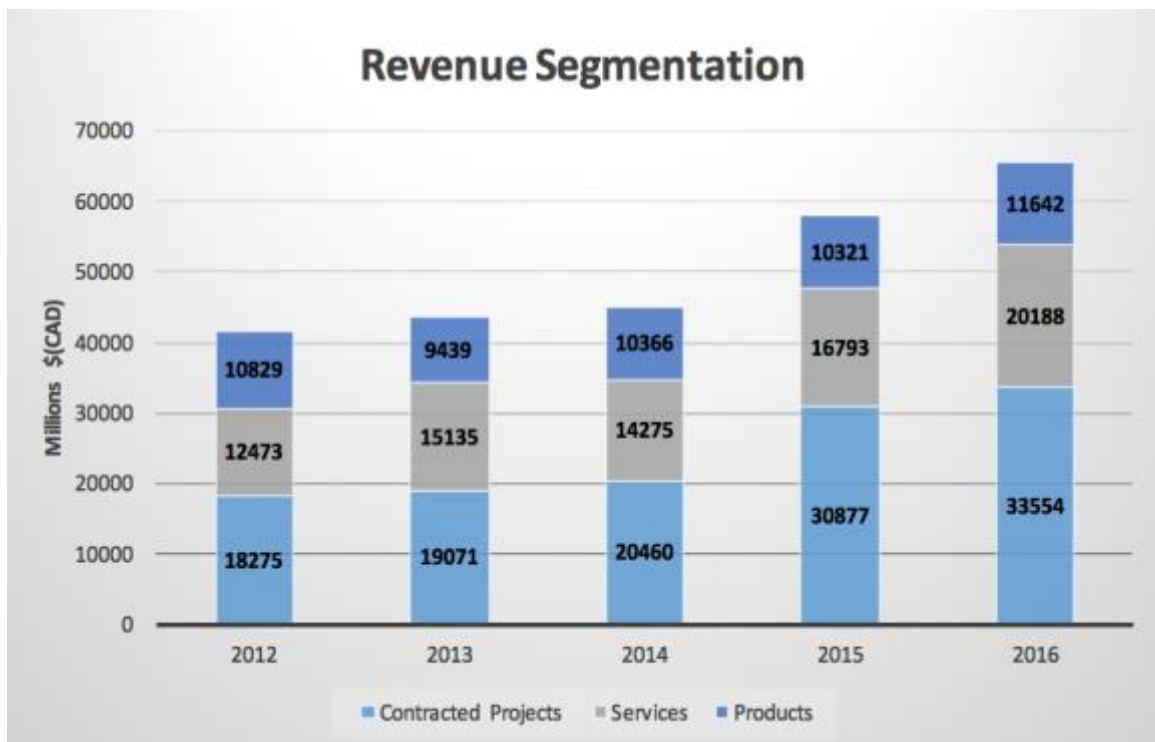
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Balreet Bhangoo | [Contact@westpeakresearch.com](mailto:Contact@westpeakresearch.com)

Governments have started contracting out data collection and toll services for future infrastructure projects, the beneficiaries of this include IRD. Service contracts are long term in nature, another source of stable reoccurring revenue. An earnings call reported over 5 years ago reoccurring revenue contributed less than 5% of gross margins but now contribute more than 30%.



The graph above shows IRD's dependency on the U.S and Canada for most of its revenue. Although, these two countries also have stable economies and are highly developed, mitigating the risk of a small infrastructure budget which is more evident in Latin American and developing Asian countries.



## Research & Development

According to the 2015 annual report conference call, IRD's R&D budget serves three main functions. Firstly, it maintains existing products as technology evolves to make sure they are competitive in features and pricing. Secondly, a portion of the budget is devoted to working with customers to identify new features and capabilities which clients are interesting in having.

An example is automatic monitor systems which track sites and immediately send back reports when there is a decline in performance, allowing IRD to tackle issues before the customer realizes they exist. Lastly, the last part of the budget goes towards actively identifying and working on products and services which can capture more information to provide for road planners and designers.

With the Intelligent Transportation Systems industry set to experience huge growth due to a planned increase in government infrastructure projects, IRD's investment in its large R&D budget which is historically around 3% of revenue will start paying off premiums. Comparable Companies R&D budget only go into one area of the ITS industry such as data collection or weigh systems. IRD's research focuses on developing all systems of the ITS industry in cohesion which can work together to collect information.

## Dividend Policy

The company does not pay dividends and is not planning to start in the near future. This policy of placing all retained earnings back into the company works well. The policy allows IRD to invest more into their products and into future growth. Considering Intelligent Transportation Systems Industry is set to grow immensely in the near future, IRD is playing the right cards in terms of focusing on company growth by not paying out dividends. Therefore, an assumption in the model results in excess cash being spent on capital expenditure and R&D.

## Industry/Macro Analysis

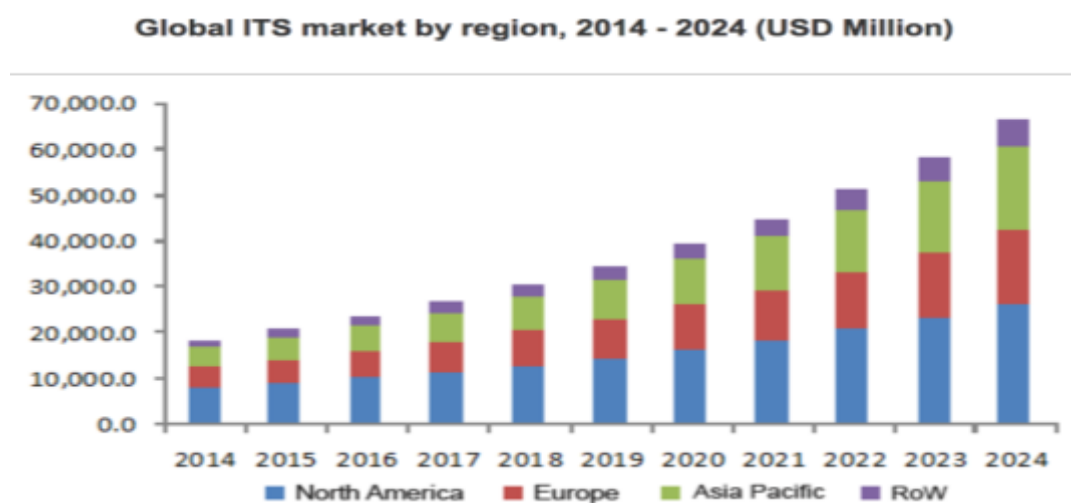
### Macro Analysis of ITS Industry

According to a research study conducted by *MarketsandMarkets*, the ITS industry market size is expected to grow from USD 36.1 Billion in 2015 to USD 63.66 Billion by 2022 at a CAGR of 8.3%. The major growth drivers include rising concerns of driver safety, increasing funding by governments into the ITS system, environmental concerns and decreasing costs in implementing ITS equipment in transportation networks. The ITS ensures safe and efficient traffic management by monitoring traffic conditions and controlling the flow of traffic. The core of ITS is information processing, communications and electronics.

Integrating ITS in the modern roadway systems is expected to save time, money and human lives by solving the problems of congestion and safety. Furthermore, minimal traffic congestion leads to increased productivity in workers which is part of the reason governments are willing to spend money on infrastructure and the ITS network. Overburdened road networks due to the increasing amount of vehicles pose a challenge to governments worldwide, ITS is a solution. The demand for ITS products and services has been on the rise and is set to growth even further at an increasing rate. IRD is in a relatively good position to capture this increasing growth. Please see legal disclaimer at bottom.

Balreet Bhangoo | [Contact@westpeakresearch.com](mailto:Contact@westpeakresearch.com)

market share due to its involvement in all sections of the ITS industry. While competitors focus on one section as tolling or data collection or product developing, IRD is involved in the entire process. IRD is in a relatively good position to capture more market share because it provides one thing no competitor does- it offers the entire package. This means IRD installs, operates and maintains all road systems which provides an incentive for governments to contract entire projects to IRD instead of several competitors who each perform one task. The following graph shows the global ITS market growth from *GrandViewResearch*.



## Competitors

Alike any industry on the verge of doubling their market size and where profits are to be made, IRD faces key competition in the industry. Maintaining a relatively stable position as the world's largest provider of Weigh-in-Motion systems, IRD needs to focus on capturing other elements of the growing ITS industry in order to increase their bottom line. A focus shift towards software and services while maintaining their position as a large supplier of products will prove extremely beneficially to IRD in the upcoming age of the modern road network. IRD's current competitors in the ITS industry include Siemens AG, Hitachi LTD., IBM Corp., Xerox Corp., Garmin International and many more software and analytics companies. No company currently possess a dominant position in ITS industry although, the first one to capture this position will capture and retain most of the market share. Most of IRD's competitors are in certain sectors of the ITS industry while IRD is the only company operating in everything from production to installation and maintenance.

The software for each company is different, there are high switching costs involved in changing systems from one company to another, therefore clients will be reluctant to switch from IRD if they are already using IRD products, services and software.

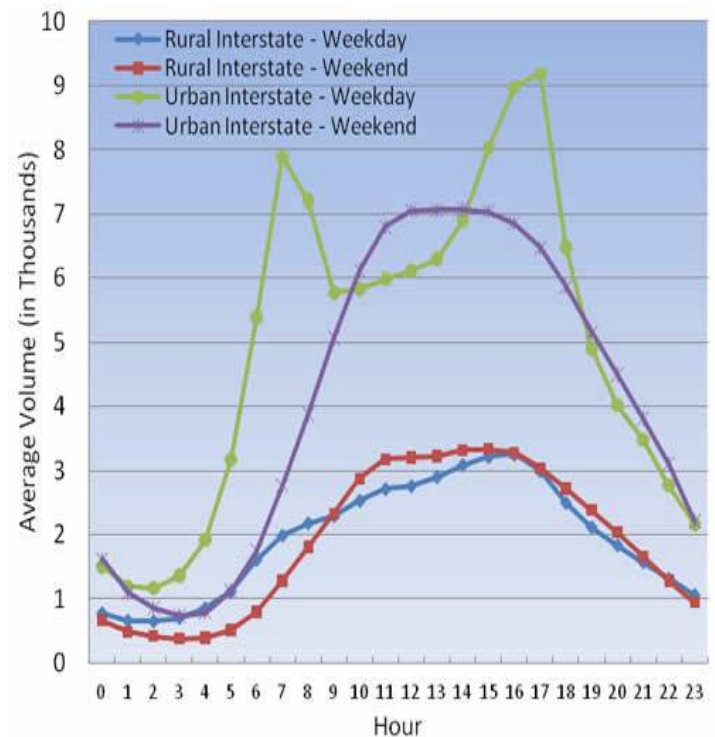
IRD also differs from its competitors in a unique and favourable way. Its competitors are huge electronic conglomerates with massive amounts of financial backing. Although these conglomerates only have a company division tasked to focus on the ITS industry. On the other hand, IRD is an entire company devoted to the ITS industry with its products and services specialized for the industry which gives it a unique edge.



IRD is the world's largest provider of WIM systems. There are many other competitors who offer WIM scales and technology but none of the diversity of solutions and data collection. As time progresses, companies which offer the complete set of solutions, such as IRD, will control the market. Furthermore, as US states privatize weight station operations, companies like IRD who provide total solutions and not just components will be selected for major contracts.

## The Cost of Traffic Congestion to an Economy

A 2015 Texas A&M report estimates traffic congestion costs the US economy \$160 Billion, resulting from \$7 Billion additional driving hours which resulted from \$3 Billion in additional gallons of gasoline consumption. Another study by Inrix shows traffic congestion issues will cost US/European economies US \$4.4 trillion between 2013 and 2030. Other than expanding and building new road networks, another avenue to reduce traffic congestion is by implementing toll systems which incentivize behaviour toward roadway networks during periods of lower demand. This method is referred to as *time of use tolling*. In order for such a system to be effective, roadway infrastructure needs to be installed with sensors which measure road usage allowing for a creation of a tariff system which will address and modify road users' behaviour. Virtually every solution to traffic congestion requires IRD's products and services.



## Investment in Self Driving Vehicles

The Ford Motor Company recently announced it would invest \$1 billion over five years to develop a fully self-driving car. Almost a year ago, General Motors spent \$1 Billion to acquire Cruise Automation and Uber spent \$680 million on Otto, a self-driving car start-up. These motor vehicle companies are burning cash to develop working self-driving vehicle technology. The competition to become the first automobile manufacturer to fully incorporate the technology is fierce. The benefits of self-driving vehicles are evident in reduced accidents, fuel savings and insurance savings. As these companies fight it out to become the leader in the self-driving industry, the Intelligent Transportation Systems (ITS) Industry has almost been neglected. These new autonomous vehicles will need road incorporated assistance to navigate. IRD is focusing on becoming the market leader in the ITS industry which will allow it to provide services to companies which operate self-driving vehicles. As investments in autonomous cars increase, these self-driving cars will come in greater quantity on the roads of the world. Who will help these vehicles navigate these roads? Technology by IRD.

# Company Analysis

## Strength in Employees & Marketplace Dominance

According to an earning call, the management believes the greatest strength of the company is their employees. The employees have an active employee shareholder program and are on the same page as management. Furthermore, employees also possess many years of experience in this industry which is reflected in the R&D department churning out different products and software. Furthermore, IRD also retains a dedicated employee base worldwide for contracted projects in countries outside of North America. With over 35 years of experience and a huge footprint in the market, IRD is a trusted manufacturer and market leader. IRD maintains dominance in the Weigh-in-Motion system product line as well as other smaller categories.

## Economic Moat

With the ITS industry set to double in size during the next few years, IRD has an excellent opportunity in building an economic moat. The software systems incorporated within the network of products placed in a road network are all linked to one central software system. The switching costs in changing these software systems are extremely high and not worth it to most government agencies and private corporations. IRD has the potential to contract out its services and place its software systems in new road development projects which will lead to IRD's software systems controlling the market. If IRD is able to utilize this strategy, the switching costs of going from IRD to another competitor will be too high for clients. This strategy will ensure current and future clients remain with the company to provide long-term reoccurring revenues instead of switching to a competitor. Government agencies providing contracts will choose IRD because they are the only company in the industry that offers a complete package. IRD produces their own products, installs the products, operates the roads and also handles maintenance. Governments rewarding contracts would rather give the entire job to one company instead of dividing up tasks among multiple companies.

## Investment in XPCT

In December 2007, IRD acquired a 50% interest in Xuzhou-PAT Control Technologies Limited (XPCT) which is located in China. Since then, XPCT has been IRD's distributor in China. XPCT is a design, services and manufacturing company focusing on providing technology to the ITS industry. This investment in XPCT will prove to be extremely beneficial to IRD in the long run. As China starts to integrate ITS into its road networks and with the emergence of self-driving vehicles, IRD sits in a favourable position to capture contracts offered by the government.

## Acquisition Targets – Inorganic Growth Strategy

Management has indicated criteria for acquisition targets in the 2017 earnings call. IRD hopes to acquire a profitable company with products which are synergetic with IRD's own products and services. IRD is searching for a company which provides data collection services on road networks or the installation services of ITS industry products. IRD is also looking for companies which provide service and maintenance in the ITS industry because these companies often offer long-term reoccurring revenue. Management mentioned their interest in looking for such a firm in Europe to get a foothold on the continent. Furthermore, management also mentioned Please see legal disclaimer at bottom.

Balreet Bhangoo | [Contact@westpeakresearch.com](mailto:Contact@westpeakresearch.com)



their desire to acquire multiple companies. In the earnings call, management also reported they will consider the need to issue more shares in order to acquire desired companies. They gave no indication on how many shares will be issued or when they will consider doing this.

## Catalysts

### Increased Government Spending on Infrastructure in North America

The Canadian Government is planning on awarding \$60 Billion dollars' worth of contracts on infrastructure. President Trump plans on spending anywhere from \$500 Billion to \$1 Trillion dollar on infrastructure during the next 10 years. IRD sits in an advantageous position to acquire contracts from both governments in order to supply, service and maintain road networks across both countries. IRD was recently awarded a \$7.34 Million dollar contract in New York state to collect data, upgrade, repair, operate and maintain traffic data collection sites within the state of New York. IRD also has multiple other contracts ranging from Alaska to Alabama.

According to the Congressional Budget Office (CBO), 95% if the amount spent on highway infrastructure goes towards their improvement, expansion and major repair with the remaining 5% towards operation and maintenance. Contracts such as these are only the beginning in a planned infrastructure upgrade during the next 10 years for both Canada and the United States. Furthermore, the continued weakness in the Canadian Dollar relative to the US Dollar will provide a tailwind for IRD's revenue into the future.

### US States Open to Idea of Privatized Weight Stations

US State governments are becoming increasingly open to Private Public Partnership arrangements. One of the many possible scenarios includes privatization of weight stations. A company like IRD would assume responsibility for the weight station infrastructure including CAPEX to maintain and modernize. The state would enter into a long-term service agreement which would mean recurring revenues which are long-term in nature. Many of these opportunities exist all over the United States.

### Developing Countries and the Rest of the World

Excluding North America, IRD maintains operations in others countries including China, Korea, India, Mexico and many others. Many of these developing countries also plan to spend significantly on infrastructure to facilitate economic growth, improve transportation systems efficiency, reduce emissions, and increase safety and productivity. IRD maintains a network of sales agents around the world to receive contracts from government agencies and private corporations around the globe. While no government has officially reported any concrete number on how much they are planning to spend on infrastructure, many analysts expect it to be in the hundreds of billions.

## Self-Driving Vehicles

The development of the ITS industry is long term. It is expanding and will continue to do so at an increasing rate. IRD and its ITS components cater to 3 categories in the autonomous vehicles section according to an earning call; Industrial Trucks, Commercial Trucks and autonomous cars. IRD predicts in two years, ITS will be fully implemented in industrial areas such as oil fields and mining facilities to guide industrial trucks to and from the location. IRD predicts in 3-5 years, commercial trucks will be offered to drive nation-wide in dedicated lanes using the ITS systems. Lastly, in 5-10 years' autonomous cars will also be driving on road networks using ITS technology. Currently autonomous vehicles face many legal issues, but laws are changing and will continue to do so to ensure such vehicles are complaint. The driving factors are reducing human error, increasing travelling efficiency and increasing productivity. The ITS technology is a long term play for IRD which has the potential to be a large new revenue stream if utilized effectively.

## Management Team

### Mr. Terry Bergan- Chief Executive Officer, President

Terry Bargan has been President since 1986 and CEO since 1994. Bergan graduated from the University of Saskatchewan with a Bachelor of Science in Civil Engineering. He is a member of the Association of Professional Engineers of Saskatchewan (P.Eng) He is an active member of many industry associations including International Roads Federation (IRF), Transportation Research Board (TRB) and the International Bridge and Tunnel Toll Association (IBTTA). His total annual compensation is composed of a \$655,000 salary. Bargan currently holds 6.61% of all shares outstanding.

### Mr. Randy Hanson- Chief Operation Officer, Vice President

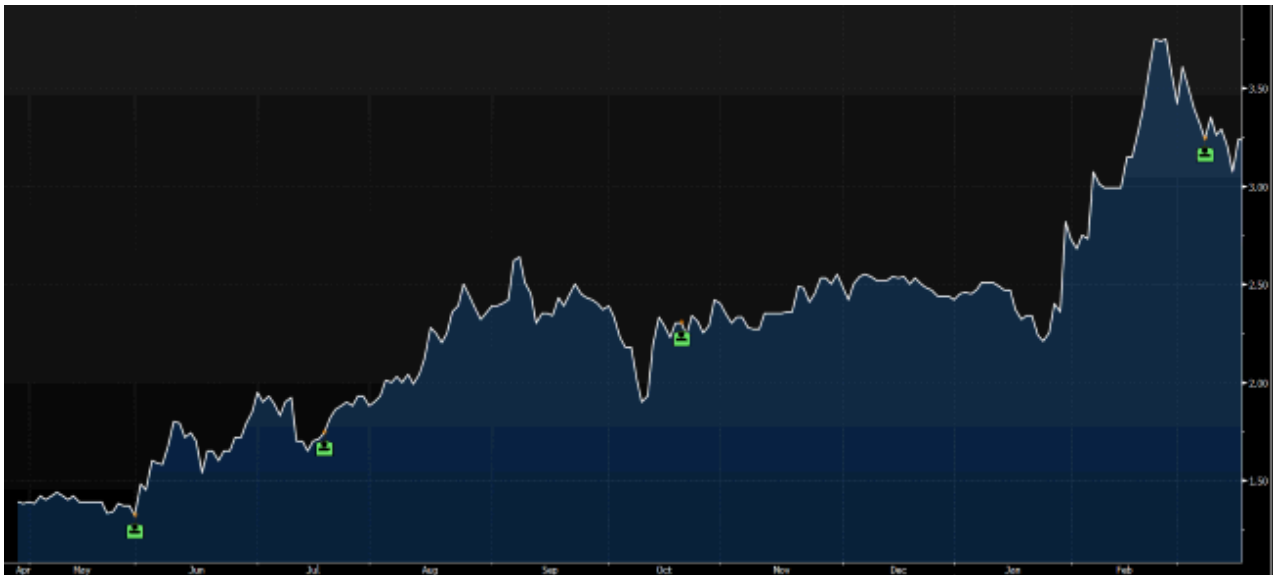
Randy Hanson joined IRD in 1998 as a Project Manager and Technical Consultant. Randy Hanson received his Bachelor of Science in Electrical Engineering from the University of Saskatchewan. In 2000, he was appointed to the position of COO and Vice President. Hanson also is a member of the American Association of State Highway and Transportation Officials (AASHTO). His total annual compensation is composed of a \$530,000 salary. Hanson currently holds 1.87% of all shares outstanding.

## Shareholder Base, Liquidity and Capital structure

### Shareholder Base

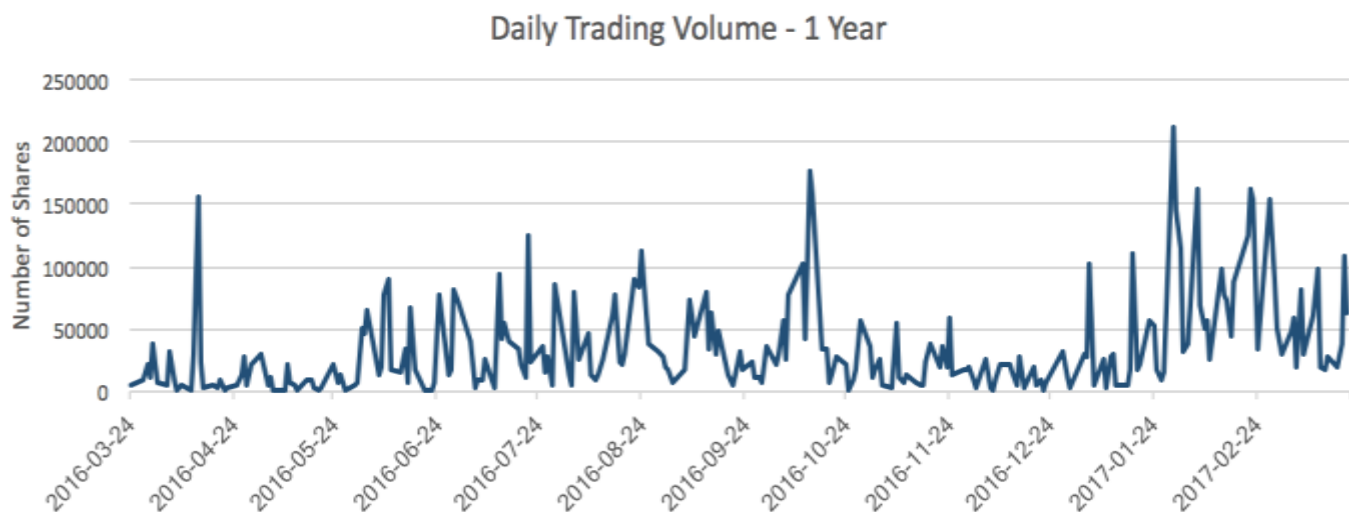
In total, IRD currently has 15,158,323 shares outstanding. The company's largest shareholder is Boeckh Investments with 12.15% of total shares outstanding. Following Boeckh Investments, the management of the company holds the most outstanding shares with Terry Bergan, Randy Hanson and Theodor Bergan each respectively holding 6.61%, 1.87% and 1.64% of total shares outstanding. Management's large holding in the

company signals their belief in IRD to perform and grow long term. Dating back to April 20, 2016, Management has been buying stocks within the company. Insiders currently hold 14.3% of all shares in the company.



## Liquidity & Capital Structure

IRD's 12-month average daily trading volume is 78,205. Considering the small market capitalization of the stock, this trading volume is healthy but can pose problems for large trades. The short interest as a percentage of the float sits at 0.08% which is 6,500 shares. IRD currently holds a healthy amount of debt at \$6.1 million. The company is not highly levered which can prove beneficial in the future when they need to debt finance in order to invest more their products and services. The following graph excludes the date of February 27, 2017 on which 638,700 shares were traded due to the release of the annual report.



# Valuation

## Comparable Companies Analysis

### Faro Technologies, Inc.

FARO Technologies, Inc. designs and develops computerized software and portable measurement devices.

### INIT AG

Innovation in Traffic Systems SE develops and markets fleet management, fare management and on-board vehicle systems to the transportation industry.

### Advantech Co Ltd

Advantech Co., Ltd. manufactures and markets embedded personal computers (PC), network computing products, industrial automation products, and panel PCs.

### Kapsch TrafficCom Ag

Kapsch TrafficCom Ag supplies traffic systems and electronic fee collection systems.

## Comparable Companies Analysis Summary

For the purposes of the comparable companies analysis, a comparison was made with IRD to those companies which are subject to the same macro factors or are involved in the ITS industry. This included using companies which also participate in traffic data collection or operate within the transportation industry. Companies which also develop and market software in general for supply chain were also utilized as comparable companies. The analysis indicated a target share price of approximately \$5 utilizing an implied EV/EBITDA of 9.2x and P/E of 12.5x for IRD.

## Discounted Cash Flow Analysis

### Revenue Forecasts

The revenue forecast for the last quarter of fiscal year 2016 was based on management's outlook of revenue and the recent contract signed with the State of New York. Growth assumptions for the following fiscal years were primarily based on increasing government expenditures on infrastructure which would lead to more contracts and more maintenance and service revenue.

### Research and Development

For every firm operating with the ITS industry, research and development plays a critical role in the ability to acquire contracts. In order for IRD to maintain its current technology and develop more, it will need to increase its R&D budget. A 5% of total revenue was assumed for the R&D budget.

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Balreet Bhangoo | [Contact@westpeakresearch.com](mailto:Contact@westpeakresearch.com)

## Capital Expenditures

Going forward, capital expenditure will need to be increased to align with US State's partnerships. IRD would assume responsibility for the weight station infrastructure including capital expenditures to maintain and modernize the stations. Therefore, an increase in capital expenditures is reflected in the assumptions.

## Net Working Capital

Net working capital growth would be in line with revenue growth because of the fact management has not indicated any significant change. Therefore, no major adjustment was made for simplicity.

## Terminal Growth Rate

Assuming a 2% terminal growth rate reflects the rate of economic growth in the US and Canada, which is in line with how IRD will grow.

## Margin Assumptions

IRD has been improving its COGS as a percent of revenue and SG&A as a percent of revenue. We have decreased both COGS and SG&A in a linear fashion assuming IRD will become better at reducing costs.

## Weighted Average Cost of Capital (WACC)

To determine a weighted average cost of capital of 10.05% the following rates were used. A risk-free rate of 1.26% was used, which is the five year Canada Treasury Yield. An equity market risk premium rate of 4.29% from NYU Stern Professor Aswath Damodaran's website. Lastly, the industry beta of Engineering & Construction which is 1.18 was levered up to reflect the company's risk produced a beta of 1.25. These calculations provided a cost of equity at 6.6% and a WACC of 6.05%. Although, this WACC does not reflect the true risk of a small company with a market capitalization of 44 Million. Therefore, a premium of 4% was applied which produced a new WACC of 10.05%. Utilizing the fairly conservative assumptions above, the discounted cash flow analysis implies a target share price of \$4.31.

## Risks

### Government Program Funding Risk

The majority of IRD's revenue is derived from government transportation agencies around the world who wish to monitor traffic trends, enforce weight regulations and charge tolls for use of roads. The importance of these tasks allows IRD's potential future market to be secure in the long run but, economic recessions in the short term can greatly affect revenue streams. Furthermore, 60% of the company's revenue is derived from the United States, and with the political risk of Donald Trump future revenues may be affected by negative policy changes. To mitigate this reliance on the United States, IRD has diversified its revenue streams and has expanded into markets including Latin America and China. Furthermore, to mitigate the risk of government

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Balreet Bhangoo | [Contact@westpeakresearch.com](mailto:Contact@westpeakresearch.com)



reliance, the company has its diversified product offerings which are now also used in commercial, municipal and city markets as well as other businesses.

## Operational Risk

IRD engages in business operations in many countries across the globe. Operations and revenue streams may be affected by changes in government, changes in government policies, terrorism, military action, corruption, competition and civil unrest. To mitigate this risk IRD has expanded to multiple countries so if one revenue stream is blocked, the company can rely on others.

## Technology Risk

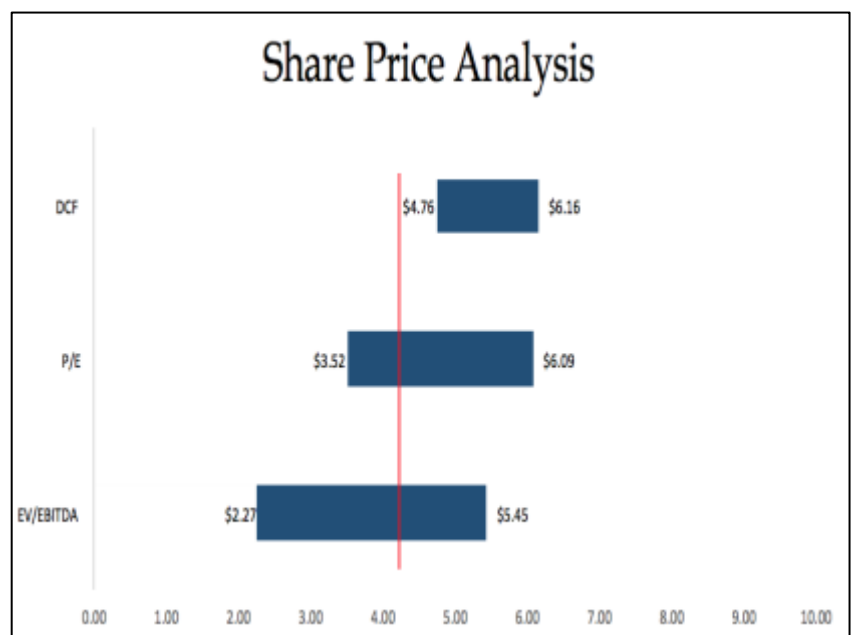
IRD operates in a rapidly changing Intelligent Transportation Systems (ITS) Industry. Other competitors in this industry such as Siemens AG and Hitachi LTD. have greater financial resources and larger marketing organizations. IRD is subject to technological advances which can render their product lines obsolete or unmarketable. The company mitigates this risk through their large R&D budget which ensures existing products are technologically current and future products meet client's evolving requirements. Future revenue streams are dependent on IRD's ability to develop new products and software.

## Supply Chain Risk

IRD is dependent on 3rd party distributors and partners to support customers. A change in the relationship between the company and the distributors could negatively impact the volume of international sales. IRD currently has no mitigation strategy against 3rd party distributors refusing to supply IRD's products other than finding another partner.

## Recommendation

Utilizing a 50% Comparable Companies Valuation and a 50% DCF Valuation, we produced a price target of \$4.25. IRD is a leader in weigh-in-motion scales and has the framework to become the leader in the Intelligent Transportation Systems industry. The Management is an experienced group who have been growing revenues and investing into new technologies. Even if the company continues to function without improving, the growing ITS industry will provide a tailwind for an increase in the stock price. Long-term service contracts are in place



which will provide reoccurring revenue through data collection and maintenance. IRD technology in the road and data collection systems provides an economic moat of switching costs which makes its extremely likely present and future clients will switch away from IRD's systems. IRD currently trades at \$3.00, this 41% discrepancy is the market not pricing in the expansion the ITS industry is about to go through and the catalysts which are on the verge of increasing revenues for IRD. We believe the market is failing to price in IRD's unique advantage of offering the entire package. This means IRD installs, operates and maintains all road systems which provides an incentive for governments to contract entire projects to IRD instead of several competitors who each perform one task. A buy is recommended for IRD.

## Appendix 1: Pro Forma Income Statement

WESTPEAK RESEARCH										Income Statement				
	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
Revenue	41577	43646	45102	57990	14898	15285	18256	16945	65384	60776	65815	72187	78838	83653
Cost of Goods Sold	29318	29992	31099	40373	10349	10544	11794	11002	43689	40599	43767	47644	51639	54374
Gross Profit	12259	13654	14003	17617	4549	4741	6462	5943	21695	20178	22048	24544	27199	29279
R&D	1289	1166	1244	1247	495	600	840	1281	3216	2735	3291	3609	3942	4183
Admin & Marketing Expense	10764	10986	11706	13619	3242	3201	3592	3961	13995	12459	13163	14437	15373	15894
SG&A	10114	10421	11064	13010	3116	3074	3449	3766	13405	11753	12276	13365	14089	14401
EBITDA	856	2067	1694	3361	938	1067	2173	896	5074	5690	6481	7569	9168	10695
D&A	631	554	628	590	123	124	139	191	578	694	875	1060	1272	1481
SBC	19	12	14	19	3	3	3	4	12	12	12	12	12	12
EBIT	206	1501	1052	2752	812	940	2030	701	4484	4984	5594	6497	7884	9202
Other items	556	-226	-667	-662	172	355	51	-143	435					
Income Before Income Tax	-350	1727	1719	3414	640	585	1980	844	4049	4984	5594	6497	7884	9202
Income Tax	298	815	347	882	183	217	569	323	1293	1495	1678	1949	2365	2761
Net Income	-647	912	1372	2532	457	368	1410	521	2756	3489	3916	4548	5519	6441
Shares Outstanding, Basic	13998	13999	14054	14254	14476	14643	14724	14681	14681	14681	14681	14681	14681	14681
Shares Outstanding, Diluted	13998	14305	14512	14772	15063	15179	15417	15158	15158	15158	15158	15158	15158	15158
Earnings Per Share, Basic	-\$ 0.05	\$ 0.07	\$ 0.10	\$ 0.18	\$ 0.03	\$ 0.03	\$ 0.10	\$ 0.04	\$ 0.19	\$ 0.24	\$ 0.27	\$ 0.31	\$ 0.38	\$ 0.44
Earnings Per Share, Diluted	-\$ 0.05	\$ 0.06	\$ 0.09	\$ 0.17	\$ 0.03	\$ 0.02	\$ 0.09	\$ 0.03	\$ 0.18	\$ 0.23	\$ 0.26	\$ 0.30	\$ 0.36	\$ 0.42

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Balreet Bhangoo | [Contact@westpeakresearch.com](mailto:Contact@westpeakresearch.com)

## Appendix 2: Pro Forma Cash Flow Statement

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### Cashflow Statement

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
Net Income	-647	912	1372	2532	457	368	1410	521	2756	3489	3916	4548	5519	6441
Depreciation and Amortization	631	554	628	590	123	124	139	191	578	694	875	1060	1272	1481
Cash Flows before Working Capital	1179	2293	2805	5482	649	1122	2615	1349	5734	4195	4803	5620	6803	7935
Cash Provided By Operating Activities	1744	1744	-838	4671	-610	-64	3039	-67	2298	5573	3722	4249	5370	6892
Cash Used in Investing Activities	-5	-72	-721	-1052	-191	-320	-437	-58	-1006	-1462	-1662	-1962	-2162	-2362
Cash Provided By (Used In) Financing Activities	-1532	-1387	1602	-3181	923	733	-1778	-165	-287	0	0	0	0	0
FX Impact	34	-53	-33	-4	13	-114	80	-98	-117	0	0	0	0	0
Beginning Cash Balance	917	1157	1390	1399	1834	1969	2205	3110	1834	2722	6833	8894	11181	14390
Net Change in Cash	240	232	9	434	136	235	905	-388	888	4112	2061	2287	3209	4531
Ending Cash Balance	1157	1390	1399	1834	1969	2205	3110	2722	2722	6833	8894	11181	14390	18921
Cash Adjustment			-0.009											

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Balreet Bhangoo | [Contact@westpeakresearch.com](mailto:Contact@westpeakresearch.com)

## Appendix 3: Pro Forma Balance Sheet

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# Balance Sheet

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
<b>ASSETS</b>														
Cash and Cash Equivalents	1157	1390	1399	1834	1969	2205	3110	2722	2722	6833	8894	11181	14390	18921
Other Current Assets	21292	19915	23706	26573	26740	27707	28861	29629	29629	27642	29347	31482	33701	35282
<b>Total Current Assets</b>	<b>22449</b>	<b>21305</b>	<b>25105</b>	<b>28889</b>	<b>29093</b>	<b>30274</b>	<b>32302</b>	<b>32654</b>	<b>32654</b>	<b>34778</b>	<b>38544</b>	<b>42966</b>	<b>48394</b>	<b>54506</b>
Property and equipment	1576	1836	2000	2395	2468	2630	2968	2951	2951	3718	4505	5406	6296	7176
Other Non-Current Assets	8540	8957	9527	10475	10581	10442	9933	9283	9283	9283	9283	9283	9283	9283
<b>Total Non-Current Assets</b>	<b>10116</b>	<b>10794</b>	<b>11527</b>	<b>12871</b>	<b>13049</b>	<b>13071</b>	<b>12902</b>	<b>12234</b>	<b>12234</b>	<b>13001</b>	<b>13788</b>	<b>14690</b>	<b>15579</b>	<b>16459</b>
<b>Total Assets</b>	<b>32565</b>	<b>32098</b>	<b>36632</b>	<b>41760</b>	<b>42142</b>	<b>43345</b>	<b>45204</b>	<b>44888</b>	<b>44888</b>	<b>47780</b>	<b>52332</b>	<b>57656</b>	<b>63973</b>	<b>70966</b>
<b>LIABILITIES</b>														
<b>Total Current Liabilities</b>	<b>15446</b>	<b>13655</b>	<b>15558</b>	<b>17588</b>	<b>17306</b>	<b>18669</b>	<b>19024</b>	<b>18016</b>	<b>18016</b>	<b>17407</b>	<b>18031</b>	<b>18795</b>	<b>19582</b>	<b>20121</b>
Long term deferred revenue	569	876	1128	825	812	783	801	798	798	798	798	798	798	798
Long-term debt			771	643	611	579	546	514	514	514	514	514	514	514
<b>Total Non-Current Liabilities</b>	<b>569</b>	<b>876</b>	<b>1900</b>	<b>1468</b>	<b>1423</b>	<b>1361</b>	<b>1348</b>	<b>1313</b>	<b>1313</b>	<b>1313</b>	<b>1313</b>	<b>1313</b>	<b>1313</b>	<b>1313</b>
<b>Total Liabilities</b>	<b>16016</b>	<b>14531</b>	<b>17458</b>	<b>19055</b>	<b>18729</b>	<b>20031</b>	<b>20372</b>	<b>19329</b>	<b>19329</b>	<b>18720</b>	<b>19344</b>	<b>20108</b>	<b>20895</b>	<b>21433</b>
<b>SHAREHOLDER'S EQUITY</b>														
<b>Total Shareholder's Equity</b>	<b>16550</b>	<b>17567</b>	<b>19174</b>	<b>22705</b>	<b>23413</b>	<b>23314</b>	<b>24832</b>	<b>25559</b>	<b>25559</b>	<b>29060</b>	<b>32988</b>	<b>37548</b>	<b>43079</b>	<b>49532</b>

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Balreet Bhangoo | [Contact@westpeakresearch.com](mailto:Contact@westpeakresearch.com)



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2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
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Growth Rate 2.0%

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
EBIT	206	1501	1052	2752	812	940	2030	701	4484	4984	5594	6497	7884	9202
Tax Rate	-85%	47%	20%	26%	29%	37%	29%	38%	32%	30%	30%	30%	30%	30%
D&A	631	554	628	590	123	124	139	191	578	694	875	1060	1272	1481
Change in NWC	565	-549	-3643	-811	-1258	-1186	425	-1416	-3436	1378	-1081	-1371	-1433	-1042
Capital Expenditures	-228	-829	-963	-1059	-170	-303	-464	-191	-1129	-1500	-1700	-2000	-2200	-2400
<b>Free Cash Flow</b>	<b>219</b>	<b>1066</b>	<b>4148</b>	<b>2382</b>	<b>1791</b>	<b>1599</b>	<b>697</b>	<b>1849</b>	<b>5938</b>	<b>1305</b>	<b>4172</b>	<b>4979</b>	<b>6023</b>	<b>6565</b>
<i>Discount Period</i>									0	1	2	3	4	5
<b>Discounted Free Cash Flow</b>									<b>0.0</b>	<b>1185.4</b>	<b>3444.2</b>	<b>3735.2</b>	<b>4106.1</b>	<b>4066.1</b>

## GROWTH

2.2%

## Appendix 5: Comparable Company Valuation

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# Comparables Analysis

CAD (\$)	Cash	Debt	Market Capitalization	EV	FTM EBITDA	Share Price	FTM EPS		EV/EBITDA	P/E
Kapsch TrafficCom Ag	282.7	257.0	857.9	832.2	108.2	\$61.20	\$4.17		7.7 x	14.7 x
INIT AG	32.8	57.6	204.3	229.1	18.9	\$20.43	\$1.17		12.1 x	17.5 x
Advantech Co. Ltd.	319.9	20.1	6376.5	6076.7	376.4	\$11.67	\$0.46		16.1 x	25.4 x
Kapsch TrafficCom Ag	275.1	250.1	776.2	751.2	105.3	\$59.71	\$4.06		7.1 x	14.7 x
IRD	2.7	6.3	44.0	47.6	5.2	\$3.00	\$0.24		9.2 x	12.5 x

	HIGH	AVERAGE	LOW	IMPLIED TARGET EV	IMPLIED TARGET SHARE PRICE
EV/EBITDA	16.1 x	10.8 x	7.1 x	55.70	\$ 1.00
				83.50	HIGH \$ 5.45
				36.91	LOW \$ 2.27
	HIGH	AVERAGE	LOW	IMPLIED P/E	IMPLIED TARGET SHARE PRICE
P/E	25.4 x	18.1 x	14.7 x	18.1 x	\$ 4.33
				25.4 x	HIGH \$ 6.09
				14.7 x	LOW \$ 3.52

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Balreet Bhangoo | [Contact@westpeakresearch.com](mailto:Contact@westpeakresearch.com)

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Balreet Bhangoo

Analyst

WestPeak Research Association

[contact@westpeakresearch.com](mailto:contact@westpeakresearch.com)