

Frazier's Strategic Allocator

Avoid the big downturns and profit from the upturns



Trade Alert

February 17, 2014

SPECULATIVE PORTFOLIO

Action: Buy TASER International, Inc.

Ticker Symbol: TASR

Buy Price: At the Market

Allocation: 3% of the amount of your financial market assets that you plan to use for speculation purposes.

Dear Member,

You're probably familiar with Taser International, the maker of stun guns that incapacitate dangerous and combative persons who pose a risk to law enforcement officers and innocent citizens. But, you might not know about its latest products, the TASER AXON camera system and EVIDENCE.COM, Taser's wearable cameras and digital evidence management system.

The AXON Flex camera, which was introduced during May 2012, provides flexibility in the way that a police officer chooses to wear that device, whether on his/her shirt collar, cap, helmet, epaulette, or eyewear. There's also an option to attach that camera to an Oakley Flak Jacket eyewear. Adding to the camera's ease-of-use, police officers can use an Android smartphone or Apple iPhone to review and tag video evidence in an effort to streamline the evidence transfer process.

The AXON Body camera, which Taser launched during the third quarter of 2013, is an ultra-durable wearable camera that includes a 130-degree wide-angle lens, multiple on-body mounting options, and a single button for recording digital evidence. The AXON body camera is able to capture more evidence than any other body camera, even in the dark.

Taser's AXON cameras (1) improve the behavior of all parties involved in police interactions, (2) reduce false complaints and lawsuits by capturing video accurately, and (3) save time and increase efficiency – officers spend more time on patrol with automated workflows that reduces their administrative workload.

The company's EVIDENCE.COM system is a cloud-based digital evidence management system that enables police officers to automatically upload video files that were captured with an AXON camera and to store, retrieve, and share digital evidence easily. It accommodates video from many sources, including TASER weapons, smartphones, fixed cameras, and interview rooms.

EVIDENCE.COM eliminates time-consuming manual steps that are required by traditional methods in the production and movement of evidence among law enforcement and legal professionals.

Thousands of law enforcement officers assisted in the development of Taser's AXON cameras, making those cameras the most customer-driven wearable cameras ever produced for law enforcement officers.

Taser's cameras have a much lower total cost of ownership than traditional in-car cameras, and they overcome some of the inherent limitations of in-car cameras. Hence, there's a good chance that police agencies around the world will soon replace their in-car cameras with Taser's officer-worn AXON cameras.

There's also a good chance that a large number of police agencies will replace their costly infrastructure of servers, storage devices and network operating systems with Taser's cloud-based EVIDENCE.COM digital evidence management system. That's because that system, which is managed by third parties who specialize in infrastructure management, enables police agencies to store, retrieve and analyze video evidence much more efficiently than traditional systems.

As a result of spending substantial amounts of money from 2009 to 2011 to develop its AXON cameras and EVIDENCE.COM digital management system, Taser incurred a net loss during each of those years. However, the company returned to profitability during 2012, as the demand for its AXON cameras and camera-equipped stun guns rose sharply. Specifically, the company's net income rose to \$14.7 million (or \$0.27 per diluted share) for the year ended December 31, 2012, from a net loss of \$7.0 million (or -\$0.12 per diluted share) during the prior year, as its revenues rose 27.5 percent to \$114.8 million.

For the nine months ended September 30, 2013, the company's revenues and net earnings per diluted share rose 18.4 percent and 26.3 percent, respectively, as compared to the same period during 2012.

Taser is very strong financially, with its cash and short-term investments alone covering all of the company's financial obligations as of September 30, 2013. That huge cash position enables Taser to continue to buy back large shares of its stock, after acquiring \$25 million of its stock during 2013, to develop other products, and/or to market its current products aggressively to police agencies around the globe.

Although the company's stock appears to be a bit pricey at this time, with an estimated price/earnings to growth (PEG) ratio of approximately 1.2 as of February 14, 2014, my research indicates that Taser's earnings growth will accelerate over the next two years and that its stock will trend substantially higher than its current level over the next 12-18 months.

Therefore, I advise those of you who follow our Speculative Portfolio to buy Taser International (TASR) in accordance with the trade instructions outlined above.



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