

## International Road Dynamics Inc. – IRD.T

*Current Market Price:* Nov 11, 2015 - \$1.20  
*Recommended Accumulation Range:* Up to \$1.25 Cdn  
*Shares Outstanding:* 14,316,760  
*Market Capitalization:* \$17,180,112  
*Current Recommendation:* **Buy**



**Company Overview** – International Road Dynamics Inc. (IRD) is a leading provider of integrated systems and solutions for the global Intelligent Transportation Systems (ITS) Industry. The ITS Industry is a worldwide market focused on improving the mobility, enhancing the safety, increasing the efficiency and reducing the environmental impact of highway and roadway transportation systems.

The core strengths of the Company are its international sales network and installed base of systems, its intellectual property (trade names, patents, trademarks and other proprietary knowledge), and its ability to utilize a variety of its proprietary and OEM technologies to detect, track, classify and weigh vehicles at highway speeds. IRD is the world's largest provider of Weigh-in-Motion (WIM) systems.

The Company's customers include government transportation agencies, traffic engineering companies, city and municipal agencies, concessionaires, public transit operators, industrial, mining, and service companies around the world.

The Company believes that governments and private sector interests around the world will continue to invest in highway and roadway infrastructure as a means to facilitate economic growth, improve transportation systems efficiency, reduce emissions, and increase safety and productivity. As such, the Company expects increased demand for its ITS products and services over the medium and long term across all business segments. With a growing global installed base, the Company also expects its maintenance and service business will expand, providing recurring and sustainable revenue over the long term.

**Comments** - For the last couple of years International Road Dynamics stock has languished trading just above its working capital level of approximately \$9.0 - \$10.0 million dollars. Recently the stock surged 30% due to a break out quarter. The company posted this break out quarter with record revenues (quarterly) and record profitability (quarterly). Reporting its third quarter revenue for the period ending August 31, 2015, the company's revenue jumped 51.9% vs. Q3 2014 to \$18,085,500 vs. \$11,904,000 Q3 2014. Accordingly, the company reported net earnings of \$1,458,000 or \$0.10/share vs 2014 earnings of \$505,000 or \$0.03/share. For the nine months ended Aug 31, 2015 revenues were up 23.6% to \$41,746,000 vs \$33,782,000. Net earnings during this nine month period were \$1,752,442 or \$0.12/share vs \$906,857 or \$0.06/share.

The significant growth in the quarter reflects the company's successful execution of a number of contracted projects, improved service revenues and growth in product sales into other international markets. This breakout quarter has given IRD net EPS over the trailing 12 months of over \$0.16/share. Provided the company can maintain this it is trading at a reasonable 8x earnings. The company has further given decent guidance for the 4<sup>th</sup> quarter expecting further revenue and profitability growth in project and service markets based on current orders in hand in their major markets (North America and Latin America). Seeing as company posted \$0.04/share in Q4 2014 any improvement over this would put their trailing 12 months earnings over the \$0.20/share mark. At current levels the shares would then be trading at a modest 6x earnings over the trailing 12 months earnings. The TSX average is at least double that

and based on these metrics alone it would suggest the shares are undervalued. However, the company has had a history of lumpy earnings and missed forecasts in the past.

The trick or question as to whether to invest in IRD is to determine if this is the new norm or one or two good quarters and the company slips back into a flat or lumpy earnings. I believe the company is on better footing and will lay out the reasons I believe IRD will perform going forward.

- i. IRD has been in business now over 25 years and has put tens of thousands of Weigh in Motion monitors along the world's highways. Increasingly Provinces and States are outsourcing the servicing of this equipment to IRD. Mechanics, unions etc. that previously worked or serviced these stations are retiring or pricing themselves out of the market. This service revenue is now starting to give IRD a nice and increasing recurring revenue stream. An added bonus is that now IRD is in control and can collect more data about what is happening along the world's highways. This could ultimately too be an important source of revenue – one that IRD is currently investing R&D dollars into. Markets pay premiums for recurring revenue and this should also help take the lumpiness out of the company's current revenues and profits.
- ii. The bulk of the company's sales are in U.S. dollars with the U.S. still far and away the company's biggest market. Even many of its international orders too are conducted in U.S. \$'s. Revenue growth year to date (August 31, 2015) reflects changes in the value of the U.S. dollar which increased revenues by approximately \$4.2 Million. Most analysts do not see a big reversal in the USD/CDN dollar ratio anytime soon. In fact if the U.S. starts to raise interest rates this would only make matters worse for the CDN dollar and better for IRD's revenues. All signs are pointing to a long awaited Fed Rate hike in December.
- iii. The company definitely has the ability to grow by acquisition. Over the last 25 years the company has expanded its geographic footprint through prior acquisitions. Some of these have worked out phenomenally (Chile & Latin America), one was an outright disaster (India), and another one is too early to tell (China) but looks positive. In the end of the day the company has experience in this arena and knows what it is looking for and has a couple already in its sights.
- iv. Taken from IRD's latest Management Discussion over the long term the company is currently spending 3% of revenues or close to \$1.5 million dollars on R&D! It is this initiative that I believe members of our group will understand and many of these involve gathering and tracking of data using the latest and greatest of telematics. Governments and transportation agencies are increasingly finding this data useful to protect their investments in infrastructure and highways. Keep in mind if this R&D were to stop another \$0.10/share in earnings would hit the bottom line.
- v. IRD has a paltry 14,250,000 shares outstanding. Successful execution and increased profits equate to meaningful EPS increases with so little shares outstanding. To make \$0.20/share the company only needs to make \$2.8 million. Given the company's revenues are approaching \$50,000,000 this should be doable. To trade at 15x revenue would make this a \$3.00 stock. The low number of shares outstanding gives great leverage to the share price if the company hits its marks.

**Brent Todd** B.Comm  
Senior Investment Advisor  
Canaccord Genuity Wealth Management  
609 Granville Street, Suite 2200, Vancouver, BC V7Y 1H2

T: 604.643.0106 | F: 604.643.0212 | TF: 877.643.0200  
E: [brent.todd@canaccord.com](mailto:brent.todd@canaccord.com) | [www.canaccord.com/wm](http://www.canaccord.com/wm)

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