

Pointer Telocation

Initiation of coverage

An appealing mix: Solid business and innovation

Pointer Telocation (PNTR) is a telematics company with a focus on Israel and Latin America. In addition to sales of its own telematics devices, the group generates high recurring revenues from mobile resource management services. After forex-hit H1 results, the stock is trading on a 34% forward P/E discount to its peers. We see potential for a re-rating on improved earnings growth, which should be driven by a recent acquisition in Brazil, a strong pipeline of new products and rising service margins.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (c)	DPS (c)	EV/EBITDA (x)	P/E (x)	Yield (%)
12/15	60.6	6.3	62	0.00	7.9	11.9	N/A
12/16e	63.7	6.4	60	0.00	7.8	12.3	N/A
12/17e	70.5	8.1	73	0.00	6.0	10.1	N/A
12/18e	75.3	9.6	86	0.00	4.6	8.5	N/A

Note: *PBT and EPS are normalised and diluted, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Solid business plus innovative product pipeline

PNTR has an attractive business mix with a safe core mobile resource management (MRM) business. Two-thirds of revenues are recurring, further enhanced by operational leverage from a cloud-based SaaS model and innovative product development, including a new wireless multi-sensing internet of things (IoT) product for refrigerated transport. Double-digit local revenue growth did not show through to the US dollar P&L in H116 due to FX weakness in Latin America, but with demand picking up in Brazil, the recent acquisition of Cielo Telecom, and rising new product sales, we see prospects for strong earnings growth in 2017.

Strong balance sheet and leveraged to growth

PNTR's key challenges are its involvement in relatively volatile geographies, particularly in Brazil and Argentina, as well as the need for higher R&D to cope with the shortened sales cycle in telematics products. Offsetting this, MRM penetration in its foreign markets is low and competition is weaker than in major markets.

PNTR's low gearing should enable it to cope with potential financial headwinds, while high incremental gross margins on new subscribers (75-80% vs the average 55%) means it is leveraged to growth.

Valuation: Unwarranted deep discount to sector

PNTR shares currently trade on a prospective 2017 P/E ratio of 10.1x, representing a 34% discount to both its international peers and fellow Israeli operator Ituran, which operates in similar geographies. We believe that the potential to achieve above-average growth from the regions and new product launches means that this discount should be no greater than 20% to global peers and 10% to Ituran, implying a value of \$8.85 (NIS33.9) per share. Our reverse DCF calculation indicates that the market is currently pricing in 0.5% negative CAGR in FCF from our 2018 FCF estimate, which we believe significantly underestimates the group's growth potential.

Tech hardware & equipment

8 November 2016

Price* **\$7.35/
NIS29.06**

Market cap **\$58m/
NIS229m**

*Priced at 3 November 2016

US\$/NIS3.83

Net debt (\$m) as of 30 June 2016 3.2

Shares in issue 7.87m

Warrants in issue 0.6m

Free float 59.3%

Code PNTR

Primary exchange NASDAQ

Secondary exchange TASE

Share price performance



% 1m 3m 12m

Abs (1.2) 18.0 10.0

Rel (local) N/A N/A N/A

52-week high/low \$7.77 \$4.75

Business description

Pointer Telocation (PNTR) is a leading provider of MRM services and products to the automotive and insurance industries. Key services are asset tracking, fleet management and monitoring goods in transit/IoT. Its main markets are Israel, Brazil, Argentina, Mexico and Europe.

Next events

Q316 results 17 November 2016

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Investment summary

Smart company with product innovation and growth focus

Increasing positioning of telematics products at the centre of transportation and logistics, the need for fleets to boost efficiency in highly competitive markets and a rapidly evolving range of services is driving global take-up of telematics services, leading to a forecast market CAGR of 24% to 2021 (Markets and Markets). We believe that PNTR's exposure to still under-penetrated markets in Latin America and Africa gives it above-average growth potential, and this is supported by a high level of recurring revenue and operational leverage from its SaaS business model. Ownership of its own IP, a focus on R&D/innovation and IT services are key drivers of client stickiness in its core services as well as the group's expansion into promising new verticals. These include the recent launch of a wireless multi-sensor product in late 2015 and a planned connected car product in 2017.

Financials: Foreign growth enhanced by new products

Pro-forma excluding the RSA business, the group generated 14.7% y-o-y growth in local currency revenues in H116, but FX weakness, particularly in the Brazilian real, cut the increase in reported dollar-terms to 0.4%. We forecast double-digit local currency revenue growth to continue through 2017. Brazilian operations should be boosted by an improving demand environment and the purchase of local player Cielo Telecom. The ramp up of sales of PNTR's new multi-sensing IoT product should also feed through to product revenues, while high operating leverage should expand margins in the services business. The successful spin-off of the group's roadside assistance (RSA) business to existing shareholders in June 2016 should also enable management to have a greater focus on its core, higher potential businesses. Based on financial market expectations, we have also factored in greater stability in future forex rates (5% annual declines), leading to greater local currency revenue growth showing through. Certainly, for Q416 the ongoing stability of the US dollar against the Israeli shekel and the recent revival in the Brazilian real against the US dollar – up 25% since the start of 2016 – are positive indicators. Finally, we note PNTR's high recurring revenues, cash conversion levels of over 100% and low gearing of 8% at mid-2016, which point to the strong financial foundations of the group and its ability to continue to fund value-accretive acquisitions.

Valuation: Market undervaluing growth potential

Our peer comparison and DCF analysis suggest PNTR shares are significantly undervalued, with the stock trading at a 34% forward year P/E discount to the sector. Applying 20% discounts to the Telocation sector P/E multiples to reflect the group's exposure to developing markets and associated FX risk and a 10% discount to the multiples of larger fellow Israeli telematics company Ituran, which has similar geographical exposure, we derive a value for PNTR of \$8.85 (NIS33.9) per share.

Sensitivities: International exposures

MRM product sales (37% of 2015 revenue) are geared to new vehicle sales and replacement cycles, which are sensitive to interest rates and economic growth. Product lifecycles in the cellocator segment have fallen in recent years from 3-4 to 2-2.5 years, and products are growing more complex, requiring the company to spend more on R&D for new product launches to maintain sales. Sales of telematics installed directly by OEMs are likely to challenge sales of after-market products. PNTR reports in US dollars, while the bulk of revenues are generated in Israel, Brazil, Argentina and Mexico, giving rise to risks from currency translation and emerging markets exposure. Cyber-attacks on wireless systems are a growing risk across the sector. The group has systems in place to counter these threats, but such attacks could result in extra costs and/or liabilities. Alongside a number of other players in the market PNTR has an (unprovisioned) \$11.5m tax claim in Brazil, which its lawyers expect to be heavily negotiated down and take many years to resolve.

MRM expanding to IoT and connected cars

PNTR is a leading provider of mobile resource management (MRM) products and services to the fleet management, automotive, insurance and logistics sectors. Its B2B celloclator segment designs, develops and produces MRM (telematics) products including asset-tracking devices, fleet management and portable wireless IoT sensor products. One-third of products are sold to service customers and the remainder to third-party MRM operators worldwide, generating 37% of external revenues. The group generates 63% of revenues from services that are mostly recurring and entirely software-as-a-service (SaaS) based, with contract terms of two to five years.

The use of SaaS gives the service business a high degree of scalability, with gross margins on new customers estimated by management at 75-80% vs the 55% margin of existing customers. At the same time, high levels of recurring revenues, a strong balance sheet and high cash conversion give the group the potential to ride out difficult market conditions.

PNTR's strong R&D/IT orientation and expertise in telematics products are major strengths of the service business. The group has large R&D/IT teams in Israel and Macedonia as well as local teams in each service market. This and the ownership of its own intellectual property enables PNTR to tailor and integrate its services to improve the customer experience and tie them into the brand. The R&D focus is also seeing expansion into new verticals. The group launched the CelloTrack Nano hub and wireless multi-sensor IoT product in December 2015. PNTR's 2017 R&D pipeline includes CelloTrack Nano 2.0, a new software platform for the CelloTrack Nano, as well as a connected car and new celloclator telematics product.

Developing markets focus boosts margin and growth potential

PNTR's largest market is Israel, which generated 44% of total revenue in 2015 (see Exhibit 1). Nevertheless, management sees exposure to underpenetrated foreign markets, particularly Latin America and Africa, as key growth drivers for the next five to seven years. Latin America and Mexico contributed 38% of service revenues last year, while other markets including Africa generated 15% of the total. While these markets carry above-average levels of political and forex risk, they have significant advantages for a smaller global player through their above-average growth prospects and less competitive environments compared to major markets in the US and Europe.

Strategy: Operating leverage, building the product pipeline, M&A

PNTR management is very strategically focused. The recent spin-off of the RSA business was undertaken to enable the group to increase its focus on growth markets. Current strategic aims are:

- **Maintain a highly competitive product portfolio via focus on R&D:** Regular new product launches counter ongoing price erosion, boost sales and minimise service customer churn.
- **Enter market to sell telematics to OEMs** supported by strong R&D/own IP strengths.
- **Expand into new verticals leveraging existing telematics know-how and customer relationships:** This strategy is necessary to protect the business in the longer term given the rapid pace of technological change in the sector.
- **Targeted M&A in fleet management in existing geographies:** Pointer aims to exploit operational gearing from the scalability of its SaaS platform, as well as its existing IT and management infrastructure, with acquisitions of fleet management companies with attractive local customer bases and sales teams. Management is highly disciplined in terms of acquisition multiples and intends to maintain a focus on existing geographies to drive synergies and avoid over-stretching management resources. The best fit is companies with similar technology.

Mobile resource management services

Pointer Telocation provides SaaS-tailored mobile resource management solutions to 208k subscribers via its own proprietary software. It offers a range of services, of which the most significant are fleet management, remote diagnostics, asset management and stolen vehicle recovery (mainly to the insurance sector).

With telematics services becoming broader and more complex, PNTR uses a cloud-based software platform to extract and capture critical data from a range of input points (offices, drivers, vehicles, containers, cargo, routes/schedules, etc). The analysed data is uploaded to the client's customisable dashboard along with actionable recommendations, analytics reports and KPIs.

Key solutions include:

- **Driver behaviour:** The platform provides real-time alerts for dangerous driving and non-compliant working practices as well as rating drivers and giving them real-time feedback.
- **Asset security:** Locations of vehicles/assets are visible on the client's platform and in addition to incorporating a range of anti-theft measures (eg jamming detection), the system alerts first responders, such as the police, as soon as any breaches are detected.
- **Accident/emergency support:** The system allows for pre-mapping of routes, with warnings of danger points, alarm systems, sensors, vehicle disabling, video surveillance, panic buttons and analytics tools as well as a control centre providing 24/7 support.
- **Fuel saving/Fraud Detection:** The system monitors for a wide range of inefficient driving and integrates automatically with fuel purchase data to detect excessive fuel use. Fraud monitoring encompasses unauthorised vehicle use, fuel theft and after-hours vehicle use.
- **Route and Task management:** Details of driver routes including deliveries, timings, fuel stops etc are downloaded into the system and vehicles are monitored for compliance. PNTR integrates third-party mapping and route-planning systems into its platforms for the client's use.
- **Diagnostics:** System monitors, alerts to problems and logs data from key vehicle components.
- **Other:** Yard management for trailers and containers, rental asset management for fleet outsourcing and asset rental companies.

One of PNTR's key service differentiators is its IT focus, reflected in its investment in IT teams in Israel and low-cost Macedonia as well as smaller teams of IT staff in each country. This enables it to offer customers highly tailored software solutions and to integrate them into the client's existing portfolio of software. Each fleet management client is also assigned a dedicated analyst.

Almost all service revenues are recurring. Average contracts in fleet management are 36 months, although some are as long as five to seven years. In Stolen Vehicle Recovery systems, the average contract lasts three to four years, giving rise to a high level of recurring revenue. Churn levels are not published, but according to management levels are low (mainly related to client bankruptcy) because the Pointer product is integrated into the fleet owner's system.

Key geographies

PNTR's key service geographies are Israel, Brazil, Argentina, Mexico, Europe and South Africa. Israel is the group's largest operation, generating 44% of revenues in 2015, but PNTR looks to its foreign operations to provide growth given high levels of competition and limited growth potential in this market. While the products side is highly international in terms of sales and competition, in the services business, competitors can differ widely from market to market, given the requirement for a local presence. Here, the group's operations are also concentrated into a few markets.

Exhibit 1: 2015 revenue breakdown

	Total revenues		Services		Products	
	\$m	%	\$m	%	\$m	%
Israel	26.5	43.7	19.2	50.1	7.3	32.7
Brazil	7.2	11.9	7.2	18.8	-	-
Argentina	4.6	7.6	4.6	12.0	-	-
Other Latam/Mexico	7.6	12.5	3.1	8.1	4.5	20.2
Europe	5.3	8.7	-	-	5.3	23.8
Other	9.4	15.5	4.2	11.0	5.1	22.9
Total	60.6	100.0	38.3	100.0	22.3	100.0

Source: Pointer Telocation. Note: Excludes revenues from RSA business spun-off in June 2016.

Israel: Major player status brings advantages

In 2015 Israel contributed 50% of group service and 33% of group product revenues. Both services and product revenues have been boosted by record levels of vehicle sales in recent years. The Israeli market for telematics products is highly competitive with strong pricing pressure. By way of contrast, there is a good level of price stability and discipline in the services business.

Pointer, and fellow Israeli operator Ituran are by far the largest players in the services market. Consumer oriented Ituran had Israeli subscriber numbers of 381k in 2015 versus Pointer's c 90k (half of PNTR's group total) but Pointer estimates that its share of the Israeli commercial fleet market is c 30%. Stolen vehicle recovery is a larger business area for PNTR in Israel than elsewhere, reflecting the current c 22% of private vehicles, and all buses and trucks, which are required by insurance companies and/or authorities to use asset tracking devices. As a major player with its own products, Pointer is able to provide attractive bulk deals for insurance companies which support its market position. Besides Ituran, other competition in the fleet market is US firm ISR Transit and local player Traffilog.

Brazil: Promising acquisition and improving economic fundamentals

Brazil is the second largest services business for the group, contributing 19% of revenue in 2015. This reflects fleet management services gaining increasing traction with local companies and high levels of crime, which supports demand for stolen vehicle recovery products. Although the Brazilian economy and the Brazilian real were weak in 2015 and into 2016, demand for MRM services remained strong, with PNTR experiencing double-digit subscriber growth in Brazil in H116.

Political changes earlier this year in Brazil have led to business confidence hitting a two-year high in September and surging share prices, and PNTR has reported promising developments in winning tenders. Pointer also raised its profile in Brazil this year, winning a contract from the Rio Transport Authority to monitor 200 vehicles during the Olympic Games.

Acquisition of Cielo Telecom in Brazil

On 7 October 2016 Pointer acquired the operations of Cielo Telecom (CT) in Brazil for \$6.5m. The company specialises in truck fleet management services in the south of Brazil, providing expansion potential for PNTR's existing commercial fleet base in the north.

The addition of CT's 16,000 MRM subscriptions increases PNTR's total subscriber base by c 8%. Moreover, its high monthly ARPUs of c \$25 compare well with the group blended ARPU of \$18 in H116. Based on this data we estimate annual revenues at \$5m. We also understand that the operation is profitable at the EBITDA level. Significant cost savings and synergies in sales, purchasing, etc, should be realised from combining the business with Pointer's existing operation in Brazil, which generated \$7.1m in revenues in 2015. On this basis, the purchase price plus \$2m acquisition costs represents an EV/sales of 1.3x, which compares favourably with recent sector transactions and PNTR's own prospective 2016 EV/sales of 1.0x (see discussion in valuation section).

Key competitors in Brazil are local player Sascar Tecnologia and Qualcomm-owned Omnitracs. Recently other high-end companies such as Mix Telematics and Telelogis have entered the market. In fleet management, most competitors are focused on the provision of low or entry level vehicle products and therefore are less able to compete with PNTR's product range.

Other key markets: Into Africa and Argentina

Argentina: Based on Driscoll & Associates' market data, we estimate PNTR's market share in Latin America at 2.3%. PNTR's operations in Argentina are focused on the commercial fleet market. The Argentine market has suffered from economic and political turbulence in recent years, but contributed 12% to group service revenues in 2015. PNTR's key competitors are LoJack and Ituran.

South Africa: PNTR entered the South African market in 2014 with the acquisition of Global Telematics. The group transferred its South African subscribers to the SaaS cloud service in 2015, with savings coming through in the 2016 results. The South African market is very competitive, and dominated by local company MiX Telematics, with Trackwork and global players CTrack and Cartrack also competing. PNTR sees the business as a strong base for selling into the greater African market, where demand is growing rapidly as African economies continue to develop (with the region forecast to show 3.7% growth this year) and the telematics business case continues to improve in the face of high crime levels.

The telematics market

Demand for fleet management services set to grow strongly

Driscoll & Associates, a specialist in telematics markets in the US, forecasts the global telematics market (services and products) to grow at an 18.9% CAGR between 2015 and 2020 to reach \$47.6bn. Latin America and Africa are forecast to achieve CAGRs in the high teens, at 15.6% and 17.3%, respectively. This is forecast to result in these markets growing respectively from \$1.4bn and \$1.9bn in 2015 to \$2.5bn and \$3.6bn in 2018.

Forecasts purely for telematics services also support a double-digit growth outlook for the sector. Markets and Markets forecasts a 23.9% CAGR in global telematics service revenues to \$27.9bn in 2021 as the ROI for telematics services continues to increase (see sector drivers below). For Latin America, sector specialist Berg Insight forecasts a 13% CAGR in telematics subscribers to 4.1m by 2020, representing growth in penetration from 8.9% to 14.7%. The key drivers are expected to be the increasing ROI case for telematics systems and government regulation.

Based on the trends in the US market, we see good grounds to expect compound annual growth rates in less developed markets such as Africa and Latin America to remain in their high teens during the 2020-25 period. The longer-term potential for these markets can be seen in the Berg Insight forecast for commercial vehicle telematics penetration in the US to reach 39.2% in 2020.

We expect increasing sales of vehicles with integrated telematics to put more pressure on the margins of aftermarket suppliers, but also to drive more aftermarket suppliers to sell to OEMs. Berg Insight estimates that sales of vehicles containing embedded telematic devices will grow from 8.4m in 2013 to 54m by 2020 (representing 54% of estimated annual car production) with total users of embedded telematics services at 159m. It warns that many of these will be very basic products, such as a calling function.

Key telematics sector demand drivers

Telematics is a key source of cost savings: Frost and Sullivan estimate that telematics address 68% of fleet costs ie fuel (30%), wages (26%), maintenance (5%) and insurance (6%).

- **Reduced costs of connectivity** and growth in high-speed wireless solutions.

- **Falling cost of telematics equipment** increasing affordability to SMEs and individuals.
- **New verticals/new markets**, such as the creation of pay-as-you-drive insurance, followed by pay-how-you-drive (PHYD) insurance.
- **New products/services with increased cost savings/return on investment (ROI):** The additions of vehicle to vehicle (V2V) communication and driver alertness, etc are further improving the ROI case.
- **Reduced insurance premiums:** Insurers typically offer high discounts or require telematics use due to lower theft rates, safer, monitored driving and reduced unauthorized vehicle use.
- **Government regulation**, with increasing numbers of safety compliance mandates.

Telematics products

The Cellocator division

Pointer's fully-owned subsidiary Cellocator started producing wireless telematics devices in 1997. The company is present in the US, India, South America, Central America, the Commonwealth of Independent States and Eastern Europe and offers a range of telematic products (equipment with wireless connectivity used to improve the function of vehicles or fleets of vehicles) for use in fleet management, asset and cargo tracking, transport and logistics, the construction industry, vehicle leasing and rental cars and public security. Currently 1.5m vehicles in 50 countries are fitted with Pointer's products, supported by regional offices. Cellocator's key product markets are Israel (33% of 2015 product revenues), Europe (24%) and Latin America (20%). A further 23% of products were sold in other global markets.

Cellocator's key customer groups are Pointer's telematics service arm, third-party telematics service-providers and car importers, which install the devices in new vehicles before sale. The company is working on expanding its customer base to include vehicle manufacturers (OEMs) in view of the rising trend of sales of vehicles with telematics installed at manufacture.

The key selling points of the Cellocator range are their high level of reliability (with advertised failure rates of less than 0.3%), richness of features, product reach across different segments of the market and quality.

Exhibit 2: Pointer Telocation Cellocator (MRM) product matrix

	CR300	CR300B	Cello-IQ 30	Cello-IQ 40	Cello-IQ 50	Cello CANiQ 30	Cello CANiQ 50
Fleet & standard driver behaviour	✓	✓	✓	✓	✓	✓	✓
Security		✓	✓	✓	✓	✓	✓
Advanced driver behaviour					✓		✓
Accident detection and analysis					✓		✓
CANbus* & diagnostics						✓	✓

Source: Pointer Telocation. Note: * Protocol for communications network that interconnects components in a vehicle.

Cellocator's most basic product (CR300/B) targets large fleets, insurance and leasing companies. It monitors basic driver behaviour through sensors detecting speed and collisions, as well as providing enhanced security by reacting to jamming attacks (eg by disabling the engine), detecting vehicle towing and tracking vehicle locations. With accessories it can do more, such as monitoring fuel consumption and cargo temperatures and checking driver IDs.

The top-end Cello-IQ range adds to this with:

- Advanced driver behavior monitoring, including (a) detecting and logging hazardous and aggressive driving and rating drivers in terms of safety and fuel economy, and (b) real-time voice-based feedback to the driver, to effect immediate improvements in driving standards.
- Accident detection and analysis with emergency data recording for crash event reconstruction.

- Communication between components using the CANbus protocol and auto diagnostics.

Besides fleet management, the use cases for the Cello-IQ range include usage-based insurance (UBI), pay-as-you-drive insurance, crash detection and support, and automation and asset protection for car rental/sharing companies via user ID checks and real-time driver monitoring. The cost savings from improved driver behaviour include lower fuel, insurance, accident and wear and tear outlays as well as improved passenger safety for public transport companies.

The CelloTrack, a more basic, heavy-duty asset tracker (not included in Exhibit 2), is aimed at transportation equipment such as trailers, containers, train wagons or any valuable mobile assets. The above products are supported by software platforms sold separately or as part of the group's tailored telematics service offerings. The Cellocator web-based platform allows Cloud-based maintenance, upgrades and configurations. Cellocator also offers an application protocol interface (API) to allow direct access to web services.

CelloTrack Nano: First step into the internet of things

Multi-sensor product with fast-growing market applications

Launched in December 2015, Pointer's IoT product is a portable smart hub and wireless sensor network that enables real-time monitoring and logistical control of objects and people. The sensors monitor a wide range of conditions including humidity, temperature, altitude, location, light, movement/impact, tampering, magnetism, open/closed door and free fall/impact. It is also able to detect noises and relay conversations. The sensors are attached to boxes or crates and the hubs typically located on the inside walls of a trailer/containers and/or warehouses. They communicate via low-energy Bluetooth while the hubs use 2G and 3G wireless communication and the cloud to analyse sensor data and deliver alerts and advice to PNTR apps on tablets and smartphones.

With such a range of sensors (see Exhibit 3), there is a huge range of potential applications for the product. The focus of current marketing is (a) safe transport of refrigerated/perishable cargoes for cold chain logistics, (b) security of high-value cargoes, (c) monitoring rental vehicle/plant for potential damage (eg by impact and freefall detectors), and (d) lone worker protection.

Exhibit 3: Competitive field – IoT sensors with online tracking

Company (country)	Sensor range	Target market
Pointer (Israel)	L, T, H, Li, A, F, M, Ma, O, S, Ta.	Cold chain, logistics, security, high value items.
Agorabee (Swiss)	L, T, G, M, S, Trip information	Container distribution.
Axwan (France)	T, Li, Acc, IR, S, V.	Trailers, containers, turn-key solutions.
OnAsset (US)	L, T, H, Li, D, M, P, S, V. (feature: flight safe mode)	Cold chain, security, air cargo, logistics.
Seemmoto (Finland)	L, T, H.	Healthcare, cold chain, food, logistics, storage.
SenseAware (US)	L, T, H, Li, P, G	Security, logistics, pharma, high value items.
Starcom (Israel)	L, T, Li, F, G, M (Protocol encryption provided)	Goods protection (security)
Globe Tracker	L, T, H, Li, various gases, GF, M, O	Turnkey asset tracking.
Orbocom	L, T, H, G, O, M, S + Tyre pressure, ABS functions, GPS	Cold chain monitoring.
Sendum (Canada)	L, T, H, Li, F, IR, M, P, S, V + Jamming. Safe flight mode.	Airborne asset tracking.
Moog (US)	L, T, H, Li, GF, GPS, IR, P, S, Ti	Airborne asset tracking.

Source: Pointer Telocation. Note: Sensor acronyms: A: altitude; Acc: accelerometer; D: detection; F: falling detection; G: geo fences; GF: G-force; GPS: global positioning system; H: humidity; IR: infra-red; Li: light; L: location; Ma: magnetism; M: motion; O: open/closed door; P: pressure; S: shock; Ta: tampering; T: temperature; Ti: tilt; V: vibration.

CelloTrack Nano's key competitive advantages are its wide range of sensing capabilities (see comparison with the sector in Exhibit 3), with advanced triggering by exception (eg if the temperature drops below a target), its use of BLE wireless to create a short range wireless sensing network within transportation and logistics environments, and its mobility and location legacy features from the CelloTrack and Cello product lines. It is also customisable for various market needs, including integration into platforms of other telematics networks. We also understand that the system is being priced attractively in relation to the market, with the hub being marketed

between c \$80 and c \$150 depending on whether it is the version with or without the humidity sensors and whether it uses 2G or 3G communications.

IoT multi-sensing market trending well into double digits

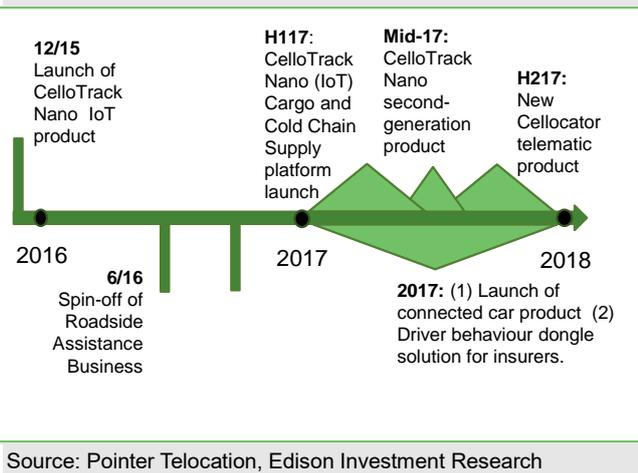
The launch of the CelloTrack Nano has given PNTR exposure to some of the fastest-growing markets in logistics. The first target sales area is the cold chain logistics market (refrigerated transport), which Markets and Markets forecasts to achieve a global CAGR of just under 16% to 2019. In emerging markets, growth potential looks set to be even higher, as these markets experience catch-up growth in more advanced transport and logistics methods. This can be seen in refrigerated warehouse capacity, which had CAGRs of 26% in Brazil and 27% in Mexico between 2008 and 2014, vs 9% in the US (source: Global Cold Chain Alliance).

Tracking of trailer and cargo containers is another market in which PNTR is active with its CelloTrack system and new IoT multi-sensor CelloTrack Nano. Berg Insight forecasts this market to achieve a CAGR of 28.5% during 2015-19 to reach 1.5m units. During this period, the installed base of remote tracking systems is forecast to grow at a 26.2% CAGR from 1.8m to 5.8m units.

New product pipeline

In H116 the company integrated CelloTrack Nano into the platforms of a number of third-party telematics companies in order to increase its global reach. In H217, it plans to launch its own **platform for cargo and cold supply chain applications** to progress from its current position of selling standalone devices to offering comprehensive solutions for large and small organisations. PTNR also plans to launch a **second-generation CelloTrack Nano** in mid-2017 (see Pointer Telocation milestones Exhibit 4), building on the experience gained from the existing product with more sensing capabilities, better positioning features, improved encryption and better power consumption.

Exhibit 4: Pointer Telocation milestone timeline



Source: Pointer Telocation, Edison Investment Research

Exhibit 5: CelloTrack Nano, Hub and two sensors



Source: Pointer Telocation

Management expects sales of the product to start to significantly contribute to revenues in H217 and to achieve further growth in 2018 with the new platform and improved product. In H217 PNTR also plans to release its next-generation Cellocation telematics product.

In 2017 the company is also looking to launch a **low-cost dongle (USB device enabling Bluetooth access) solution for driver behavior** to meet demand from insurance companies for low-cost solutions. This will augment the existing driver behaviour features in the CelloIQ range. In the services area the group is looking at potentially further **developing and Cloud-enabling the software platforms** offered with its existing products to enable it to potentially sell direct to fleet managers in areas without a local presence.

Connected car

Pointer Telocation plans to launch a connected car product, incorporating hardware and software, in late 2017. The product will enable communication between car components and Android apps via the cloud. Pointer expects the product to be sold on a white-label basis to a local manufacturer or OEM, and to this end PNTR plans to leverage existing relationships with local auto importers.

The company is developing two solutions integrated into in-car entertainment (ICE) systems:

- An **Android application** (in testing by some car importers [CI]) that connects the driver to support services (eg accident detection), strengthening the customer relationship with the CI.
- A **mobile device management (MDM) solution** run from a unit in the vehicle and managed from the secure cloud. The dynamic system is controlled and managed remotely enabling the local manufacturer or OEM to determine the unit's features (such as location detection, geo-fencing, speed alert, battery level) to a set of parameters determined in advance. The system is run on a private internet network (APN), legally compliant and being tested by a car importer.

Field tests are expected to take about six months and PNTR aims to implement one of the solutions with two car importers in Israel during H117. The product is being launched into the fast-growing auto IoT market, which Markets and Markets forecasts to grow from \$15.9bn in 2015 to \$82.8bn in 2022 (CAGR 26.8%). Key drivers are the benefits of real time traffic and incident alerts, increased government mandated telematics plus the growth of driver assistance systems, but key challenges include security/hacking concerns and the reduced margin for error given the risk of loss of life.

Management

The management team at Pointer Telocation is headed by **David Mahlab**, who has been president and CEO since 2011. Mr Mahlab was the co-founder, CEO and chairman of Scopus Video Networks and holds an MSc in electrical engineering as well as an LLB and an MBA from Tel Aviv University. CFO **Zvi Fried** was appointed to the role in 2007. Previously CFO of airline Chim Nir and finance director of Amdocs, Mr Fried is a CPA with a BA in economics and accounting. CTO Dudy Markus joined PNTR in 2001 and has served in a range of technological and management positions. Mr Markus has built Cellocator's R&D operation and led the technology roadmap and product strategy. CIO **Rami Peled** has been with Pointer since its foundation in 1998, and served as VP IT of Shagrir Systems (divested in June) as well as being a specialist in organisational systems including ERP, CRM and billing. VP Sales and Marketing Joshua Rozanski is responsible for the sales, marketing and technical support teams as well as Pointer's subsidiaries in the US and India. A qualified electrical engineer and MBA, Mr Rozanski has a background in sales at analytics and optimisation software firm TEOCO and fibre-connectivity firm Packetlight Networks.

Sensitivities

We summarise the key sensitivities for Pointer as follows:

- **Interest rates/economic growth:** Demand for MRM product sales (37% of 2015 revenue) are geared to new vehicle sales and replacement cycles, which are sensitive to interest rates and economic growth.
- **Currency sensitivity:** PNTR's US dollars earnings from operations in Israel, Brazil, Argentina and South Africa are affected by translation effects from currency volatility. The company does not hedge these risks, but there is some operational hedging given the bulk of service expenses are also incurred in local currencies. IT expenses and hardware/equipment are predominantly priced in US dollars. We assume 5% blended currency weakness against the

US dollar in 2016 and 2017 based on current government bond rates (see explanation in Financials segment).

- **Shortening product lifecycle/increasing product complexity:** In recent years the product life cycle for its MRM equipment has fallen from 3-4 years to 2-2.5 years, driven by the fast pace of product innovation. At the same time, colocation products have become more complex, requiring not only GPRS but also 3G and LTE connectivity. This increased R&D requirements.
- **After market for telematics threatened by increased integration of telematics by OEMs:** PNTR plans to increase sales to OEMs particularly with its planned connected car product.
- **Regulatory pressures favour company:** Increasing requirements to install telematics in fleet vehicles should lead to increased penetration in markets such as Brazil in coming years.
- **Litigation risk:** Tax authorities have made an \$11.5m claim against Pointer Brazil on the basis that the company is a telecoms company. On legal advice PNTR has not made any provision.

Financials

Exhibit 6: Products and services – revenue and gross profit breakdown						
\$m	H116*	H216e	2015*	2016e	2017e	2018e
Product sales	11.6	11.6	22.3	23.1	24.3	24.8
Change (%)	0.2	7.7	N/A	3.8	5.0	2.0
Gross profit Products	4.4	4.4	8.8	8.7	8.8	8.6
Gross margin products (%)	37.9	37.8	39.7	37.8	36.3	34.8
Service sales	19.5	21.1	38.3	40.6	46.2	50.6
Change (%)	0.6	11.5	N/A	6.0	13.9	9.4
Gross profit Services	10.7	11.6	20.4	22.4	25.8	28.7
Gross margin services (%)	55.0	55.2	53.3	55.1	55.7	56.7
Total sales	31.0	32.7	60.6	63.7	70.5	75.3
Change (%)	0.4	10.1	N/A	5.2	10.7	6.9
Sales change, local currency (%)	14.7	17.8	N/A	16.2	16.2	11.1

Source: Pointer Telocation, Edison Investment Research. Note: * Pro forma excluding spun-off RSA business.

Earnings: Strong recurring revenues and new product pipeline

In H116 PNTR reported a 14.7% increase in local currency revenues, which after forex weakness against the dollar translated into 0.4% year-on-year revenue growth to \$31.0m, with a 2.6% increase in operating profit and a 21.2% fall in net profit on continuing operations to \$2.1m, reflecting an abnormal boost to financial income in H115. We forecast PNTR to achieve a CAGR in normalised net profit (which excludes the spun-off RSA business) for 2015-19 of 10.7%, reflecting the following key drivers:

- Growing sales from the multi-sensor CelloTrack Nano product launched in December 2015 from H216. The launch of a new Cellocator product in mid-2017 should also boost revenues in H217 by increasing average product prices in the fleet management product segment.
- The acquisition of Cielo Telecom in Brazil on 7 October, which we expect to add c \$5m pa to revenues and contribute margin growth from 2017 as it is integrated into the group platform.
- Growth in demand in the Brazilian market helped by economic recovery and potentially an improving FX trend.
- Growth in MRM margins to offset ongoing declining product margins that are a function of ongoing price declines in the industry. With the addition of new subscriber costing only a SIM card and any equipment costs, operating margins on new service business are estimated at 75-80% with positive impact on the estimated current-year 55% margin.
- FX stabilisation after exceptionally poor FX rates. As discussed above we forecast 5% forex erosion from 2017 in line with market expectations derived from comparison of blended local

currency bond rates vs US bonds. This compares with double-digit declines in H116 and should enable existing double-digit local currency growth to show through to the P&L.

- Increased management focus on the core business following the spin-off of the RSA business.

Costs

- R&D costs are expected to remain at around the same levels as in 2016 but to fall as a share of revenues, helped by use of low-cost IT resources in Macedonia. The company should start recouping these costs in 2017 with new product sales, particularly the multi-sense IoT product.
- Taxes at present are non-cash helped by tax losses arising from the Shagrir spin-off in June. The company expects to start paying cash taxes in about three years.

Foreign exchange: Recent hit to earnings not reflective of market outlook

Earnings are sensitive to foreign currency movements. Key areas of foreign exchange exposure are (a) earnings from MRM services, with both revenues and costs generated principally in the local currencies of Israel, Brazil, Mexico and Argentina, and (b) revenues and margins from Cellocator products, which are principally denominated in the above local currencies, but with the bulk of the cost (c 95%) arising in dollars. For G&A, c 50% of costs are denominated in Israeli shekels and the rest in local subsidiary currencies. Dollar hedging is not employed due to its prohibitive cost.

Current bond yields indicate that the currency weakness of the last year was greater than market expectations for the future. We calculate the blended yield on 10-year government (local currency) bonds in Pointer's key markets at 6.6%. Based on equivalent US bond yields of 1.6%, this looks to price in a maximum expectation of FX weakness of 5% pa over a 10-year term, assuming that US bonds are considered to carry lower sovereign risk. We have accordingly modelled 5.0% per annum FX declines from mid-2016 until end-2017, when we assume that with improving economic conditions forex weakness will decline by one percentage point a year before stabilising at 3% pa.

Strong cash flow generation

PNTR had a cash conversion rate (operating cash flow to operating profit) of a high 163% in 2015 and 150% in H116 arising from its strong recurring revenues and industry-wide low capex requirements. Even with the assumption of higher investment in working capital, we forecast cash conversion rates to remain above 110% over at least the next three years. Management does not intend to pay dividends in the foreseeable future as it intends to keep cash on the balance sheet ready to fund acquisitions, in order to accelerate future profit growth.

Solid balance sheet

Pointer has a strong balance sheet with net debt to equity of 7.6% and net debt and cash reserves of \$3.2m and \$7.7m, respectively, at mid-2016. The spin-off of the RSA business (Shagrir) had a slight negative impact on net debt, as the divestment was achieved by transferring shares in subsidiary Shagrir to existing shareholders without any payment to PNTR and net cash of \$1.8m was included in the spun-off vehicle. The high cash balances reflect management's strategy to be acquisition-ready at all times. The acquisition of Cielo Telecom for \$6.5m was funded with a \$6m 60-month (Israeli) bank loan in dollars, secured at Libor plus 3.5%, with an additional \$2m cash used to pay transaction related fees. The company plans to continue to use such facilities for any further acquisitions rather than equity, as management and the major shareholders do not consider the current share price to be reflective of the value of the business. We forecast net debt of \$10.4m at end-2016, representing a debt/equity ratio of 24%.

Valuation

Valuation: Peer comparison

Exhibit 7: Peer multiple comparison – telematics IoT sector													
\$m	Main focus	Share price (lc)	Market cap (\$m)	Current sales (e)	EBITDA margin this yr (e)	Current EV/S (x)	Next EV/S (x)	Current EV/EBITDA (x)	Next EV/EBITDA (x)	Current P/E (x)	Next P/E (x)	Last div yield (%)	Net debt (cash)/equity
Pointer Telocation	Isr, Latam, SA	\$7.45	58	64	13.8%	1.0	0.9	7.3	6.0	12.3	10.1	0.0	10.8%
CalAmp Corp	NAM	12.9	469	352	14.1%	1.1	1.0	7.7	6.7	11.9	10.5	0.0	-18.8%
Fleetmatics Group	NAM	59.9	2,348	344	33.5%	6.4	5.4	19.1	15.6	34.3	28.6	0.0	-6.4%
ID Systems Inc	NAM	5.1	70	39	-3.3%	1.7	1.4	neg.	18.3	neg.	17.7	0.0	-6.8%
Ituran	Isr, Brzl, Arg	26.6	624	197	30.9%	3.0	2.8	9.8	8.7	18.9	15.4	3.0	-4.6%
MiX Telematics	SA	6.3	152	112	19.6%	0.7	0.7	3.8	3.2	16.2	13.7	0.6	-45.2%
Novatel Wireless	US/Europe	2.6	141	256	3.3%	0.8	1.0	25.3	15.2	neg.	neg.	0.0	51.0%
Numerex Corp	NAM	7.1	139	71	5.8%	2.0	1.8	34.2	12.8	neg.	59.3	0.0	2.2%
ORBCOMM Inc	US/Europe	8.9	634	200	25.1%	3.8	3.4	15.2	12.9	neg.	neg.	0.0	19.6%
Sierra Wireless Inc	NAM	13.7	437	614	6.2%	0.6	0.6	10.2	7.8	25.5	16.6	0.0	-11.3%
Trak8 Holdings	UK	158.0	63	42	21.2%	1.5	1.4	7.3	6.0	10.1	8.8	1.3	2.1%
QUALCOMM Inc	NAM	68.7	101,269	23,206	39.0%	3.5	3.4	9.0	8.6	16.0	14.6	2.9	-19.7%
Quartix Holdings	UK	342.5	198	28	30.1%	7.0	6.6	23.4	21.2	29.3	26.3	1.5	-1.9%
Average/median* (multiples)			8,200	1,963	19.6%	1.7	1.4	10.0	8.7	16.2	15.4	0.0	-4.6%
Average/median* – market cap <\$300m			117	87	13.8%	1.5	1.4	15.4	12.8	14.2	15.7	0.0	2.1%
Average/median* Ituran/MiX Telematics			388	155	25.2%	1.9	1.8	6.8	6.0	17.5	14.5	1.8	-24.9%
PTNR premium/(discount) to peers						(39.2)	(33.8)	(26.7)	(30.7)	(23.8)	(34.0)	N/A	N/A
PTNR premium/(discount) to peers market cap <\$300m						(34.2)	(33.4)	(52.2)	(52.7)	(13.5)	(35.3)	N/A	N/A
PTNR premium/(discount) to Ituran/MiX Telematics average						(46.1)	(47.8)	8.2	1.0	(29.7)	(30.2)	N/A	N/A
PTNR premium/(discount) to Ituran						(66.5)	(67.5)	(25.0)	(30.7)	(34.7)	(34.0)	N/A	N/A

Source: Edison Investment Research, Bloomberg. Note: *Median applied to multiples only to remove effect of outliers. NAM = North America. Priced as at 31 October 2016.

We see peer sector comparison as the most applicable valuation method given the strong international nature of the telematics service industry and the developed state of Pointer's business. Peer comparison shows that PTNR trades at a c 30-34% discount to the telematics/IoT sector on prospective EV/EBITDA and P/E multiples. We see this as reflective of above-average emerging market, political and currency risk exposure arising from the group's businesses in Latin America, Israel and South Africa. That stocks with this risk can trade at minimal or no discount is demonstrated by Ituran. Similar to PNTR, it is based in Israel and has significant exposures to Latin America, but is trading in line with or above the market on most multiples. Ituran has some qualitative advantages in lower product sales than PNTR (27% vs 37% of revenues) and a higher margin helped by its stronger exposure to consumer telematics. Taking into account Pointer's new product pipeline, recent acquisition in Brazil and its potential to participate in sector consolidation, we believe a discount of 10% to Ituran and 20% to the sector fully reflects PNTR's risks. Applying these discounts to prospective current year EV/EBITDA and P/E multiples gives rise to a valuation range of \$9.68 from Ituran to \$8.01 for the sector as a whole, averaging \$8.85 (NIS33.9).

Industry focused on M&A with high takeover valuations

The telematics sector is highly M&A oriented, principally because of the synergies and operational leverage that can be driven from acquiring new customers using a SaaS type model as well as the advantages of spreading R&D costs over a larger revenue base. In readiness for acquisitions as they arise, the sector is cash-rich, with cash to equity averaging 4.6% (see Exhibit 7).

M&A deals in 2015/16 where valuation multiples have been made public include the \$2.4bn acquisition of Fleetmatics (active in the US, UK and Ireland) by Verizon on an EV/sales of 6x; Masternaut, Europe's largest fleet services provider, by Summit Capital on a 5x multiple; and major Brazilian fleet management service provider Sascar, bought by Michelin for €520m on an EV/sales of 6x. Less rich multiples were seen in the \$87m acquisition of South African M2M specialist

DigiCore by Novatel Wireless on an EV/sales of 1.2x, and in PNTR's acquisition of Cielo Telecom on a similar multiple of 1.3x, the latter reflecting PNTR's focus on price discipline in acquisitions.

DCF valuation

Exhibit 8: Pointer Telocation DCF valuation											
\$m	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e norm.
Revenue	63.7	70.5	75.3	79.3	82.0	84.6	87.4	90.0	92.7	95.5	97.9
change y-o-y	5.2	10.7	6.9	5.2	3.5	3.2	3.3	3.0	3.0	3.0	2.5
EBITDA	8.8	10.7	12.5	14.0	14.9	15.9	16.8	17.4	18.0	18.5	18.9
EBITDA margin	13.8	15.2	16.6	17.7	18.2	18.8	19.2	19.3	19.4	19.4	19.4
change y-o-y	8.6	21.5	17.3	11.8	6.5	6.5	5.8	3.6	3.2	2.9	2.5
Change in working capital	(0.7)	(0.6)	(0.4)	(0.3)	(0.2)						
Change in working capital/sales (%)	(1.1)	(0.8)	(0.5)	(0.4)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Capex, net of PPE sales	(3.0)	(3.9)	(4.2)	(4.5)	(4.7)	(4.8)	(5.0)	(5.2)	(5.4)	(5.6)	(5.8)
Capex/sales (%)	(4.7)	(5.5)	(5.6)	(5.6)	(5.7)	(5.7)	(5.8)	(5.8)	(5.8)	(5.9)	(5.9)
Tax	0.0	(1.1)	(1.1)	(2.6)	(2.7)	(2.9)	(3.1)	(3.1)	(3.2)	(3.3)	(3.3)
Acquisitions	(8.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	(3.8)	5.1	6.8	6.7	7.3	8.0	8.5	8.9	9.2	9.4	9.7
Terminal value											131.7
Total cash flow	(3.8)	5.1	6.8	6.7	7.3	8.0	8.5	8.9	9.2	9.4	141.4
Discounted cash flows	(3.8)	4.7	5.6	5.0	5.0	4.9	4.8	4.6	4.3	4.0	54.3
Sum of discounted CFs	93.4	RFR				6.6%					
Net debt end-2015	6.0	WACC				10.0%					
Equity valuation	87.4	Terminal growth rate				2.5%					
Number of shares, diluted	7.9	Terminal value/EV				54%					
Value per share (NIS)	42.6	Value per share (\$)*				11.1					

Source: Edison Investment Research. Note: *Calculated using a US\$:NIS3.83 exchange rate. Priced as at 31 October 2016.

Exhibit 9: DCF sensitivity (\$/share) – terminal growth rate vs WACC						
		Terminal growth rate				
		1.50%	2.00%	2.50%	3.00%	3.50%
WACC	13.0%	7.1	7.3	7.5	7.7	7.9
	12.0%	8.0	8.2	8.4	8.7	9.0
	11.0%	9.0	9.3	9.6	10.0	10.4
	10.0%	10.3	10.7	11.1	11.6	12.2
	9.0%	12.0	12.6	13.2	13.9	14.8
	8.0%	14.2	15.0	15.9	17.0	18.4
	7.0%	17.2	18.4	19.9	21.7	24.1

Source: Edison Investment Research

Our DCF model, showing the longer-term valuation potential of the group, gives a valuation for PNTR of \$11.1 (NIS42.6) per share. This reflects strong forecast cash flow growth to 2019 on the back of new product launches and acquisitions and rising margins in the MRM business helped by operational gearing. We assume a WACC of 10.0%, using our revenue weighting of 10-year government bond yields of 6.6% as the risk free rate (RFR), and a 5% equity risk premium.

Using the same assumptions, our reverse DCF indicates that the market is pricing in a negative CAGR in free cash flow of 0.5% from 2018. We see potential for the market to adjust its valuation upwards in the event of:

1. Increasing market expectations of free cash flow growth (potentially from the new product pipeline, acquisitions and operational gearing).
2. Stabilisation in exchange rates, allowing local cash flow growth to register in the dollar accounts.
3. Normalisation of interest rates. A cut in the government bond rate in Argentina from 30% to Brazilian levels of 12% would reduce the group's blended RFR from 6.6% to 5.2%.

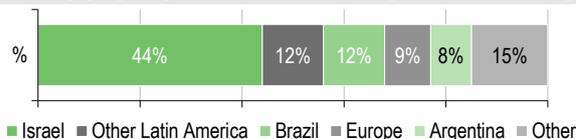
Exhibit 10: Financial summary

	\$m	2015	2016e	2017e	2018e	2019e
Year end 31 December		US GAAP				
INCOME STATEMENT						
Revenue		60.57	63.70	70.50	75.33	79.25
Cost of Sales		(31.31)	(32.59)	(35.91)	(38.01)	(39.56)
Gross Profit		29.25	31.10	34.59	37.32	39.69
Selling and marketing		(10.47)	(11.59)	(12.76)	(13.64)	(14.34)
General and administrative		(9.28)	(9.17)	(9.75)	(10.22)	(10.68)
Research and development		(3.41)	(3.69)	(3.77)	(3.84)	(4.04)
EBITDA		8.10	8.80	10.68	12.53	14.01
Normalised operating profit		6.40	6.97	8.63	9.95	10.96
Amortisation of acquired intangibles		(0.54)	(0.39)	(0.32)	(0.29)	(0.26)
Exceptionals		(0.91)	(0.01)	0.00	0.00	0.00
Share-based payments (inc. In COGS)		(0.31)	(0.32)	(0.32)	(0.33)	(0.33)
Reported operating profit		4.64	6.26	7.99	9.33	10.37
Net Interest		(0.06)	(0.56)	(0.56)	(0.34)	(0.16)
Profit before tax (norm)		6.32	6.42	8.07	9.61	10.80
Profit before tax (reported)		4.57	5.71	7.43	9.00	10.21
Reported tax		(1.31)	(1.53)	(1.86)	(2.25)	(2.55)
Profit after tax (norm)		5.02	4.89	6.22	7.36	8.25
Profit after tax (reported)		3.26	4.18	5.58	6.75	7.66
Minority interests		0.00	(0.02)	(0.03)	(0.03)	(0.04)
Discontinued operations		0.54	0.15	0.00	0.00	0.00
Net income (normalised)		4.95	4.91	6.19	7.33	8.21
Net income (reported)		3.80	4.31	5.55	6.71	7.62
Basic average number of shares outstanding (m)		7.73	7.79	7.92	8.02	8.12
EPS – basic normalised (\$)		0.64	0.63	0.78	0.91	1.01
EPS – diluted normalised (\$)		0.62	0.60	0.73	0.86	0.95
EPS – basic reported (\$)		0.49	0.55	0.70	0.84	0.94
Dividend (\$)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	5.2	10.7	6.9	5.2
Gross margin (%)		48.3	48.8	49.1	49.5	50.1
EBITDA margin (%)		13.4	13.8	15.2	16.6	17.7
Normalised operating margin (%)		10.6	10.9	12.2	13.2	13.8
BALANCE SHEET						
Fixed assets		68.78	51.63	53.11	54.42	55.57
Intangible assets		31.83	40.02	39.70	39.41	39.15
Tangible assets		3.28	4.12	5.92	7.52	8.93
Investments & other		33.67	7.49	7.49	7.49	7.49
Current assets		34.66	22.52	21.90	25.79	33.32
Stocks		4.70	4.55	5.02	5.31	5.53
Debtors		11.09	11.87	13.13	14.03	14.76
Cash & cash equivalents		7.25	4.30	1.89	4.53	11.06
Other		11.62	1.80	1.85	1.91	1.97
Current liabilities		(30.45)	(17.24)	(17.44)	(17.48)	(18.17)
Creditors		(9.82)	(11.53)	(12.66)	(13.45)	(14.10)
Short-term borrowings		(4.82)	(5.00)	(4.00)	(3.20)	(3.20)
Other		(15.81)	(0.71)	(0.78)	(0.83)	(0.88)
Long-term liabilities		(17.95)	(13.01)	(6.76)	(3.49)	(3.24)
Long-term borrowings		(8.39)	(9.74)	(3.79)	(0.79)	(0.79)
Other long-term liabilities		(9.57)	(3.27)	(2.97)	(2.70)	(2.45)
Net assets		55.04	43.90	50.81	59.24	67.47
Minority interests		(1.07)	0.13	0.10	0.06	0.06
Shareholders' equity		53.97	44.03	50.91	59.30	67.53
CASH FLOW						
Operating cash flow before WC and tax		8.10	8.80	10.68	12.53	14.01
Working capital		(0.31)	(0.69)	(0.58)	(0.41)	(0.32)
Exceptional & other		2.20	0.82	0.00	0.00	0.00
Tax		(0.23)	0.00	(1.12)	(1.12)	(2.55)
Net operating cash flow		9.76	8.92	8.99	11.00	11.14
Capex		(3.62)	(4.11)	(4.19)	(4.55)	(4.85)
Acquisitions/disposals		0.00	(8.90)	0.00	0.00	0.00
Net interest		(0.89)	(0.56)	(0.56)	(0.34)	(0.16)
Equity financing		0.02	0.00	0.00	0.00	0.00
Dividends		0.00	0.00	0.00	0.00	0.00
Other, incl.PPE sales		1.26	0.44	0.30	0.32	0.39
Net cash flow		6.53	(4.21)	4.54	6.44	6.52
Opening net debt/(cash)		9.22	5.95	10.44	5.90	(0.54)
FX		(0.19)	(0.28)	0.00	0.00	0.00
Other non-cash movements		(3.07)	0.00	0.00	0.00	0.00
Closing net debt/(cash)		5.95	10.44	5.90	(0.54)	(7.07)

Source: Pointer Telocation, Edison Investment Research. Note: RSA company Shagrir (spun off on 8 June 2016) treated as discontinued in 2015 accounts with its assets and liabilities being included in "Other" categories in the balance sheet.

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Revenue by geography 2015, pro-forma excluding RSA business (Shagrir)

Management team
Chairman: Yossi Ben-Shalom

Yossi Ben-Shalom has served as chairman of the board of directors since April 2003. He was executive vice president and chief financial officer of Koor Industries (KOR) from 1998 through 2000, before that serving as CFO of Tadiran. Mr Ben-Shalom was an active director in numerous boards, such as at NICE Systems (NICE) (computer telephony), Machtshim Agan (chemistry), and Investec Bank, among others, and has been an active chairman in successful turnaround programmes, such as Eurocar Israel, and American Express Israel. He is also a cofounder of DBSI Investments. Mr Ben-Shalom holds BA in economics and an MA in business management from Tel Aviv University.

CFO: Zvi Fried

Zvi Fried was appointed chief financial officer in February 2007. Prior to his appointment, Mr Fried was chief financial officer of Chim Nir (TASE: CMNR) and finance director for Amdocs (NASDAQ: DOX). Mr Fried is a certified public accountant and holds a BA in economics and a degree in accounting from Bar Ilan University.

CEO: David Mahlab

David Mahlab has served as CEO since January 2011. Prior to this, he served as an independent business developer. Mr Mahlab is the cofounder of Scopus Video Networks, a company formerly traded on the Nasdaq Market, and served as its CEO from 1995 until January 2007 and its chairman of the board from January 2007 until March 2009. Mr Mahlab holds a BSc and an MSc in electrical engineering from the Technion Israel Institute of Technology, an MBA from Tel Aviv University and an LLB from Tel Aviv University.

CTO: David Marcus

David Marcus joined Pointer Telocation in 2000, and since then has served in a wide range of technological and management positions. Since the acquisition of Cellocator in 2008, he has built and managed Cellocator's R&D group as Cellocator VP R&D and has been responsible for customer support and IT. Mr Marcus holds a BSc in electrical and electronic engineering from Tel Aviv University and a master of engineering in systems engineering from the Technion Israel Institute of Technology.

Principal shareholders

	(%)
DBSI Investments	30.5%
Gandy Investments	10.2%
Free float	59.3%

Companies named in this report

Ituran, MiX Telematics, Trakm8, Fleetmatics

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