

# Elle Investments Research Report: VOXX

Company: VOXX International Corporation

Symbol: **VOXX**

Analysis Date: 9/23/19

Analysis Price: \$5.03

Price Target (PT): \$10.00

Upside: **99%**

Dividend: NA

Recommendation: **Buy**

## VOXX: 1-Year Chart



## INVESTMENT THESIS:

A sum-of-the-parts analysis shows VOXX to be clearly undervalued. VOXX has an incredibly strong balance sheet and exciting products across all segments. However, investors are not yet convinced that the recently announced new employment agreements go far enough in aligning the interests of shareholders to management, given the multi-year underperformance of the stock. Still, we think the net assets per share limit the downside, and this makes VOXX a Buy.

## LIQUIDITY POSITION: Excellent

As of 1QFY20 (ended May 31), VOXX had cash and cash equivalents of \$60M. One June 12, they announced the sale of their German Accessories Business for \$19M. Additionally, when they released earnings on July 10 they also disclosed that they had sold some real estate in Germany a few days earlier for \$12M. Including these two transactions brings the total cash balance to \$91M as of July 10. Given that they are expecting to return to profitability for 2HFY20, and that total debt is only \$15M, their liquidity position is excellent.

Furthermore, with total current assets (as of July 10) coming to \$267M and total liabilities coming to \$106M, we calculate net assets (excluding non-current assets) to be \$161M. Using the

most recent diluted share count of 24.4M gives net assets per share of \$6.60, which we think offers some level of support for the stock.

### VOXX: Net Assets Per Share (Excluding Non-Current Assets) (\$M)

<b>VOXX</b>			
Announced on	5/15/19	7/10/19 AH	
Quarter end	2/28/19	5/31/19	As of
(\$ millions)	4QFY19	1QFY20	7/10/19
<b>BALANCE SHEET</b>			
Cash and equivalents	58	60	91
Accounts receivable, net	73	62	62
Inventory, net	102	103	103
Receivables from vendors	1	1	1
Prepaid expenses and other current assets	10	10	10
Income tax receivable	1	1	1
<b>Total current assets</b>	<b>246</b>	<b>236</b>	<b>267</b>
Current debt	10	9	9
Long-term debt	6	6	6
<b>Total debt</b>	<b>16</b>	<b>15</b>	<b>15</b>
<b>Total liabilities</b>	<b>114</b>	<b>106</b>	<b>106</b>
Net assets (excludes non-current assets)	133	130	161
Net assets/share	\$5.43	\$5.33	\$6.60

Source: Elle Investments, Company filings

### COMMERCIAL PROSPECTS: Good

VOXX's reportable segments are:

*Automotive Electronics:* This segment offers products to both Original Equipment Manufacturers (OEMs) as well as aftermarket customers. Along with products ranging from advanced security to remote start, perhaps their most innovative and popular product is their EVO rear-seat infotainment system. Quarterly revenues in this segment can be lumpy due to the timing of when certain car models that carry their products start and stop production, but usually come in at about \$30M+/quarter.

*Consumer Electronics:* This segment was created recently in May 2019 when they combined the Accessories and Premium Audio segments. The products offered in this segment include audio, reception, karaoke, and other electronic accessories, and are sold under the brands of Klipsch, RCA, Mac Audio, etc. Revenues tend to be about \$60M/quarter and are showing modest YOY growth.

*Biometrics:* This segment has some very interesting products in the pipeline, such as a body cam with live 4G streaming that management expects to be the future standard for law enforcement. What deserves the most immediate attention, however, is their majority-owned subsidiary EyeLock, which is perhaps the leader in iris-recognition technology. While fingerprint, voice, and facial recognition are all in use today, management believes that iris authentication will win out due to its accuracy and reliability compared with the other forms of biometric security. Some early trials for EyeLock have been discussed on the earnings calls for some time, but so far revenues from this segment are immaterial.

## **RISKS:**

We think the biggest risk to an investment in VOXX is the apparent indifference of management towards the share price. While each share of Class A common stock is entitled to one vote, each share of Class B common stock is entitled to ten votes. As of May 31, holders of the Class B common stock controlled over 50% of the voting power.

### **VOXX: Class B Common Stock Shareholders Voting Power**

	<b>Shares</b>	<b>Votes/share</b>	<b>Votes</b>	<b>Voting Power</b>
Class A Common Stock	21,938,100	1	21,938,100	49.2%
Class B Common Stock	2,260,954	10	22,609,540	50.8%
		<b>Total</b>	<b>44,547,640</b>	

Source: Elle Investments, 1QFY20 10-Q

As we can see from the [proxy statement](#) filed on June 6, 2019 (see pg 13), Mr. John Shalam (Chairman of the Board) and his son Ari Shalam (Director) own all of the Class B common stock.

## VOXX: Class B Common Stock Shareholders (as of May 28)

Name and Address (1)	Class A Common Stock		Class B Common Stock	
	# of Shares	% of Class	# of Shares	% of Class
John J. Shalam	1,926,552 (2)	8.78%	2,144,152 (2)	94.83%
Patrick M. Lavelle	27,650	*	—	—%
Denise Waund Gibson	32,100	*	—	—%
T. Paul Jacobs	23,500	*	—	—%
Ari Shalam	19,067 (3)	*	38,934	1.72%
Loriann Shelton	14,674	*	—	—%
Charles M. Stoehr	13,673	*	—	—%
John Adamovich, Jr.	11,000	*	—	—%
Peter A. Lesser	5,000	*	—	—%
Edward D. Mas	—	*	—	—%
All directors and officers as a group (16 persons)	2,085,235	9.50%	2,183,086	96.55%

\* Less than one (1%) percent.

- (1) Except as otherwise indicated by footnote, each named person claims sole voting and investment power with respect to the shares indicated.  
(2) Excludes 2,202 shares of Class A common stock and 116,802 shares of Class B common stock (which are entitled to 10 votes per share), held by Mr. Shalam's three sons, including Mr. Ari Shalam.  
(3) The number of shares stated as "beneficially owned" excludes 10 shares of Class A common stock held for the benefit of his son.

Source: DEF 14A (filed 6/6/19)

Along with 1QFY20 earnings, they did announce some changes to management compensation aimed at further aligning executive interests with shareholders. For President and CEO Mr. Patrick Lavelle to receive at least \$1M of the potential \$5M in stock compensation, the new compensation agreement at least sets a somewhat high stock price target of \$10.00/share (see Schedule A of [Exhibit 10.1](#) filed with the July 12 8-K).

## VOXX: Stock Price Targets For CEO's New Compensation Agreement

Schedule A			
Market Stock Units Calculation			
Stock Price	Targeted Value to Deliver (000s)	# Whole Shares if delivered at once	Value Based on Whole Shares
\$15.00	\$5,000,000	333,333	\$5,000,000
\$14.50		296,667	\$4,301,672
\$14.00		260,000	\$3,640,000
\$13.50		223,333	\$3,014,996
\$13.00		186,666	\$2,426,658
\$12.50	\$1,875,000	150,000	\$1,875,000
\$12.00		140,000	\$1,680,000
\$11.50		130,000	\$1,495,000
\$11.00		120,000	\$1,320,000
\$10.50		110,000	\$1,155,000
\$10.00	\$1,000,000	100,000	\$1,000,000
\$9.50		86,700	\$823,650
\$9.00		73,400	\$660,600
\$8.50		60,100	\$510,850
\$8.00		46,800	\$374,400
\$7.50	\$251,250	33,500	\$251,250
\$7.00		26,800	\$187,600
\$6.50		20,100	\$130,650
\$6.00		13,400	\$80,400
\$5.50		6,700	\$36,850
\$5.00	\$0	0	\$0

Source: Ex 10.1 (filed with 7/12/19 8-K)

The frustration that analysts have with the disconnect between the assets of the company and the stock price performance over the past few years has been on full display during the past few earnings calls. Analysts have continuously pleaded with management to utilize excess cash to buy back a significant amount of shares at such depressed prices or institute a dividend. Thus far, investors seem unmoved by the new compensation agreements, given that the CEO's base salary continues to be \$1M per year. It's unclear at this time whether the new stock price targets will

reverse management's past indifference to the stock performance. But this remains our biggest concern.

## CONCLUSION:

We continue to be frustrated by the persistent underperformance of VOXX's stock relative to value we see in its holdings. While we think the downside is limited due to the "floor" created by the net assets/share, we are not entirely confident that the new compensation agreements go far enough in motivating management to concern themselves with the stock price. But the solid cash position, along with the innovative products in the Automotive Electronics and Biometrics segments make this deserving of a position. We think VOXX is a Buy.

*Note: Additional commentary from Elle Investments can be found at <http://elle-investments.com>. We welcome your feedback. Additionally, we are thinking of launching a subscription service that would offer early access to our research, along with some other features that investors might find useful (i.e. general portfolio management strategies, live blog updates highlighting our reaction to breaking news, etc.). If you would be interested in subscribing to such a service, please let us know.*

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