

Byrna Technologies Inc. (NASDAQ: BYRN)

May 18, 2022

Buy: Signs Deal with Bass Pro Shops. Reiterate Buy, \$12 Target.

Byrna announced Bass Pro Shops and Cabela's will carry the Byrna SD and accessories at 46 locations this month. This is very positive news for the company. We expect an acceleration in revenue growth in the second half of this year, accompanied by margin improvement, and believe these can lead to multiple expansion.

Byrna will ship, this Friday, an initial order to Bass Pro Shops and Cabela's of the Byrna SD ammunition and accessories. Bass will carry the Byrna line at 46 of its 177 locations and make available for online purchase. The company hopes the remainder of the stores will ultimately carry the line as well. Currently about 19% of total sales is made to the dealer/distributor channel and Bass is one of the pre-eminent outdoor retail chains in the U.S. We view this a significant positive for the company and it increases the visibility of our revenue estimates for the year.

Byrna Technologies has developed a line of handheld personal security devices, with the look and feel of a handgun, but the device fires, powered by CO2, non-lethal kinetic and pepper ball rounds. Because the Byrna launchers do not use gunpowder or explosives to propel the projectiles, it is not classified as a firearm and faces far fewer regulatory burdens than handgun manufactures. The company also offers a shoulder-fired device, also powered by CO2 and firing similar type rounds as its handheld device. An active and aggressive R&D and acquisition strategy has expanded the company's line of launchers, projectiles, and accessories.

The company is benefitting from the demand for personal safety but is unique in offering a non-lethal option not subject to firearm regulations. In our view, consumers' demand for increased personal safety devices was caused by the pandemic, violent demonstrations increasing in 2020, increased crime in major cities and the 'defund the police' movement. We believe this backdrop has propelled Byrna's success thus far despite a relatively thin product line and limited marketing and distribution. As the company's product line, marketing and channel increases, we expect sales to accelerate.

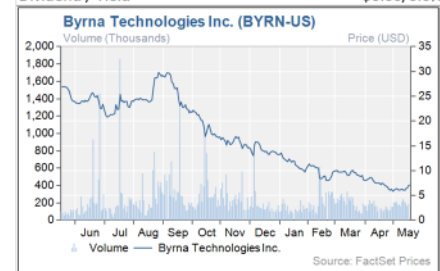
We expect revenue to increase this fiscal year to \$54 million, up 28% over fiscal 2021 and we forecast 40% growth in fiscal 2023, to \$76 million. We believe \$100 million in revenue is achievable in fiscal 2024/25. We expect faster growth in EBITDA with improvements in mix, lower shipping costs and better manufacturing efficiency. We estimate the company will exit this year with EBITDA margins exceeding 20%.

Valuation & Risks

Our price target of \$12 assumes an EV/Sales multiple of 3x on our fiscal 2023 revenue estimate of \$76 million. Risks to achieving our target includes slower growth from higher interest rates, continuing supply chain disruptions, changes in regulations to the personal safety and firearm industry and changes in consumer demand for personal safety devices.

Investment Highlights

Current Price	\$7.12		
Price Target	\$12.00		
Estimates	F2021A	F2022E	F2023E
Revenues (\$000s)	\$ 42,160	\$ 53,977 E	\$ 76,000
1Q February	\$ 8,893	\$ 7,977 E	\$ 15,000
2Q May	\$ 13,401	\$ 12,000 E	\$ 18,000
3Q August	\$ 8,703	\$ 15,000 E	\$ 20,000
4Q November	\$ 11,163	\$ 19,000 E	\$ 23,000
	F2021A	F2022E	F2023E
EBITDA (\$000s)	\$ 1,646	\$ 3,275 E	\$ 15,031
1Q February	\$ 370	\$ (2,376) E	\$ 1,422
2Q May	\$ 3,005	\$ (93) E	\$ 3,230
3Q August	\$ (687)	\$ 1,797 E	\$ 4,440
4Q November	\$ (1,042)	\$ 3,947 E	\$ 5,940
EV/Sales	NM	2.2 x	1.6 x
EV/EBITDA	NM	36.6 x	8.0 x
Stock Data			
52-Week Range	\$5.89	-	\$30.55
Shares Outstanding (mil.)	22.9		
Market Capitalization (mil.)	\$163		
Enterprise Value (mil.)	\$120		
Debt to Capital	2%		
Cash & Equivalents (mil.)	\$44.7		
Cash/Sh.	\$1.95		
Average Three Months Trading Volume (K)	163		
Insider Ownership	22.7%		
Institutional Ownership	30.8%		
Short interest (mil.)	4.8%		
Dividend / Yield	\$0.00/0.0%		



Distribution

Of the \$42.2 million in sales in fiscal 2021, \$9.6 million was from the wholesale channel and \$32.6 million from e-commerce, the vast majority of that from the company's web site, as Amazon contributed only a small amount in Q4. For fiscal 2022 we expect 54% growth from the wholesale channel, to \$14.8 million, and 20% growth from the e-commerce channel, to \$39.2 million.

We estimate of the \$9.6 million in wholesale channel sales in fiscal 2021, about \$5.5 million was from domestic dealers, less than \$1 million from private security/law enforcement and \$3.5 million from international markets. We expect each of these to grow substantially in this fiscal year. Domestic dealer sales are projected to grow to \$7.5 million in fiscal 2022 partly based on recently signed deals with Sportsman's Warehouse and SCHEELS. Sportsman's Warehouse is expected to carry the full line of Byrna products at all 122 of its locations across 29 states. SCHEELS is also expected to carry the full Byrna line at its 31 locations across 14 states. These two retailers will add substantially to the company's retailer network. Private security/law enforcement sales are projected to increase to between \$1.5 and \$2.0 million from the introduction of the LE, the TCR and increased focus on these markets. International sales are expected to increase from \$3.5 million to \$5.5 million.

In fiscal 2022 we project e-commerce sales of \$39.2 million. Of this, we project sales from Byrna.com will be flat as fiscal 2021 benefitted from mentions by Sean Hannity on his show and we are not forecasting a similar impact this year. The entire growth in e-commerce we forecast is from Amazon.com.

Over time the company expects about 57% of sales from e-commerce, 18% from dealer/distributor, 15% from international and 10% from private security and law enforcement market.

Sales by Channel

	FY2022	Current	Goal
E-commerce	73%	78%	57%
Dealer/distributor	14%	19%	18%
International	10%	1%	15%
Private Security/Law Enforcement	3%	1%	10%

Source: Byrna Technologies, Inc. and Dawson James Securities estimates.

We believe there is significant room for growth in the dealer/distributor and international channel and also expect continued growth in the e-commerce channel, although at a rate less than the overall company growth rate. The private security/law enforcement market is large but fragmented and requires long sales cycles. We believe it will be a challenge for the company as it pursues this market.

Outlook

We project revenue in fiscal 2022 of \$54 million, growing to \$76 million in fiscal 2023. In Q1 of fiscal 2022 the company posted gross margin of 58% and we expect incremental progress for the remaining quarters of the year as the company's efforts to reduce freight costs and return to a more orderly manufacturing cadence proceeds. We have the company exiting Q4 at a 60% gross margin and improving slightly in fiscal 2023 to 61%. We believe there is room for upside in our fiscal 2023 estimate, particularly if supply chain issues are solved and inflation subsides.

We estimate there is significant operating leverage as the company does not require a meaningful increase in operating expenses to support the revenue growth we have forecast. We have EBITDA margin improving as the year progresses, with the highest level in Q4 when sales are expected to be the highest for the year. For the full year we estimate EBITDA margin of 6.1% improving to 20% in fiscal 2023.

As of the end of Q1 Byrna had \$45 million in cash. Inventory levels are elevated in order to protect itself from further supply chain disruptions and we have assumed inventory turns do not return to normal until the end of fiscal 2023. Increased inventory turns will contribute to less investment in working capital and improved cash flow generation. With strong cash flow generation and an ample cash balance the company is in an enviable position to add to its product portfolio with acquisitions.

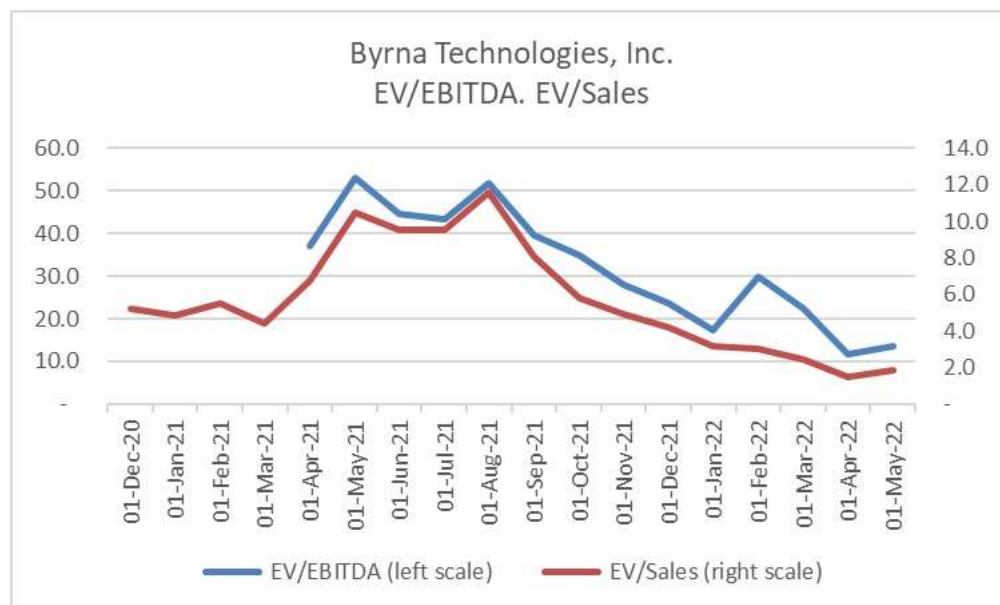
Valuation

Firearm manufacturers like Smith & Wesson Brands and Sturm, Ruger trade at low multiples of sales while the rest of the comp group serving the personal safety and law enforcement markets trades at an average of 4x sales. Our price target for Byrna assumes a 3x multiple, a substantial discount to the sub-group. This results in a target of \$12 using our fiscal 2023 revenue estimate of \$76 million.

		Price	EPS	P/E	TEV	Sales	EV/ Sales	EBITDA	EV/ EBITDA
AOUT-US	American Outdoor Brands, Inc.	\$ 11.57	\$ 1.93	6.0	\$ 157.1	\$ 269.7	0.58	\$ 39.6	4.0
POWW-US	AMMO Inc	4.02	0.33	12.3	445.5	318.9	1.40	84.8	5.3
AXON-US	Axon Enterprise Inc	96.80	2.07	46.8	6,456.3	1,151.9	5.60	218.0	29.6
SSTI-US	ShotSpotter, Inc.	28.86	0.03	1,153.6	341.6	86.8	3.94	17.9	19.1
SWBI-US	Smith & Wesson Brands, Inc.	14.31	2.23	6.4	587.2	674.0	0.87	170.5	3.4
RGR-US	Sturm, Ruger & Company, Inc.	66.54	5.66	11.8	964.3	596.5	1.62	161.1	6.0
VTSI-US	VirTra, Inc.	5.04	0.36	14.0	42.4	26.8	1.59	6.0	7.0
WRAP-US	Wrap Technologies, Inc.	2.26	(0.46)	(4.9)	63.0	13.9	4.53	(13.7)	(4.6)
	Median			12.0			1.60		5.6
BYRN-US	Byrna Technologies Inc.	\$ 7.12	\$ 0.26	27.5	\$ 120.0	\$ 64.3	1.87	\$ 8.5	14.2

Source: FactSet and Dawson James Securities estimates

EV/Sales and EV/EBITDA have declined sharply over the past few months and we believe current valuation is attractive, particularly in front of projected accelerating revenue and EBITDA growth in the coming quarters.



Source: FactSet and Dawson James Securities estimates.

Risks

Risk Analysis: Risks to achieving our target includes slower growth from higher interest rates, continuing supply chain disruptions, changes in regulations to the personal safety and firearm industry and changes in consumer demand for personal safety devices.

Exhibit 1. Income Statement (\$ in 000's except per share data)

	30-Nov-19 FY2019	30-Nov-20 FY2020	30-Nov-21 FY2021	28-Feb-22 FQ1 22A	31-May-22 FQ2 22E	31-Aug-22 FQ3 22E	30-Nov-22 FQ4 22E	30-Nov-22 FY2022E	30-Nov-23 FY2023E
Revenue	\$ 924	\$ 16,566	\$ 42,160	\$ 7,977	\$ 12,000	\$ 15,000	\$ 19,000	\$ 53,977	\$ 76,000
COGS	775	9,058	19,270	3,363	5,040	6,150	7,600	22,153	29,980
Gross Profit	149	7,508	22,890	4,614	6,960	8,850	11,400	31,824	46,020
	16%	45%	54.3%	58%	58%	59%	60%	59%	61%
Opex	3,438	11,817	26,181	8,023	8,100	8,100	8,500	32,723	35,177
Operating Income	\$ (3,289)	\$ (4,309)	\$ (3,291)	\$ (3,409)	\$ (1,140)	\$ 750	\$ 2,900	\$ (899)	\$ 10,843
Interest & Other, total	(1,121)	(7,952)	(152)	68	25	25	25	142	100
Pretax Income	(4,410)	(12,261)	(3,443)	(3,341)	(1,115)	775	2,925	(757)	10,943
Taxes	0	293	(160)	(120)	(56)	39	146	9	547
Net Income	\$ (4,410)	\$ (12,553)	\$ (3,283)	\$ (3,221)	\$ (1,059)	\$ 736	\$ 2,779	\$ (766)	\$ 10,396
Preferred Dividends	\$ -	\$ -	1,043	\$ -	\$ -	\$ -	\$ -	0	0
Net to Common	\$ (4,410)	\$ (12,553)	\$ (4,326)	\$ (3,221)	\$ (1,059)	\$ 736	\$ 2,779	\$ (766)	\$ 10,396
Basic Shares	10,354	12,679	19,610	23,790	23,290	22,953	23,028	23,265	23,215
Diluted Shares	10,354	12,679	19,610	23,790	23,290	23,053	23,128	23,265	23,315
Basic EPS	\$ (0.43)	\$ (0.98)	\$ (0.22)	\$ (0.14)	\$ (0.05)	\$ 0.03	\$ 0.12	\$ (0.03)	\$ 0.45
Diluted EPS	\$ (0.43)	\$ (0.98)	\$ (0.22)	\$ (0.14)	\$ (0.05)	\$ 0.03	\$ 0.12	\$ (0.03)	\$ 0.45
D&A	54	242	487	175	235	235	235	880	940
Stock Comp	218	1,252	3,150	812	812	812	812	3,248	3,248
Other	0	0	1,300	46	0	0	0	46	0
EBITDA	(3,016)	(2,814)	1,646	(2,376)	(93)	1,797	3,947	3,275	15,031
Margin	-332.6%	-17.0%	3.9%	-29.8%	-0.8%	12.0%	20.8%	6.1%	19.8%
	FY2019	FY2020	FY2021	FQ1 22A	FQ2 22E	FQ3 22E	FQ4 22E	FY2022E	FY2023E
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	83.9%	54.7%	45.7%	42.2%	42.0%	41.0%	40.0%	41.0%	39.4%
Gross Profit	16.1%	45.3%	54.3%	57.8%	58.0%	59.0%	60.0%	59.0%	60.6%
Opex	371.9%	71.3%	62.1%	100.6%	67.5%	54.0%	44.7%	60.6%	46.3%
Operating Income	-355.7%	-26.0%	-7.8%	-42.7%	-9.5%	5.0%	15.3%	-1.7%	14.3%
Interest & Other, total	-121.3%	-48.0%	-0.4%	0.9%	0.2%	0.2%	0.1%	0.3%	0.1%
Pretax Income	-477.0%	-74.0%	-8.2%	-41.9%	-9.3%	5.2%	15.4%	-1.4%	14.4%
Tax Rate	0.0%	-2.4%	4.6%	3.6%	5.0%	5.0%	5.0%	-1.2%	5.0%
Net Income	-477.0%	-75.8%	-7.8%	-40.4%	-8.8%	4.9%	14.6%	-1.4%	13.7%
EBITDA	-326.3%	-17.0%	3.9%	-29.8%	-0.8%	12.0%	20.8%	6.1%	19.8%
Y/Y									
Revenue	269.4%	1692.1%	154.5%	-10.3%	-10.5%	72.4%	70.2%	28.0%	40.8%
Opex	61.7%	243.8%	121.6%	55.8%	46.2%	21.0%	-3.4%	25.0%	7.5%
Operating Income	57.7%	31.0%	-23.6%	729.4%	-156.4%	-141.6%	-193.6%	-72.7%	-1306.1%
Net Income	-104.8%	-184.7%	73.8%	-1084.2%	-152.0%	140.0%	186.6%	76.7%	1456.7%

Source: Byrna Technologies, Inc. and Dawson James Securities estimates

Exhibit 2. Balance Sheet and Cash Flow Statement (\$ in 000's)

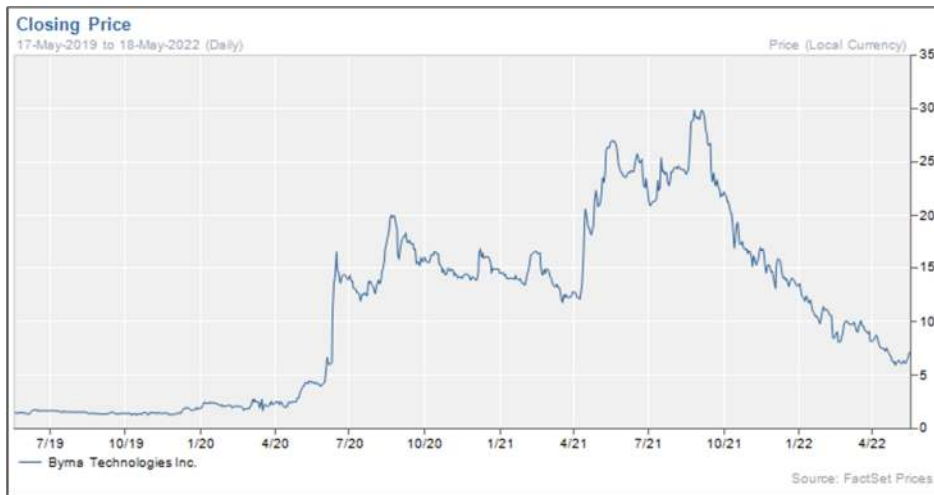
	30-Nov-19 FY2019	30-Nov-20 FY2020	30-Nov-21 FY2021	28-Feb-22 FQ1 22A	31-May-22 FQ2 22E	31-Aug-22 FQ3 22E	30-Nov-22 FQ4 22E	30-Nov-22 FY2022E	30-Nov-23 FY2023E
Cash & ST Investments	1,082	3,175	56,308	44,701	45,122	45,219	52,317	52,317	69,522
Restricted Cash	0	6,389	92	0	0	0	0	0	0
A/R	438	834	1,658	1,101	1,371	1,500	1,689	1,689	2,044
Inventory	960	4,817	6,613	12,072	13,440	16,400	15,200	15,200	11,960
Prepaid Expenses & Other	377	1,391	1,490	1,934	2,909	3,637	4,606	4,606	5,576
Current Assets	\$ 2,949	\$ 16,606	\$ 66,161	\$ 59,808	\$ 62,843	\$ 66,756	\$ 73,813	\$ 73,813	\$ 89,103
Patent rights	99	811	3,668	3,612	3,551	3,490	3,429	3,429	3,185
Deposits for equipment	197	619	1,293	2,046	1,500	1,000	500	500	500
Right-of-use asset	0	1,200	1,086	1,444	1,381	1,318	1,255	1,255	1,003
PP&E	321	1,220	1,972	2,043	2,932	3,821	4,460	4,460	7,016
Goodwill	0	651	816	816	816	816	816	816	816
Restricted Cash	92	92	0	0	0	0	0	0	0
Other	0	17	318	727	1,094	1,367	1,732	1,732	2,096
Total Assets	\$ 3,566	\$ 21,216	\$ 75,314	\$ 70,496	\$ 74,116	\$ 78,568	\$ 86,004	\$ 86,004	\$ 103,719
A/P	640	6,629	6,996	6,744	10,145	12,681	16,063	16,063	19,445
Operating Lease	0	258	463	498	498	498	498	498	498
Deferred revenue	11	4,902	720	361	543	679	860	860	1,041
Convertible notes	2,759	0	0	0	0	0	0	0	0
Notes payable	0	75	0	0	0	0	0	0	0
Accrued Interest	266	0	0	0	0	0	0	0	0
Current Liabilities	\$ 3,675	\$ 11,864	\$ 8,179	\$ 7,603	\$ 11,186	\$ 13,858	\$ 17,421	\$ 17,421	\$ 20,984
Convertible N/P	1,875	0	0	0	0	0	0	0	0
NP	0	115	0	0	0	0	0	0	0
Deferred revenue	0	0	405	415	624	780	988	988	1,197
Operating Lease	0	828	632	1,071	1,071	1,071	1,071	1,071	1,071
Equity	(1,984)	8,409	66,098	61,407	61,235	62,858	66,524	66,524	80,467
Total Liabilities & Equity	\$ 3,566	\$ 21,216	\$ 75,314	\$ 70,496	\$ 74,116	\$ 78,568	\$ 86,004	\$ 86,004	\$ 103,719

	30-Nov-19 FY2019	30-Nov-20 FY2020	30-Nov-21 FY2021	28-Feb-22 FQ1 22A	31-May-22 FQ2 22E	31-Aug-22 FQ3 22E	30-Nov-22 FQ4 22E	30-Nov-22 FY2022E	30-Nov-23 FY2023E
Net Income	(4,410)	(12,553)	(3,283)	(3,221)	(1,059)	736	2,779	(766)	10,396
Depreciation	54	242	487	175	235	235	235	880	940
Stock Comp	218	1,252	3,150	1,284	812	812	812	3,720	3,248
Other	1,612	8,873	63	16	389	383	344	1,131	(156)
Working Capital	(1,251)	4,723	(4,854)	(6,686)	969	(1,144)	3,604	(3,256)	5,477
Operating CF	\$ (3,776)	\$ 2,538	\$ (4,437)	\$ (8,432)	\$ 1,346	\$ 1,022	\$ 7,773	\$ 1,708	\$ 19,905
Capx	(246)	(1,426)	(1,700)	(915)	(1,000)	(1,000)	(750)	(3,665)	(3,000)
Acquisitions		(489)	(4,044)	0					
Other		(80)	(138)	0					
Investing Activities	\$ (246)	\$ (1,995)	\$ (5,882)	\$ (915)	\$ (1,000)	\$ (1,000)	\$ (750)	\$ (3,665)	\$ (3,000)
Equity	0	7,714	57,333	(2,288)	75	75	75	(2,063)	300
Debt	4,032	54	(81)	0	0	0	0	0	0
Financing	\$ 4,032	\$ 7,768	\$ 57,252	\$ (2,288)	\$ 75	\$ 75	\$ 75	\$ (2,063)	\$ 300
FX	\$ (19)	\$ 171	\$ (189)	\$ (64)	\$ -	\$ -	\$ -	\$ (64)	\$ -
Change in Cash	\$ (8)	\$ 8,482	\$ 46,744	\$ (11,699)	\$ 421	\$ 97	\$ 7,098	\$ (4,084)	\$ 17,205

Source: Byrna Technologies, Inc. and Dawson James Securities estimates

Important Disclosures:

Price Chart:



Price target and ratings changes over the past three years:

Initiated – Buy – April 26, 2022 – Price Target \$12

Update – Buy – May 18, 2022 – Price Target \$12

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- 1) **Buy:** The analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** The analyst believes the price of the stock is fairly valued for the next 12-18 months;
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The following chart reflects the range of current research report ratings for all companies, followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

Current as of 16-May-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	31	72%	4	13%
Market Perform (Neutral)	12	28%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	43	100%	4	9%

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