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## Byrna Technologies Inc. (NASDAQ: BYRN)

July 8, 2022

### Buy: Q2 Review.

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*Q2 results were mixed with revenue in line, but margins lower than expected due to mix and continued supply chain issues. The top-line outlook for the year is unchanged, with a steep ramp expected in Q4 based on strong holiday sales and new product introductions. We reiterate our Buy recommendation and \$12 target.*

Q2 revenue of \$11.6 million was higher than our \$11.5 million estimate, but gross margin was lower due to mix (more international sales than typical) and high freight costs that are a function of global supply chain issues. Our revenue outlook for the year is unchanged, but we are assuming a greater amount of full-year sales in Q4, which increases the risk of meeting estimates. We reiterate our Buy recommendation and \$12 target.

Inventory levels are elevated, and we expect them to remain high for the remainder of the year. The company has been building inventory to offset its reliance on air freight for delivery of parts and finished goods. Having a larger inventory will allow it to switch to ocean freight and draw down inventory in order to satisfy demand. However, Q4 is expected to be the company's strongest quarter so we expect inventory levels to remain high. Over time, the switch to ocean freight from air freight should have a positive impact on gross margin.

New products will be a key element of growth in the second half. Byrna has released the TCR, a \$750, less lethal tactical compact rifle for individuals, law enforcement, government agencies and private security firms. The re-engineered Mission 4 shoulder-fired launcher is available this month and is priced at \$900. The 12-gauge round, designed for the 50 million owners of 12-gauge shotguns in the United States is scheduled to ship in Q4. In addition to these new products, the company has been devoting increased resources to the school safety market with the Byrna Shield ballistic plate backpack insert, for \$150, and the Ballistipac backpack ranging from \$340 to \$900.

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 5.9%, improving to 20% in fiscal 2023.

### 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.

Current Price	\$9.30		
Price Target	\$12.00		
Estimates	F2021A	F2022E	F2023E
Revenues (\$000s)	\$ 42,160	\$ 54,096 E	\$ 76,000
1Q February	\$ 8,893	\$ 7,977 A	\$ 15,000
2Q May	\$ 13,401	\$ 11,619 A	\$ 18,000
3Q August	\$ 8,703	\$ 13,000 E	\$ 20,000
4Q November	\$ 11,163	\$ 21,500 E	\$ 23,000
	F2021A	F2022E	F2023E
EBITDA (\$000s)	\$ 1,646	\$ 3,200 E	\$ 14,920
1Q February	\$ 370	\$(1,904)A	\$ 1,822
2Q May	\$ 3,005	\$(532)A	\$ 2,793
3Q August	\$(687)	\$ 158 E	\$ 4,153
4Q November	\$(1,042)	\$ 5,478 E	\$ 6,153
EV/Sales	NM	3.4 x	2.4 x
EV/EBITDA	NM	57.0 x	12.2 x
<b>Stock Data</b>			
52-Week Range	\$5.89	-	\$30.55
Shares Outstanding (mil.)	22.2		
Market Capitalization (mil.)	\$207		
Enterprise Value (mil.)	\$183		
Debt to Capital	3%		
Cash & Equivalents (mil.)	\$25.8		
Cash/Sh.	\$1.16		
Average Three Months Trading Volume (K)	194		
Insider Ownership	20.5%		
Institutional Ownership	28.4%		
Short interest (mil.)	6.4%		
Dividend / Yield	\$0.00/0.0%		



## Q2 Actual v Estimate

Q2 revenue was better than expected, but gross margin was well short of our estimate. The company cited mix as a major source of the shortfall. Sales to international markets, mostly to distributors, are much lower margin than direct to consumer sales, and international sales were \$2.7 million for the quarter, or 23% of total sales. In Q1, when international sales were \$100 thousand, or about 1% of sales, total gross margin was 58%. For the second half we have assumed a more normal mix of international sales and an improvement in gross margin.

Opex was also higher than forecast but most of the delta is from higher non-cash incentive compensation. Severance costs were also higher than anticipated. Excluding stock and incentive compensation, and adjusting for severance costs, EBITDA was lower than expected, driven mostly by the gross margin shortfall. We expect gross margin to improve in the second half, driven by a more normal mix and the beginning of improvements on freight costs, and this will drive higher EBITDA margins as well.

### Q2 Actual v Estimates

Q2 22 (\$ in 000's)						
	Actual	Estimates	Delta	% Delta		
Revenue	\$ 11,619	\$ 11,500	\$ 119	1%		
COGS	5,495	4,830				
Gross Profit	6,124	6,670	(546)	-8%		
	52.7%	58.0%				
Opex	8,739	8,100	639	8%		
Operating Income	\$ (2,615)	\$ (1,430)	\$ (1,185)	-83%		
Interest & Other, tota	(330)	25				
Pretax Income	(2,945)	(1,405)				
Taxes	51	(70)				
Net to Common	\$ (2,996)	\$ (1,335)				
Basic Shares	23,097	23,290				
Diluted Shares	23,097	23,290				
Basic EPS	\$ (0.13)	\$ (0.06)				
Diluted EPS	\$ (0.13)	\$ (0.06)				
D&A	206	235				
Stock Comp	1,504	812				
Other	373	0				
EBITDA	\$ (532)	\$ (383)	\$ (149)	-39%		
Margin	-4.6%	-3.3%				

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

## Outlook

Our revenue outlook for this year and next is largely unchanged. However, our current forecast assumes a greater share of this year's revenue to occur in Q4, and this does create greater risk should the holiday season get interrupted by supply chain issues, the results of the election, or additional geo-political issues. Also, our forecast assumes introduction and production of new products remains on schedule. Our EPS and EBITDA estimates have been adjusted downward for this year and next to reflect the shortfall in Q2 and a slightly slower improvement in gross margin than we had previously forecast.

### Prior estimates v current estimates

	2022E		2023E	
	Old	New	Old	New
Revenue (\$ M's)	\$ 54.0	\$ 54.1	\$ 76.0	\$ 76.0
EPS	\$ (0.03)	\$ (0.18)	\$ 0.45	\$ 0.34
EBITDA (\$ M's)	\$ 3.3	\$ 3.2	\$ 15.0	\$ 14.9

Source: Dawson James Securities estimates

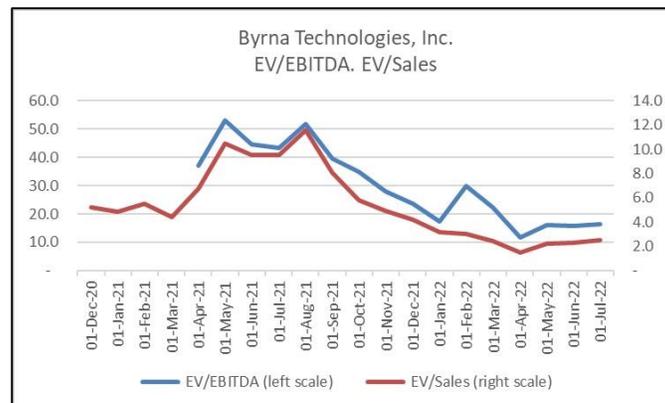
## Valuation

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.	\$ 9.45	\$ 1.97	4.8	\$ 128.8	\$ 273.2	0.47	\$ 40.2	3.2
POWW-US	AMMO Inc	4.41	0.44	10.0	495.6	318.2	1.56	105.5	4.7
AXON-US	Axon Enterprise Inc	97.90	2.13	45.9	6,506.1	1,178.2	5.52	225.6	28.8
SSTI-US	ShotSpotter, Inc.	29.65	0.06	513.5	355.3	88.5	4.01	18.4	19.3
SWBI-US	Smith & Wesson Brands, Inc.	13.49	2.06	6.5	539.2	647.6	0.83	161.4	3.3
RGR-US	Sturm, Ruger & Company, Inc.	64.16	5.61	11.4	922.4	591.6	1.56	160.2	5.8
VTSI-US	VirTra, Inc.	4.91	0.36	13.6	41.0	26.8	1.53	6.0	6.8
WRAP-US	Wrap Technologies, Inc.	2.03	(0.44)	(4.6)	53.6	15.4	3.47	(13.1)	(4.1)
	Median			10.7			1.56		5.2
BYRN-US	Byrna Technologies Inc.	\$ 9.30	\$ 0.31	29.8	\$ 170.0	\$ 67.6	2.52	\$ 9.7	17.5

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 22A	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	\$ 11,619	\$ 13,000	\$ 21,500	\$ 54,096	\$ 76,000
COGS	775	9,058	19,270	3,363	5,495	5,850	9,030	23,738	31,260
Gross Profit	149	7,508	22,890	4,614	6,124	7,150	12,470	30,358	44,740
	16%	45%	54.3%	58%	53%	55%	58%	56%	59%
Opex	3,438	11,817	26,181	8,023	8,739	8,739	8,739	34,240	36,808
Operating Income	\$ (3,289)	\$ (4,309)	\$ (3,291)	\$ (3,409)	\$ (2,615)	\$ (1,589)	\$ 3,731	\$ (3,882)	\$ 7,932
Interest & Other, total	(1,121)	(7,952)	(152)	68	(330)	25	25	(226)	100
Pretax Income	(4,410)	(12,261)	(3,443)	(3,341)	(2,945)	(1,564)	3,756	(4,108)	8,032
Taxes	0	293	(160)	(120)	51	(78)	188	41	402
Net Income	\$ (4,410)	\$ (12,553)	\$ (3,283)	\$ (3,221)	\$ (2,996)	\$ (1,486)	\$ 3,568	\$ (4,149)	\$ 7,630
Preferred Dividends	\$ -	\$ -	1,043	\$ -	\$ -	\$ -	\$ -	0	0
Net to Common	\$ (4,410)	\$ (12,553)	\$ (4,326)	\$ (3,221)	\$ (2,996)	\$ (1,486)	\$ 3,568	\$ (4,149)	\$ 7,630
Basic Shares	10,354	12,679	19,610	23,790	23,097	22,232	22,274	22,849	22,462
Diluted Shares	10,354	12,679	19,610	23,790	23,097	22,232	22,374	22,849	22,562
Basic EPS	\$ (0.43)	\$ (0.98)	\$ (0.22)	\$ (0.14)	\$ (0.13)	\$ (0.07)	\$ 0.16	\$ (0.18)	\$ 0.34
Diluted EPS	\$ (0.43)	\$ (0.98)	\$ (0.22)	\$ (0.14)	\$ (0.13)	\$ (0.07)	\$ 0.16	\$ (0.18)	\$ 0.34
D&A	54	242	487	175	206	243	243	867	972
Stock Comp	218	1,252	3,150	1,284	1,504	1,504	1,504	5,796	6,016
Other	0	0	1,300	46	373	0	0	419	0
EBITDA	(3,016)	(2,814)	1,646	(1,904)	(532)	158	5,478	3,200	14,920
Margin	-332.6%	-17.0%	3.9%	-23.9%	-4.6%	1.2%	25.5%	5.9%	19.6%
	FY2019	FY2020	FY2021	FQ1 22A	FQ2 22A	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%	47.3%	45.0%	42.0%	43.9%	41.1%
Gross Profit	16.1%	45.3%	54.3%	57.8%	52.7%	55.0%	58.0%	56.1%	58.9%
Opex	371.9%	71.3%	62.1%	100.6%	75.2%	67.2%	40.6%	63.3%	48.4%
Operating Income	-355.7%	-26.0%	-7.8%	-42.7%	-22.5%	-12.2%	17.4%	-7.2%	10.4%
Interest & Other, total	-121.3%	-48.0%	-0.4%	0.9%	-2.8%	0.2%	0.1%	-0.4%	0.1%
Pretax Income	-477.0%	-74.0%	-8.2%	-41.9%	-25.3%	-12.0%	17.5%	-7.6%	10.6%
Tax Rate	0.0%	-2.4%	4.6%	3.6%	-1.7%	5.0%	5.0%	-1.0%	5.0%
Net Income	-477.0%	-75.8%	-7.8%	-40.4%	-25.8%	-11.4%	16.6%	-7.7%	10.0%
EBITDA	-326.3%	-17.0%	3.9%	-23.9%	-4.6%	1.2%	25.5%	5.9%	19.6%
Y/Y									
Revenue	269.4%	1692.1%	154.5%	-10.3%	-13.3%	49.4%	92.6%	28.3%	40.5%
Opex	61.7%	243.8%	121.6%	55.8%	57.8%	30.6%	-0.7%	30.8%	7.5%
Operating Income	57.7%	31.0%	-23.6%	729.4%	-229.3%	-11.9%	-220.4%	18.0%	-304.3%
Net Income	-104.8%	-184.7%	73.8%	-1084.2%	-247.1%	19.3%	211.3%	-26.4%	283.9%

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

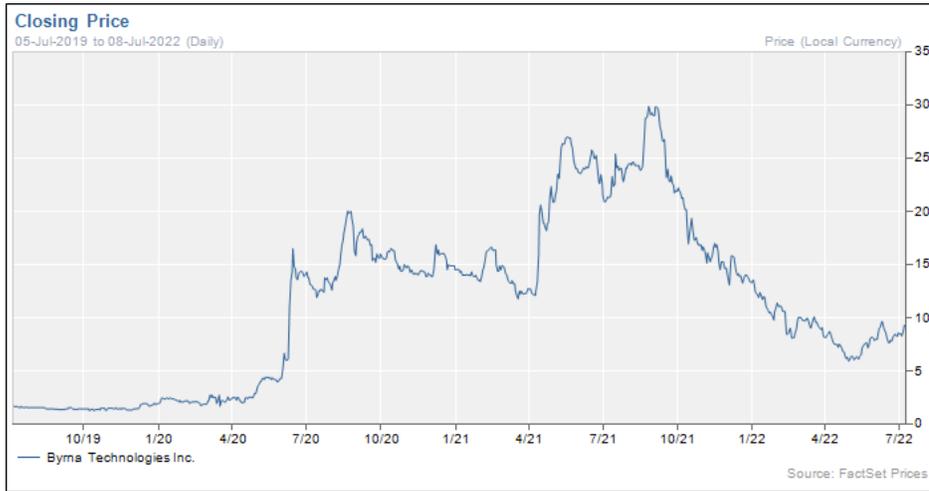
**Exhibit 2. Balance Sheet and Cash Flow Statement (\$ in 000's)**

	30-Nov-19 FY2019	30-Nov-20 FY2020	30-Nov-21 FY2021	30-Nov-22 FY2022E	30-Nov-23 FY2023E
Cash & ST Investments	1,082	3,175	56,308	36,105	49,062
Restricted Cash	0	6,389	92	0	0
A/R	438	834	1,658	3,440	3,067
Inventory	960	4,817	6,613	14,448	14,720
Prepaid Expenses & Other	377	1,391	1,490	3,381	3,617
<b>Current Assets</b>	<b>\$ 2,949</b>	<b>\$ 16,606</b>	<b>\$ 66,161</b>	<b>\$ 57,374</b>	<b>\$ 70,466</b>
Patent rights	99	811	3,668	3,869	3,225
Deposits for equipment	197	619	1,293	500	500
Right-of-use asset	0	1,200	1,086	1,298	970
PP&E	321	1,220	1,972	4,040	6,640
Goodwill	0	651	816	2,245	2,245
Restricted Cash	92	92	0	0	0
Other	0	17	318	674	721
<b>Total Assets</b>	<b>\$ 3,566</b>	<b>\$ 21,216</b>	<b>\$ 75,314</b>	<b>\$ 69,999</b>	<b>\$ 84,766</b>
A/P	640	6,629	6,996	16,076	17,198
Operating Lease	0	258	463	522	522
Deferred revenue	11	4,902	720	661	707
Convertible notes	2,759	0	0	0	0
Notes payable	0	75	0	0	0
Accrued Interest	266	0	0	0	0
<b>Current Liabilities</b>	<b>\$ 3,675</b>	<b>\$ 11,864</b>	<b>\$ 8,179</b>	<b>\$ 17,259</b>	<b>\$ 18,427</b>
Convertible N/P	1,875	0	0	0	0
NP	0	115	0	0	0
Deferred revenue	0	0	405	759	812
Operating Lease	0	828	632	1,059	1,059
<b>Equity</b>	<b>(1,984)</b>	<b>8,409</b>	<b>66,098</b>	<b>50,922</b>	<b>64,469</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$ 3,566</b>	<b>\$ 21,216</b>	<b>\$ 75,314</b>	<b>\$ 69,999</b>	<b>\$ 84,766</b>
	30-Nov-19 FY2019	30-Nov-20 FY2020	30-Nov-21 FY2021	30-Nov-22 FY2022E	30-Nov-23 FY2023E
Net Income	(4,410)	(12,553)	(3,283)	(4,149)	7,630
Depreciation	54	242	487	867	972
Stock and Incentive Comp	218	1,252	3,150	5,796	6,016
Other	1,612	8,873	63	2,018	6
Working Capital	(1,251)	4,723	(4,854)	(4,872)	1,033
<b>Operating CF</b>	<b>\$ (3,776)</b>	<b>\$ 2,538</b>	<b>\$ (4,437)</b>	<b>\$ (339)</b>	<b>\$ 15,658</b>
Capx	(246)	(1,426)	(1,700)	(3,713)	(3,000)
Acquisitions		(489)	(4,044)	(1,933)	
Other		(80)	(138)	(12)	
<b>Investing Activities</b>	<b>\$ (246)</b>	<b>\$ (1,995)</b>	<b>\$ (5,882)</b>	<b>\$ (5,658)</b>	<b>\$ (3,000)</b>
Equity	0	7,714	57,333	(14,392)	300
Debt	4,032	54	(81)	0	0
<b>Financing</b>	<b>\$ 4,032</b>	<b>\$ 7,768</b>	<b>\$ 57,252</b>	<b>\$ (14,392)</b>	<b>\$ 300</b>
FX	\$ (19)	\$ 171	\$ (189)	\$ 80	\$ -
<b>Change in Cash</b>	<b>\$ (8)</b>	<b>\$ 8,482</b>	<b>\$ 46,744</b>	<b>\$ (20,309)</b>	<b>\$ 12,958</b>

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
- Update – Buy – June 15, 2022 – Price Target \$12
- Update – Buy – June 24, 2022 – Price Target \$12
- Update – Buy – June 30, 2022 – Price Target \$12
- Update – Buy – July 8, 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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Current as of 16-Jun-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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