# Byrna Technologies Inc. (NASDAQ: BYRN)

***October 4, 2022***

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## Buy: Q3 EBITDA Exceeds Expectations

*Q3 revenue was in line with our recently reduced estimate but EBITDA was better than expected, with gross margin exceeding our estimates and operating expenses lower than our forecast. We reiterate our Buy recommendation and $9.50 price target.*

Q3 revenue of $12.4 million was in line with our recently reduced estimate. EBITDA was better than forecast on higher-than-expected gross margin and lower-than-expected operating expenses. Our revenue estimates for this year and next are unchanged but we have raised our EBITDA estimates to reflect the Q3 results. We assume the Fed interest rate hikes will continue to have an impact on consumer demand at least through the first half of fiscal 2023.

Gross margin of 55% was higher than our 52% estimate and an increase from Q2's 53%. We attribute the improvement to mix and improved freight costs, which the company has been working to reduce. We have kept our gross margin estimates unchanged but believe there is upside as supply chains normalize and freight costs improve.

Cash at the end of Q3 was $24.5 million and is ample over our forecast horizon.

New products will be a key element of growth over the coming quarters. 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 now available and 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.

**Valuation & Risks**

Our price target of $9.5 assumes an EV/Sales multiple of 3x on our fiscal 2023 revenue estimate of $62 million. Risks to achieving our target include 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** | | | **$4.77** |
| **Price Target** | | | **$9.50** |
| Estimates | F2021A | F2022E | F2023E |
| **Revenues ($000s)** | $ 42,160 | $ 47,018 E | $ 62,000 |
| 1Q February | $ 8,893 | $ 7,977 A | $ 13,000 |
| 2Q May | $ 13,401 | $ 11,619 A | $ 14,000 |
| 3Q August | $ 8,703 | $ 12,422 A | $ 15,000 |
| 4Q November | $ 11,163 | $ 15,000 E | $ 20,000 |
| | F2021A | F2022E | F2023E |
| **EBITDA ($000s)** | $ 1,646 | $ (798)E | $ 4,728 |
| 1Q February | $ 370 | $ (1,904)A | $ (46) |
| 2Q May | $ 3,005 | $ (532)A | $ (135) |
| 3Q August | $ (687) | $ 262 A | $ 1,055 |
| 4Q November | $ (1,042) | $ 1,376 E | $ 3,855 |
| | | | |
| EV/Sales | NM | 1.8 x | 1.4 x |
| EV/EBITDA | NM | (105.4) x | 17.8 x |
| Stock Data | | | |
| 52-Week Range | $4.50 | - | $22.49 |
| Shares Outstanding (mil.) | | | 22.2 |
| Market Capitalization (mil.) | | | $106 |
| Enterprise Value (mil.) | | | $84 |
| Debt to Capital | | | 5% |
| Cash & Equivalents (mil.) | | | $24.5 |
| Cash/Sh. | | | $1.10 |
| Average Three Months Trading Volume (K) | | | 165 |
| Insider Ownership | | | 22.9% |
| Institutional Ownership | | | 26.5% |
| Short interest (mil.) | | | 3.2% |
| Dividend / Yield | | | $0.00/0.0% |

**Actual v Estimates**

Revenue was in line with our recently reduced estimate, but gross margin was much better than forecast and operating expenses lower than forecast. This resulted in EBITDA of $262 thousand, significantly higher than our estimate of a $544 thousand loss.

| Q3 22 ($ in 000's) | Actual | Estimates | Delta | % Delta |
|---|---|---|---|---|
| Revenue | $ 12,422 | $ 12,400 | $ 22 | 0% |
| COGS | 5,545 | 5,952 | | |
| Gross Profit | 6,877 | 6,448 | 429 | 7% |
| | 55.4% | 52.0% | | |
| Opex | 8,283 | 8,739 | (456) | -5% |
| Operating Income | $ (1,406) | $ (2,291) | $ 885 | 39% |
| Interest & Other, tota | 22 | 25 | | |
| Pretax Income | (1,384) | (2,266) | | |
| Taxes | 150 | (113) | | |
| Net to Common | $ (1,534) | $ (2,153) | | |
| Basic Shares | 21,752 | 22,232 | | |
| Diluted Shares | 21,752 | 22,232 | | |
| Basic EPS | $ (0.07) | $ (0.10) | | |
| Diluted EPS | $ (0.07) | $ (0.10) | | |
| D&A | 257 | 243 | | |
| Stock Comp | 1,273 | 1,504 | | |
| Other | 138 | 0 | | |
| EBITDA | $ 262 | $ (544) | $ 806 | 148% |
| Margin | 2.1% | -4.4% | | |

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

Our revenue estimates for this year and next are unchanged, but our EBITDA forecast is higher due to the Q3 results and the lower operating expense.

| | 2022E | | 2023E | |
|---|---|---|---|---|
| | Old | New | Old | New |
| Revenue ($ M's) | $ 47.0 | $ 47.0 | $ 62.0 | $ 62.0 |
| EPS | $ (0.39) | $ (0.35) | $ (0.10) | $ (0.06) |
| EBITDA ($ M's) | $ (1.9) | $ (0.8) | $ 4.5 | $ 4.7 |

*Source: Dawson James Securities estimates*

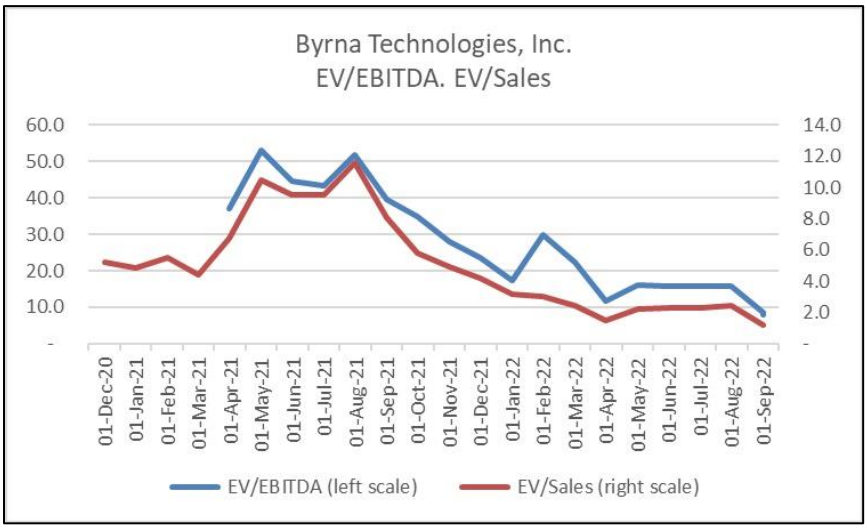
**Valuation**

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 $9.5 using our fiscal 2023 revenue estimate of $62 million.

| | | Price | EPS | P/E | TEV | Sales | EV/ Sales | EBITDA | EV/ EBITDA |
|---|---|---|---|---|---|---|---|---|---|
| AOUT-US | American Outdoor Brands, Inc. | $ 8.41 | $ 0.85 | 9.9 | $ 146.5 | $ 224.5 | 0.65 | $ 18.7 | 7.8 |
| POWW-US | AMMO Inc | 2.92 | 0.37 | 7.8 | 332.4 | 324.4 | 1.02 | 105.4 | 3.2 |
| AXON-US | Axon Enterprise Inc | 115.97 | 2.35 | 49.5 | 7,866.4 | 1,253.8 | 6.27 | 245.3 | 32.1 |
| SSTI-US | ShotSpotter, Inc. | 28.01 | 0.14 | 206.4 | 350.1 | 91.7 | 3.82 | 20.2 | 17.3 |
| SWBI-US | Smith & Wesson Brands, Inc. | 10.17 | 2.00 | 5.1 | 406.3 | 595.8 | 0.68 | 141.7 | 2.9 |
| RGR-US | Sturm, Ruger & Company, Inc. | 51.27 | 4.63 | 11.1 | 691.4 | 555.7 | 1.24 | 135.3 | 5.1 |
| VTSI-US | VirTra, Inc. | 5.84 | 0.33 | 17.7 | 52.9 | 30.9 | 1.71 | 5.9 | 8.9 |
| WRAP-US | Wrap Technologies, Inc. | 1.74 | (0.35) | (5.0) | 42.1 | 15.7 | 2.69 | (10.9) | (3.9) |
| | Median | | | 10.5 | | | 1.48 | | 6.5 |
| BYRN-US | Byrna Technologies Inc. | $ 4.77 | $ (0.11) | (45.3) | $ 80.2 | $ 59.6 | 1.35 | $ 3.9 | 20.8 |

*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, even with lower estimates.




*Source: FactSet and Dawson James Securities estimates.*

**Risks**

Risk Analysis: Risks to achieving our target include 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 22A | 30-Nov-22 FQ4 22E | 30-Nov-22 FY2022E | 30-Nov-23 FY2023E |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | $ 924 | $ 16,566 | $ 42,160 | $ 7,977 | $ 11,619 | $ 12,422 | $ 15,000 | $ 47,018 | $ 62,000 |
| COGS | 775 | 9,058 | 19,270 | 3,363 | 5,495 | 5,545 | 6,900 | 21,303 | 27,680 |
| Gross Profit | 149 | 7,508 | 22,890 | 4,614 | 6,124 | 6,877 | 8,100 | 25,715 | 34,320 |
| | 16% | 45% | 54.3% | 58% | 53% | 55% | 54% | 55% | 55% |
| Opex | 3,438 | 11,817 | 26,181 | 8,023 | 8,739 | 8,283 | 8,283 | 33,328 | 35,828 |
| Operating Income | $ (3,289) | $ (4,309) | $ (3,291) | $ (3,409) | $ (2,615) | $ (1,406) | $ (183) | $ (7,613) | $ (1,508) |
| Interest & Other, total | (1,121) | (7,952) | (152) | 68 | (330) | 22 | 25 | (226) | 100 |
| Pretax Income | (4,410) | (12,261) | (3,443) | (3,341) | (2,945) | (1,384) | (158) | (7,839) | (1,408) |
| Taxes | 0 | 293 | (160) | (120) | 51 | 150 | (8) | 73 | (70) |
| Net Income | $ (4,410) | $ (12,553) | $ (3,283) | $ (3,221) | $ (2,996) | $ (1,534) | $ (150) | $ (7,912) | $ (1,337) |
| Preferred Dividends | $ - | $ - | 1,043 | $ - | $ - | $ - | $ - | 0 | 0 |
| Net to Common | $ (4,410) | $ (12,553) | $ (4,326) | $ (3,221) | $ (2,996) | $ (1,534) | $ (150) | $ (7,912) | $ (1,337) |
| Basic Shares | 10,354 | 12,679 | 19,610 | 23,790 | 23,097 | 21,752 | 22,274 | 22,728 | 22,462 |
| Diluted Shares | 10,354 | 12,679 | 19,610 | 23,790 | 23,097 | 21,752 | 22,274 | 22,728 | 22,462 |
| Basic EPS | $ (0.43) | $ (0.98) | $ (0.22) | $ (0.14) | $ (0.13) | $ (0.07) | $ (0.01) | $ (0.35) | $ (0.06) |
| Diluted EPS | $ (0.43) | $ (0.98) | $ (0.22) | $ (0.14) | $ (0.13) | $ (0.07) | $ (0.01) | $ (0.35) | $ (0.06) |
| D&A | 54 | 242 | 487 | 175 | 206 | 257 | 286 | 924 | 1,144 |
| Stock/Incentive Comp | 218 | 1,252 | 3,150 | 1,284 | 1,504 | 1,273 | 1,273 | 5,334 | 5,092 |
| Other | 0 | 0 | 1,300 | 46 | 373 | 138 | 0 | 557 | 0 |
| EBITDA | (3,016) | (2,814) | 1,646 | (1,904) | (532) | 262 | 1,376 | (798) | 4,728 |
| Margin | -332.6% | -17.0% | 3.9% | -23.9% | -4.6% | 2.1% | 9.2% | -1.7% | 7.6% |
| | FY2019 | FY2020 | FY2021 | FQ1 22A | FQ2 22A | FQ3 22A | 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% | 44.6% | 46.0% | 45.3% | 44.6% |
| Gross Profit | 16.1% | 45.3% | 54.3% | 57.8% | 52.7% | 55.4% | 54.0% | 54.7% | 55.4% |
| Opex | 371.9% | 71.3% | 62.1% | 100.6% | 75.2% | 66.7% | 55.2% | 70.9% | 57.8% |
| Operating Income | -355.7% | -26.0% | -7.8% | -42.7% | -22.5% | -11.3% | -1.2% | -16.2% | -2.4% |
| Interest & Other, total | -121.3% | -48.0% | -0.4% | 0.9% | -2.8% | 0.2% | 0.2% | -0.5% | 0.2% |
| Pretax Income | -477.0% | -74.0% | -8.2% | -41.9% | -25.3% | -11.1% | -1.1% | -16.7% | -2.3% |
| Tax Rate | 0.0% | -2.4% | 4.6% | 3.6% | -1.7% | -10.8% | 5.0% | -0.9% | 5.0% |
| Net Income | -477.0% | -75.8% | -7.8% | -40.4% | -25.8% | -12.3% | -1.0% | -16.8% | -2.2% |
| EBITDA | -326.3% | -17.0% | 3.9% | -23.9% | -4.6% | 2.1% | 9.2% | -1.7% | 7.6% |
| Y/Y | | | | | | | | | |
| Revenue | 269.4% | 1692.1% | 154.5% | -10.3% | -13.3% | 42.7% | 34.4% | 11.5% | 31.9% |
| Opex | 61.7% | 243.8% | 121.6% | 55.8% | 57.8% | 23.8% | -5.9% | 27.3% | 7.5% |
| Operating Income | 57.7% | 31.0% | -23.6% | 729.4% | -229.3% | -22.1% | -94.1% | 131.3% | -80.2% |
| Net Income | -104.8% | -184.7% | 73.8% | -1084.2% | -247.1% | 16.7% | 95.3% | -141.0% | 83.1% |

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

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

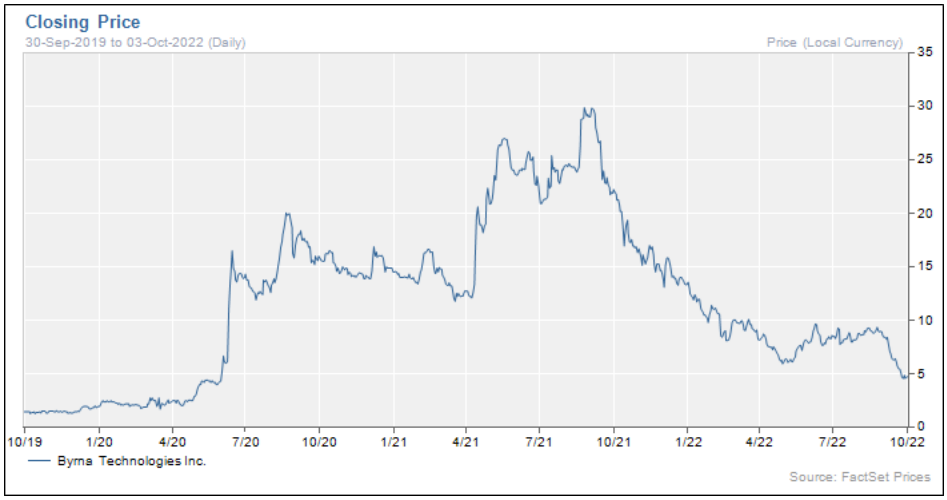
| | 30-Nov-19 FY2019 | 30-Nov-20 FY2020 | 30-Nov-21 FY2021 | 30-Nov-22 FY2022E | 30-Nov-23 FY2023E |
|---|---|---|---|---|---|
| Cash & ST Investments | 1,082 | 3,175 | 56,308 | 32,674 | 34,169 |
| Restricted Cash | 0 | 6,389 | 92 | 0 | 0 |
| A/R | 438 | 834 | 1,658 | 2,400 | 2,667 |
| Inventory | 960 | 4,817 | 6,613 | 11,040 | 14,080 |
| Prepaid Expenses & Othe | 377 | 1,391 | 1,490 | 1,852 | 2,470 |
| Current Assets | $ 2,949 | $ 16,606 | $ 66,161 | $ 47,966 | $ 53,386 |
| | | | | | |
| Patent rights | 99 | 811 | 3,668 | 3,891 | 3,247 |
| Deposits for equipment | 197 | 619 | 1,293 | 500 | 500 |
| Right-of-use asset | 0 | 1,200 | 1,086 | 2,277 | 1,813 |
| PP&E | 321 | 1,220 | 1,972 | 3,676 | 6,240 |
| Goodwill | 0 | 651 | 816 | 2,307 | 2,307 |
| Restricted Cash | 92 | 92 | 0 | 0 | 0 |
| Other | 0 | 17 | 318 | 186 | 248 |
| | | | | | |
| Total Assets | $ 3,566 | $ 21,216 | $ 75,314 | $ 60,803 | $ 67,741 |
| | | | | | |
| A/P | 640 | 6,629 | 6,996 | 8,270 | 11,027 |
| Operating Lease | 0 | 258 | 463 | 680 | 680 |
| Deferred revenue | 11 | 4,902 | 720 | 1,112 | 1,483 |
| Convertible notes | 2,759 | 0 | 0 | 0 | 0 |
| Notes payable | 0 | 75 | 0 | 0 | 0 |
| Accrued Interest | 266 | 0 | 0 | 0 | 0 |
| Current Liabilities | $ 3,675 | $ 11,864 | $ 8,179 | $ 10,063 | $ 13,190 |
| | | | | | |
| Convertbile N/P | 1,875 | 0 | 0 | 0 | 0 |
| NP | 0 | 115 | 0 | 0 | 0 |
| Deferred revenue | 0 | 0 | 405 | 465 | 620 |
| Operating Lease | 0 | 828 | 632 | 1,838 | 1,838 |
| | | | | | |
| Equity | (1,984) | 8,409 | 66,098 | 48,438 | 52,093 |
| | | | | | |
| Total Liabilities & Equity | $ 3,566 | $ 21,216 | $ 75,314 | $ 60,803 | $ 67,741 |

| | 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) | (7,912) | (1,337) |
| Depreciation | 54 | 242 | 487 | 924 | 1,144 |
| Stock and Incentive Comp | 218 | 1,252 | 3,150 | 5,334 | 5,092 |
| Other | 1,612 | 8,873 | 63 | 1,894 | 93 |
| Working Capital | (1,251) | 4,723 | (4,854) | (4,142) | (797) |
| Operating CF | $ (3,776) | $ 2,538 | $ (4,437) | $ (3,902) | $ 4,195 |
| | | | | | |
| Capx | (246) | (1,426) | (1,700) | (2,982) | (3,000) |
| Acquisitions | | (489) | (4,044) | (1,933) | |
| Other | | (80) | (138) | (44) | |
| Investing Activities | $ (246) | $ (1,995) | $ (5,882) | $ (4,959) | $ (3,000) |
| | | | | | |
| Equity | 0 | 7,714 | 57,333 | (14,468) | 300 |
| Debt | 4,032 | 54 | (81) | 0 | 0 |
| Financing | $ 4,032 | $ 7,768 | $ 57,252 | $ (14,468) | $ 300 |
| | | | | | |
| FX | $ (19) | $ 171 | $ (189) | $ (407) | $ - |
| | | | | | |
| Change in Cash | $ (8) | $ 8,482 | $ 46,744 | $ (23,736) | $ 1,495 |

*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
Update – Buy – July 8, 2022 – Price Target $12
Price Target Change – Buy – September 8, 2022 – Price Target Changed from $12 to $9.50
Update – Buy – October 4, 2022 – Price Target $9.50

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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 20-Sep-22

| | **Company Coverage** | | **Investment Banking** | |
|---|---|---|---|---|
| **Ratings Distribution** | # of Companies | % of Total | # of Companies | % of Totals |
| Market Outperform (Buy) | 25 | 83% | 3 | 12% |
| Market Perform (Neutral) | 4 | 13% | 1 | 25% |
| Market Underperform (Sell) | 1 | 3% | 0 | 0% |
| Total | 30 | 100% | 4 | 13% |

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