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Byrna Technologies Inc. (NASDAQ: BYRN)

October 6, 2022

Buy: Lowering Revenue Estimates

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We are lowering our EBITDA estimate slightly for fiscal 2023 on a reduced revenue estimate. The company is guiding to revenue of \$54 to \$64 million, up 10% to 30% from fiscal 2022. We are lowering our fiscal 2023 revenue estimate to \$58 million from \$62 million. We reiterate our Buy recommendation and \$9.50 price target.

We are lowering our revenue estimate for fiscal 2023 from \$62 million to \$58 million due to product introduction delays and slow acceptance of recent product introductions. These factors are combining with Fed policies to slow demand. However, our EBITDA estimate is only slightly lower due to higher expected gross margin and lower expected operating expenses. Our price target is unchanged and based on the same EV/Sales multiple of 3x and our second half fiscal 2023 run rate revenue of \$64 million.

The company expects to begin production of the LE soon and the 12-gauge round later in the quarter. We had expected production of both to begin a bit earlier. The company is also shutting down its School Safety initiative due to slower-than-expected sales. Fed tightening is also having an impact on sales, and in our model, particularly in the first half.

Freight costs have improved as the company moves to ocean freight which has significantly lower costs than air freight. Over the course of 2023, it expects most of its international shipments to transition to ocean freight. For fiscal 2023 we have gross margin estimated at 56.5%, almost 200 basis points higher than our fiscal 2022 estimate of 54.7%. The shuttering of the School Safety initiative will save \$500 thousand annually and the company is undertaking an expense reduction program to lower costs by an additional \$1 million.

Cash at the end of Q3 was \$24.5 million and is ample over our forecast horizon. Byrna announced plans to continue its previously approved \$5 million stock buyback program. We are skeptical the program will achieve anything meaningful, and our experience is small growth companies are much better served by conserving cash, particularly in environments where demand is weakening.

Valuation & Risks

Our price target of \$9.50 assumes an EV/Sales multiple of 3x on our second half fiscal 2023 run-rate revenue estimate of \$64 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				\$4.98
Price Target				\$9.50
Estimates	F2021A	F2022E	F2023E	
Revenues (\$000s)	\$ 42,160	\$ 47,018 E	\$ 58,000	
1Q February	\$ 8,893	\$ 7,977 A	\$ 12,500	
2Q May	\$ 13,401	\$ 11,619 A	\$ 13,500	
3Q August	\$ 8,703	\$ 12,422 A	\$ 14,000	
4Q November	\$ 11,163	\$ 15,000 E	\$ 18,000	
	F2021A	F2022E	F2023E	
EBITDA (\$000s)	\$ 1,646	\$ (1,015)E	\$ 4,493	
1Q February	\$ 370	(1,904)A	\$ 339	
2Q May	\$ 3,005	(532)A	\$ 754	
3Q August	\$ (687)	\$ 262 A	\$ 1,079	
4Q November	\$ (1,042)	\$ 1,159 E	\$ 2,322	
EV/Sales	NM	1.9 x	1.5 x	
EV/EBITDA	NM	(87.5) x	19.8 x	
Stock Data				
52-Week Range	\$4.50	-	\$22.08	
Shares Outstanding (mil.)				22.2
Market Capitalization (mil.)				\$111
Enterprise Value (mil.)				\$89
Debt to Capital				5%
Cash & Equivalents (mil.)				\$24.5
Cash/Sh.				\$1.10
Average Three Months Trading Volume (K)				171
Insider Ownership				22.9%
Institutional Ownership				26.5%
Short interest (mil.)				3.2%
Dividend / Yield				\$0.00/0.0%



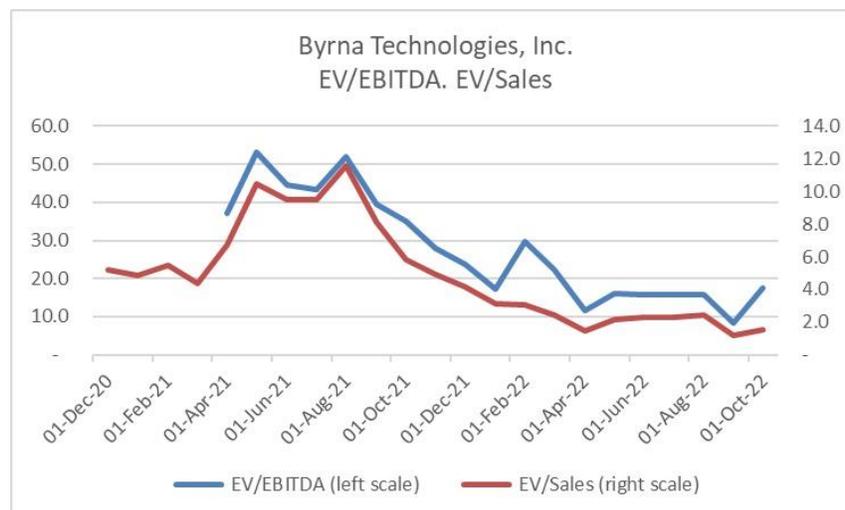
Valuation

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 \$9.50 using our run-rate second-half fiscal 2023 revenue estimate of \$64 million.

		Price	EPS	P/E	TEV	Sales	EV/ Sales	EBITDA	EV/ EBITDA
AOUT-US	American Outdoor Brands, Inc.	\$ 8.86	\$ 0.86	10.4	\$ 147.7	\$ 224.7	0.66	\$ 18.8	7.9
POWW-US	AMMO Inc	3.16	0.37	8.5	359.3	324.9	1.11	105.6	3.4
AXON-US	Axon Enterprise Inc	123.29	2.35	52.5	8,402.4	1,255.4	6.69	245.7	34.2
SSTI-US	ShotSpotter, Inc.	27.79	0.14	203.9	338.3	91.8	3.68	20.3	16.7
SWBI-US	Smith & Wesson Brands, Inc.	10.28	2.00	5.1	402.2	596.0	0.67	141.8	2.8
RGR-US	Sturm, Ruger & Company, Inc.	51.41	4.63	11.1	702.3	555.4	1.26	135.2	5.2
VTSI-US	VirTra, Inc.	5.74	0.33	17.4	56.5	30.9	1.83	5.9	9.5
WRAP-US	Wrap Technologies, Inc.	1.69	(0.35)	(4.8)	41.3	15.7	2.62	(10.8)	(3.8)
	Median			10.7			1.55		6.5
BYRN-US	Byrna Technologies Inc.	\$ 4.98	\$ (0.11)	(44.0)	\$ 88.8	\$ 56.3	1.58	\$ 3.7	24.2

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, 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.

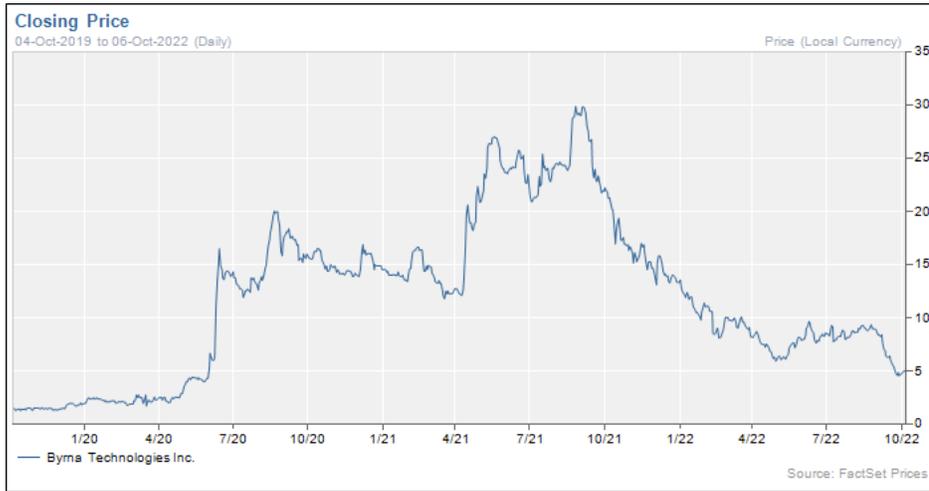
Exhibit 1. Income Statement (\$ in 000's except per share data)

	FY2019	FY2020	FY2021	FQ1 22A	FQ2 22A	FQ3 22A	FQ4 22E	FY2022E	FY2023E
Revenue	\$ 924	\$ 16,566	\$ 42,160	\$ 7,977	\$ 11,619	\$ 12,422	\$ 15,000	\$ 47,018	\$ 58,000
COGS	775	9,058	19,270	3,363	5,495	5,545	6,900	21,303	25,223
Gross Profit	149	7,508	22,890	4,614	6,124	6,877	8,100	25,715	32,778
	16.1%	45.3%	54.3%	57.8%	52.7%	55.4%	54.0%	54.7%	56.5%
Opex	3,438	11,817	26,181	8,023	8,739	8,283	8,500	33,545	34,521
Operating Income	\$ (3,289)	\$ (4,309)	\$ (3,291)	\$ (3,409)	\$ (2,615)	\$ (1,406)	\$ (400)	\$ (7,830)	\$ (1,743)
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)	(375)	(8,056)	(1,643)
Taxes	0	293	(160)	(120)	51	150	(19)	62	(82)
Net Income	\$ (4,410)	\$ (12,553)	\$ (3,283)	\$ (3,221)	\$ (2,996)	\$ (1,534)	\$ (356)	\$ (8,118)	\$ (1,561)
Preferred Dividends	\$ -	\$ -	1,043	\$ -	\$ -	\$ -	\$ -	0	0
Net to Common	\$ (4,410)	\$ (12,553)	\$ (4,326)	\$ (3,221)	\$ (2,996)	\$ (1,534)	\$ (356)	\$ (8,118)	\$ (1,561)
Basic Shares	10,354	12,679	19,610	23,790	23,097	21,752	22,237	22,719	22,387
Diluted Shares	10,354	12,679	19,610	23,790	23,097	21,752	22,237	22,719	22,387
Basic EPS	\$ (0.43)	\$ (0.98)	\$ (0.22)	\$ (0.14)	\$ (0.13)	\$ (0.07)	\$ (0.02)	\$ (0.36)	\$ (0.07)
Diluted EPS	\$ (0.43)	\$ (0.98)	\$ (0.22)	\$ (0.14)	\$ (0.13)	\$ (0.07)	\$ (0.02)	\$ (0.36)	\$ (0.07)
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	1,159	(1,015)	4,493
Margin	-332.6%	-17.0%	3.9%	-23.9%	-4.6%	2.1%	7.7%	-2.2%	7.7%
	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%	43.5%
Gross Profit	16.1%	45.3%	54.3%	57.8%	52.7%	55.4%	54.0%	54.7%	56.5%
Opex	371.9%	71.3%	62.1%	100.6%	75.2%	66.7%	56.7%	71.3%	59.5%
Operating Income	-355.7%	-26.0%	-7.8%	-42.7%	-22.5%	-11.3%	-2.7%	-16.7%	-3.0%
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%	-2.5%	-17.1%	-2.8%
Tax Rate	0.0%	-2.4%	4.6%	3.6%	-1.7%	-10.8%	5.0%	-0.8%	5.0%
Net Income	-477.0%	-75.8%	-7.8%	-40.4%	-25.8%	-12.3%	-2.4%	-17.3%	-2.7%
EBITDA	-326.3%	-17.0%	3.9%	-23.9%	-4.6%	2.1%	7.7%	-2.2%	7.7%
Y/Y									
Revenue	269.4%	1692.1%	154.5%	-10.3%	-13.3%	42.7%	34.4%	11.5%	23.4%
Opex	61.7%	243.8%	121.6%	55.8%	57.8%	23.8%	-3.4%	28.1%	2.9%
Operating Income	57.7%	31.0%	-23.6%	729.4%	-229.3%	-22.1%	-87.1%	137.9%	-77.7%
Net Income	-104.8%	-184.7%	73.8%	-1084.2%	-247.1%	16.7%	88.9%	-147.3%	80.8%

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
- Update – Buy – October 6, 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;
- 3) **Sell:** The analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

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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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