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Byrna Technologies Inc. (NASDAQ: BYRN)

February 10, 2023

Buy: In Line Quarter and Outlook

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Q4 revenue of \$16 million was in line with our estimate and company guidance of fiscal 2023 revenue between \$55 million and \$60 million was also in line with our estimate of \$58 million. We reiterate our Buy recommendation and \$9.50 price target.

Q4 revenue of \$16 million was in line with our estimate, although EBITDA of \$1.6 million was lower than our \$1.7 million estimate due to slightly higher opex than projected. Cash at year-end was \$20 million down substantially from \$56 million at the end of fiscal 2021. The company used \$14 million in operations, \$3 million on capital expenditures, \$2 million in acquisitions and \$18 million on a stock buyback, which in our view, like most buybacks, had little impact on the share price.

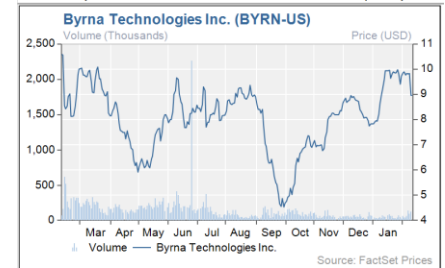
For fiscal 2023 we estimate revenue of \$58 million, up almost 21% driven by higher international sales, the introduction of the 12-gauge round, a full year of self-defense sprays from Fox Labs and continued growth in the core products.

We estimate the company will be cash flow positive for the year. In fiscal 2022 EBITDA was slightly negative, and we forecast positive EBITDA this fiscal year of \$4.6 million. In addition, in fiscal 2022 working capital required \$13 million of cash mostly to build inventory but also for accounts receivable. We believe working capital can be a source of cash this year. If the company (hopefully) eschews another stock buyback, we estimate cash can increase this year by about \$5 million.

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 | | | | \$8.97 |
| Price Target | | | | \$9.50 |
| Estimates | F2021A | F2022A | F2023E | |
| Revenues (\$000s) | \$ 42,160 | \$ 48,036 A | \$ 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 | \$ 16,018 A | \$ 18,000 | |
| | F2021A | F2022A | F2023E | |
| EBITDA (\$000s) | \$ 1,646 | \$ (619)A | \$ 4,651 | |
| 1Q February | \$ 370 | \$ (1,904)A | \$ 429 | |
| 2Q May | \$ 3,005 | \$ (532)A | \$ 844 | |
| 3Q August | \$ (687) | \$ 262 A | \$ 1,169 | |
| 4Q November | \$ (1,042) | \$ 1,555 A | \$ 2,209 | |
| EV/Sales | NM | 3.8 x | 3.1 x | |
| EV/EBITDA | NM | (293.9) x | 39.1 x | |
| Stock Data | | | | |
| 52-Week Range | \$4.50 | - | \$10.95 | |
| Shares Outstanding (mil.) | | | | 22.2 |
| Market Capitalization (mil.) | | | | \$199 |
| Enterprise Value (mil.) | | | | \$182 |
| Debt to Capital | | | | 5% |
| Cash & Equivalents (mil.) | | | | \$20.1 |
| Cash/Sh. | | | | \$0.90 |
| Average Three Months Trading Volume (K) | | | | 52 |
| Insider Ownership | | | | 20.8% |
| Institutional Ownership | | | | 25.5% |
| Short interest (mil.) | | | | 2.3% |
| Dividend / Yield | | | | \$0.00/0.0% |



Q4 Results

| Q4 22 | | | | | |
|-------------------------|-----------|-----------|----------|---------|--|
| (\$ in 000's) | | | | | |
| | Actual | Estimates | Delta | % Delta | |
| Revenue | \$ 16,018 | \$ 16,000 | \$ 18 | 0% | |
| COGS | 7,355 | 7,360 | | | |
| Gross Profit | 8,663 | 8,640 | 23 | 0% | |
| | 54.1% | 54.0% | | | |
| Opex | 8,688 | 8,500 | 188 | 2% | |
| Operating Income | \$ (25) | \$ 140 | \$ (165) | -118% | |
| Interest & Other, total | 44 | 25 | | | |
| Pretax Income | 19 | 165 | | | |
| Taxes | 153 | 8 | | | |
| Net to Common | \$ (134) | \$ 157 | | | |
| Basic Shares | 21,339 | 22,237 | | | |
| Diluted Shares | 21,339 | 22,337 | | | |
| Basic EPS | \$ (0.01) | \$ 0.01 | | | |
| Diluted EPS | \$ (0.01) | \$ 0.01 | | | |
| D&A | 217 | 286 | | | |
| Stock Comp | 1,363 | 1,273 | | | |
| Other | 0 | 0 | | | |
| EBITDA | \$ 1,555 | \$ 1,699 | \$ (144) | -8% | |
| Margin | 9.7% | 10.6% | | | |

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

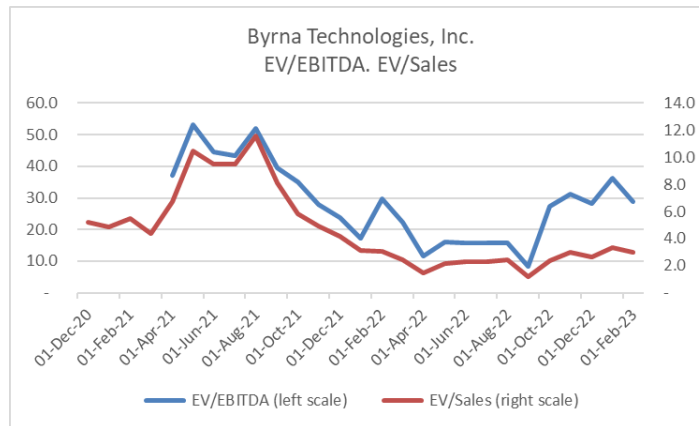
Valuation

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 \$9.50 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. | \$ 10.30 | \$ 0.92 | 11.1 | \$ 166.4 | \$ 227.9 | 0.73 | \$ 21.9 | 7.6 |
| POWW-US | AMMO Inc | 2.21 | 0.20 | 11.2 | 245.5 | 243.8 | 1.01 | 74.0 | 3.3 |
| AXON-US | Axon Enterprise Inc | 183.81 | 2.75 | 66.8 | 12,718.0 | 1,410.6 | 9.02 | 285.8 | 44.5 |
| SSTI-US | ShotSpotter, Inc. | 36.15 | 0.29 | 125.8 | 434.9 | 96.3 | 4.52 | 23.7 | 18.3 |
| SWBI-US | Smith & Wesson Brands, Inc. | 10.57 | 0.93 | 11.3 | 483.5 | 495.2 | 0.98 | 102.2 | 4.7 |
| RGR-US | Sturm, Ruger & Company, Inc. | 55.51 | 4.15 | 13.4 | 767.9 | 536.5 | 1.43 | 124.4 | 6.2 |
| VTSI-US | VirTra, Inc. | 4.79 | 0.10 | 50.4 | 46.3 | 29.8 | 1.55 | 3.8 | 12.2 |
| WRAP-US | Wrap Technologies, Inc. | 2.22 | | | 67.9 | | | | |
| | Median | | | 13.4 | | | 1.43 | | 7.6 |
| BYRN-US | Byrna Technologies Inc. | \$ 8.97 | \$ (0.04) | (230.9) | \$ 178.5 | \$ 59.1 | 3.02 | \$ 5.1 | 34.7 |

Source: FactSet and Dawson James Securities estimates

EV/Sales and EV/EBITDA have rebounded over the past few months and we believe current valuation is attractive.



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 | 30-Nov-22 FY2022A | 28-Feb-23 FQ1 23E | 31-May-23 FQ2 23E | 31-Aug-23 FQ3 23E | 30-Nov-23 FQ4 23E | 30-Nov-23 FY2023E |
|-------------------------|---------------------|---------------------|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Revenue | \$ 924 | \$ 16,566 | \$ 42,160 | \$ 48,036 | \$ 12,500 | \$ 13,500 | \$ 14,000 | \$ 18,000 | \$ 58,000 |
| COGS | 775 | 9,058 | 19,270 | 21,758 | 5,438 | 5,805 | 5,880 | 8,100 | 25,223 |
| Gross Profit | 149 | 7,508 | 22,890 | 26,278 | 7,063 | 7,695 | 8,120 | 9,900 | 32,778 |
| | 16.1% | 45.3% | 54.3% | 54.7% | 56.5% | 57.0% | 58.0% | 55.0% | 56.5% |
| Opex | 3,438 | 11,817 | 26,181 | 33,733 | 8,283 | 8,500 | 8,600 | 9,340 | 34,723 |
| Operating Income | \$ (3,289) | \$ (4,309) | \$ (3,291) | \$ (7,455) | \$ (1,221) | \$ (805) | \$ (480) | \$ 560 | \$ (1,945) |
| Interest & Other, total | (1,121) | (7,952) | (152) | (196) | 25 | 25 | 25 | 25 | 100 |
| Pretax Income | (4,410) | (12,261) | (3,443) | (7,651) | (1,196) | (780) | (455) | 585 | (1,845) |
| Taxes | 0 | 293 | (160) | 234 | (60) | (39) | (23) | 29 | (92) |
| Net Income | \$ (4,410) | \$ (12,553) | \$ (3,283) | \$ (7,885) | \$ (1,136) | \$ (741) | \$ (432) | \$ 556 | \$ (1,753) |
| Preferred Dividends | \$ - | \$ - | 1,043 | 0 | \$ - | \$ - | \$ - | \$ - | 0 |
| Net to Common | \$ (4,410) | \$ (12,553) | \$ (4,326) | \$ (7,885) | \$ (1,136) | \$ (741) | \$ (432) | \$ 556 | \$ (1,753) |
| Basic Shares | 10,354 | 12,679 | 19,610 | 22,364 | 22,274 | 22,349 | 22,424 | 22,499 | 22,387 |
| Diluted Shares | 10,354 | 12,679 | 19,610 | 22,364 | 22,274 | 22,349 | 22,424 | 22,599 | 22,387 |
| Basic EPS | \$ (0.43) | \$ (0.98) | \$ (0.22) | \$ (0.35) | \$ (0.05) | \$ (0.03) | \$ (0.02) | \$ 0.02 | \$ (0.08) |
| Diluted EPS | \$ (0.43) | \$ (0.98) | \$ (0.22) | \$ (0.35) | \$ (0.05) | \$ (0.03) | \$ (0.02) | \$ 0.02 | \$ (0.08) |
| D&A | 54 | 242 | 487 | 855 | 286 | 286 | 286 | 286 | 1,144 |
| Stock/Incentive Comp | 218 | 1,252 | 3,150 | 5,424 | 1,363 | 1,363 | 1,363 | 1,363 | 5,452 |
| Other | 0 | 0 | 1,300 | 557 | 0 | 0 | 0 | 0 | 0 |
| EBITDA | (3,016) | (2,814) | 1,646 | (619) | 429 | 844 | 1,169 | 2,209 | 4,651 |
| Margin | -332.6% | -17.0% | 3.9% | -1.3% | 3.4% | 6.3% | 8.4% | 12.3% | 8.0% |
| | FY2019 | FY2020 | FY2021 | FY2022A | FQ1 23E | FQ2 23E | FQ3 23E | FQ4 23E | 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% | 45.3% | 43.5% | 43.0% | 42.0% | 45.0% | 43.5% |
| Gross Profit | 16.1% | 45.3% | 54.3% | 54.7% | 56.5% | 57.0% | 58.0% | 55.0% | 56.5% |
| Opex | 371.9% | 71.3% | 62.1% | 70.2% | 66.3% | 63.0% | 61.4% | 51.9% | 59.9% |
| Operating Income | -355.7% | -26.0% | -7.8% | -15.5% | -9.8% | -6.0% | -3.4% | 3.1% | -3.4% |
| Interest & Other, total | -121.3% | -48.0% | -0.4% | -0.4% | 0.2% | 0.2% | 0.2% | 0.1% | 0.2% |
| Pretax Income | -477.0% | -74.0% | -8.2% | -15.9% | -9.6% | -5.8% | -3.3% | 3.3% | -3.2% |
| Tax Rate | 0.0% | -2.4% | 4.6% | -3.1% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Net Income | -477.0% | -75.8% | -7.8% | -16.4% | -9.1% | -5.5% | -3.1% | 3.1% | -3.0% |
| EBITDA | -326.3% | -17.0% | 3.9% | -1.3% | 3.4% | 6.3% | 8.4% | 12.3% | 8.0% |
| Y/Y | | | | | | | | | |
| Revenue | 269.4% | 1692.1% | 154.5% | 13.9% | 56.7% | 16.2% | 12.7% | 12.4% | 20.7% |
| Opex | 61.7% | 243.8% | 121.6% | 28.8% | 3.2% | -2.7% | 3.8% | 7.5% | 2.9% |
| Operating Income | 57.7% | 31.0% | -23.6% | -126.5% | 64.2% | 69.2% | 65.9% | 2341.6% | 73.9% |
| Net Income | -104.8% | -184.7% | 73.8% | -140.2% | 64.7% | 75.3% | 71.8% | 515.0% | 77.8% |

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

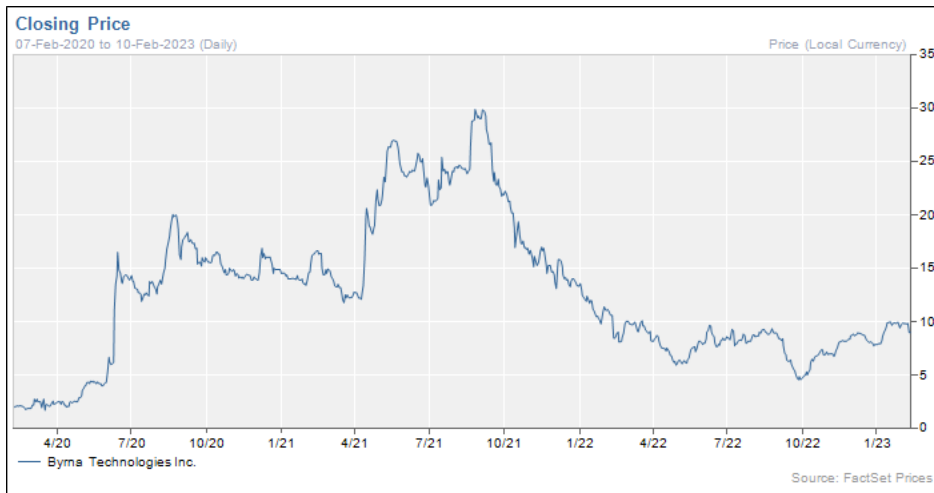
Exhibit 2. Balance Sheet and Cash Flow Statement (\$ in 000's)

| | 30-Nov-19 FY2019 | 30-Nov-20 FY2020 | 30-Nov-21 FY2021 | 30-Nov-22 FY2022A | 30-Nov-23 FY2023E |
|---------------------------------------|---------------------|---------------------|---------------------|----------------------|----------------------|
| Cash & ST Investments | 1,082 | 3,175 | 56,308 | 20,068 | 24,659 |
| Restricted Cash | 0 | 6,389 | 92 | 0 | 0 |
| A/R | 438 | 834 | 1,658 | 5,915 | 3,600 |
| Inventory | 960 | 4,817 | 6,613 | 15,462 | 16,200 |
| Prepaid Expenses & Other | 377 | 1,391 | 1,490 | 1,200 | 1,348 |
| Current Assets | \$ 2,949 | \$ 16,606 | \$ 66,161 | \$ 42,645 | \$ 45,807 |
| Patent rights | 99 | 811 | 3,668 | 3,872 | 3,247 |
| Deposits for equipment | 197 | 619 | 1,293 | 2,269 | 2,269 |
| Right-of-use asset | 0 | 1,200 | 1,086 | 2,424 | 1,813 |
| PP&E | 321 | 1,220 | 1,972 | 3,309 | 5,873 |
| Goodwill | 0 | 651 | 816 | 2,258 | 2,258 |
| Restricted Cash | 92 | 92 | 0 | 0 | 0 |
| Other | 0 | 17 | 318 | 272 | 306 |
| Total Assets | \$ 3,566 | \$ 21,216 | \$ 75,314 | \$ 57,049 | \$ 61,573 |
| A/P | 640 | 6,629 | 6,996 | 7,708 | 8,662 |
| Operating Lease | 0 | 258 | 463 | 757 | 757 |
| Deferred revenue | 11 | 4,902 | 720 | 458 | 515 |
| 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 | \$ 8,923 | \$ 9,933 |
| Convertible N/P | 1,875 | 0 | 0 | 0 | 0 |
| NP | 0 | 115 | 0 | 0 | 0 |
| Deferred revenue | 0 | 0 | 405 | 340 | 382 |
| Operating Lease | 0 | 828 | 632 | 1,792 | 1,792 |
| Equity | (1,984) | 8,409 | 66,098 | 45,994 | 49,465 |
| Total Liabilities & Equity | \$ 3,566 | \$ 21,216 | \$ 75,314 | \$ 57,049 | \$ 61,573 |
| | | | | | |
| | 30-Nov-19 FY2019 | 30-Nov-20 FY2020 | 30-Nov-21 FY2021 | 30-Nov-22 FY2022A | 30-Nov-23 FY2023E |
| Net Income | (4,410) | (12,553) | (3,283) | (7,885) | (1,753) |
| Depreciation | 54 | 242 | 487 | 855 | 1,144 |
| Stock and Incentive Comp | 218 | 1,252 | 3,150 | 5,424 | 5,452 |
| Other | 1,612 | 8,873 | 63 | 814 | 8 |
| Working Capital | (1,251) | 4,723 | (4,854) | (13,034) | 2,439 |
| Operating CF | \$ (3,776) | \$ 2,538 | \$ (4,437) | \$ (13,826) | \$ 7,291 |
| Capx | (246) | (1,426) | (1,700) | (3,253) | (3,000) |
| Acquisitions | | (489) | (4,044) | (1,883) | |
| Other | | (80) | (138) | 0 | |
| Investing Activities | \$ (246) | \$ (1,995) | \$ (5,882) | \$ (5,136) | \$ (3,000) |
| Equity | 0 | 7,714 | 57,333 | (17,500) | 300 |
| Debt | 4,032 | 54 | (81) | 456 | 0 |
| Financing | \$ 4,032 | \$ 7,768 | \$ 57,252 | \$ (17,044) | \$ 300 |
| FX | \$ (19) | \$ 171 | \$ (189) | \$ (326) | \$ - |
| Change in Cash | \$ (8) | \$ 8,482 | \$ 46,744 | \$ (36,332) | \$ 4,591 |

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
- Update – Buy – December 7, 2022 – Price Target \$9.50
- Update – Buy – February 10, 2023 – Price Target \$9.50

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Information about valuation methods and risks can be found in the "Valuation" and "Risk Analysis" sections of this report.

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Ratings Definitions:

- 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.

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 30-Jan-23

| | Company Coverage | | Investment Banking | |
|-----------------------------|-------------------------|-------------|---------------------------|-------------|
| Ratings Distribution | # of Companies | % of Total | # of Companies | % of Totals |
| Market Outperform (Buy) | 23 | 70% | 1 | 4% |
| Market Perform (Neutral) | 9 | 27% | 2 | 22% |
| Market Underperform (Sell) | 1 | 3% | 0 | 0% |
| Total | 33 | 100% | 3 | 9% |

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