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## Byrna Technologies Inc. (NASDAQ: BYRN)

April 17, 2023

### Buy: Q1 Hurt by Production Issues

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*Q1 revenue of \$8.4 million fell short of our \$12.5 million estimate as the company encountered production and shipping issues with two new products. We have adjusted our estimates to reflect the shortfall. We reiterate our Buy recommendation and \$9.50 price target.*

Q1 revenue of \$8.4 million fell short of our \$12.5 million estimate. A higher-than-modeled gross margin and lower-than-expected operating expenses were not enough to counter the revenue shortfall and EBITDA was also lower than expected.

Cash at quarter-end was \$14.4 million down from \$20 million at the end of fiscal 2022. EBITDA was near break-even, but inventory increased by \$2.5 million, and the company invested \$2.1 million in a joint venture. We expect cash generation to turn positive for the remainder of the year as the production issues encountered in Q1 are well on their way to resolution.

For fiscal 2023 we estimate revenue of \$54 million, down from our prior \$58 million estimate and up 12% over fiscal 2022 despite the Q1 shortfall. We expect the acceleration in sales in the remaining quarters to be driven by the introduction of the 12-gauge round, the LE, and a full year of self-defense sprays from Fox Labs.

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 \$4.7 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				\$6.59
Price Target				\$9.50
Estimates	F2022A	F2023E	F2024E	
Revenues (\$000s)	\$ 48,036	\$ 53,911 E	\$ 63,550	
1Q February	\$ 7,977	\$ 8,411 E	\$ 13,500	
2Q May	\$ 11,619	\$ 13,500 E	\$ 14,850	
3Q August	\$ 12,422	\$ 14,000 E	\$ 15,400	
4Q November	\$ 16,018	\$ 18,000 E	\$ 19,800	
	F2022A	F2023E	F2024E	
EBITDA (\$000s)	\$ (619)	\$ 4,663 E	\$ 8,483	
1Q February	\$ (1,904)	\$ (254)A	\$ 2,306	
2Q May	\$ (532)	\$ 1,003 E	\$ 1,348	
3Q August	\$ 262	\$ 1,328 E	\$ 1,710	
4Q November	\$ 1,555	\$ 2,586 E	\$ 3,119	
EV/Sales	NM	2.4 x	2.1 x	
EV/EBITDA	NM	28.3 x	15.6 x	
<b>Stock Data</b>				
52-Week Range	\$4.50	-	\$10.38	
Shares Outstanding (mil.)				21.9
Market Capitalization (mil.)				\$144
Enterprise Value (mil.)				\$132
Debt to Capital				5%
Cash & Equivalents (mil.)				\$14.4
Cash/Sh.				\$0.66
Average Three Months Trading Volume (K)				50
Insider Ownership				21.0%
Institutional Ownership				26.1%
Short interest (mil.)				3.2%
Dividend / Yield				\$0.00/0.0%



**Q1 Results**

Q1 23					
(\$ in 000's)					
	Actual	Estimates	Delta	% Delta	
Revenue	\$ 8,411	\$ 12,500	\$ (4,089)	-33%	
COGS	3,165	5,438			
Gross Profit	5,246	7,063	\$ (1,817)	-26%	
	62.4%	56.5%			
Opex	7,240	8,283			
Operating Income	\$ (1,994)	\$ (1,221)	\$ (774)	-63%	
Interest & Other, total	(218)	25			
Pretax Income	(2,212)	(1,196)			
Taxes	(59)	(60)			
Net to Common	\$ (2,153)	\$ (1,136)	\$ (1,017)	-90%	
Basic Shares	21,860	22,274			
Diluted Shares	21,860	22,274			
Basic EPS	\$ (0.10)	\$ (0.05)			
Diluted EPS	\$ (0.10)	\$ (0.05)	\$ (0.05)	-93%	
D&A	276	286			
Stock Comp	1,464	1,363			
Other	0	0			
EBITDA	(254)	429	\$ (683)	-159%	
Margin	-3.0%	3.4%			

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

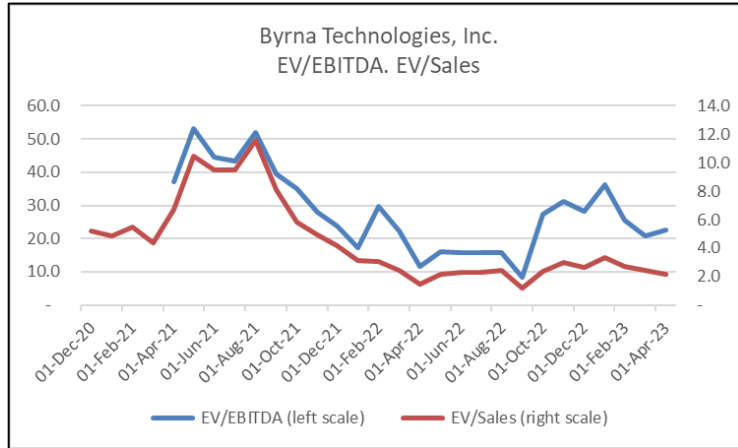
**Valuation**

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.	\$ 9.00	\$ 0.58	15.5	\$ 132.5	\$ 209.7	0.63	\$ 15.8	8.4
POWW-US	AMMO Inc	2.06	0.03	66.9	230.0	163.2	1.41	33.0	7.0
AXON-US	Axon Enterprise Inc	223.91	3.08	72.6	16,049.1	1,523.8	10.53	318.2	50.4
SSTI-US	SoundThinking, Inc.	27.93	0.34	82.4	335.5	98.6	3.40	24.9	13.5
SWBI-US	Smith & Wesson Brands, Inc.	12.22	0.91	13.4	581.7	499.6	1.16	94.3	6.2
RGR-US	Sturm, Ruger & Company, Inc.	57.99	4.03	14.4	799.8	546.8	1.46	117.9	6.8
VTSI-US	VirTra, Inc.	5.72	0.21	27.2	58.6	29.8	1.96	4.2	13.9
WRAP-US	Wrap Technologies, Inc.	1.49	(0.41)	(3.6)	42.5	8.9	4.77	(12.9)	(3.3)
	Median			21.4			1.71		7.7
BYRN-US	Byrna Technologies Inc.	\$ 6.59	\$ (0.06)	(105.7)	\$ 132.0	\$ 57.6	2.29	\$ 6.1	21.6

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-20 FY2020	30-Nov-21 FY2021	30-Nov-22 FY2022A	28-Feb-23 FQ1 23A	31-May-23 FQ2 23E	31-Aug-23 FQ3 23E	30-Nov-23 FQ4 23E	30-Nov-23 FY2023E	30-Nov-24 FY2024E
Revenue	\$ 16,566	\$ 42,160	\$ 48,036	\$ 8,411	\$ 13,500	\$ 14,000	\$ 18,000	\$ 53,911	\$ 63,550
COGS	9,058	19,270	21,758	3,165	5,805	5,880	8,100	22,950	27,164
Gross Profit	7,508	22,890	26,278	5,246	7,695	8,120	9,900	30,961	36,387
	45.3%	54.3%	54.7%	62.4%	57.0%	58.0%	55.0%	57.4%	57.3%
Opex	11,817	26,181	33,733	7,240	8,500	8,600	9,122	33,462	35,136
Operating Income	\$ (4,309)	\$ (3,291)	\$ (7,455)	\$ (1,994)	\$ (805)	\$ (480)	\$ 778	\$ (2,501)	\$ 1,251
Interest & Other, total	(7,952)	(152)	(196)	(218)	(58)	(58)	(58)	(368)	(232)
Pretax Income	(12,261)	(3,443)	(7,651)	(2,212)	(863)	(538)	720	(2,869)	1,019
Taxes	293	(160)	234	(59)	(43)	(27)	36	(93)	51
Net Income	\$ (12,553)	\$ (3,283)	\$ (7,885)	\$ (2,153)	\$ (820)	\$ (511)	\$ 684	\$ (2,776)	\$ 968
Preferred Dividends	\$ -	1,043	0	\$ -	\$ -	\$ -	\$ -	0	0
Net to Common	\$ (12,553)	\$ (4,326)	\$ (7,885)	\$ (2,153)	\$ (820)	\$ (511)	\$ 684	\$ (2,776)	\$ 968
Basic Shares	12,679	19,610	22,364	21,860	21,866	21,904	21,979	21,902	22,118
Diluted Shares	12,679	19,610	22,364	21,860	21,866	21,904	22,079	21,902	22,218
Basic EPS	\$ (0.98)	\$ (0.22)	\$ (0.35)	\$ (0.10)	\$ (0.04)	\$ (0.02)	\$ 0.03	\$ (0.13)	\$ 0.04
Diluted EPS	\$ (0.98)	\$ (0.22)	\$ (0.35)	\$ (0.10)	\$ (0.04)	\$ (0.02)	\$ 0.03	\$ (0.13)	\$ 0.04
D&A	242	487	855	276	344	344	344	1,308	1,376
Stock/Incentive Comp	1,252	3,150	5,424	1,464	1,464	1,464	1,464	5,856	5,856
Other	0	1,300	557	0	0	0	0	0	0
EBITDA	(2,814)	1,646	(619)	(254)	1,003	1,328	2,586	4,663	8,483
Margin	-17.0%	3.9%	-1.3%	-3.0%	7.4%	9.5%	14.4%	8.6%	13.3%
	FY2020	FY2021	FY2022A	FQ1 23A	FQ2 23E	FQ3 23E	FQ4 23E	FY2023E	FY2024E
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	54.7%	45.7%	45.3%	37.6%	43.0%	42.0%	45.0%	42.6%	42.7%
Gross Profit	45.3%	54.3%	54.7%	62.4%	57.0%	58.0%	55.0%	57.4%	57.3%
Opex	71.3%	62.1%	70.2%	86.1%	63.0%	61.4%	50.7%	62.1%	55.3%
Operating Income	-26.0%	-7.8%	-15.5%	-23.7%	-6.0%	-3.4%	4.3%	-4.6%	2.0%
Interest & Other, total	-48.0%	-0.4%	-0.4%	-2.6%	-0.4%	-0.4%	-0.3%	-0.7%	-0.4%
Pretax Income	-74.0%	-8.2%	-15.9%	-26.3%	-6.4%	-3.8%	4.0%	-5.3%	1.6%
Tax Rate	-2.4%	4.6%	-3.1%	2.7%	5.0%	5.0%	5.0%	3.2%	5.0%
Net Income	-75.8%	-7.8%	-16.4%	-25.6%	-6.1%	-3.7%	3.8%	-5.1%	1.5%
EBITDA	-17.0%	3.9%	-1.3%	-3.0%	7.4%	9.5%	14.4%	8.6%	13.3%
Y/Y									
Revenue	1692.1%	154.5%	13.9%	5.4%	16.2%	12.7%	12.4%	12.2%	17.9%
Opex	243.8%	121.6%	28.8%	-9.8%	-2.7%	3.8%	5.0%	-0.8%	5.0%
Operating Income	31.0%	-23.6%	-126.5%	41.5%	69.2%	65.9%	3210.4%	66.4%	150.0%
Net Income	-184.7%	73.8%	-140.2%	33.2%	72.6%	66.7%	610.2%	64.8%	134.9%

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

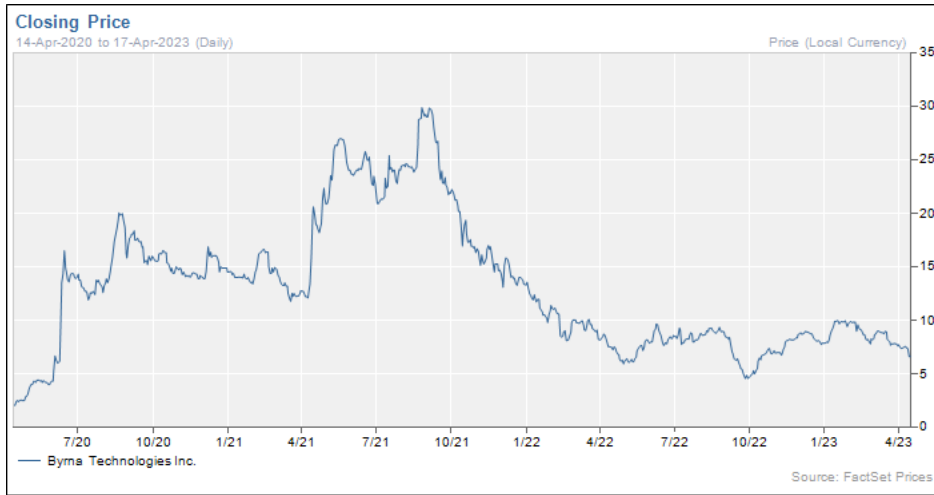
**Exhibit 2. Balance Sheet and Cash Flow Statement (\$ in 000's)**

	30-Nov-20 FY2020A	30-Nov-21 FY2021A	30-Nov-22 FY2022A	30-Nov-23 FY2023E	30-Nov-24 FY2024E
Cash & ST Investments	3,175	56,308	20,068	24,344	27,932
Restricted Cash	6,389	92	0	0	0
A/R	834	1,658	5,915	4,800	5,280
Inventory	4,817	6,613	15,462	16,200	18,758
Prepaid Expenses & Other	1,391	1,490	1,200	3,416	3,757
<b>Current Assets</b>	<b>\$ 16,606</b>	<b>\$ 66,161</b>	<b>\$ 42,645</b>	<b>\$ 48,760</b>	<b>\$ 55,727</b>
Patent rights	811	3,668	3,872	3,584	3,340
Deposits for equipment	619	1,293	2,269	1,792	1,792
Right-of-use asset	1,200	1,086	2,424	1,905	1,533
PP&E	1,220	1,972	3,309	5,448	7,732
Goodwill	651	816	2,258	2,258	2,258
Restricted Cash	92	0	0	0	0
Investment in JV	0	0	0	354	354
Loan to JV	0	0	0	1,556	1,556
Other	17	318	272	541	596
<b>Total Assets</b>	<b>\$ 21,216</b>	<b>\$ 75,314</b>	<b>\$ 57,049</b>	<b>\$ 66,198</b>	<b>\$ 74,887</b>
A/P	6,629	6,996	7,708	12,380	13,618
Operating Lease	258	463	757	747	747
Deferred revenue	4,902	720	458	2,249	2,474
Convertible notes	0	0	0	0	0
Notes payable	75	0	0	0	0
Accrued Interest	0	0	0	0	0
<b>Current Liabilities</b>	<b>\$ 11,864</b>	<b>\$ 8,179</b>	<b>\$ 8,923</b>	<b>\$ 15,376</b>	<b>\$ 16,839</b>
Convertible N/P	0	0	0	0	0
NP	115	0	0	0	0
Deferred revenue	0	405	340	582	640
Operating Lease	828	632	1,792	1,550	1,550
<b>Equity</b>	<b>8,409</b>	<b>66,098</b>	<b>45,994</b>	<b>48,690</b>	<b>55,858</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$ 21,216</b>	<b>\$ 75,314</b>	<b>\$ 57,049</b>	<b>\$ 66,198</b>	<b>\$ 74,887</b>
	30-Nov-20 FY2020A	30-Nov-21 FY2021A	30-Nov-22 FY2022A	30-Nov-23 FY2023E	30-Nov-24 FY2024E
Net Income	(12,553)	(3,283)	(7,885)	(2,776)	968
Depreciation	242	487	855	1,308	1,376
Stock and Incentive Comp	1,252	3,150	5,424	5,856	5,856
Other	8,873	63	814	551	4
Working Capital	4,723	(4,854)	(13,034)	3,658	(1,917)
<b>Operating CF</b>	<b>\$ 2,538</b>	<b>\$ (4,437)</b>	<b>\$ (13,826)</b>	<b>\$ 8,596</b>	<b>\$ 6,288</b>
Capx	(1,426)	(1,700)	(3,253)	(2,456)	(3,000)
Acquisitions	(489)	(4,044)	(1,883)	0	0
Other	(80)	(138)	0	(2,076)	0
<b>Investing Activities</b>	<b>\$ (1,995)</b>	<b>\$ (5,882)</b>	<b>\$ (5,136)</b>	<b>\$ (4,532)</b>	<b>\$ (3,000)</b>
Equity	7,714	57,333	(17,500)	225	300
Debt	54	(81)	456	0	0
<b>Financing</b>	<b>\$ 7,768</b>	<b>\$ 57,252</b>	<b>\$ (17,044)</b>	<b>\$ 225</b>	<b>\$ 300</b>
FX	\$ 171	\$ (189)	\$ (326)	\$ 11	\$ -
<b>Change in Cash</b>	<b>\$ 8,482</b>	<b>\$ 46,744</b>	<b>\$ (36,332)</b>	<b>\$ 4,300</b>	<b>\$ 3,588</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  
 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  
 Update – Buy – April 17, 2023 – Price Target \$9.50

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- 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 17-Mar-23

	Company Coverage		Investment Banking	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	69%	1	3%
Market Perform (Neutral)	11	31%	2	6%
Market Underperform (Sell)	0	0%	0	0%
Total	36	100%	3	9%

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