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Byrna Technologies Inc. (NASDAQ: BYRN)

July 12, 2023

Buy: Q2 Review. Lowering Estimates and Price Target.

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We are lowering our estimates and price target as the company restructures its marketing organization after repeated capricious behavior by social media platforms Meta and YouTube as well as decreasing efficacy of those platforms. We expect this action will impact revenue for the remainder of the fiscal year. Our new price target of \$7.25 reflects our lower estimates.

Byrna's DTC (direct-to-consumer) business generates about 70% of the company's revenue and relies on social media advertising, particularly Facebook, Instagram, Google and YouTube to generate leads. Over the years these platforms have placed temporary holds on Byrna's advertising, often without explanation for the ban or steps for reinstatement. Because of these periodic bouts of pique from the social media suppliers, including the most recent that began in March, as well as a declining efficacy of advertising on these platforms, Byrna is revamping its digital advertising strategy to target consumers on sites that are more likely to have potential buyers, but have less reach than Facebook, Instagram and YouTube. We expect this effort will ultimately lead to a more efficient DTC business, but it will take time to implement and hone and will result in diminished top-line growth for the remainder of this fiscal year.

We are lowering our revenue estimate for this year from \$54 million to \$43 million and our fiscal 2024 estimate from \$64 million to \$48 million. Our EBITDA estimates have also been reduced. Gross margin for the next couple of quarters will be diminished as the company works through high-cost inventory and pressure from a diminished contribution from the higher margin DTC business.

The balance sheet remains solid and adequate for its current needs. Cash at quarter-end was \$15.4 million and even with continued GAAP losses we expect positive EBITDA and operating cash flow for most of our forecast horizon.

Valuation & Risks

Our price target of \$7.25 (down from \$9.50) assumes an EV/Sales multiple of 3x on our fiscal 2024 revenue estimate of \$48.4 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				\$4.06
Price Target				\$7.25
Estimates	F2022A	F2023E	F2024E	
Revenues (\$Ms)	\$ 48.0	\$ 43.0	E \$ 48.4	
1Q February	\$ 8.0	\$ 8.4	A \$ 10.3	
2Q May	\$ 11.6	\$ 11.5	A \$ 12.7	
3Q August	\$ 12.4	\$ 11.0	E \$ 12.1	
4Q November	\$ 16.0	\$ 12.1	E \$ 13.3	
	F2022A	F2023E	F2024E	
EBITDA (\$Ms)	\$ (0.6)	\$ 2.7	E \$ 3.9	
1Q February	\$ (1.9)	\$ (0.3)	A \$ (0.0)	
2Q May	\$ (0.5)	\$ 1.0	A \$ 1.3	
3Q August	\$ 0.3	\$ 0.6	E \$ 1.0	
4Q November	\$ 1.6	\$ 1.3	E \$ 1.7	
EV/Sales	NM	1.8 x	1.6 x	
EV/EBITDA	NM	28.1 x	19.3 x	
Stock Data				
52-Week Range	\$4.00	-	\$10.38	
Shares Outstanding (mil.)				21.9
Market Capitalization (mil.)				\$89
Enterprise Value (mil.)				\$76
Debt to Capital				5%
Cash & Equivalents (mil.)				\$15.4
Cash/Sh.				\$0.70
Average Three Months Trading Volume (K)				63
Insider Ownership				21.0%
Institutional Ownership				26.9%
Short interest (mil.)				4.4%
Dividend / Yield				\$0.00/0.0%



Q2 Results

Q2 23					
(\$ in 000's)					
	Actual	Estimates	Delta	% Delta	
Revenue	\$ 11,508	\$ 13,500	\$ (1,992)	-15%	
COGS	5,309	5,805			
Gross Profit	6,199	7,695	(1,496)	-19%	
	53.9%	57.0%			
Opex	7,015	8,500	(1,485)	-17%	
Operating Income	\$ (816)	\$ (805)	\$ (11)	-1%	
Interest & Other, tota	(283)	(58)			
Pretax Income	(1,099)	(863)			
Taxes	17	(43)			
Net to Common	\$ (1,116)	\$ (820)			
Basic Shares	21,866	21,866			
Diluted Shares	21,866	21,866			
Basic EPS	\$ (0.05)	\$ (0.04)			
Diluted EPS	\$ (0.05)	\$ (0.04)			
D&A	306	344			
Stock Comp	1,487	1,464			
Other	0	0			
EBITDA	\$ 977	\$ 1,003	\$ (26)	-3%	
Margin	8.5%	7.4%			

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

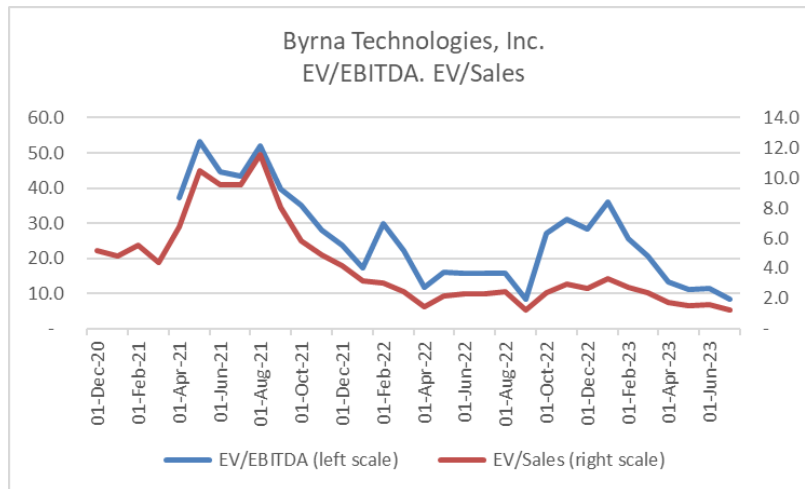
Valuation

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 \$7.25 using our fiscal 2024 revenue estimate of \$48.4 million.

		Price	EPS	P/E	TEV	Sales	EV/ Sales	EBITDA	EV/ EBITDA
AOUT-US	American Outdoor Brands, Inc.	\$ 8.60	\$ 0.56	15.4	\$ 119.4	\$ 200.5	0.60	\$ 14.4	8.3
POWW-US	AMMO Inc	2.17	(0.04)	(54.3)	224.5	161.5	1.39	22.5	10.0
AXON-US	Axon Enterprise Inc	195.58	3.43	57.0	14,048.8	1,606.6	8.74	340.1	41.3
SSTI-US	SoundThinking, Inc.	23.76	0.26	90.0	283.8	98.8	2.87	24.7	11.5
SWBI-US	Smith & Wesson Brands, Inc.	13.31	0.98	13.6	620.9	502.9	1.23	98.9	6.3
RGR-US	Sturm, Ruger & Company, Inc.	53.14	3.52	15.1	804.9	571.5	1.41	106.2	7.6
VTSI-US	VirTra, Inc.	8.10	0.47	17.3	83.7	34.6	2.42	7.9	10.6
WRAP-US	Wrap Technologies, Inc.	1.54			54.6				
	Median			15.4			1.41		10.0
BYRN-US	Byrna Technologies Inc.	\$ 4.06	\$ (0.20)	(20.5)	\$ 75.6	\$ 46.3	1.63	\$ 3.4	21.9

Source: FactSet and Dawson James Securities estimates

EV/Sales and EV/EBITDA are near the lows since the company’s IPO 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 23A	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	\$ 11,508	\$ 11,000	\$ 12,100	\$ 43,019	\$ 48,354
COGS	9,058	19,270	21,758	3,165	5,309	5,060	5,445	18,979	21,759
Gross Profit	7,508	22,890	26,278	5,246	6,199	5,940	6,655	24,040	26,595
	45.3%	54.3%	54.7%	62.4%	53.9%	54.0%	55.0%	55.9%	55.0%
Opex	11,817	26,181	33,733	7,240	7,015	7,100	7,100	28,455	29,820
Operating Income	\$ (4,309)	\$ (3,291)	\$ (7,455)	\$ (1,994)	\$ (816)	\$ (1,160)	\$ (445)	\$ (4,415)	\$ (3,225)
Interest & Other, total	(7,952)	(152)	(196)	(218)	(283)	(209)	(209)	(867)	(836)
Pretax Income	(12,261)	(3,443)	(7,651)	(2,212)	(1,099)	(1,369)	(654)	(5,282)	(4,061)
Taxes	293	(160)	234	(59)	17	(68)	(33)	(143)	(203)
Net Income	\$ (12,553)	\$ (3,283)	\$ (7,885)	\$ (2,153)	\$ (1,116)	\$ (1,301)	\$ (621)	\$ (5,139)	\$ (3,858)
Preferred Dividends	\$ -	1,043	0	\$ -	\$ -	\$ -	\$ -	0	0
Net to Common	\$ (12,553)	\$ (4,326)	\$ (7,885)	\$ (2,153)	\$ (1,116)	\$ (1,301)	\$ (621)	\$ (5,139)	\$ (3,858)
Basic Shares	12,679	19,610	22,364	21,860	21,866	21,922	22,015	21,916	22,145
Diluted Shares	12,679	19,610	22,364	21,860	21,866	21,922	22,015	21,916	22,145
Basic EPS	\$ (0.98)	\$ (0.22)	\$ (0.35)	\$ (0.10)	\$ (0.05)	\$ (0.06)	\$ (0.03)	\$ (0.23)	\$ (0.17)
Diluted EPS	\$ (0.98)	\$ (0.22)	\$ (0.35)	\$ (0.10)	\$ (0.05)	\$ (0.06)	\$ (0.03)	\$ (0.23)	\$ (0.17)
D&A	242	487	855	276	306	301	301	1,184	1,204
Stock/Incentive Comp	1,252	3,150	5,424	1,464	1,487	1,487	1,487	5,925	5,948
Other	0	1,300	557	0	0	0	0	0	0
EBITDA	(2,814)	1,646	(619)	(254)	977	628	1,343	2,694	3,927
Margin	-17.0%	3.9%	-1.3%	-3.0%	8.5%	5.7%	11.1%	6.3%	8.1%

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

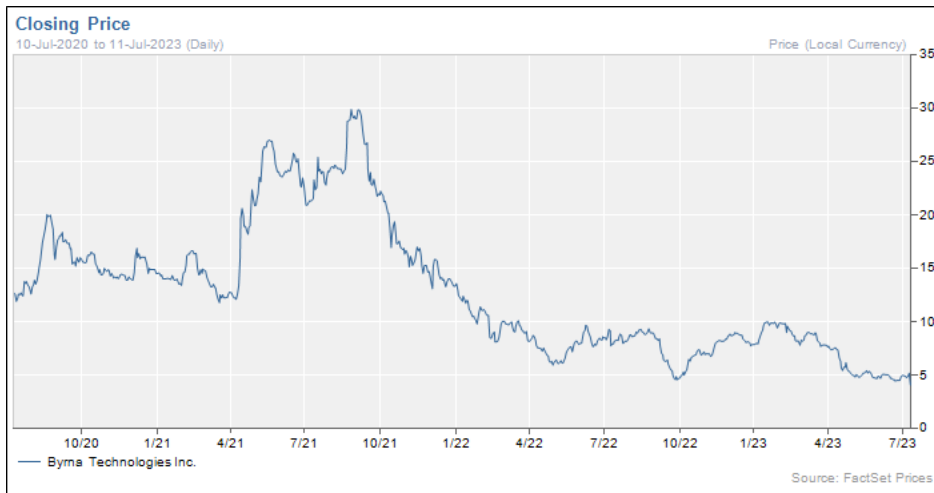
Exhibit 2. Balance Sheet and Cash Flow Statement (\$ in 000's)

	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	24,683	26,199
Restricted Cash	6,389	92	0	0	0
A/R	834	1,658	5,915	3,227	3,549
Inventory	4,817	6,613	15,462	10,890	12,609
Prepaid Expenses & Other	1,391	1,490	1,200	1,278	1,405
Current Assets	\$ 16,606	\$ 66,161	\$ 42,645	\$ 40,077	\$ 43,763
Patent rights	811	3,668	3,872	3,581	3,336
Deposits for equipment	619	1,293	2,269	1,850	1,850
Right-of-use asset	1,200	1,086	2,424	1,905	1,533
PP&E	1,220	1,972	3,309	3,366	3,426
Goodwill	651	816	2,258	2,258	2,258
Restricted Cash	92	0	0	0	0
Investment in JV	0	0	0	183	183
Loan to JV	0	0	0	1,556	1,556
Other	17	318	272	198	217
Total Assets	\$ 21,216	\$ 75,314	\$ 57,049	\$ 54,974	\$ 58,123
A/P	6,629	6,996	7,708	6,470	7,116
Operating Lease	258	463	757	731	731
Deferred revenue	4,902	720	458	446	490
Convertible notes	0	0	0	0	0
Notes payable	75	0	0	0	0
Accrued Interest	0	0	0	0	0
Current Liabilities	\$ 11,864	\$ 8,179	\$ 8,923	\$ 7,646	\$ 8,338
Convertible N/P	0	0	0	0	0
NP	115	0	0	0	0
Deferred revenue	0	405	340	209	230
Operating Lease	828	632	1,792	1,467	1,467
Equity	8,409	66,098	45,994	45,651	48,088
Total Liabilities & Equity	\$ 21,216	\$ 75,314	\$ 57,049	\$ 54,974	\$ 58,123
	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)	(5,139)	(3,858)
Depreciation	242	487	855	1,184	1,204
Stock and Incentive Comp	1,252	3,150	5,424	5,925	5,948
Other	8,873	63	814	847	1
Working Capital	4,723	(4,854)	(13,034)	4,346	(1,478)
Operating CF	\$ 2,538	\$ (4,437)	\$ (13,826)	\$ 7,163	\$ 1,816
Capx	(1,426)	(1,700)	(3,253)	(448)	(600)
Acquisitions	(489)	(4,044)	(1,883)	0	0
Other	(80)	(138)	0	(2,076)	0
Investing Activities	\$ (1,995)	\$ (5,882)	\$ (5,136)	\$ (2,524)	\$ (600)
Equity	7,714	57,333	(17,500)	150	300
Debt	54	(81)	456	0	0
Financing	\$ 7,768	\$ 57,252	\$ (17,044)	\$ 150	\$ 300
FX	\$ 171	\$ (189)	\$ (326)	\$ (122)	\$ -
Change in Cash	\$ 8,482	\$ 46,744	\$ (36,332)	\$ 4,667	\$ 1,516

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
 Price Target Change – Buy – July 12, 2023 – Price Target Changed from \$9.50 to \$7.25

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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.

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 22-June-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	26	72%	2	5.50%
Market Perform (Neutral)	10	28%	2	5.50%
Market Underperform (Sell)	0	0%	0	0.00%
Total	36	100%	4	11.00%

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