

INITIATING COVERAGE

Equity | Arms & Ammunition

Ammo Inc.
(NASDAQ:POWW; Target Price: \$12.00)

Ammo Inc's innovative technologies, premier quality ammunition and ammunition components have made a mark throughout the United States and globally. The company now owns the world's largest online marketplace for firearms and related accessories. Having the world's largest online platform for shooting sports, Gunbroker.com, the company has a vast market base. Ammo also has multi-channel distribution, vertically integrated, scalable model / innovative, and patented technology that can easily beat its competitors. The company does appear to be a promising investment opportunity for investors.

INVESTMENT THESIS

This is our first report on Ammo and we look to provide a detailed account of the various drivers that will be responsible for the company's growth in the coming years. Ammo Inc has had a good financial performance capitalizing on military opportunities as well as its new online marketplace. It has a well-experienced management team to ensure the company can dominate the firearm market industry. The company's recent developments coupled with their plan to open an ammunition manufacturing plant of 165,000-square-feet worth \$24 million in Manitowoc, Wisconsin, to meet the increasing demand do appear promising. We believe the company could have a strong upside. Baptista Research looks to evaluate the different factors that could influence Ammo' price in the near future and attempts to carry out an independent valuation of the company using a Discounted Cash Flow (DCF) methodology to determine a suitable price for the company's stock.

COMPANY OVERVIEW

Ammo Inc. is a leading firearms company that designs, develops, manufactures, and sells ammunition and its component products for being used in long guns and handguns throughout the United States and globally. Ammo Inc. was initially established in 1990 and is located in Scottsdale, Arizona. All their products are made for sports and athletic shooters, hunters, individuals who seek a home or personal protection, and law enforcement and military agencies. The company allows shooters to have a clear vision of the path of their bullets due to STREAK Visual Ammunition. Not only that, but they also offer One Precise Shot ammunition, which is built to satisfy several situations encountered by law enforcement personnel in the line of duty. So that they can easily handle tough situations without having to risk their lives. Ammo Inc, furthermore, has manufactured Stealth Subsonic ammunition, which is built Stealth Subsonic ammunition that is designed largely for suppressing handguns. The company sells all its products internationally as well and has been recognized in the global market. For self-defense, the company has Jesse James ammunition, a jacketed hollow point bullet. In addition to all these, the company also offers thick armor-piercing incendiary rounds; and ammunition casings for pistol ammunition through big rifle projectiles. They also deliver patented biodegradable shotgun shells. GunBroker.com is an online marketplace that sells firearms, shooting, hunting, and other relevant products, as third-party sellers items. It was founded in 1990 and is based in Scottsdale, Arizona.

Key Report Highlights

Industry View:	In-Line
Stock Rating:	Buy
Price Target:	\$12.00
Current Price:	\$4.16
52-Week-Range:	\$3.95 - \$10.37

Annual Income Statement	2021	2022E	2023E
Revenues	62.48	140.50	186.72
Cost of Goods Sold	51.10	82.00	106.43
Gross Income (excl. D&A)	11.38	58.50	80.29
EBITDA	-8.96	33.50	53.29
EBIT (incl. extraordinary exp)	-5.38	26.30	45.73
Net Income	-7.81	22.10	43.23
Cash from Operations	-14.42	-15.41	43.22
Free Cash Flows	-21.86	-26.31	31.77

Growth & Margins	2021	2022E	2023E
Sales Growth	322.7%	124.9%	32.9%
EBITDA Margin	-14.3%	23.8%	28.5%
EBIT Margin	-8.6%	18.7%	24.5%
Net Profit Margin	-12.5%	15.7%	23.2%

Valuation Ratios	Current	2022E	2023E
EV/ Sales	5.9	9.4	11.2
EV/ EBITDA	NA	39.5	39.3
EV/ EBIT	NA	50.3	45.8
Price/Earnings	NA	63.8	51.1

KEY FACTORS DRIVING THE COMPANY'S PERFORMANCE

1.	THE GUNBROKER UPSIDE
2.	INNOVATIVE PRODUCT OFFERINGS
3.	LARGE ADDRESSABLE MARKET
4.	EXPERIENCED MANAGEMENT TEAM
5.	RECENT FINANCIAL PERFORMANCE & EXPECTATIONS

The Gunbroker Upside

- GunBroker.com is the biggest online marketplace that offers firearms, hunting, shooting, and other associated products. GunBroker.com has its logo placed on its merchandise. The platform has been recognized as a licensed firearms dealer and a transfer agent.
- It was established back in 1999 as an informative and safe marketplace to buy and sell firearms, bullets, archery equipment, hunting gear, knives and swords, air guns, and many more.
- Ammo recently acquired GunBroker.com along with some of its affiliates which have become wholly-owned subsidiaries of Ammo.
- The consideration for the merger was \$240 million. With this merger, Ammo now has the opportunity to reach out to the global customers of the world's largest online marketplace that is solely devoted to firearms, hunting, and shooting-associated products.
- Ammo bought GunBroker.com with \$50 million in cash, \$50 million in debt assumption and repayment, and 20 million shares of common stock as issuance.
- It is worth mentioning that Gunbroker generated close to \$60 million in revenues and a staggering \$40 million in EBITDA in 2020. The acquisition is expected to be EPS-accretive.

- The company's vision behind this huge purchase was that this online platform would open up many potential opportunities and will help to compete with other ammunition manufacturing companies like General Dynamics Corp, B.A.E. Systems plc, Vista Outdoor Inc., and Northrop Grumman Corp.
- Gunbroker.com has accumulated a critical mass of users, which allows the business to operate at high levels of profitability. It also has amassed a network of more than 25k FFL partners and has entrenched its service as an integral part of these dealers' marketing platforms
- The Gunbroker acquisition is an important milestone in Ammo's vertical integration process and gives it access to Gunbroker's robust IT infrastructure.
- Gunbroker.com developed its own proprietary source code upon which the marketplace website currently operates with a highly scalable system that is easily maintained by their lean team of technical engineers
- Gunbroker.com has a spotless record with the ATF and FBI, which are the primary regulatory authorities in the firearms marketplace. It minimizes fraudulent activity through enhanced security measures, such as cell phone verification and additional customer diligence as needed.
- After this acquisition, the management has already set the goal of reaching \$250 million of revenue by the end of March 31 of the 2022 fiscal year.
- In the words of Ammo CEO Fred Wagenhals, the company is seeing no evidence of an abatement of demand for their ammunition, and their GunBroker.com marketplace continues to enjoy year-over-year revenue growth with high-profit margins.
- The company has a strong pipeline and is currently focused on fulfilling all existing orders as its orderbook position is current exceeding its manufacturing capacity.

Large Addressable Market



Source: Company Presentation

- Ammo Inc. has a large addressable market with commercial / retail / GunBroker.com holding big box retail stores, distributors, shooting ranges, and e-commerce, a total of \$1.9 billion U.S. market.
- On the other hand, Military & Law Enforcement, including U.S. Military (Special Operations & Conventional Forces), U.S. Law Enforcement (Federal, State & Local), Foreign Allies (Military & Law Enforcement) at around \$6.5 billion U.S. market.
- The U.S. Department of Defense rewarded AMMO inc for developing and manufacturing ballistically matched multipurpose rounds and signature-on-target rounds.
- The company has gone ahead with its market penetration strategy in 2019 with a vision and goal to deliver High-Quality, precision rounds for military and defense operations globally.
- Since then, they have introduced many proprietary technologies such as Armor Piercing (A.P.) and Hard Armor Piercing Incendiary (HAPI) rounds.
- The company also patented One-Way Luminescent Technology (O.W.L. Technology); Ballistic Match Multi-Purpose Round (BM-MPR) and Signature-on-Target (SoT) ammunition.
- Ammo has increased its performance tremendously by archiving accuracy and lethality. The production cost is low since it's made in the U.S.A., the production can meet its increasing market demands allowing AMMO to get more sales and customer base.
- The company has also partnered with other strategic players and weapon manufacturers to stretch its product lines. It has expanded its gross margin and so has its market share.

Innovative Product Offerings

- Ammo Inc. has strong product offerings for both commercial use as well as for the defense industry.
- Its commercial product line of ammunition includes the Signature Line, Streak visual ammunition, Sealth or Subsonic Ammunition, and Signature Blackline.
- The other type of ammunition that the company manufactures is for defense, used by the American task force and defense military. This ammunition is very effective and accurate and is made using cutting-edge O.W.L. Technology.
- They are fully optimized bullets built to penetrate hard and large targets. The shooter can see the pinpoint path of the bullet since it leaves visible traces to improve hitting accuracy. They are completely made in the U.S. to ensure high quality and effectiveness.

- The management has patented biodegradable hunting and sport shooting shotgun shells. In addition, the company has manufactured complimentary biodegradable pistols, small and large rifle ammunition in the R&D process.
- Their products are currently being sold in over 20 countries, excluding the U.S.A. All the ammunition are being scientifically tested and approved by TÜV AUSTRIA, the world's best bioplastics certification authorizer.



Source: Company Presentation

- The above snapshot is an accurate depiction of the wide and vast availability of Ammo Inc's ammunition across various channels that is driving its current revenues of close to \$140 million.
- Ammo was also awarded a contract by Irregular Warfare Technical components Support Directorate (IWTSD) to design and manufacture Signature-on-Target (SoT) rounds in support of military operations.
- They were also awarded contract by Irregular Warfare Technical Support Directorate (IWTSD) to design and manufacture Ballistically Matched Multi-Purpose Rounds (BM-MPR) rounds in support of military operations.

Experienced Management Team

EXPERIENCED MANAGEMENT TEAM

<p>Fred Wagenhals Chairman & Chief Executive Officer</p>	<p>Rob Goodmanson President</p>	<p>Rob Wiley Chief Financial Officer</p>	<p>Tod Wagenhals Executive Vice President</p>
<p>John Flynn Vice President</p>	<p>Mark Hanish President, Global Marketing</p>	<p>Susan Lokey CFO, GunBroker.com</p>	<p>Steve Verska Chief Technology Officer, GunBroker.com</p>



Source: Company Presentation

- Ammo Inc. was founded by American entrepreneur, inventor, and visionary Fred Wagenhals in 2016. From there, he led Ammo to become America's premier ammunition and munition components manufacturing company.
- Fred Wagenhals (Chief Executive Officer & Chairman) built this company on a single vision to change, innovate and invigorate the complacent ammunitions industry.
- He is ably supported by Tod Wagenhals, Ammo's Executive Vice President, who has considerable experience in both commerce and contract manufacturing. He also supervises the company's daily operations and output.
- Rob Wiley, Ammo's Chief Financial Officer is an experienced finance veteran who manages the company's accounting department, involving superficial financing reporting, compliance, accounting policy, and tax accounting. He helps to optimize the company's capital structure and assisted in the growth and enactment of a strategic plan to transition the company to a better margin business.
- The company's Global Commercial Sales and Marketing is handled by Mark Hanish. He was involved with the firearms industry for more than two decades before he joined Ammo. It's no secret that these four are the driving force behind this company's huge success.
- Prior to Ammo, Mr. Hanish served as Vice President of Sales and Marketing at Surefire, LLC, overseeing the sale of suppressors, illumination devices, and hearing protection covering the U.S. Commercial, Law Enforcement and International Military markets. He has spent six years at FN America as Senior Director of Commercial Sales, where he handled most aspects of the commercial business for U.S. Operations..

Recent Financial Performance & Expectations

- Ammo had a record November 2021 in terms of subscriber growth, revenues, as well as cash flows. The company reported a top-line of Ammo reported a top-line of \$57.06 million for the most recent quarterly result for the period ended 9/30/21 which implies a 411.75% change as compared to the \$11.15 million number reported in the corresponding quarter of the previous year.
- The company beat our expected revenue estimate of \$55.00 million.
- These revenues translated into a gross margin of 46.07% and an operating margin of 24.94% which was higher than that in the same quarter of last year. Ammo reported an EBITDA of \$18.82 million which translated into a Net Income of \$14.12 million.
- The company's adjusted EPS of \$0.17 outperformed our expected EPS estimate of \$0.1.
- In terms of cash flows, Ammo reported \$-15.80 million in the form of operating cash flows and spent \$3.49 million in investing activities during the previous quarter.
- The company produced lower cash flows as compared to the same period in the previous year. For the coming quarterly result, we expect Ammo to report a top-line of \$59.88 million and an adjusted EPS of \$0.12.

HISTORICAL FINANCIAL STATEMENTS & PROJECTIONS

Particulars	30-09-2020	31-12-2020	31-03-2021	30-06-2021
Revenues	1.10	1.04	1.49	1.46
<i>% growth</i>		-5.5%	43.3%	-2.0%
Cost of Goods Sold	0.29	0.50	0.40	0.41
<i>% of revenue</i>	26.4%	48.1%	26.8%	28.1%
Gross Income (excl. D&A)	0.81	0.54	1.09	1.05
<i>% of revenue</i>	73.6%	51.9%	73.2%	71.9%
EBITDA	0.10	-0.30	0.15	-0.11
<i>% of revenue</i>	9.1%	-28.8%	10.1%	-7.5%
Depreciation & Amortization	0.01	0.01	0.00	0.01
<i>% of Fixed Assets</i>	12.5%	14.3%	0.0%	2.1%
Extraordinary Expenses	0.00	0.00	0.00	0.00
EBIT (incl. extraordinary exp)	0.09	-0.31	0.15	-0.12

January 27, 2022

<i>% of revenue</i>	8.2%	-29.8%	10.1%	-8.2%
Pretax Income	-0.07	-0.52	0.01	-0.24
<i>% of revenue</i>	-6.4%	-50.0%	0.7%	-16.4%
Income Tax	0.00	0.00	0.00	0.00
<i>% rate</i>	0.0%	0.0%	0.0%	0.0%
Net Income	-0.07	-0.52	0.01	-0.24
<i>% of revenue</i>	-6.4%	-50.0%	0.7%	-16.4%

- Let us start off with analyzing the most recent and historical quarterly data reported by the company.
- Ammo has reported a top-line of \$61 million in its recent quarterly result which is a 37.14% appreciation over the previous quarter. The company reported a positive gross margin of 42.97% for the quarter ended 30-09-2021.
- Its EBITDA for the quarter was \$14.23 million and the EBITDA margin was 23.33%. This was a -6.35% margin contraction at the EBITDA level which is definitely a negative outcome.
- Ammo's operating income (EBIT) was reported at \$14.23 million and a margin of 23.33%. This EBIT margin grew by 1.57% in this quarter.
- The company's pre-tax margin for the quarter was 23.15%.
- Ammo reported a net income of \$14.12 million which resulted in a diluted earnings per share (EPS) of \$-0.04. The company's net margin was 23.15%.
- Now let us move on to the cash flow generation in the recent quarter. The company was able to convert about -14.21% of its revenues into operating cash flows in the recent quarter.
- This quarter's EBITDA-to-operating cash flow conversion ratio is -60.93%

Particulars	31-12-2020	31-03-2021	30-06-2021	30-09-2021
Revenues	17	24	44	61
<i>% growth</i>		45.5%	83.9%	37.1%
Cost of Goods Sold	13	19	26	35
<i>% of revenue</i>	79.9%	76.5%	57.4%	57.0%
Gross Income (excl. D&A)	3	6	19	26

January 27, 2022

<i>% of revenue</i>	20.1%	23.5%	42.6%	43.0%
EBITDA	3	4	13	14
<i>% of revenue</i>	19.0%	18.3%	29.7%	23.3%
Depreciation & Amortization	4	5	4	0
<i>% of Fixed Assets</i>	11.8%	15.3%	1.3%	0.0%
Extraordinary Expenses	0	0	0	0
EBIT (incl. extraordinary exp)	0	0	10	14
<i>% of revenue</i>	-2.6%	-1.9%	21.8%	23.3%
Pretax Income	-2	0	10	14
<i>% of revenue</i>	-11.5%	-1.9%	21.4%	23.1%
Income Tax	0	0	0	0
<i>% rate</i>	0.0%	0.0%	0.0%	0.0%
Net Income	-2	0	10	14
<i>% of revenue</i>	-11.5%	-1.9%	21.4%	23.1%

- When we analyze the company's annualized historical income statement, we see that the top-line was \$62.48 million for the previous financial year ending in 2021.
- The revenue growth was 322.73% in 2021 as compared to around 223.41% in 2020.
- Ammo's cost of goods sold has decreased from 124.90% to 81.79% as a percentage of the top-line resulting in a rise in the gross margins.
- The company's overall annual EBITDA margin of 53.62% is higher than the reported quarterly EBITDA margin for the most recent quarter.
- Non-cash expenses in the form of depreciation and amortization have gone up as compared to the result in 2020. In terms of the bottom-line, Ammo reported an operating income (EBIT) of \$-5.38 million and a net income of \$-7.81 million resulting in an EPS of \$-0.14.
- The good news for investors holding the stock is that its net margin had increased from -98.51% in 2020 to -12.50% in 2021.

Particulars	2018	2019	2020	2021
Revenues	2	5	15	62
<i>% growth</i>		133.2%	223.4%	322.7%
Cost of Goods Sold	2	5	18	51
<i>% of revenue</i>	85.2%	105.0%	124.9%	81.8%

January 27, 2022

Gross Income (excl. D&A)	0	0	-4	11
<i>% of revenue</i>	14.8%	-5.0%	-24.9%	18.2%
EBITDA	-1	-5	-9	34
<i>% of revenue</i>	-61.2%	-98.9%	-60.6%	53.6%
Depreciation & Amortization	1	4	5	39
<i>% of Fixed Assets</i>	25.8%	12.8%	15.4%	121.8%
Extraordinary Expenses	0	0	0	1
EBIT (incl. extraordinary exp)	-2	-9	-14	-5
<i>% of revenue</i>	-91.8%	-196.5%	-93.6%	-8.6%
Pretax Income	-2	-12	-15	-8
<i>% of revenue</i>	-91.8%	-256.2%	-98.5%	-12.5%
Income Tax	0	0	0	0
<i>% rate</i>	0.0%	0.0%	0.0%	0.0%
Net Income	-2	-12	-15	-8
<i>% of revenue</i>	-91.8%	-256.2%	-98.5%	-12.5%

- Moving on to the company's historical annualized balance sheet, when we analyze the fixed assets versus the revenues, we see that the percentage has evolved from 214.68% to 51.09%
- Its receivables of \$9.01 million are about 14.42% of the top-line.
- Ammo has close to \$118.34 million in terms of liquidity i.e. cash and short term investments. On the other hand, its payables for 2021 account for around 6.99% of the cost of goods sold.

Other Metrics	2018	2019	2020	2021
Total Cash Dividends Paid	0.00	0.00	0.00	0.00
<i>% growth</i>		NA	NA	NA
Total Common Shares Outstanding	28	44	46	93
<i>% change</i>		55.0%	5.0%	101.5%
Dividend Per Share	0.00	0.00	0.00	0.00

% change NA NA NA

Operating Ratios	2018	2019	2020	2021
Receivables Turnover	1.6	3.7	4.9	6.9
Days Receivable	227.2	99.8	74.6	52.6
Inventory Turnover	0.7	1.0	4.2	3.2
Inventory Days	526.7	362.7	87.2	113.4
Payables Turnover	3.5	2.5	3.6	11.7
Days Payable	104.9	146.0	102.8	31.2
Fixed Asset Turnover	0.8	0.1	0.5	2.0
Total Asset Turnover	0.2	0.1	0.4	0.3

Other Performance Ratios	2018	2019	2020	2021
Return on Assets	-16.9%	-26.9%	-35.4%	-4.4%
Return on Equity	-18.8%	-39.7%	-75.6%	-4.9%

- The company does not pay any dividend. Ammo's total common shares outstanding have increased in 2021 by 101.52% implying a share issuance.
- The receivables turnover helps quantify a company's effectiveness in collecting the money owed by clients and demonstrates how well it uses and manages the credit it extends to customers.
- As per the days receivable, the company takes an average period of 52.6 days to collect money from its clients which appears to be reasonable.
- The inventory turnover shows the number of times a given company has sold and replaced inventory during the year and is an indicator of how many days of working capital is blocked in inventory.
- As per the inventory days ratio, Ammo holds an average inventory of 113.4 days which appears to be on the higher side and blocking its working capital.
- The accounts payable turnover is a short-term liquidity measure used to quantify the rate at which a company pays off its suppliers. It shows how many days of credit a company gets from its suppliers.
- As per the days payable, the company takes an average period of 31.2 days to pay off its creditors which appears to be reasonable.
- The fixed asset turnover ratio measures how well a company generates sales from its tangible as well as intangible fixed assets. The higher the ratio, the greater the company's efficiency to its assets to generate revenues.
- Ammo's fixed assets turnover ratio of 2.0 has increased in 2021 indicating that the company is generating greater revenues from its fixed assets.
- The total asset turnover ratio measures the value of a company's sales or revenues relative to the value of its assets. The higher the asset turnover ratio, the more efficient a company is, with respect to using its assets to generate revenues.
- Ammo's total assets turnover has decreased to 0.35 in 2021.
- The company's overall Return on Assets is -30.17%.
- Ammo Inc's Return on Equity is 19.89%. This is an excellent indicator of how efficient a company's management is in generating earnings from their economic resources or assets on their balance sheet.

Particulars	2019	2020	2021	2022E	2023E	2024E
Revenues	5	15	62	141	187	222
<i>% growth</i>		223.4%	322.7%	124.9%	32.9%	19.0%

January 27, 2022

Cost of Goods Sold	5	18	51	82	106	124
<i>% of revenue</i>	105.0%	124.9%	81.8%	58.4%	57.0%	55.9%
Gross Income (excl. D&A)	0	-4	11	59	80	98
<i>% of revenue</i>	-5.0%	-24.9%	18.2%	41.6%	43.0%	44.1%
EBITDA	-1	-5	-9	34	53	71
<i>% of revenue</i>	-26.3%	-30.6%	-14.3%	23.8%	28.5%	28.3%
Depreciation & Amortization	1	4	5	7	8	8
EBIT	-9	-14	-5	26	46	63
<i>% of revenue</i>	-196.5%	-93.6%	-8.6%	18.7%	24.5%	24.3%
EBT (GAAP)	-12	-15	-8	24	43	61
<i>% of revenue</i>	-256.2%	-98.5%	-12.5%	16.9%	23.2%	22.9%
Net Income (GAAP)	-12	-15	-8	22	43	61
<i>% of revenue</i>	-256.2%	-98.5%	-12.5%	15.7%	23.2%	27.3%
Earnings Per Share (GAAP)	-0.35	-0.32	-0.14	0.22	0.42	0.57

Particulars	2019	2020	2021	2022E	2023E	2024E
Net Income (GAAP)	-12	-15	-8	22	43	61
+ Depreciation & Amortization	1	4	5	7	8	8
+/- Working Capital, Deferred Taxes & Other Adjustments	4	5	-11	-45	-8	-3
Cash Flow from Operations	-7	-5	-14	-15	43	66
<i>% of EBITDA</i>	607.5%	118.6%	160.9%	-46.0%	81.1%	92.5%
Net Capex	-3	0	-7	-11	-11	-12
<i>% of revenues</i>	55.6%	3.1%	11.9%	7.8%	6.1%	6.1%
Other Investment Cash Flow items	-7	0	0	0	0	0
Cash Flow after Investments	-10	0	-7	-11	-11	-12
Free Cash Flow	-10	-6	-22	-26	32	54

Growth & Margins	2019	2020	2021	2022E	2023E	2024E
Sales Growth		223.4%	322.7%	124.9%	32.9%	19.0%
EBITDA Margin	-26.3%	-30.6%	-14.3%	23.8%	28.5%	28.3%
EBIT Margin	-196.5%	-93.6%	-8.6%	18.7%	24.5%	24.3%
Net Profit Margin	-256.2%	-98.5%	-12.5%	15.7%	23.2%	27.3%

Leverage Ratios	2019	2020	2021	2022E	2023E	2024E
Net Debt	7	8	-112	-86	-118	-171
Net Debt/ Equity	0.2	0.4	-0.7			
Net Debt/ EBITDA	-5.4	-1.7	NA	NA	NA	NA

- Now let us move on to Baptista Research's forecasts for Ammo's income statement and cash flows. We forecast a top-line growth of 124.9% for 2022, around 32.9% for 2023, and about 19.0% for 2024.
- This growth is expected to translate into an EBITDA of \$33.5 million in 2022 with a margin of 23.84%. Ammo's EBIT margin is expected to be 18.72% in 2022, about 24.49% in 2023, and 24.27% in 2024.
- Our estimate for the company's Net Income (GAAP) is \$22.1 million implying a net margin of 15.73% and resulting in an earnings per share of \$0.22.
- We expect the growth to follow a similar trend in 2023 and 2024. In terms of the cash flows, we expect Ammo to generate around \$-15.41 million in operating cash flows in 2022.
- This implies an EBITDA-to-Operating-Cash-Flow conversion ratio of -46.00%. Ammo is expected to invest a higher amount in capex and other investing activities in 2022.
- Overall, the company is expected to generate free cash flows to the tune of \$-26.31 million in 2022.
- Ammo's Net Debt is expected to increase in 2022 and is expected to follow a similar trend over the coming years.
- The Net Debt-to-EBITDA ratio is a measure of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. It shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.
- Net-Debt-to-Equity ratio, also known as the gearing ratio shows how encumbered a company is with its debt.

DISCOUNTED CASH FLOW (DCF) VALUATION

Key DCF Assumptions

WACC	-1.3%
CoD	24.1%
CoE	4.7%
Market Rate	6.0%
Risk Free Rate	1.6%
Beta	0.52
Perpetual Growth Rate (g)	-5.7%
Terminal Value	1205
Tax Rate	0.0%

- For the purpose of carrying out the discounted cash flow valuation of Ammo, we have used the standard capital asset pricing model (CAPM).
- We have used a 6.0% equity market risk premium based on the S&P 500 returns for the past 5 years. The risk-free rate has been assumed as the 10-year Treasury Constant Maturity Rate of the U.S. at 1.60%.
- The company's stock is less volatile than the market as a whole and has a beta of 0.52 which we shall use without leveraging the same as we are going for the enterprise value approach.
- This is used in order to arrive at the cost of equity (CoE) of 4.7% which appears reasonable for a company like Ammo.
- Based on the company's long term debt and interest payments, the cost of debt is 24.1%.
- After incorporating the CoE and the CoD and average tax rate of 0.0%, we arrive at a Weighted Average Cost of Capital (WACC) of -1.2%.
- The terminal value is a key component of any DCF valuation as it accounts for the largest chunk of the total projected value of the company. There are a number of methodologies used to determine the same such as the perpetual growth rate method or the multiples method.
- In this case, we have gone ahead and determined the terminal value by applying the current EV/Sales ratio of 12.9 to our forecasted revenues of 2024.

EV and Market Cap	Current	2022E	2023E	2024E
Price (\$)	4.2	19.4	29.9	40.1

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Outstanding Number of shares (million)	114	102	104	106
Total Market Cap (billion)	0.47	1.98	3.11	4.26
Net Debt	-112	-86	-118	-171
Enterprise Value (billion)	0.36	1.89	2.99	4.08

- After applying the discount rate (WACC) of -1.2%, we arrive at a price target of \$12.0 for 2022.
- Our target price at the end of 2023 is \$18.8 and for 2024 is \$25.8 which implies a total appreciation of nearly 520.1% in the coming 3 years in the stock price.
- During this phase, we see the EV/ EBITDA to be in the range of 39.28 and 40.25
- The EV/ EBIT will be in the range of 45.31 to 50.30 over the coming 3 years.

Valuation Ratios	Current	2022E	2023E	2024E
EV/ Sales	5.8	13.5	16.0	18.4
EV/ EBITDA	NA	56.4	56.1	57.5
EV/ EBIT	NA	71.9	65.4	64.8
Price/Earnings	NA	89.5	71.9	70.3

KEY RISKS

- It is important to highlight the key risks associated with an investment in Ammo as well as the inherent risks associated with the financial projections and price forecasts presented in this report.
- Ammo manufactures ammunition and ammunition casings for sale to a wide variety of consumers, including gun enthusiasts, collectors, hunters, sportsmen, competitive shooters, individuals desiring home and personal protection, manufacturers, law enforcement and security agencies and officers in the United States and throughout the world. The sale of ammunition and ammunition components is influenced by the sale and usage of firearms. Sales of firearms are influenced by a variety of economic, social, and political factors, which may result in volatile sales.
- One of the biggest risks that the company is facing currently is the ongoing impact of COVID-19 around the world, because of which the stock markets in general could be affected. Ammo' research and operations could be affected materially given the rapidly spreading Omicron variant.
- To accommodate growth and compete effectively, the company will need working capital to have adequate funds to carry out subscriber additions and increase, train, motivate and manage its work force.
- The management may be unable to successfully implement and execute their business strategies, operating plans and growth initiatives. In case the management fails to manage their growth and organizational change effectively, it may harm their business and the results of operations.
- Ammo has a certain level of dependence on third-parties for components as well as for the growth and scale up of the company. Therefore, any change in contractual relationships or disruption of service provided by these third-party service providers may adversely affect them and subject them to liability.
- Proper utilization and protection of their intellectual property and non-infringement of third parties' intellectual property within the U.S. and other countries where Ammo plans to expand are vital for their business to succeed.
- There could be a possible dilution and loss of value of their equity shares because the company might require regular infusion of funds through equity issuances for funding their losses until they break even.
- The inability to obtain sufficient quantities of raw materials and components, including casings, primers, gun powder, projectiles, and brass necessary for the production of Ammo's products could result in reduced or delayed sales or lost orders. Any delay in or loss of sales or orders could adversely impact its operating results.
- Many of the materials used in the production of Ammo's products are available only from a limited number of suppliers. The company does not have long-term supply contracts with any suppliers. As a result, they could be subject to increased costs, supply interruptions, and difficulties in obtaining raw materials and components.
- If the management fails to raise additional capital, they may need to reduce, defer, curtail or cease their operations, including the product design, development, and marketing.

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- Ammo's ability to continue as a going concern is contingent upon the ability to raise additional capital through the sale of securities and incurrence of debt. Additionally, the future capital requirements of the company depend on many factors including the rate of revenue growth, selling price of the platform subscription and research and development efforts which raise substantial doubt about the company's ability to continue as a going concern.
- Ammo operates in a highly competitive environment and faces competition from many large players with tremendous resources such as Federal Premium Ammunition, Remington Arms, the Winchester Ammunition Division of Olin Corporation, and various smaller manufacturers and importers, including Black Hills Ammunition, CBC Group, Fiocchi Ammunition, Hornady, PMC, Rio Ammunition, and Wolf.
- The ability of Ammo to continue as a going concern is dependent on its ability to raise additional capital through the sale of securities and the incurrence of debt. Furthermore, the company's future capital requirements are dependent on various factors, including the rate of revenue growth, product selling prices, and R&D efforts, raising serious doubts about the company's ability to endure as a going concern.
- Changes in government policies and firearms legislation could adversely affect the company's business.
- It is worth highlighting that the extent to which Covid-19 impacts the financial results of the company is highly uncertain and could significantly disrupt the operations including sales, manufacturing and supply chain-related activities. It could also result in social, economic, and labor instability in the countries where the customers and suppliers operate.
- With respect to our price projection, we would like to clarify that the valuation of Ammo in this report is specific to the date of the analysis i.e. 25-01-2022.
- Another one of the biggest risks to Ammo's model is the fact that the company's top-line growth is assumed to be consistently growing by a certain rate in the model. There is a possibility that this assumption might not hold true if the COVID-19 situation persists for too long. With respect to our price projection, we would like to clarify that the valuation of Ammo in this report is specific to the date of the analysis i.e. 25th January 2022.
- We must emphasize that the projected valuation and the share price of Ammo are dependent on the realization of the revenue growth, free cash flows and the other assumptions taken into account. Our analysis cannot be directed to providing any assurance about the achievability of these financial forecasts. There is a possibility that the actual results of the company are different from the projected results as a result of unexpected events and circumstances such as the realization of the threats mentioned in the paragraph above. Lastly, we would like to clarify that we had no interaction with the management of the company and they did not comment on the achievability or the reasonableness of the assumptions underlying the financial forecasts. Please check out our detailed disclosures at the end for further details.

ANALYST RATINGS

- **Buy:** Expected to outperform market over next 6 to 12 months. Minimal risk to fundamentals and valuation. Good long-term investment.
- **Outperform:** Expected to outperform the market over next 6 to 12 months but there is a moderate risk to fundamentals and valuation.
- **Sell:** Expected to significantly underperform the market over next 6 to 12 months. There is a strong likelihood of the security delivering negative returns and a very high risk to fundamentals and valuation.
- **Underperform:** Expected to underperform the market over next 6 to 12. There is a moderate to high risk to fundamentals and valuation.
- **Hold:** Expected to perform in line with the market over next 6 to 12 months. However, there is a moderate to high risk to fundamentals and valuation.

ANALYST INDUSTRY VIEWS

- **Attractive:** The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
- **In-Line:** The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
- **Cautious:** The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
- **Benchmarks for each region are as follows:** North America - S&P 500; Latin America – MSCI EM Latin America Index; Europe – MSCI Europe; Japan - TOPIX; Asia - relevant country index or sub-regional index. Please contact us to know the relevant index in case it is not specified in the report.

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