



November 7, 2022

# **AMMO, INC.**

## **(NASDAQ – POWW/POWWP)**

Industry: Aerospace & Defense

Price Target: \$8.00



## AMMO, INC.

### AMMO: Great Entry Point; Multiple Catalysts, Inflection Points Ahead

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#### AMMO, INC. (NASDAQ – POWW - \$3.08)

Industry: Aerospace & Defense

Six – Twelve Month Price Target: \$8.00

#### COMPANY SNAPSHOT

AMMO, Inc. designs and manufactures products for a variety of aptitudes, including law enforcement, military, sport shooting and self-defense. AMMO promotes branded munitions as well as its patented STREAK™ Visual Ammunition, /stelTH™ subsonic munitions, and specialty rounds for military and law enforcement use. AMMO also owns [GunBroker.com](http://GunBroker.com), the largest online marketplace dedicated to firearms, hunting, shooting and related products. These include firearms, ammunition, air guns, archery equipment, knives and swords, firearms accessories and hunting/shooting gear online.

#### KEY STATISTICS

|                         |                 |
|-------------------------|-----------------|
| Price as of 11/4/22     | \$3.08          |
| 52 Week High – Low      | \$7.55 - \$2.86 |
| Est. Shares Outstanding | 117.9M          |
| Market Capitalization   | \$363.1M        |
| Average Volume          | 1,544,429       |
| Exchange                | NASDAQ          |

#### COMPANY INFORMATION

**Ammo, Inc.**  
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 Scottsdale AZ 85260

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#### INVESTMENT HIGHLIGHTS

**AMMO is positioned as one of the top 5 munitions producers in the nation.** The Company leverages its IP and design approach to produce in-demand premium, branded ammunition and ammunition components for use by law enforcement, military and individuals.

**AMMO’s core business leverages unrivaled market demand and is poised to generate sales and profit margin growth.** The Company can produce billions in munitions and components annually and is poised broaden its standing via its access to 10,000+ retail locations. AMMO should increase sales to military, and law enforcement agencies in the US and abroad in FY23.

**AMMO owns the largest online auction marketplace for firearms, shooting and related products with 7M+ users and 25,000 FFL partners.** A popular online platform with a 20-year history, this unit generates enviable EBITDA.

**Management has proposed a separation of the munitions and marketplace businesses into two public entities whereby shareholders would own one share of each firm.** This proposal has been met with controversy which we believe has created a favorable entry point for opportunistic investors that seek to take advantage of potential, future inflection points and milestones.

**Regardless of the separation resolution, we believe that our \$8 target reflects a reasonable sum of the parts valuation based on management’s combined \$300M revenue and \$108M adjusted EBITDA guidance for FY23.**

## COMPANY OVERVIEW

### *The View from 30,000 Feet*

In most cases, our initiation of coverage reports primarily provide detail on product and company positioning along with market opportunity and valuation. We do, however, come across situations whereby planned or prospective spin-offs or other scenarios offer a rare entry point that could result in outsized share price gains. In our view, this very opportunity exists in the case of Arizona-based **AMMO, Inc. (NASDAQ – POWW & POWWP)**, a leading munitions manufacturer and owner of the largest online marketplace dedicated to firearms and shooting sport gear. Moreover, we proffer that the market may have overlooked certain potential outcomes of management's planned spin-off/separation initiatives, thereby offering opportunistic investors a favorable entry point which could yield substantial gains in the next six to twelve months, when the event could occur. The Company has enjoyed enviable top-line and adjusted EBITDA growth. For fiscal 2022, AMMO recorded \$240.3M in revenue and \$75.5M in EBITDA as compared with \$62.5M and \$8.1M in revenue and adjusted EBITDA, respectively. For (current year) FY23, management has provided some guidance to the Street, namely combined company revenue of \$305M and adjusted EBITDA of \$109.5M.

In our view, AMMO, a top-5 ammunitions manufacturer could not be operating in a more favorable environment, given the surge in US consumer gun ownership. Couple this growth with opportunities in military and law enforcement at home and abroad and it appears that the core business will be enjoying high demand for its premium, technology-driven products for the foreseeable future. These markets also foster higher margins as well, enhancing overall value. Thus, we believe a series of major inflection points lie ahead that could serve as drivers of the underlying stock or stocks. These milestones include total sales growth, enhanced exposure to new, profitable verticals, higher margins via its new facility, and a resolution to its proposed business separation.

### *The Backstory: AMMO Products & Online Marketplace*

The Company was founded in 2016 with a vision to change, innovate and invigorate the complacent munitions industry. AMMO designs, manufactures, and sell ammunition and ammunition components in a variety of types, sizes, and calibers for use in handguns and long guns. AMMO is a leading vertically integrated producer of high-performance ammunition and components. The Company ships its ammunition in the form of cartridges (or rounds), as well as ammunition casings. AMMO offers its products to a variety of markets, including consumers for sports shooting and self-defense, law enforcement, and the military in the US and abroad. The Company leverages IP and its novel technological design and approach to production which leads to the manufacture of differentiated, in-demand, branded proprietary products.

Management's vertically integrated, scalable model has been bolstered by a new state-of-the-art 185,000 sq. ft. ammunition and brass case manufacturing plant in Manitowoc, WI that is expected to triple AMMO's current manufacturing output and provide \$1M in operating efficiencies. With the addition of the new Manitowoc facility, the Company could scale production of ammunition rounds and ammunition casings to the 1 billion level or greater, on an annual basis. A top-5 ammunition manufacturer in the U.S., AMMO has now tripled that capacity once the facility is capable of 100% capacity utilization. The Company is poised to eventually approach 100% utilization to match major growth generated by demand from the military and law enforcement verticals given the

strength of its patented technology and premium products which has historically recorded major sales to the consumer market.

STREAK VISUAL AMMUNITION™ enables shooters to see the path of the bullets fired by them. STREAK VISUAL AMMUNITION™ comes in 380 auto, 9 mm, 40 S&W, 44 magnum, 45 long colt, and 38 special among other calibers. The /steITH/® line combines technology, engineering, and collaboration with leading suppressor manufacturers making this line one of the most advanced subsonic cartridges available. Pistol ammunition comes in 9mm, 40 S&W, and 45 AC3 and is also available in a 223-rifle round. AMMO's Signature Ammo boasts superior accuracy and consistency thanks to load-specific engineering with 100% American-made components. This engineering process leads to performance optimization, velocity balancing, accuracy, and recoil to achieve on-target shooting results. Both ball and hollow point ammunition are available, with hollow point very popular with users.



In addition to the law enforcement and military market and relationships with manufacturers, AMMO products are sold online and in big box and specialty retail stores, through distributors, and shooting ranges. The Company estimates that through its distribution relationships and direct retail relationships, it has access to over 10,000 retail locations in the US.

Through Jagemann Munion Components (JMC), AMMO offers ammunition casings for pistol ammunition through large rifle ammunition. Acquired in 2019, the JMC operation is backed by decades of heavy press brass case manufacturing experience that allows the production of high-quality pistol brass and rifle brass components. AMMO has become one of the largest brass ammunition manufacturers in the country.

### *The Backstory: Marketplace*

The logo for GunBroker.com consists of the word "GUN" in large, white, bold, sans-serif capital letters, and "BROKER.COM" in smaller, green, bold, sans-serif capital letters below it. The logo is set against a yellow, rounded rectangular background.

In April 2021, AMMO acquired [GunBroker.com](https://www.gunbroker.com), the nation's largest online auction marketplace dedicated to firearms, hunting, shooting and related products in a merger valued at \$240M of reorganized entities. Aside from merchandise bearing its logo, GunBroker.com currently sells none of the items listed on its website. Third-party sellers list items on the site and federal and state laws govern the sale of firearms and other restricted items. Ownership policies and regulations are followed using licensed firearms dealers as transfer

agents. Gunbroker.com has over 7.3 million registered users and averages well over 1 million items listed for sale on its site on a daily basis. This transaction brought millions of users to the AMMO fold and was immediately accretive. A number of attractive factors played a role in management pursuing the deal, not the least of which was a major increase in overall operating profitability and future potential growth through leveraging opportunities such as POS lending, licensing and marketing agreements and the direct process of on-line credit card/ACH transactions supporting the enormous volume of transactions moving through this Marketplace.

[GunBroker.com](https://www.gunbroker.com) has amassed a network of more than 25,000 FFL partners and has entrenched its service as an integral part of these dealers' marketing platforms. It is clearly the go-to online platform for the space with unmatched scale and a powerful brand. With a 20-year history, management believes that it would take a new market entrant decades to cultivate the depth and breadth of its relationships across the U.S. In addition, [GunBroker.com](https://www.gunbroker.com) developed its own proprietary source code upon which the marketplace website operates. The system is highly scalable and easily maintained by the Company's lean team of technical engineers.

### *The Separation: A Snapshot*

During August 2022, AMMO announced its plans to separate its ammunition and marketplace businesses into two independent publicly traded companies. A new entity, Outdoor Online, Inc. will be comprised of [GunBroker.com](https://www.gunbroker.com) and its related online businesses. Current AMMO Chairman & CEO, Fred Wagenhals, will assume the Chairman & CEO role in Outdoor Online. The second entity, Action Outdoor Sports, Inc. ("AOS"), will retain the Company's current ammunition and munition components business. Upon completion of the separation, each current shareholder of AMMO will own one share of Outdoor Online, Inc., comprised of [GunBroker.com](https://www.gunbroker.com) and its related online businesses, and one share of Action Outdoor Sports, Inc., the Company's current ammunition and munition components business. AMMO anticipates the transaction will be in the form of a dividend distribution to its shareholders of 100% of the stock of AOS, which will become a new, independent publicly traded company

Based on Company press releases and management comments, the genesis behind this separation, which was approved by the Board of Directors, is to generate shareholder value which can also enhance brand strengths (of both firms independently) and expand strategic opportunities. Management has projected that in FY23, the legacy AOS company could generate \$230M-\$240M in revenue and \$57M-\$60M in adjusted EBITDA. Outdoor Online in turn, is projected to record \$70M in revenue and \$51M in adjusted EBITDA. These figures are generally in line with the combined company guidance noted above.



The market did not entirely embrace the news as its shares are down nearly 50% since news and details of the plan were released. But we believe the shares could return to former levels and exceed its current 52-week high.

A current director, and former founder of [GunBroker.com](http://GunBroker.com) who owns 17.1% of AMMO stock has openly made statements and issued press releases that are largely against the deal. These include his belief that the current Chairman, who does not have significant online commerce leadership in this arena, should not run the separate online unit. Still, this director has left the door open to work with management to potentially modify the plan. He is leading a proxy event that will be filed to solicit shareholder votes for a slate of seven new directors of the Company's board at the upcoming 2022 annual shareholder's meeting and seeks to halt the process and execution of the spin-off/separation. Shareholders will obviously vote on the separation at the meeting as well.

### *Our Take*

To be clear, we are not taking sides or recommending shareholders vote for either side. Still, we believe that any of three potential outcomes listed below could result in major share price gains for opportunistic investors, especially considering the present low valuation due to the current situation. The recent market cap for AMMO is around \$370M, which reflects a paltry 3.4x adjusted EBITDA and 1.2x revenue, based on segment separation guidance. We proffer that the stock is being punished unjustly and that the legacy business alone deserves a 6x adjusted EBITDA multiple, given its growth rates and future prospects.

### Scenario #1: Separation

It is not uncommon for companies with disparate businesses to separate. This is especially the case if one of the businesses operates in a segment whose participants record faster growth in revenue or profit and are afforded a higher overall valuation. Against this backdrop, management's thesis that a separation could result in a major re-valuation of the Outdoor Online unit, appears to make sense. It is possible that some investors may prefer an online marketplace in which to invest, rather than an ammunition producer. Perhaps after a separation would be complete, an adjusted EBITDA valuation could return for AOS. An adjusted EBITDA multiple of 6x appears to be reasonable, given historical valuations for the Company and peers, along with its attractive 24% adjusted EBITDA margin. Outdoor online, which appears to generate substantial adjusted EBITDA at the rate of a projected 72.8%, could achieve a multiple of 11x given its industry segment and high margins. Moreover, it is logical to project meaningful top-line growth with additional resources and attention as a stand-alone entity.

### Scenario #2: No Change

It is possible that a failed proxy vote by current leadership and a win by the upstart group and its new director slate could provide confidence and attention to the Company and a re-boot and new shift in investor perception. Some institutional investors who were forced to sell as AMMO's stock fell below the \$500M market cap threshold may be inclined to return, believing the shares represent a good value at the \$500M market cap mark or higher. A return to that mark would mean the \$4.25-\$4.30 range, which would allow institutions to come back in, if they believe in new leadership's ability to grow the company or perhaps engage in an alternate spin-off or M&A. It is not uncommon for successful groups fighting sitting directors and executives to at least become a stock du jour for a period, after such a move.

### Scenario #3: Play Nice

It is possible that at the 11<sup>th</sup> hour an agreement is struck between both parties to allow a favorable separation and org chart/leadership/operational structure to occur. In our view, this is likely the best outcome for investors and the Company---from the outside looking in. Investors may celebrate the meeting of the minds and this end to the conflict and prefer joint work to enhance shareholder value.

### Our Target

It is our belief that the Company's true value is via a sum of the parts valuation. Therefore, the manufacturing side of the business could be worth 6x \$57M (\$342M) in adjusted EBITDA, which is just a tad higher than the current market cap. Plus, these assumptions lead to the online business being worth 11x \$51M (\$561M) in adjusted EBITDA. Against this backdrop, we believe the current share price is undervalued and represent a great entry point with meaningful upside as events are catalyzed. Based on the current share count, the adjusted EBITDA forecast and these valuation metrics, our price target is \$8.00 for AMMO.

We note that the 52-week high alone suggests a blended 8x adjusted EBITDA multiple on FY23 guidance, which further supports our assertion. Still, risks remain. For example, it is possible that the resolution to the separation issue is not met favorably by the Street. Looking ahead, as long as any reductions in revenue or profit are nominal, the effect on our target, and the sum of the parts valuation metrics, should be limited.

## **THE AMMO ADVANTAGE**

Arizona-based AMMO, Inc. designs and manufactures products for a variety of aptitudes, including law enforcement, military, sport shooting and self-defense. The Company was founded in 2016 with a vision to change, innovate and invigorate the complacent munitions industry. AMMO promotes branded munitions as well as its patented STREAK™ Visual Ammunition, /stelTH/™ subsonic munitions, and specialty rounds for military and law enforcement use via government programs. AMMO also owns GunBroker.com is the largest online auction marketplace dedicated to firearms, hunting, shooting and related products. Launched in 1999, GunBroker.com is an informative, secure and safe way to buy and sell firearms, ammunition, air guns, archery equipment, knives and swords, firearms accessories and hunting/shooting gear online.

### *The Manufacturing Segment (Action Outdoor Sports)*

At its core, AMMO is a designer, producer, and marketer of performance-driven, high-quality ammunition and ammunition component products for sale to a variety of consumers, including sport and recreational shooters, hunters, individuals seeking home or personal protection, manufacturers and law enforcement and military agencies. To enhance the strength of its brands and drive product demand, AMMO emphasizes product innovation and technology to improve the performance, quality, and affordability of its products while providing support to its large distribution channel and consumers. Plus, promoting itself as an American made producer has paid dividends as well.

Industry sources estimate that 70 to 80 million people in the United States own more than approximately 393 million firearms creating a large installed base for the Company's ammunition products. Management is focused on the more profitable and loyal premium segment of the market through the quality, distinctiveness, and performance of its branded products. Revenue success and brand loyalty has been driven by the effectiveness of the Company's marketing and merchandising efforts and its competitive pricing strategies.

The Company sells products at competitive prices that compete with high-end, custom, hand-loaded ammunition at competitive prices. Additionally, AMMO sells ammunition casings products of various types. The predominantly American-made components and raw materials in AMMO's products are produced, inspected, and packaged at its facilities in Manitowoc, Wisconsin. Each round is developed for a specific purpose with a focus on a proper mix of consistency, velocity, accuracy, and recoil. Plus, each round is chamber gauged and inspected with redundant seven-step quality control processes.

Management's vertically integrated, scalable model has been bolstered by a new state-of-the-art 185,000 sq. ft. ammunition and brass case manufacturing plant in Manitowoc that is expected to triple AMMO's current manufacturing output. Prior to the new Manitowoc facility, the Company could scale production of ammunition rounds and ammunition casings to the 1 billion level or greater, on an annual basis.

A top-5 ammunition manufacturer in the U.S., AMMO has now tripled that capacity once the facility is capable of 100% capacity utilization. The Company is poised to eventually approach 100% utilization to match major growth generated by demand from the military and law enforcement verticals given the strength of its patented technology and premium products which has historically recorded major sales to the consumer market.

AMMO designs, produces, and sells ammunition and ammunition components in a variety of types, sizes, and calibers for use in handguns and long guns. The Company ships ammunition in the form of cartridges (or rounds), and also ammunition casings. A cartridge consists of four components: a case made of brass, steel, or copper that holds together all the other components of the cartridge; the primer, which is an explosive chemical compound that ignites the gunpowder when struck by the firing pin; the gun powder, which is a chemical mixture that burns rapidly and creates an expanding gas when ignited and pushes the bullet out the barrel; and the bullet, or projectile, usually containing lead that is fired through the barrel to strike the target.



## DIFFERENTIATED AND PATENTED AMMUNITION PRODUCTS

AMMO vs. COMPETITION

| AMMO                     |                       | Industry                       |
|--------------------------|-----------------------|--------------------------------|
| Patented / Non-commodity | Product               | Commoditized                   |
| Branded / Licensed       | Marketing             | Characterized by Use / SKU     |
| Premium                  | Quality / Price Point | Value                          |
| 30%+ Target              | Product Margins       | 10-20% Average                 |
| Young, Active, New Users | Target Customer       | Established, Older Generations |

Figure 1: AMMO Competitive Advantages

Source: Ammo, Inc.

Some of the bullets produced for certain applications have a jacket, or outer shell, of brass or copper to improve performance and accuracy. AMMO typically produces centerfire cartridges in which the primer is in the bottom, or center of the cartridge, rather than rimfire cartridges in which the primer is in the rim of the cartridge. The Company also offers ammunition casings for pistol ammunition through large rifle ammunition.

As illustrated in Figure 1 above, AMMO holds a number of competitive advantages due to its unique approach which leverages its patents, a branded premium product philosophy, and a broad target market that caters to younger customers.

### Key Products

STREAK VISUAL AMMUNITION™ enables shooters to see the path of the bullets fired by them. STREAK VISUAL AMMUNITION™ rounds utilize non-flammable phosphor material that produces a glow by the utilization of the light emitted during the round discharge to make STREAK VISUAL AMMUNITION™ glow. The luminescent material is applied only to the aft end of the projectile, making it visible only to the shooter and those within a 30- degree viewing window. As a result, the glow of STREAK VISUAL AMMUNITION™ is not visible to the target unlike conventional tracers, which is also important to the military and law enforcement. AMMO refers to the technology used by its STREAK VISUAL AMMUNITION™ as one-way luminescent or O.W.L. Technology™.

Unlike conventional tracer ammunition, STREAK VISUAL AMMUNITION™ rounds are not incendiary and do not utilize burning metals to generate light, thereby eliminating heat generation and making them safer for use in various environments and avoiding serious fire hazards. STREAK VISUAL AMMUNITION™ comes in 380 auto, 9 mm, 40 S&W, 44 magnum, 45 long colt, and 38 special among other calibers. AMMO holds the exclusive worldwide sales and distribution rights for the patented O.W.L. Technology™ used by the STREAK VISUAL AMMUNITION™ and pays a royalty based on product sales incorporating this technology. In October 2020, the Company further expanded its patent portfolio as a result of the U.S. Patent and Trademark Office (USPTO)'s issuance of Patent No. 10,801,821 recognizing the Company's development of both a protectable and cutting-edge process to mass-produce luminescent projectiles, as well as the luminescent projectiles manufactured as a result of the protected process.

**Stelth Subsonic Ammunition** Stelth Subsonic ammunition is designed specifically for superior performance in suppressed firearms. Stelth ammunition finds applications in which silence is paramount, such as in tactical training, predator night hunts, and clandestine operations. The Stelth ammunition is produced to be a clean burning total metal jacket round to slow baffle corrosion and reduce lead emissions that collect in the suppressor body. Stelth pistol ammunition comes in 9mm, 40 S&W, and 45 AC3. It is also available in a .223 rifle round.

AMMO's innovative line of match grade armor piercing ("AP") and hard armor piercing incendiary ("HAPI") tactical rounds are the centerpiece of the Company's strategy to address the unique needs of the armed forces community. This ammunition was designed around a match grade portfolio of projectiles, that include a solid copper boat tail and armor piercing configuration. The distinction between these rounds and other sold, is that the manufacturing process was engineered to ensure extremely tight tolerances between each projectile manufactured, ensuring for the end user that the ballistic trajectory remains consistent between rounds without regard to the actual configuration or round fired. The AP and HAPI line is also available with the O.W.L. Technology™. The Company has aligned its manufacturing operations to support the large caliber demand from military personnel, such as the 12.7 mm and .50 caliber BMG configurations.

Through Jagemann Munitions Components (JMC), AMMO offers ammunition casings for pistol ammunition through large rifle ammunition. JMC Munitions Components is backed by decades of manufacturing experience that allows the production of high-quality pistol brass and rifle brass components. JMC has become one of the largest brass ammunition manufacturers in the country.

## INNOVATIVE, PATENTED TECHNOLOGY COMMERCIAL



Figure 2: Core Products  
Source: AMMO, Inc.

### The Markets

The Company's primary target markets remain consumers, along with the military and law enforcement agencies in the US and abroad. Management has executed a number of key steps on the government side of the business which are just beginning to bear fruit in the form of sales and higher than average profit margins. Going forward, we envision this vertical accounting for a larger percentage of revenue over time, and aided by foreign sales, could enable AMMO to routinely meet or exceed its gross margin targets.

On the military side, AMMO was awarded a contract by Irregular Warfare Technical Support Directorate (IWTSD) to design and manufacture Signature- on-Target (SoT) rounds in support of military operations. Plus, it was awarded a contract to design and manufacture Ballistically Matched Multi-Purpose Rounds (BM-MPR) rounds in support of military operations. To date, the Company is compliant with current U.S. State Department and Department of Commerce statutes and regulations governing the lawful export of ammunition and munition components which should bolster the top-line. As a result, AMMO is enjoying strong demand for key products and is positioned to generate demand for new offerings as well:

- Patented Armor Piercing (AP) and Hard Armor Piercing Incendiary (HAPI™) rounds
- Patented One-Way Luminescent Technology (O.W.L. Technology™) utilized in STREAK products provides competitive advantage in tactical and defense scenarios.
- Ballistic Match Multi-Purpose Round (BM-MPR) is being developed to provide snipers with the ability to switch from standard issue match-grade ammunition without re-zeroing their weapons
- Signature-on-Target (SoT) ammunition is being developed to provide warfighters with the ability to see the impact of rounds fired on a wider variety of targets in both day and night

Going forward, AMMO plans to leverage its lower-cost, high performance made in America product lines by controlling component manufacturing costs and partnering with strategic players and weapon manufacturers to expand product lines. Meanwhile, the Company estimates that through its distribution relationships and direct retail relationships, it has access to over 10,000 retail locations in the US. Figure 3 illustrates some of the big box and other locations in which it sells product or has access through distributors and other relationships.

## MULTI-CHANNEL DISTRIBUTION

### Current Ammunition distribution channels

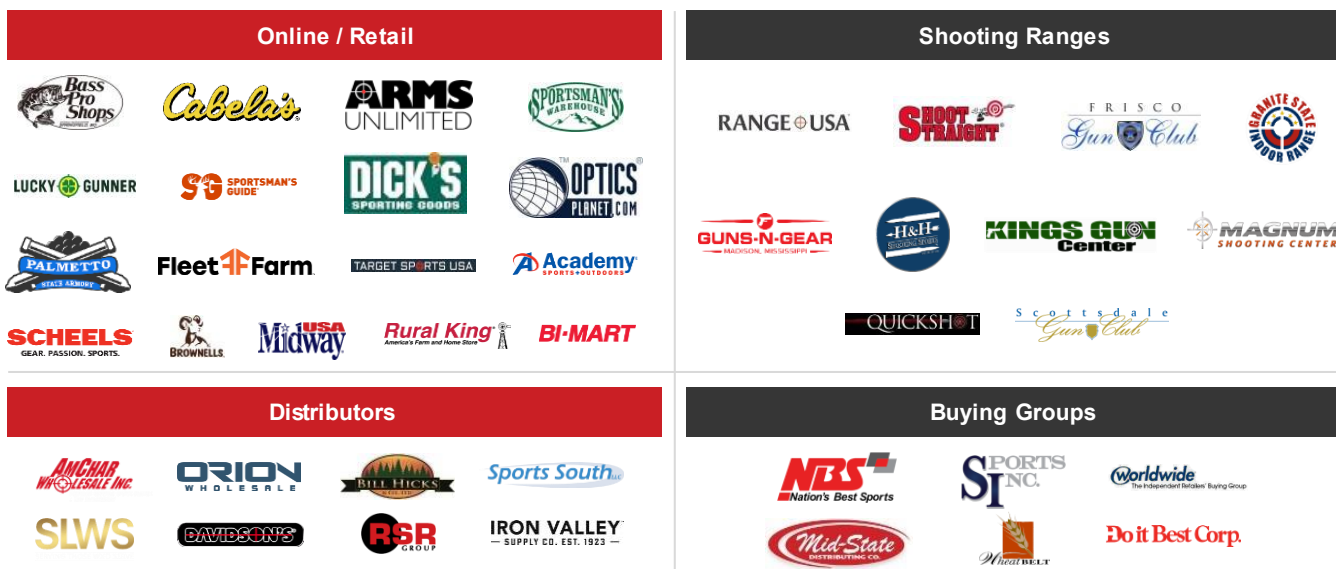


Figure 3: AMMO Distribution

Source: AMMO, Inc.

### *Online Auction (Outdoor Online)*

In April 2021, AMMO acquired [GunBroker.com](https://www.gunbroker.com), the nation's largest online auction marketplace dedicated to firearms, hunting, shooting and related products in a merger valued at \$240M of reorganized entities. In its role as the auction site, [GunBroker.com](https://www.gunbroker.com) serves as the listing service and provides for the exchange of information in a secure manner supporting the third-party listing, sale and lawful purchase of firearms, ammunition and accessories connecting over 7.3 million users. In addition to the core product marketplace that has a plethora of auction listings, the site offers deals, coupons, videos and articles for users.

Management has worked to enhance and simplify the user experience on the [GunBroker.com](https://www.gunbroker.com) marketplace platform, while adding to its merchandise and related offerings. This initiative is designed to enhance the [GunBroker.com](https://www.gunbroker.com) brand by ensuring customer (both buyers and sellers) adhesion is amplified as they access one of the largest single on-line destinations for interested "2nd Amendment" buyers and sellers within the US market. As a pure technology ecommerce play, this unit has a low-cost structure, thereby generating EBITDA margins well above 60%.

## **AMMO EXECUTIVE LEADERSHIP TEAM**

### **Fred Wagenhals, Chairman, Chief Executive Officer**

Fred Wagenhals has been the Chairman of the Board, President, and Chief Executive Officer of the company since December 2016. Mr. Wagenhals was a private investor from August 2005 until December 2016. Mr. Wagenhals served as Chairman, President, and Chief Executive Officer of Action Performance Companies, Inc., a Nasdaq-listed marketer and distributor of licensed motorsports merchandise, from November 1993; Chairman of the Board and Chief Executive Officer from May 1992 until September 1993; and President from July 1993 until September 1993. Action-Performance Companies, Inc. was sold in August 2005 to International Speedway Corp. and Speedway Motorsports. Mr. Wagenhals is a member of the Die-Cast Hall of Fame; was named an Entrepreneur of the Year for the Retail/Wholesale category by the Center for Entrepreneurial leadership Inc.; and received the Anheuser-Bush Entrepreneur in Residence Award at the University of Arizona College of Business and Public Administration. With over 20 years of experience in finance and operations, Ketan served as CFO for Apartments.com helping the company to grow from \$20M to \$125M annually. He was also the founder of triprental.com prior to joining Ubid.com in 2013. He is an accredited CPA who holds an MBA from Northwestern University Kellogg School of Management.

### **Robert Goodmanson, President**

Robert J. Goodmanson has served as President of the Company since March 2021 and as a director since May 2019. Mr. Goodmanson has more than 30 years' experience in the investment industry. He is currently employed at Tealwood Asset Management, a fully Registered Investment Advisor in Minneapolis. He founded and was CEO of Maxwell Simon, Inc. a FINRA registered full-service Broker-Dealer and a licensed registered Investment Advisory firm. Maxwell Simon's focus was on institutional fixed income, advisory, private and public equity transactions. Prior, Rob held senior positions at Tucker Anthony and Robert W Baird where he was a Divisional Director. For three years he served on the FINRA Board of Governors for District 4 in Kansas City.





### **Tod Wagenhals, Executive Vice President, Secretary**

Mr. Wagenhals has been Executive Vice President of the Company since 2016. Mr. Wagenhals has significant experience in marketing and contract manufacturing and oversees day-to-day operations and production. From 2011-2017 he worked as a Managing Partner for Winners Companies LLC, a commercial development company. Prior to Winners, Mr. Wagenhals was managing member, partner and President of Kinesis Industries LLC, a developer and producer of micro-generation renewable energy products. He also served as Executive Vice President, Secretary and Director of Action Performance Companies Inc, (NASDAQ -ACTN), a leading design and marketing firm for the licensed motorsports collectible and merchandising industry. Mr. Wagenhals graduated with a Bachelor's Degree in Communications from the University of Arizona and was a member of the golf team.

### **Robert Wiley, Chief Financial Officer**

Robert Wiley has been the Chief Financial Officer of the Company since January 2019. Mr. Wiley has served as the Controller of the Company since May 2018 and was responsible for our accounting department, including external financing reporting, compliance, accounting policy, and tax accounting. Previously, Mr. Wiley was a Certified Public Accountant at Moss Adams, LLP from June 2015 through April 2018. Mr. Wiley earned his Master of Taxation at Arizona State University. Mr. Wiley also received a Bachelor of Science degree in Accounting from Arizona State University. Mr. Wiley is a Certified Public Accountant licensed in the state of Arizona.

### **Anthony Tate, Vice President, Sales & Marketing**

Anthony joined the Company in March 2020 with more than a decade of experience in the shooting sports industry. He is currently responsible for managing all brands, distribution channels, and deployment of sales for Ammo, Inc. Mr. Tate has successfully developed thousands of relationships throughout the nationwide FFL network from distributors to big box retailers. Anthony won the US Army Scholar Athlete Award while earning his B.S. in Exercise Science.

### Non-Executive Board Members

#### **Harry Markley, Board Member**

Harry Markley has been a director of the Company since March 2018. Mr. Markley served with the Phoenix Police Department for more than 30 years, most recently as Assistant Chief of the Patrol Division from 2013 through 2017 and Commander of the Family Investigations Bureau from 2002 to 2013. Mr. Markley currently serves as the Law Enforcement Senior Advisor for the United States of America Department of Commerce.

#### **Russell "Rusty" Wallace, Jr. , Board Member**

Mr. Wallace has been a director of the Company since June 2017. Mr. Wallace is the principal shareholder of the Rusty Wallace Automotive Group, a group of eight automotive dealerships located in Eastern Tennessee, and owns Rusty Wallace Racing, which has fielded entrees in the NASCAR Cup Series. Mr. Wallace competed in NASCAR races for more than 16 years and had 55 victories prior to his retirement in 2005. Mr. Wallace serves

as an analyst for ABC and ESPN. He is a member of the NASCAR Hall of Fame, the International Motorsports Hall of Fame, the Motorsports Press Association Hall of Fame, and the Motorsports Hall of Fame of America.

### **Richard Childress, Board Member**

Mr. Childress has been a director of the company since January 2021. Mr. Childress has owned Richard Childress Racing since 1969 and Childress Vineyards since 2004. In addition to starting Richard Childress Racing, Mr. Childress was a NASCAR driver from 1969 to 1981. Mr. Childress served as the First Vice President of the board of directors of the National Rifle Association (the "NRA") from 2017 to 2019. Mr. Childress was inducted into the NASCAR Hall of Fame in 2017.

### **Jessica Lockett, Board Member**

Ms. Lockett has been a director of the Company since December 2020. Ms. Lockett is a corporate and securities law attorney with a focus on representing public and private companies at various stages of development with corporate governance and securities regulations compliance matters, including Securities Act and Exchange Act reporting. Ms. Lockett also has experience in Mergers and Acquisitions, financing, fundraising activities, and going public transactions. Ms. Lockett earned her J.D., cum laude, from Thomas Jefferson School of Law in 2012 and received the CALI and Witkin Awards in Securities Regulations from Cal Western School of Law. Ms. Lockett graduated from the University of Arizona with a Bachelor of Arts in Psychology with a law minor. Ms. Lockett has been an attorney with Lockett + Horwitz, a professional law corporation since 2016, and operated her own legal practice prior to joining the firm. Ms. Lockett is an active member of the State Bar of California.

### **Steven Urvan, Board Member**

Mr. Urvan has been a director of the company since April 2021. Mr. Urvan has been the Founder and Chief Executive Officer of BitRail, a compliant payments infrastructure since February of 2018. Mr. Urvan founded Gunbroker.com in 1999 and was the Chief Executive Officer until the April of 2021 when the Company acquired the asset. Mr. Urvan has spent over 20 years as an entrepreneur, advisor, and investor with a passion for building and growing companies across various industries, but always with a focus of technology as a core or enabler. Mr. Urvan remains active in other companies that he founded including Outdoors.com Digital Media, an outdoor lifestyle website, App Cohesion, an e-commerce technology platform, and Gemini Southern, a merchant bank.

## **FINANCIALS SNAPSHOT**

AMMO recorded strong results for FY22 ending March 2022. Total revenue for the period was \$240.3M. Ammo and casings sales accounted for \$161.5M and \$14.2M in net revenue respectively, while auction marketplace revenue was \$64.6M. EPS of \$0.27 was buoyed by a string gross margin of 36.9% and featured strong operating income margin (not EBITDA) of roughly 14.5%.

Results for the first fiscal quarter of FY23 (June 2022) were a bit lower on the profit margin side, reflecting the product mix as lower margin ammo products dominated sales for the period. Still sales in both business lines enjoyed top-line growth quarter-over-quarter of over 30%. We believe that these sales and margin trends may

have continued into 2Q23E, whose results will be published on November 14, 2022. Going forward, we believe that gross margin will demonstrate stabilization and improvement beginning in 3Q23/4Q23.

This inflection point should reflect higher margin branded products sales on the manufacturing side, catalyzed by the ever-growing production from the new facility and an entrance into new markets and verticals. These gross margin trends and other related expectations should provide a solid base for the Company as management seeks to maintain 30%+ gross margins in the core branded munitions segment as compared with the lower margin, commoditized products manufactured by other industry players.

It should be noted that the Company boasts a healthy balance sheet with about \$422M in total assets of a little more than half is comprised of intangible assets and goodwill. Cash, inventories, deposits and receivables account for nearly a third of total assets. In addition, liabilities, specifically long-term debt is negligible, as total debt as of 1Q23 was \$44M, with the overwhelming majority of debt (75%) recorded under current debt.

### *Projections & Guidance*

Our current projections for 2Q23 call for \$68.5M in revenue, with operating profit of \$5.3M and EPS of \$0.02. Gross and operating margins appear likely to hover around 28.7% and 7.8%, respectively. Our preliminary EBITDA forecast is a figure of around \$11M for the combined company. We have developed a forecasted P&L by quarter for the current fiscal year (FY23) and have elected to utilize the assumption of a combined entity for the balance of the fiscal year.

Importantly, this forecasted P&L does not have line items for EBITDA and adjusted EBITDA for each Company segment for the full year as these figures have been provided via official guidance from management. We may elect to publish a full P&L following the 2Q23 results release. Current FY23E guidance remains as follows:

- Manufacturing: Revenue of \$230M-\$240M, EBITDA of \$35M -\$38M, adjusted EBITDA of \$57M - \$60M
- Online: Revenue of \$70M, EBITDA of \$47M, adjusted EBITDA of \$51M

We are using the low-end figures for the manufacturing side as part of our sales projections as well as the low-end EBITDA and adjusted EBITDA figures. In addition, we have not produced any forecasts for FY24E at this time as it is unclear as to how the entity or entities would be structured, post-proxy resolution. As mentioned above, it is our belief that the Company's true value is via a sum of the parts valuation. Therefore, the manufacturing side of the business could be worth 6x \$57M (\$342M) in adjusted EBITDA, which is just a tad higher than the current market cap. Plus, these assumptions lead to the online business being worth 11x \$51M (\$561M) in adjusted EBITDA. Against this backdrop, we believe the current share price is undervalued and represent a great entry point with meaningful upside as events are catalyzed. Based on the current share count, the adjusted EBITDA forecast and these valuation metrics, our price target is \$8.00 for AMMO.

**Table I. AMMO, Inc.  
 Key Comparisons  
 (\$, 000 rounded)**

|                        | <u>FY22A</u>     | <u>1Q23</u>     | <u>2Q23E</u>    | <u>FY23E*</u>    | <u>FY23E^</u>    |
|------------------------|------------------|-----------------|-----------------|------------------|------------------|
| Ammo Sales             | \$161,500        | \$41,000        | \$47,700        | \$213,700        | \$213,700        |
| Marketplace Rev        | \$64,600         | \$16,500        | \$17,000        | \$70,000         | \$70,000         |
| Casings Sales Software | \$14,200         | \$3,300         | \$3,800         | \$16,300         | \$16,300         |
| <b>Total Revenue</b>   | <b>\$240,300</b> | <b>\$60,800</b> | <b>\$68,500</b> | <b>\$300,000</b> | <b>\$300,000</b> |
| Gross Margin           | 37%              | 30%             | 29%             | 30%              | 30%              |
| Operating Margin       | 15%              | 8%              | 8%              | 9%               | 9%               |
| <b>EBITDA</b>          | <b>23%</b>       | <b>18%</b>      | <b>17%</b>      | <b>18%</b>       | <b>27%</b>       |

\*denotes GSCR EBITDA forecast for combined company

^ denotes AMMO EBITDA guidance as separated companies

Sources: AMMO and Goldman Small Cap Research

## RISK FACTORS

The risks associated with AMMO vary by category and could be considered more numerous than some other NASDAQ small caps. We prefer to categorize the risks by legal, production, marketing, and capital markets. As the Company seeks to win business from US government agencies and the military, delays in RFP decisions and procurement dates and rollouts are commonplace, which may impair top-line growth timing and thereby affect a given quarter's results. Separately, any changes in firearms laws on a federal or state level could negatively impact the manufacturing and online businesses.

The ability to successfully sell abroad could result in a receivables issue for the Company. It should be noted both US and foreign business at the law enforcement and military agency level can be quite lucrative and we believe that these sales will favorably impact top-line rather than negatively affect it, given the huge demand for AMMO's products. Increased production through the new Manitowoc facility should be a major help to the Company to meet demand and as production increases. Plus, gross profit should benefit, once initial, standard growing pains subside.

A new marketing campaign and enhanced front-end platform for Outdoor Online (current Gunbroker.com unit) is likely to provide a boost to sales. However, full implementation delays could affect sales and profit in the coming quarters. The next major risk is related to the general timing and magnitude of both business' sales and marketing ramp, and continued in-demand products. Competitive risks including lower pricing, more effective sales/marketing, and better products could take away business as well. These risks could come from larger competitors, existing firms, or new entrants. Still, these future concerns are consistent with firms of AMMOs size

and standing. Moreover, we believe that AMMO's seasoned management team is prepared to overcome these hurdles and generate significant top-line growth and strong profit margins.

Volatility and liquidity are typical concerns for small cap microcap stocks. It is possible that these shares tread water until a resolution regarding the business separation comes to light. Plus, while we do not believe this will be the outcome, the resolution may not be a positive in the eyes of investors, impairing management's ability to materially enhance shareholder value. Still, investors tend to prefer for conflict to be eliminated at the C-level and director level. The current situation may end up lighting a fire for both parties to seek an amicable resolution, thereby boosting these shares.

Separately, some investors may fear a dilutive financing is in the offing-a situation where have no insight or opinion. In our view, an overriding financial benefit as a public company is the favorable access to and the availability of capital to fund product launches, consistent marketing campaigns and other initiatives. Since the proceeds of any future funding would be used in large part to advance major business development and sales, we believe that any dilutive effect from such a funding could be offset by related increases in market value.

## CONCLUSION

AMMO is positioned as one of the top 5 munitions producers in the nation. The Company leverages its IP and approach to produce in-demand premium, branded ammunition and ammunition components for use by law enforcement, military and individuals. In our view, AMMO's core business leverages unrivaled market demand and is poised to generate sales and profit margin growth. Following the opening of its new state-of-the-art facility in Manitowoc WI, the Company can produce billions in munitions and components annually. Moreover, AMMO is poised broaden its standing via its access to 10,000+ retail locations. Against this backdrop, AMMO should increase sales to military and law enforcement agencies in the US and abroad.

Separately, AMMO owns the largest online marketplace for firearms, shooting and related products that boasts 6M+ users and 25,000 FFL partners. A popular online platform with a 20-year history, this unit generates enviable operating profit margins.

Management has proposed a separation of the munitions and marketplace businesses into two public entities whereby shareholders would own one share of each firm. This proposal has been met with controversy which we believe has created a favorable entry point for opportunistic investors that can take advantage of potential, future inflection points and milestones. Regardless of the separation resolution, we believe that our \$8 target reflects a reasonable sum of the parts valuation based on management's \$300M combined revenue and \$108M combined adjusted EBITDA guidance for FY23 for the two businesses.



## RECENT TRADING HISTORY FOR POWW

(Source: [www.StockCharts.com](http://www.StockCharts.com))



## SENIOR ANALYST: ROBERT GOLDMAN

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 25 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

## ANALYST CERTIFICATION

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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