



Smith & Wesson Brands, Inc.

Stock Report | December 31, 2021

Smith & Wesson®

Market Cap	1,003,083	Volume	49,881,743
Revenue	1,044,518	Price (2021)	21.67
Industry (SIC)	Ordinance and accessories (3489)	Current Price (2022)	14.43
Industry (NAICS)	Small Arms, Ordnance, and Ordnance Accessories Manufacturing (332994)	TARGET PRICE	10.17

Recommendation: Sell

The valuation model applied shows an intrinsic equity value of \$513,455,587 in 2021, which translate to a price per share of \$10.17. Considering the huge decrease the price took the first half of 2022, and that both prices are way higher than the target price, my recommendation is to sell or not buy equity in this company. Most analyst recommend buying due to the growth in this industry, however, S&W has barely debt, thus there's a limited margin on what the company can grow financed only with equity.

Company summary:

Smith & Wesson is an American firearms manufacturer headquartered in Springfield, Massachusetts. It was created in 1852 and it sold the first repeating firearm with a self-contained cartridge. Until the current time, the company has managed to grow and overcome numerous setbacks including legislations against the gun industry, wars on drugs and many more until becoming one of the companies in the industry with more capitalization. It also provides manufacturing services.

Recent Events:

- Different Police Departments, including California's and Nevada's, have selected S&W firearms.
- The latest mass shootings in the US has lead the FBI to increase background checks on potential gun buyers which has caused the stock to fall.
- Google search on guns have increased in over 230% in the last couple of months.



Future and Risks:

- Revenues surpassed \$1B, doubling from the previous year.
- Despite the high growth, analyst are not as positive this is going to be sustained.
- Firearms industry is highly volatile and vulnerable to political and social environment and the regulations that come with that which increase the company's cost of manufacturing.
- The potential market of guns is predicted to increase 30% in the following 5 years.
- There's still uncertainty on how COVID-19 is going to affect the supply chain of the company. In the first two years it has decreased the supply and increase production costs.
- Consumer demand is highly volatile in this industry, making it hard to predict the inventory needed.

Financial Ratios

Return on Equity (%)	87.41%
Return on Assets (%)	54.45%
Current Ratio	2.36
Payout Ratio (%)	3.87%
Annualized Dividends (\$)	\$ 0.19

Industry



Smith & Wesson®

History: After the Civil War in the United States, the gun manufacturing industry shifted to peacetime customers to ameliorate the surplus by convincing dry goods stores to sell handguns alongside flower and sugar as well as intensified marketing. The end of slavery shifted the demand of handguns to newly freed Black men as well as it intensified the demand in white population to terrorize or murder them.

Government regulations:

Under the Second Amendment, the people have the right to keep and bear arms. However, the recent mass shooting have spark the government to aggravate the current restrictions on eligibility for owning a gun, what kind of arms are regular citizens allowed to possess and what licenses are needed when carrying a gun. Although the regulations are yet not in order, the president Joe Biden has stated that reviewing them is a priority in the next couple of years.

Key Data:

Industry size: \$4.89 billion
USA size: \$3.33 billion
Projected: \$6.52 billion by 2027

Common products sold:

- Handgun
- Rifle
- Shotgun

Growth and Trends:

Statistics report that employment in the gun industry raised over 15% in the 2020 and the volume of orders increase in 50%.

Although there's no seasonality in the industry, the fluctuations are highly dependent on political and social environments.

Driving Factors of growth:

- Increasing demand from civilians to aid growth
- Increasing terrorist Activities
- Rising investment in the development of new and advanced firearms

Marketing strategies:

20% of the ads are directed to hunting and only 3% to self protection. Only 15% of gun ads link ownership to patriotism. 91% of the ads emphasize the quality and differentiation of the guns.

Lately the focus of the gun market has been a new target: America's children.

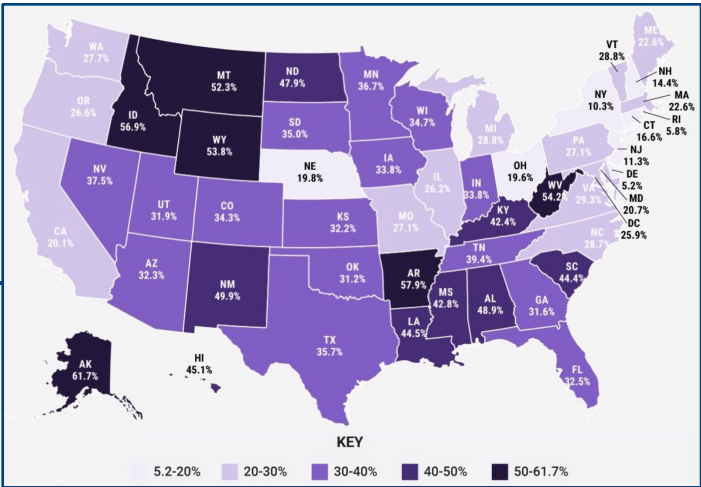
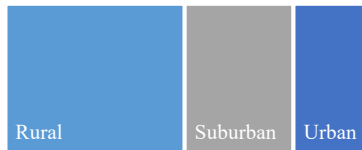
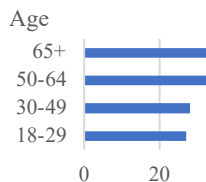
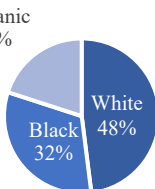
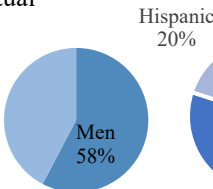
Consumer Market Data:

Psychographics:

- Tend to be more self-demanding/oriented than socially outgoing
- Independent minded, passionate, driven, ambitious, practical
- See themselves as more creative and spiritual

Demographics:

Own a gun	30%	Women
Do not own a gun	70%	42%
Could get a gun in the future	37%	
Would never get a gun	33%	



Competitors:

General Dynamics Corp	Aerospace and defense company. Market cap: 63.38M. Price stock: 230.38.
Northrop Grumman Corp	Aerospace and defense company. Market cap: 74.75M. Price stock: 479.84.
Sturm, Ruger & Co., Inc.	Firearms manufacture. Market cap: 1175.44M. Price stock: 66.48.