

HEIGHTENED CONSUMER ACCESS AND ROBUST DEMAND DRIVES SECTOR RESILIENCE

TACTICAL PRODUCTS SECTOR UPDATE | SEPTEMBER 2023



**CAPSTONE
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Tactical Products

Heightened Consumer Access and Robust Demand Drives Sector Resilience

KEY SECTOR TAKEAWAYS

Capstone Partners' [Consumer Investment Banking Group](#) is pleased to share its Tactical Products report. Public companies in the sector have increased net sales by spinning off hunting, fishing, and commercial firearm product lines into publicly traded subsidiaries. Businesses with advanced technology product offerings serving the Attachment and Accessory segments have experienced healthy merger and acquisition (M&A) interest from buyers. Several key report takeaways are outlined below.

1. Sector M&A activity has declined year-over-year (YOY) through year-to-date (YTD) 2023; however, quality companies with proven cash flows have continued to draw acquirer appetite.
2. Volume in the Federal Bureau of Investigation's (FBI) National Instant Criminal Background Check System (NICS) has remained elevated, showcasing healthy consumer interest in firearm purchases.
3. Sector participants have utilized M&A and strategic partnerships to bolster sales of advanced technology attachments and accessories.
4. Firearms manufacturers have increased production levels in recent years as supply chains have normalized from COVID-induced disruptions.
5. Tactical products companies continue to focus on growth in their Consumer end market, including Direct-to-Consumer, to complement Government/Military and Law Enforcement end markets.

Capstone Partners has developed a full suite of corporate finance solutions, including M&A advisory, debt advisory, financial advisory, and equity capital financing to help privately owned businesses and private equity firms through each stage of the company's lifecycle, ranging from growth to an ultimate exit transaction.

To learn more about Capstone's wide range of advisory services and Tactical Products sector knowledge, please [contact us](#).

SPIN-OFFS AND CONSUMER ACCESS BROADEN SECTOR OPTIMISM

Successful public company spin-offs, broad consumer interest, and the expansion of product accessibility have offered an optimistic outlook for the Tactical Products sector. Leading public companies in the space have spun-off their Rugged Outdoor Enthusiasts segments into publicly traded subsidiaries to capture additional revenue from a more diverse customer base. Most recently, Vista Outdoor (NYSE:VSTO) announced the spin-off of its Sporting Products segment in May 2022. As of August 2023, the business segment will be rebranded as The Kinetic Group. Smith & Wesson's (Nasdaq:SWBI) spin-off of its Outdoor Products & Accessories business into American Outdoor Brands (Nasdaq:AOUT) in August 2020 served as an early blueprint for sector players looking to capture additional revenue. Compared to its fiscal year (FY) 2020 earnings, American Outdoor Brands has improved its e-commerce sales by 60.6%, net sales by 14.2%, and gross margin by 3.7% in FY 2023, according to its FY 2023 investor presentation.¹

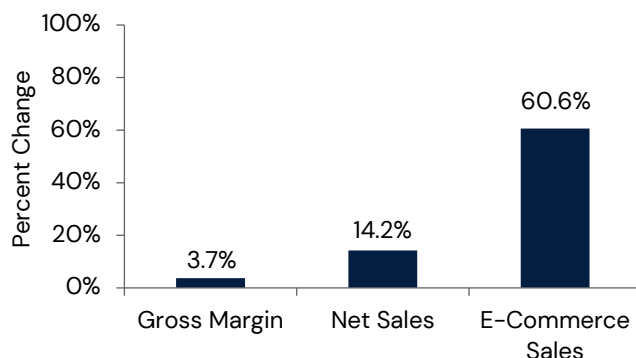
U.S. consumer interest in firearms has been healthy in 2023. NICS firearm background checks increased from 2.02 million in July 2023 to 2.14 million in August 2023, which marked the 49th consecutive month the program has reported more than one million checks, according to the FBI.² Although firearm background checks do not directly equate to firearm sales, it is a strong indicator of consumer interest in firearm purchases, which has remained robust to-date.



The expansion of constitutional carry laws is expected to bolster revenue opportunities for ammunition providers serving the Small Caliber Ammunition market. As of April 2023, U.S. citizens can conceal or openly carry handguns without a permit in 26 U.S. states, up from nine in 2016, according to the U.S. Concealed Carry Association.³ This has expanded consumer accessibility to small firearms and driven demand for related ammunition. The global Small Caliber Ammunition market is valued at \$9 billion in 2023 and is forecasted to reach \$15.7 billion by 2033, growing at an annual rate of 5.7%, according to Research and Markets.⁴ The U.S. market is projected to grow at an even higher annual rate of 6.5%, a sign of shifting consumer preferences towards more accessible, smaller caliber guns.

American Outdoor Brands Sees Post Spin-Off Growth

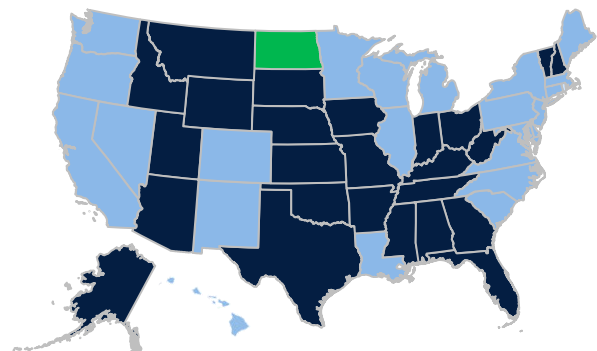
(Fiscal Year 2023 vs. 2020)



Source: American Outdoor Brands Investor Presentation

Majority of U.S. States Support Permitless Constitutional Carry

■ Permitless Carry ■ Permit Required ■ Residents Only

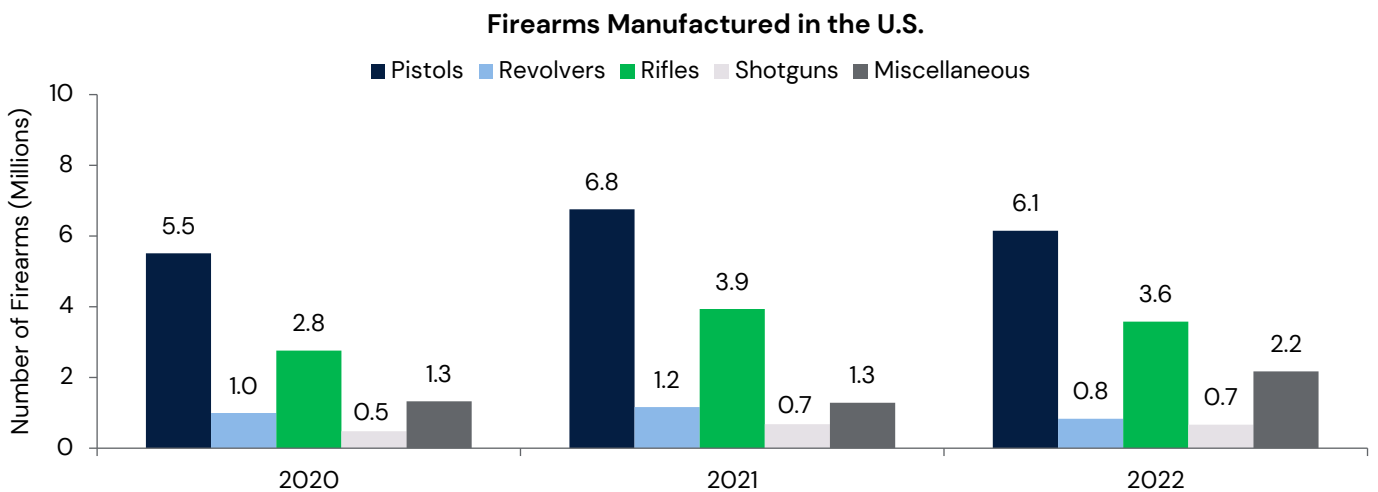


Source: U.S. Concealed Carry Association

FIREARM AND AMMUNITION COMPANIES WEATHER EARLY HEADWINDS

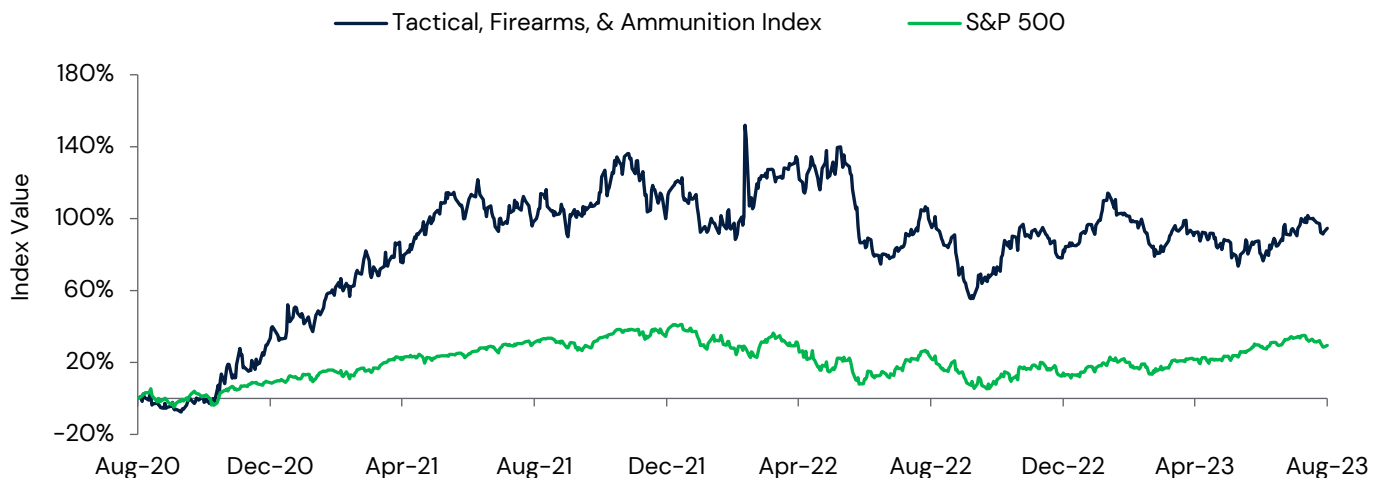
1. Demand for firearms and ammunition has historically been resilient during recessions due to entrenched U.S. consumer sentiment around the right to personal protection. As the operational efficiency of global supply chains has begun to normalize, manufacturers have increased production.
2. Pistols have consistently been the most manufactured firearm in the U.S. over the past three years. Regulatory efforts around commercial access to high capacity rifles have stymied manufacturing volume.
3. Capstone's Tactical, Firearms, & Ammunition index has vastly outperformed the S&P 500 through YTD 2023 despite volatility in the broader public equity markets.

Firearm Production Recovers After Initial Shock of Supply Chain Disruptions



Source: U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives

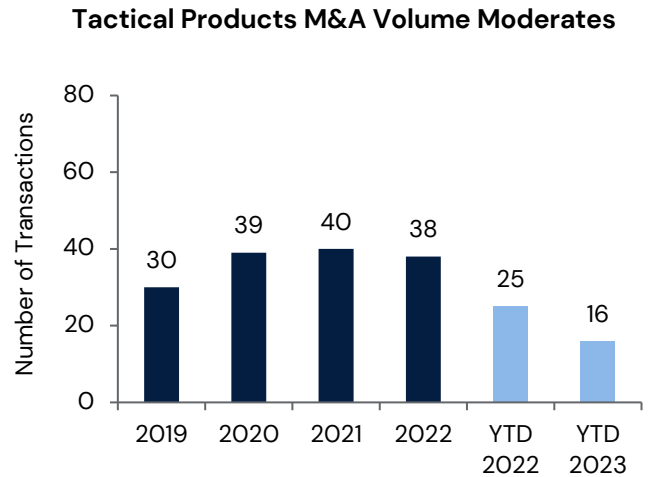
Public Firearm and Ammunition Index Records Substantial Returns



Tactical, Firearms, & Ammunition Index includes: AOUT, CLAR, CZG, MLHK, OLN, POWW, RGR, SWBI, TASA4, VSTO; market capitalization weighted
Source: Capital IQ as of August 21, 2023

M&A VOLUME MODERATES, BUYERS PRIORITIZE QUALITY BUSINESSES

M&A volume in the Tactical Products sector has declined YOY through YTD 2023 to 16 transactions announced or completed. Compared to the prior year period, sector deal activity has dropped 36%, down from 25 transactions through YTD 2022. The broader Consumer industry has historically been sensitive to economic cycles, often resulting in an M&A volume decline amid downturns or uncertainty. While volume in the Tactical Products space has slowed, quality companies with unique product offerings, serving attractive end markets, have still commanded buyer attention. Stable background check levels and interest rate clarity from the Federal Reserve are expected to provide healthy optimism for dealmaking in the second half of 2023 and into 2024.



Year-to-date (YTD) ended August 14
Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

Private strategic buyers have driven the majority of sector deal activity to-date, comprising 62.5% of total transactions. This marks a stark increase compared to YTD 2022, in which private strategic buyers accounted for only 40% of all transactions. Continued interest rate hikes from the Federal Reserve and strict limited partner (LP) investment criteria around firearms have pushed many financial buyers to the sidelines. Sponsors have exclusively pursued add-on acquisitions in the space, with no platform transactions announced or completed through YTD 2023. Of note, target companies in the sector offering tactical gear and firearm adjacent products have attracted significant buyer interest. Society Brands, an e-commerce aggregator, acquired tactical belt, backpack, and glove retailer Wolf Tactical (May 2023, undisclosed), marking its fifth acquisition since August 2022. Additionally, The Day & Zimmerman Group acquired military sewing manufacturer Empire Products (August 2023, undisclosed). Empire specializes in propellant, charge, and 120mm tank ammunition bags and has manufactured nine million 155mm Modular Artillery Charge System (MACS) bags for military and commercial customers, according to a press release.⁵

Tactical Products Valuation Analysis

| Valuation Method | Average Revenue Multiple | Average EBITDA Multiple |
|---|--------------------------|-------------------------|
| Tactical Products Sector M&A Transactions (2019-YTD 2023) | 1.5x | 9.2x |
| Tactical Products Public Company Trading Multiples (LTM) | 1.1x | 7.9x |

Valuation Insight

Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

While the Tactical Products sector often lacks pricing transparency in M&A transactions, disclosed valuation multiples in the Tactical Products sector have still averaged a healthy 9.2x EV/EBITDA between 2019 and YTD 2023. M&A valuations have outpaced last twelve months (LTM) public company trading multiples in the space, which have averaged 1.1x EV/Revenue and 7.9x EV/EBITDA. Sector M&A valuations in recent years have been particularly robust with quality companies garnering EBITDA multiples well beyond the sector average. Of note, TTM Technologies (Nasdaq:TTMI) acquired Telephonics in April 2022 for an enterprise value of \$279.3 million, equivalent to 15.0x EV/EBITDA. Telephonics offers military-grade radar, surveillance, and communications products to first-responders and air traffic controllers. The acquisition offers a prime example of a middle market company in the space commanding a premium valuation.

TECHNOLOGY INNOVATION DRIVES SEGMENT GROWTH

Advanced technology systems have been a key differentiator in the Accessory and Attachment segments. Businesses in the space offering the latest firearm accessory technology have penetrated a congested Commercial end market utilizing M&A and strategic partnerships to bolster product offerings and drive sales. Of note, Cadre (NYSE:CDRE), a tactical equipment manufacturer serving the Law Enforcement and Commercial end markets, experienced a 10% YOY sales increase in its Duty Gear Commercial segment in Q2 2023 stemming from the launch of its new commercial firearm holsters, according to an earnings transcript.⁶ In collaboration with veteran-owned Haley Strategic Partners, Cadre's new holster line through its Safariland brand includes the Solis commercial holster with Automatic Locking System (ALS) technology. This system serves as an internal locking device that secures the weapon in all directions simply upon re-holstering. Product development through M&A and strategic partnerships has positioned the Accessory and Attachment segments for continued growth in the broader Tactical Products sector. Notable M&A transactions highlighting this trend are outlined below.



Acquires



True Velocity Ammunition (TV Ammo) acquired advanced suppressor technology provider Delta P Design in July for an undisclosed sum. TV Ammo is a Texas-based composite manufacturing company with a focus on acquiring advanced firearm technology companies to expand its presence in the growing global Advanced Weapon Systems market. The acquisition of Delta P Design and the integration of its Firearm Suppressors product line into the TV Ammo brand marks the company's second deal in the space.

Delta P Design's products include centrefire rifle suppressors and accessories that reduce firearm weight, sound, and muzzle flash. Delta P's technology is the only suppressor technology available that has been proven to function with full reliability on machine gun platforms, according to a press release.⁷ TV Ammo is expected to optimize the acquired technology to for its upcoming .338 Norma Lightweight Medium Machine Gun in conjunction with its recoil mitigation and advanced weapon systems designs for military and commercial uses.



Acquires



Newly formed holding company Heritage Outdoor Group acquired Arizona-based archery supply company PSE Archery in February for an undisclosed sum. PSE has developed, designed, and manufactured bows, arrows, and related attachments and accessories since 1971.

Heritage Outdoors' stated mission is to obtain and scale leading brands in the Outdoor space, and is expected to build upon PSE's brand recognition in the Tactical Products sector. PSE's track record of innovation has carried over into the Accessory and Attachment segments with its Black Mountain brand of stabilizers, arrow rests, bow sights, and quivers. PSE's most advanced technology products are its bow sights, which include the DR Macro Sight that features the company's Quiet Bushing System, reducing bow vibrations and noise, according to PSE's website.⁸ PSE's sale has demonstrated an appetite among buyers for innovative products from household name brands.



SELECT TRANSACTIONS

| Date | Target | Acquirer | Target Business Description | Enterprise Value (mm) | EV/LTM Revenue | EBITDA |
|----------|--------------------------------|-----------------------------------|--|-----------------------|----------------|--------|
| 08/23/23 | Olin (NYSE:OLN) | Assets of White Flyer Targets | Manufactures recreational trap, skeet, and sporting clays for commercial customers. | - | - | - |
| 08/07/23 | Aethercomm | Frontgrade Technologies | Supplies high powered linear and pulsed RF amplifiers for military and satellite communications. | - | - | - |
| 08/02/23 | Empire Products | The Day & Zimmerman Group | Manufactures military propellant bags and charge bags. | - | - | - |
| 07/24/23 | Delta P Design | True Velocity Ammunition | Manufactures rifle suppressors and accessories for military applications. | - | - | - |
| 05/31/23 | Wolf Tactical | Society Brands | Retails tactical gear online. | - | - | - |
| 04/27/23 | Outdoor Technology | Dialectic PR | Offers rugged consumer electronic and helmet audio, including headwear and neck gaiters. | - | - | - |
| 04/24/23 | RP Acquisition | Runnings Supply | Offers essential products for outdoor recreation including hunting boots. | - | - | - |
| 04/12/23 | Maddox Defense | Envirotech Vehicles (Nasdaq:EVTV) | Manufactures tactical gear and equipment for the Defense industry. | - | - | - |
| 02/22/23 | New Moosejaw | DICK'S Sporting Goods (NYSE:DKS) | Engages in the retail of outdoor gear and essentials. | - | - | - |
| 2/16/23 | PSE Archery | Heritage Outdoor Group | Manufactures archery equipment. | - | - | - |
| 01/18/23 | C-A-L Stores Companies | Coastal Farm & Ranch | Operates stores that sell outdoor clothing and fishing equipment. | - | - | - |
| 01/17/23 | IF Armor International | The Armored Group | Fabricates armored vehicles for Commercial, Government, and Defense industries. | - | - | - |
| 01/17/23 | Kelm Acubar | The Armor Group | Manufactures OEM and aftermarket machined components for vendors in the Defense market. | - | - | - |
| 01/16/23 | Barrett Firearms Manufacturing | Nioa Nominees | Operates as an aerospace and defense company. | - | - | - |
| 01/13/23 | BlackPoint Tactical | High Speed Gear | Manufactures custom, hand-crafted holsters intended for local, state and federal agencies. | - | - | - |
| 12/21/22 | Loop Labs | Pepper | Offers a sensor that enables users to monitor gun safes. | - | - | - |
| 12/14/22 | Rave Wireless | Motorola Solutions (NYSE:MSI) | Develops service-based software for campus and public safety solutions in the U.S. | \$555.1 | - | - |
| 12/14/22 | Ameriguard (OTCPK:AGSS) | AmeriGuard Security Services | Provides guard services to Commercial Property Management Sectors. | \$112.5 | - | - |
| 12/05/22 | FFI Holdings | Simple Management Group | Operates a chain of pawnshops in Florida, offering firearms and layaway programs. | - | - | - |
| 12/01/22 | Forum Industries | National Safety Apparel | Manufactures and supplies apparel for the law enforcement community in the U.S. | - | - | - |
| 11/22/22 | PrairieFire Nevada | Nevada PF | Provides self-defense gun training services. | - | - | - |

Source: Capital IQ, PitchBook, FactSet, and Capstone Partners



PUBLIC COMPANY DATA

TACTICAL, FIREARMS, AND AMMUNITION

| Company | Price | % 52 Wk | Market | Enterprise | LTM | | | EV / LTM | |
|---|----------|---------|-----------|------------|--|-----------|--------|----------|--------|
| | 09/14/23 | High | Cap | Value | Revenue | EBITDA | Margin | Revenue | EBITDA |
| American Outdoor Brands, Inc. | \$9.39 | 81.0% | \$122.1 | \$128.2 | \$191.0 | \$8.9 | 4.7% | 0.7x | 14.4x |
| AMMO, Inc. | \$1.99 | 53.6% | \$234.7 | \$201.8 | \$157.6 | \$12.6 | 8.0% | 1.3x | 16.0x |
| Cadre Holdings, Inc. | \$24.81 | 78.8% | \$932.5 | \$1,021.9 | \$468.0 | \$78.2 | 16.7% | 2.2x | 13.1x |
| Clarus Corporation | \$6.66 | 43.5% | \$249.4 | \$382.6 | \$401.0 | \$40.2 | 10.0% | 1.0x | 9.5x |
| Colt CZ Group SE | \$24.14 | 90.3% | \$832.2 | \$988.0 | \$658.7 | \$125.2 | 19.0% | 1.5x | 7.9x |
| H&K AG | \$110.67 | 80.5% | \$3,926.9 | \$4,022.7 | \$326.3 | \$78.9 | 24.2% | NM | NM |
| Olin Corporation | \$50.14 | 77.5% | \$6,308.9 | \$9,257.5 | \$7,845.7 | \$1,900.8 | 24.2% | 1.2x | 4.9x |
| Smith & Wesson Brands, Inc. | \$11.36 | 83.0% | \$524.2 | \$533.4 | \$509.1 | \$93.4 | 18.3% | 1.0x | 5.7x |
| Sturm, Ruger & Company, Inc. | \$50.27 | 79.5% | \$890.9 | \$756.6 | \$580.9 | \$99.9 | 17.2% | 1.3x | 7.6x |
| Taurus Armas S.A. | \$3.38 | 93.7% | \$423.8 | \$475.4 | \$448.3 | \$99.8 | 22.3% | 1.1x | 4.8x |
| Vista Outdoor Inc. | \$28.41 | 88.6% | \$1,647.9 | \$2,691.0 | \$2,970.5 | \$529.4 | 17.8% | 0.9x | 5.1x |
| EV = enterprise value; LTM = last twelve months \$ in millions, except per share data NM = Not Meaningful | | | | | Mean 16.6% 1.2x 8.9x Median 17.8% 1.1x 7.7x Harmonic Mean 13.0% 1.1x 7.4x | | | | |

LESS-LETHAL

| Company | Price | % 52 Wk | Market | Enterprise | LTM | | | EV / LTM | |
|-----------------------------------|----------|---------|------------|------------|--|---------|--------|----------|--------|
| | 09/14/23 | High | Cap | Value | Revenue | EBITDA | Margin | Revenue | EBITDA |
| Axon Enterprise, Inc. | \$211.93 | 92.2% | \$15,843.9 | \$15,426.8 | \$1,365.5 | \$152.7 | 11.2% | NM | NM |
| Byrna Technologies Inc. | \$3.47 | 33.4% | \$76.3 | \$63.1 | \$48.4 | NM | NA | 1.3x | NM |
| KWESST Micro Systems Inc. | \$1.79 | 19.4% | \$10.1 | \$9.0 | \$0.7 | NM | NA | NM | NM |
| Mace Security International, Inc. | \$0.09 | 41.7% | \$5.6 | \$8.0 | \$8.0 | NM | NA | 1.0x | NM |
| Wrap Technologies, Inc. | \$1.69 | 58.3% | \$73.0 | \$55.1 | \$7.2 | NM | NA | NM | NM |
| | | | | | Mean 11.2% 1.2x NA Median 11.2% 1.2x NA Harmonic Mean 11.2% 1.1x NA | | | | |

SPORTING GOODS RETAILERS

| Company | Price | % 52 Wk | Market | Enterprise | LTM | | | EV / LTM | |
|-----------------------------------|----------|---------|-----------|------------|--|-----------|--------|----------|--------|
| | 09/14/23 | High | Cap | Value | Revenue | EBITDA | Margin | Revenue | EBITDA |
| Academy Sports and Outdoors, Inc. | \$49.67 | 72.0% | \$3,702.1 | \$5,151.5 | \$6,207.1 | \$1,040.1 | 16.8% | 0.8x | 5.0x |
| Big 5 Sporting Goods Corporation | \$6.87 | 49.4% | \$150.2 | \$432.7 | \$948.3 | \$129.9 | 13.7% | 0.5x | 3.3x |
| DICK'S Sporting Goods, Inc. | \$110.88 | 72.7% | \$9,427.4 | \$11,783.5 | \$12,621.4 | \$2,367.1 | 18.8% | 0.9x | 5.0x |
| | | | | | Mean 16.4% 0.7x 4.4x Median 16.8% 0.8x 5.0x Harmonic Mean 16.1% 0.7x 4.3x | | | | |

Source: Capital IQ as of September 14, 2023

BUYER/INVESTOR UNIVERSE

Capstone has built relationships with and tracked buyers/investors that have been highly acquisitive or target investments in the Tactical Products sector, particularly those that have completed notable M&A transactions. Our sector knowledge and network provides us with unique insights into this buyer universe and sector and growth drivers for the companies within it.

Select Private Equity Groups



Select Family Offices



Select Strategies



Source: Capstone Partners

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Market Presence

With a long-established U.S. footprint, together with an international partner platform, we provide clients with broad expertise and access to key market relationships on a global basis. Our presence is backed by ~200 professionals in the U.S. with 450+ partners across 41 countries.

