

March 3, 2017

American Outdoor Brand Corp
 NASDAQ - AOBC
 Benjamin Bouin

Sector: Consumer Discretionary
Industry: Leisure Products

American Outdoor Brands Corp, previously called Smith & Wesson's is a manufacturer of firearm products and accessories. They are specialized into the shooting, hunting, and rugged outdoor markets. The company has been founded in 1852.

BUY

Current Price: \$18.83
 Target Price: \$22.01
 Market Cap: 1.06B
 Beta: -0.41

Thesis: AOBC's revenue is depending on the households' income which is increasing since 2015. Moreover, because of the diversification of the company, AOBC's products are available to everyone in outdoor retailers, which ones have seen their sales increasing through the years and will see them increasing for the next years. This will lead to an increase of AOBC's revenues. Moreover, the company has hired a former VP in Vista who's in charge on the outdoor department. This will help AOBC to successfully develop their diversification. AOBC has seen its margins increasing between 2015 and 2016, through a reduction costs policy. This has led to an increase of EBITDA and of its free cash flow. This increases lead to an increase of the company's value.

Catalysts:

- **Short Term (within the year):** AOBC expects to launch new products during the third and third quarter.
- **Mid Term (1-2 years):** Because of the republican president AOBC expects to have stable growth.
- **Long Term (3+):** The result of the different acquisitions, AOBC will have an increase of diversification at the end of the consolidation.



Transition Guidance:

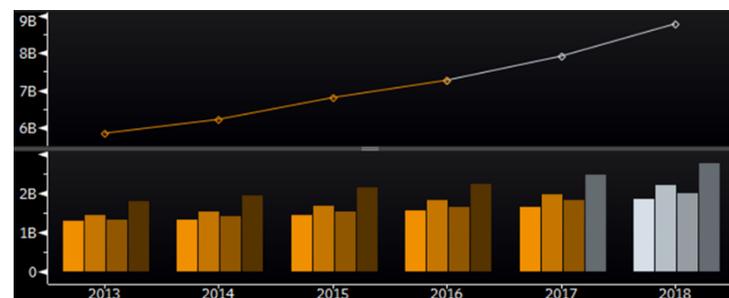
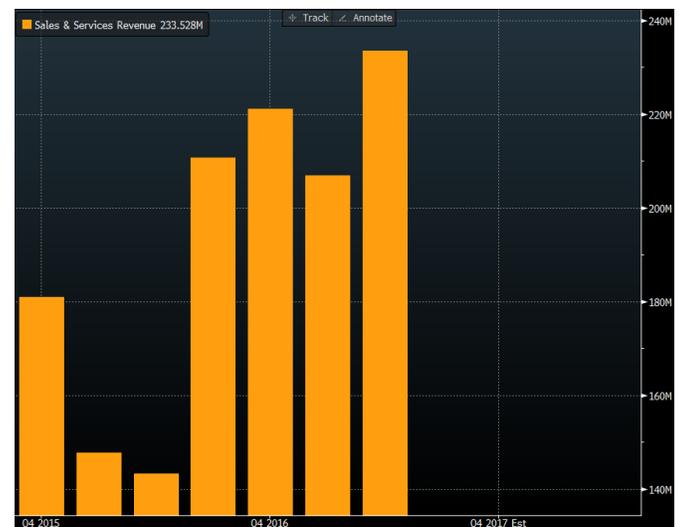
Since Smith&Wesson has become American Outdoor Brands Corp, this shows a change in the direction and in the strategy. In fact, the holding has made several acquisitions in order to become more diversified in a specific industry which is the outdoor recreational market. Because this is a big change for Smith&Wesson they have hired Brian Murphy as president of their outdoor recreation department who has been vice president in Vista for their corporate development. Vista Outdoor. Vista is now one of the AOBC's competitor. He will bring to AOBC all his experience about outdoor sports corporate.

Revenue:

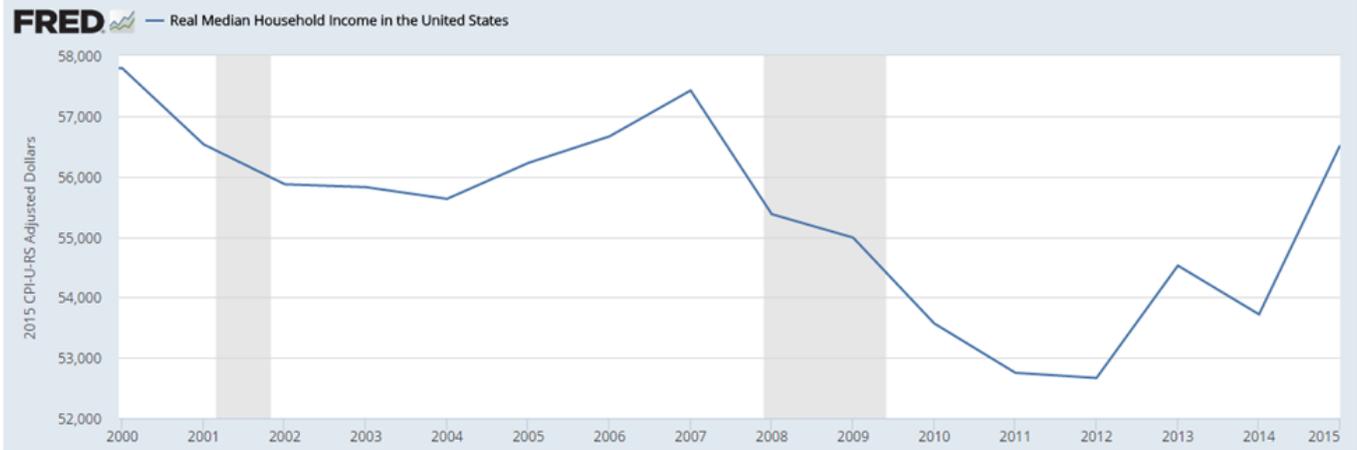
The last quarterly revenue reported by American Outdoor Brands has been equal to \$233.5 million compared to \$210.8 million for the same quarter last year. This increase represent an increase of 10.8%. Furthermore, their growing revenues are driven by the fact that AOBC, is changing its strategy to develop their product through outdoor recreational products such as hunting, camping fishing products. They also have made several acquisitions such as Taylor Brands, Crimson Trace Corporation and Ultimate Survival Technologies, which are companies offering outdoor recreational products. These acquisition and this diversification is leading ABC to an increase of sales revenue. In fact, today, AOBC is able to propose each products which fits with their gun products. By acquire Crimson Trace Corporation they are able to sell the laser and the tactical light which go with their gun.

Moreover, the households, will be able to buy AOBC's products on any stores, which sell outdoor products such as Dick's BassPro Shops Academy Sports + Outdoors. If we look at the revenue growth of Dick's we see that it will be high. And overall, the outdoor sports industry is expecting to grow Moreover, the households, will be able to buy AOBC's products on any stores, which sell outdoor products such as Dick's BassPro Shops Academy Sports + Outdoors. If we look at the revenue growth of Dick's we see that it will be high. And overall, the outdoor sports industry is expecting to grow.

Furthermore, since AOBC is offering recreational products, their sales are driven by the household's income. In September, there has been a release of the real median household income in the U.S. is has increased by 5.21%. This increase represent an opportunity for AOBC since if households' wealth increases, they will tend to spend more in recreational products. Even if the lasts two years were not favorable to the small arms industry, the market

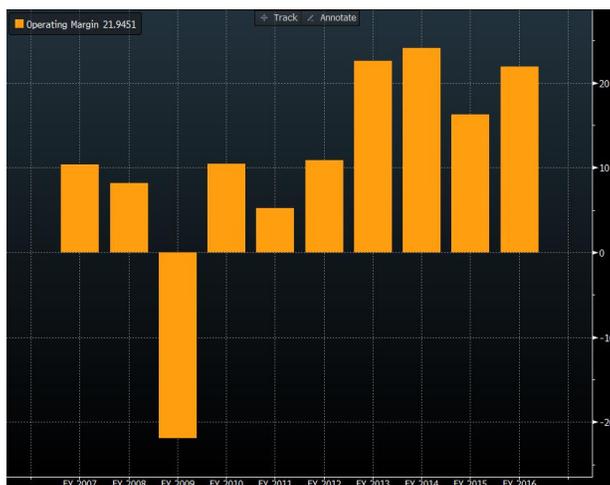
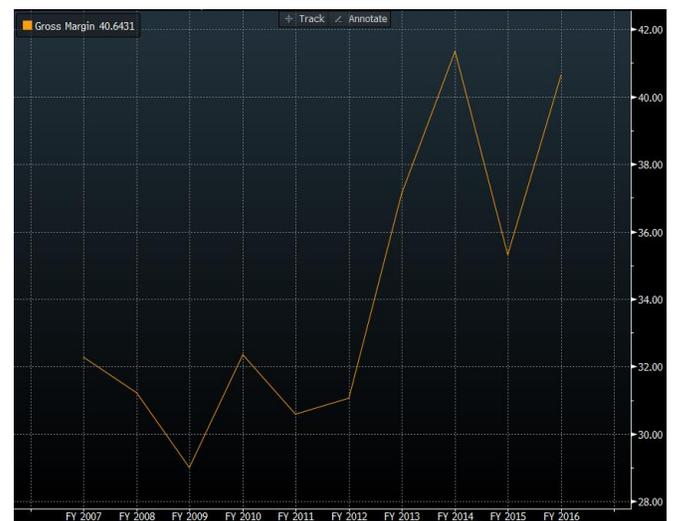


Dick's revenue



Margin:

One of the biggest concern of the AOBC's governance is the margin. In fact, we can see a loss of 14.56% between 2014 and 2015, which can be explain by one of the biggest acquisition, Battenfeld. Then, between 2015 and 2016, they have seen a big increase of 15.03% in term of gross margin. Indeed, this increase is almost as big as the decrease the previous year. This is explain by their aggressive policy concerning the cost. We also can look at the operating margin in order to see how their SGA is managed. We also can see that their SGA have been impacted by the aggressive policy concerning the reduction of the costs. If they continue to increase their margin, this will lead to an increase of EBIT, which will ensure an increase of the company's value which will lead to an increase of the stock price. increasing their profit margin

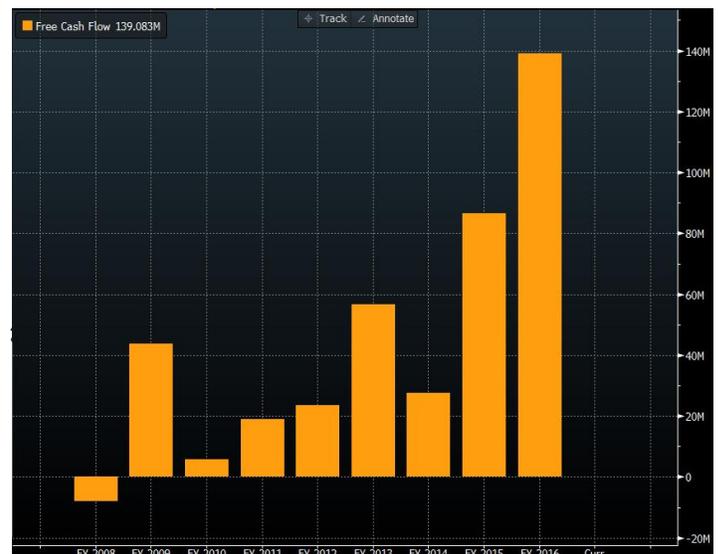


If we look at the EBITDA to net sales, we can see that American Outdoor Brands Corps beat the competitors by 4 basis points. Moreover, three years EBITDA margin, which is the better of the competitors, 25.75% vs 19.47% for the industry average. We also can see the same thing concerning the profit margin, 13.03% for AOBC vs 8.72% for the average. Finally, AOBC has 15.38% of operating margin while the industry average has an operating profit margin of 15.38%. This means that the American outdoor Brands Corps is the most profitable company of the industry even before all the depreciation and amortizations. In fact, According to the management, the company has a strong policy concerning the costs and to keep increasing their profit margin

Name (BICS Best Fit)	EBITDA to Net Sales:Y	EBITDA Mgn 3Yr Avg	PM:Y	OPM:Y
Median	17.56%	19.61%	8.61%	14.80%
100) AMERICAN OUTDOOR BRA...	27.65%	25.75%	13.03%	21.76%
101) ORBITAL ATK INC	13.20%	13.44%	3.88%	10.77%
102) MSA SAFETY INC	13.79%	15.34%	7.09%	12.42%
103) VISTA OUTDOOR INC	14.77%	16.15%	6.89%	12.17%
104) TASER INTERNATIONAL INC	20.35%	23.07%	10.14%	17.96%
105) STURM RUGER & CO INC	23.73%	23.07%	11.29%	17.18%

Cash Flow:

As we can see on the chart, since 2015 and 2016, American Outdoor Brands Corps has positive free cash flow, which is a strong positive signal for the investors. Furthermore, if they continue their policy concerning their costs, and continue to acquire new companies in order to increase their products offer. This will lead to an increase in term of revenue and then an increase of cash flow. It is a positive signal since this means that the company's value increases.



Conclusion: To conclude, we have seen that the AOBC's revenue are dependent of the households' income, which one is growing since 2015. Furthermore, because of their change of strategy, they have decided to diversify their products offer. This has led to a transition and this transition is managed by a former Vista VP, who has 18 months of experience in AOBC's competitor. This guidance will help AOBC to target the perfect market in order to increase their revenue. Furthermore, because they have increased their products line, this will permit to catch a bigger market but also to sell their products into outdoor sports retailers. As result, their sales will depend of the retailers performance, which ones are increasing since many years and which ones are expected to continue to increase. Moreover, AOBC continues to increase their sales but also to decrease their cost of goods sold but also their SGA. This leads to an increase of their EBITDA, which one increases the company value. Finally, thanks to the increase of their sales and the decrease of their costs, it creates free cash flow, which is an important signal to send to the investors and this also leads to an increase of the company's value.

American Outdoor Brands Corporation (AOBC)

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BULLISH

Analysis by
3/3/2017

Current Price:
Dividend Yield:

\$18.80
0.0%

Intrinsic Value
Target Price:

\$22.01
\$23.40

Target 1 year Return: 24.45%
Probability of Price Increase:



Description
American Outdoor Brands Corporation manufactures and sells firearm products and accessories.

General Information

Symbol	Consumer Discretionary
Industry	Leisure Products
Listed Exchange	Nasdaq
Market Maturity Date	June 22, 2017
Estimated Country Risk Premium	4.85%
Effective Tax rate	0%
Effective Operating Tax rate	0%

Market Data

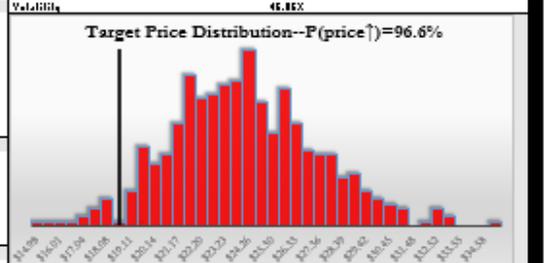
Market Capitalization	\$1,832.15
Daily volume (mil)	2.87
Shares outstanding (mil)	25.35
Diluted shares outstanding (mil)	27.88
X shares held by institutions	79%
X shares held by institutional Managers	58%
X shares held by hedge funds	18%
X shares held by insiders	1.44%
Short interest	15.47%
Days to nearest short interest	0.00
52 week high	\$31.15
52 week low	\$18.28
Levered Beta	0.58
Volatility	15.85%

Quarter ending

1/31/2016	18.35X	17.35X
4/30/2016	-1.17X	1.37X
7/31/2016	-1.55X	4.12X
10/31/2016	1.31X	13.75X
1/31/2017	-3.28X	-1.12X
Mean	1.31X	7.33X
Standard error	2.4X	3.6X

Peer

Vista Outdoor Inc.	15.87X per annum over 5y
Sturm, Ruger & Company, Inc.	15.87X per annum over 5y
Praxair Corporation	7.58X per annum over 5y
Realistic Cell Inc.	7.58X per annum over 5y
Malibu Boats, Inc.	8X per annum over 5y
Palatin Industries Inc.	NM
Harley-Davidson, Inc.	NM



Management

Duberg, P.	Chief Executive Officer, Pres
Deakins, Jeffrey	Chief Financial Officer, Cfo
Ciampi, Robert	Chief Compliance Officer, Cc
Smith, Mark	Senior Vice President of the
Washington, Matthew	Vice President of Investor R
Shroy, Elizabeth	

Profitability

ROIC	17.7%	13.14%
ROPAT Margin	15%	12.77%
Revenue/Invested Capital	1.68	2.18
ROE	24.8%	24.83%
Adjusted net margin	11%	8.18%
Revenue/Adjusted Book Value	2.83	3.84

Financial Ratios

Total Cash/Total Capital	7.8%	17.3%
Estimated Operating Cash/Total Capital	7.8%	14.4%
Market working Capital/Total Capital	18.8%	14.8%
Levered Capital/Total Capital	18.1%	37.8%

Capital Structure

Total Debt/Current Equity (LTM)	0.16	0.16
Cost of Existing Debt	4.82%	11.54%
Estimated Cost of new Borrowing	4.85%	5.47%
CCPS Risk Rating	C	C
Unlevered Beta (LTM)	0.55	1.82
WACC	5.82%	7.74%

Total compensation growth

15.87X per annum over 5y
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7.58X per annum over 5y
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8X per annum over 5y
NM

Total return to shareholders

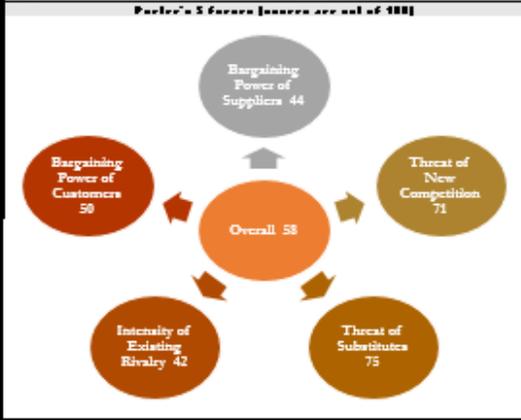
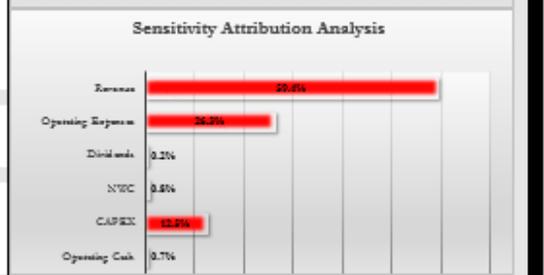
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NM

Peer's 5 Forces (score out of 100)

Period	Revenue growth	Valuation
Year Year	51.4%	11.4X
1/31/2010	-1.3%	5.1X
1/31/2011	2.6%	5.3X
1/31/2012	4.6%	5.6X
1/31/2013	5.6%	5.8X
1/31/2014	2.4%	5.5X
1/31/2015	2.7%	6.1X
1/31/2016	2.3%	6.5X
1/31/2017	5.2%	6.5X
1/31/2018	5.4%	6.7X
1/31/2019	5.7%	7.8X
1/31/2020	4.8%	7.2X
Collapsing Period		

ROIC/WACC

2.54
0.37
0.37
1.08
1.47
1.24
1.35
1.47
1.68
1.75
1.58
1.53



Invested Capital

Period	Revenue growth	Valuation
Year Year	51.4%	11.4X
1/31/2010	-1.3%	5.1X
1/31/2011	2.6%	5.3X
1/31/2012	4.6%	5.6X
1/31/2013	5.6%	5.8X
1/31/2014	2.4%	5.5X
1/31/2015	2.7%	6.1X
1/31/2016	2.3%	6.5X
1/31/2017	5.2%	6.5X
1/31/2018	5.4%	6.7X
1/31/2019	5.7%	7.8X
1/31/2020	4.8%	7.2X
Collapsing Period		

Net Claims

Period	Revenue growth	Valuation
Year Year	51.4%	11.4X
1/31/2010	-1.3%	5.1X
1/31/2011	2.6%	5.3X
1/31/2012	4.6%	5.6X
1/31/2013	5.6%	5.8X
1/31/2014	2.4%	5.5X
1/31/2015	2.7%	6.1X
1/31/2016	2.3%	6.5X
1/31/2017	5.2%	6.5X
1/31/2018	5.4%	6.7X
1/31/2019	5.7%	7.8X
1/31/2020	4.8%	7.2X
Collapsing Period		

Price per share

\$22.52
\$23.78
\$25.23
\$26.77
\$28.32
\$29.86
\$31.41
\$32.94
\$34.53
\$36.15
\$37.72