WESTPEAK RESEARCH ASSOCIATION

Sturm, Ruger & Co (NYSE: RGR)

Industrials – Aerospace & Defense

Aiming for Redemption

February 10, 2019

Sturm Ruger & Co designs, manufactures and sells firearms and castings in the United States and worldwide. Their products include a variety of rifles, pistols, revolvers alongside steel investment castings and metal molding parts. The company was founded in 1949 and is headquartered in Southport, Connecticut.

Thesis

Sturm Ruger & Co is one of the few firearms manufacturers listed publicly on the North American Market. The company has recently been enduring a decline in the industry since 2016 resulting in a 16% share price drop. Although we predict a potential decrease in the stock price in the long-term, the company's attractive dividend policy, strong ROIC and effective management makes it an acceptable investment in the short run.

Drivers

The upcoming US Presidential election will instigate "gun-rights uncertainty" allowing Sturm Ruger & Co to capitalize on the opportunity and increase net sales. Furthermore, if management chooses to change their stance opposing the use of user-authenticated technology in firearms, the company stands to create a product that is first to market and fulfill upcoming legislation that demands the use of "smart-guns."

Valuation

Our target share price is $44 based on our perpetuity growth multiple and EV/EBITDA exit multiple from our DCF alongside the PE/EBITDA and EV/EBITDA multiple from our company comparable analysis, weighted at 40%, 40%, 10% and 10% respectively. We initiate a **HOLD** rating on Sturm Ruger & Co.

Analyst: Hasan Altaf, BCom. '23
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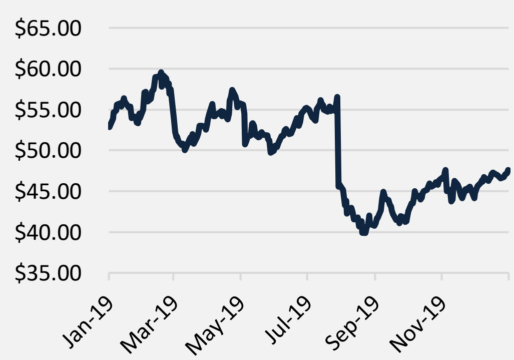
Equity Research	**USA**
Price Target	**CAD$ 44.00**
Rating	Hold
Share Price (Feb 9. Close)	CAD$ 51.66
Total Return	-14.2%

Key Statistics	
52 Week H/L	$60.1/$39.31
Market Capitalization	$832.1M
Average Daily Trading Volume	143,774
Net Debt	$(77.4)
Enterprise Value	$697.3M
Net Debt/EBITDA	0x
Diluted Shares Outstanding	17.5M
Free Float	96.6%
Dividend Yield	1.72%

WestPeak's Forecast

	2019E	**2020E**	**2021E**
Revenue	$511M	$677M	$453M
EBITDA	$99M	$154M	$103M
Net Income	$55M	$97M	$55M
EPS	$3.12	$5.53	$3.14
P/E	15.9x	8.9x	15.7x
EV/EBITDA	8.1x	4.9x	6.1x

1-Year Price Performance



Business Overview/Fundamentals

Company Overview

Sturm Ruger & Co is a manufacturer of firearms for the commercial sporting market within the United States. The company has been operating since 1949 and trades on the New York Stock Exchange under the ticker "RGR." Its business is conducted primarily within three main product categories: rifles, pistols and revolvers. All design and manufacturing are done within the United States with approximately 96% of sales being domestic. As of 2019, the company employed 1,830 full-time employees and did not have any temporary employees.

Sturm Ruger & Co only sell their products to federally licensed firearms dealers such as TALO distributers, RSR Group Inc. and Big Rock Sports. However, in Q2 of 2019 a major distributor, Ellet Brothers, filed for bankruptcy resulting in Ruger earnings falling 58.9% from the year prior.

Products

Rifles

A rifle is a long-barreled firearm designed for accurate shooting. The types of rifles sold include single shot, autoloading, bolt-action and modern sporting. In 2018, net sales of rifles were $258.1 million, down 6.21% from 2017.

Pistols

A pistol is a handgun where ammunication is typically fed into a magazine contained within the grip. The types of pistols sold include rimfire autoloading and centerfire autoloading. In 2018, net sales of Pistols were $144.3 million, down 18% from 2017.

Revolvers

A revolver is a variant of a handgun in which the ammunition is held in a chamber aligned with the barrel of the gun. The types of revolvers sold include single-action and double-action. In 2018, net sales of revolvers were $63.3 million, down 17.8% from 2017.

Accessories

The company manufactures and sells accessories and replacement parts for its products. In 2018, net sales of accessories were $23.9 million, up 4.6% from 2017.

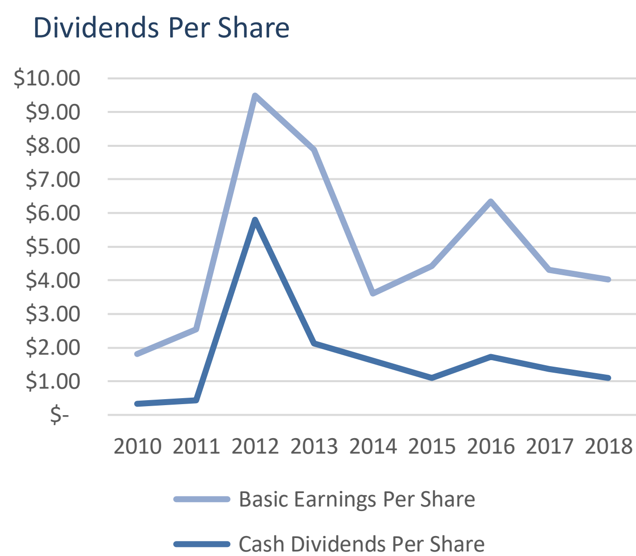
Castings

The company manufactures and sells investment castings made from steel alloys and metal injection molding used for the internal parts of the firearms. In 2018, net sales of castings were $5.0 million, up 8.7% from 2017.

Source: Company Website

Dividend Policy

Sturm Ruger & Co strives to make themselves an attractive investment by committing to a policy of its quarterly dividends being approximately 40% of net income. Although these dividends incentivize long-term investors, the company's payout ratio has significant deviation due to the volatile conditions of the gun market. In recent quarters cash dividends have been steadily decreasing due to a decrease in net income, which is attributed to a decline in the industry.



Source: 10-K filings

Ruger's ROIC in 2018 was approximately 22.6%, which is significantly higher than other competitors in the industry. However, this investment has not been effective overall as net income continues to fall. The sustainability of this dividend has come into question, as a sustained decrease in net sales will leave the company with insufficient cash flow.

Despite the negative trajectory of the company, we forecast that an upcoming catalyst will cause a surge in the stock price. This will be further discussed in the catalysts.

Company Strategy

Management has emphasized that Ruger is at the forefront of firearms safety and innovation, with each weapon being shipped out with a comprehensive instruction manual and a gun lock. Sturm Ruger & Co pride themselves on being unwavering supporters of the Second Amendment and a strong proponent of "Arms makers for responsible citizens." They have developed a reputation for appealing to customers by developing a mix of new products that engage consumers and meet their needs. This is demonstrated by their diverse patent portfolio alongside their commitment to innovation.

Statement on User-Authentication Technology

Sturm Ruger & Co has stated in their 2019 letter to shareholders that they do not believe that user-authentication technology can be successfully integrated into the company and that a commercially viable market for "smart-guns" does not exist. They have specifically said that they are "opposed to legislative initiatives that would mandate the sale, use, or manufacture of firearms using such technology." They cite that any type of biometric reader can face a multitude of challenges and compromises the reliability of the weapon. For example, "fingerprint readers" used to authenticate firearms can be unreliable during poor weather conditions as the surface of the reader must be clean for proper authentication to occur. Ruger instead focuses on innovating current designs that follow the concept of the traditional firearm. Major competitors in the firearm industry have not taken the steps to integrate this technology into their products. However, there has been a rampant increase in start-up

A Smart-Gun requiring a watch to be in proximity in order to be fired

Source: Wired

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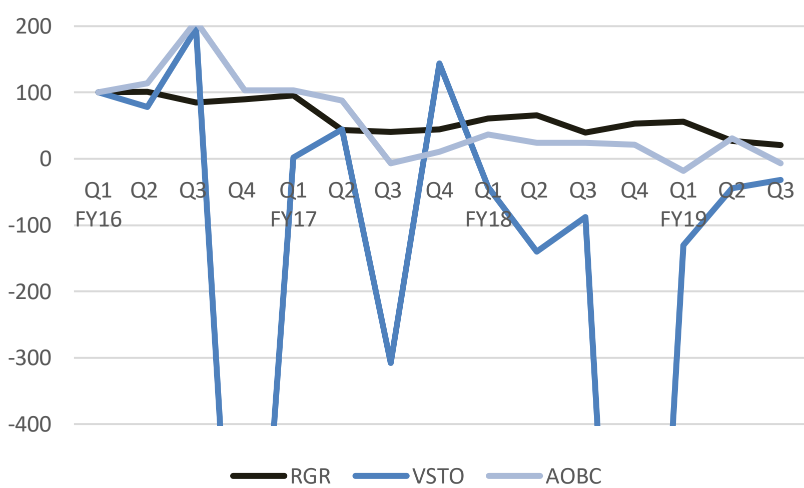
companies introducing user-authenticated firearms, threating the long-term market share of Sturm Ruger & Co. We believe Ruger's perspective on this technology is not in line with market behaviour and the long-term need for firearms. This aspect of firearms will be further discussed in industry analysis.

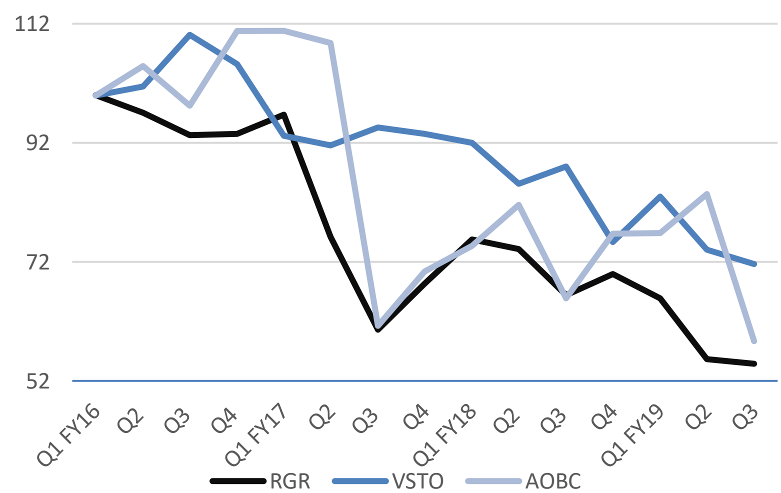
Long Term Vision

Sturm Ruger & Co's key strategy is to retain a strong brand and value proposition. This is achieved by maintaining a level of quality and exclusivity among their products. As a result, they have decided to forgo opportunities to generate short-term results through discounts and promotions despite their competitors pursuing these initiatives, causing overall revenue to decrease over 10% each quarter in 2019. However, President and CEO Mr. Killoy argues that they are deriving strategic value by protecting their brand name, value and reputation by avoiding measures that companies usually take during periods of slow growth in the industry. When comparing revenue and net income to the two other public firearm manufacturing companies by using Q1 of FY16 as a base, we can see that Ruger has been impacted significantly. However, when examining net income, we can see Ruger has managed to retain profitability and has performed significantly better than competitors

Net Income Change of Public Gun Companies



Revenue Change of Public Gun Companies



Production and Inventory

Management maintains a highly disciplined approach to production and inventory through semimonthly reviews of sales, estimated sales of Ruger products by independent distributors and the inventory that these distributors hold. The total unit production for Q3 of FY19 was 4% lower than Q2 of FY19 alongside the total sales value of the production down 16%. Furthermore, combined inventories in warehouses and distributors decreased by 8,600 despite declining market conditions. This can be attributed to managements effective cost control and manufacturing knowledge For example, in Ruger's Q3 earnings call transcript, they stated that they were "proactive in managing our workforce as we kept the hiring freeze in place and allowed attrition to reduce our workforce, reduced overtime and took two additional shutdown days in the third quarter." Ruger strongly believes that although this strategy sacrifices short-term revenue, it will pay dividends in the long run.

Industry Analysis

Sturm Ruger & Co is one of three public companies that operate in the firearms manufacturing market in North America. As a result, we believe the stock price may have an upward bias due to the scarcity of shares available within this industry. The gun industry is to a certain extent seasonal, with the summer months being the slowest. Furthermore. Sturm Ruger & Co has the highest stock price of the three public gun companies in the country at approximately and trades at a multiple of 17.2x, significantly less than AOBC which is trading at 25.2x. The National Instant Criminal Background Check (NICS) is used to measure the industry performance, with sensitive political events usually causing a surge in NICS. Furthermore, User-Authenticated Technology and its integration into firearms is regarded as the future of the industry.

Relationship Between Stock Price and Politics

There is a strong correlation between revenue of gun companies and the political climate of the United States of America. In the past three election years of 2008, 2012 and 2016 we can see significant surges in revenue for not only Sturm Ruger & Co, but gun companies nationwide. This phenomenon is largely due to the uncertainty of gun-rights within the country. For example, in 2008 the election of Barack Obama caused gun owners to grow uncertain about the extent of their rights, incentivizing them to purchase weapons that may be restricted in the future. The surges in stock price also occur during tragedies such as the Sandy Hook Shooting where the stock hit a lifetime high. These events that occur in the United States greatly increase the uncertainty of gun rights, causing consumers to purchase weapons in fear of legislation. This trend can also be seen with the Las Vegas and Parkland shooting.

Historical data has shown that share prices experienced a sustained decrease when Donald Trump took office. This is due to Donald Trump being a Republican President alongside his vehement support for the National Rifle Association. As a result,

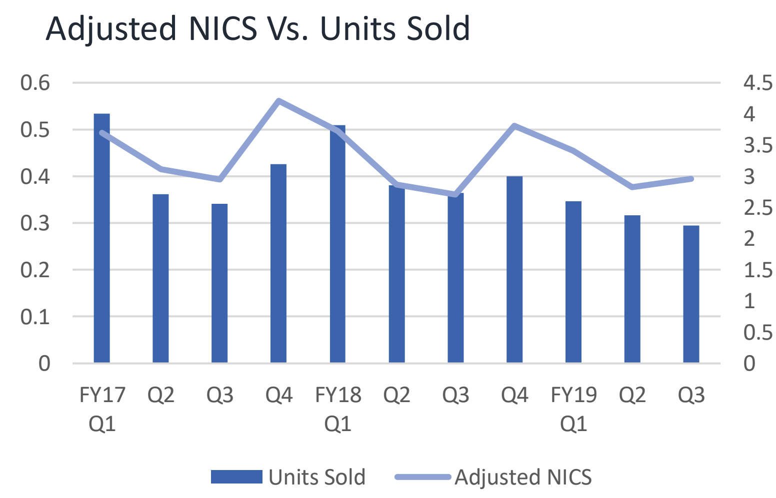
Ruger Share Price After Gun-Related Events

Source: Yahoo Finance

gun rights have been solidified causing the stock price of firearm manufacturers to decrease. Vista Outdoor and American Outdoor Brands has seen a 68.33% and 77.99% decrease in stock prices respectively since Donald Trump took office. Ruger on the other hand, only endured a 16.33% decrease. This demonstrates that a Democrat in office that threatens legislation on firearms is a benefit to gun companies. Despite firearms being a consumer durable good, the threat of legislation increases demand for firearms, especially those that are at risk of being restricted.

Adjusted NICS

The National Instant Criminal Background Check System is a measurement of the demand for firearms and the market conditions. This number is adjusted to only measure purchases of new firearms and not regular background checks that occur on firearms owners.



Source: 10-K Report

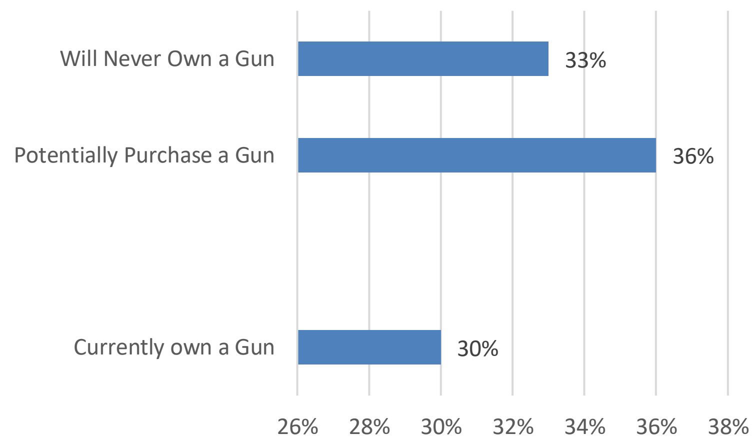
In 2019, sell through of the Rugers products from distributors decreased 24% in the first nine months compared to the year prior period, compared to a 1% decrease in NICS. This is due to the heavy discounting and promotions from competitors in the industry to balance the declining market trends. However, Ruger has refused to partake in this initiative as part of their company strategy. Historically, this stance has proven to be highly effective as Ruger managed to retain net income at a level much higher than competitors. Although Ruger products will not be as prevalent in the market compared to other brands that participate in intensive discounting, the strategy allows Ruger to maintain their brand reputation and value. We believe that this is the correct strategy for Sturm Ruger & Co as we are confident that the company leadership can effectively implement it. Furthermore, it has historically worked well for Ruger.

The NICS number is steadily decreasing in 2019 due to gun rights certainty. The lack of innovation in firearm products eliminates the incentive for consumers to continue to purchase new weapons. More than 60% of firearms are bought for self-defence purposes and almost never used. Without significant changes in gun technology most consumers do not see a benefit in replacing the firearms they currently own, decreasing the number of firearms bought.

User-Authenticated Technology

The introduction of user-authenticated technology is the future for the firearms industry. Approximately 36% of American adults will potentially own a gun, and in order to attract this market the integration of “smart-guns” to Ruger’s product line may be necessary. However, gun manufacturers are hesitant to do so after the scandal with Colt in the 1990s. When Colt announced that they were prototyping a “smart-gun,” customers boycotted the brand forcing the company to pull the plug on the project. To this day, major firearms manufacturers have not initiated public projects investigating the technology.

However, the successful integration of this technology may be the only way the firearms industry can recover from the declining market, especially if Donald Trump is re-elected. This technology will provide proper incentive for gun-owners to upgrade their weapons and reach out to consumers that are hesitant on purchasing weapons. In 2016, there were 495 incidents of accidental firearms deaths. Introducing this technology has numerous social benefits as it would drastically reduce these types of deaths alongside shootings from stolen weapons. We predict in the new future legislation will mandate all guns sold be "smart-guns" further promoting the commercial viability.



Source: Pew Research Center

Sturm Ruger & Co have said in a letter to shareholders issued in 2019 that they do not believe there is a viable market for user-authenticated weapons. However, it was found through a study conducted by the US National Library of Medicine and National Institute of Health that 59% of Americans, if they were to purchase a new handgun, were willing to buy a "childproof gun." In other words, this "childproof" gun would possess a technology that would only allow a user to fire their weapon if they consciously decide to do so. Although there have been start-ups exploring the use of "smart-guns," there has not been any major developments in the technology in terms of reliability. If Ruger is to pursue organic growth that is consistent and not reliant upon politics or fear, they must invest in R&D for smart-guns and be first to market with these new innovations.

Furthermore, there is legislation in the USA that may be interpreted as prohibitive of the introduction of smart-guns. The 2002 Childproof Handgun Law of New Jersey mandates that "within a specified period of time after the date on which [smart-guns] are deemed to be available for retail sales purposes, no other type of handgun shall be sold or offered for sale by any registered or licensed firearms dealer in this State." There was major uproar following this mandate, with customers boycotting any retailer that would entertain this technology, causing manufacturers to abandon smart-gun initiatives in fear of losing their customer base.

In July of 2019, Governor Phil Murphy of New Jersey signed into a law a bill that repealed a significant part of the original Childproof Handgun Law of 2002. However, this new law mandates that once the Attorney General approves a production model of a "smart-gun," each firearm retailer in the state would be required to carry and display at least one smart-gun with a sign advertising the features of a smart-guns not offered by ordinary firearms.

We believe that Ruger should view this as an opportunity rather than a threat and pursue the development of smart-gun technology. Although the company risks losing part of its customer base, the benefits far outweigh the potential losses and open the market to new consumers.

Catalysts

Acquisition of other brands

Strum Ruger & Co has no long-term debt as well as cash and short-term investments at a balance of $132 million in Q2 of FY19. This makes them in a great position to acquire other companies to bolster their revenue. In a recent earnings call, Ruger was asked if they had explored the possibility of acquiring other brands such as Savage Arms and Stevens Firearms, which was sold to a buyer for $170 million. Management did not comment on specifics, but they have stated that they are seriously considering the possibility of an acquisition. The acquisition would only be feasible if the product lines overlapped, there were multiple price points and if other factors are also in play.

Savage Arms were sold by Vista outdoors for $170 million, which is significantly lower than the acquisition price of $315 million in 2013, demonstrating the decline in the firearms industry over the years. However, if Ruger acquires a company and the market recovers from its decline, they stand to make a considerable return on investment.

Presidential Elections

The 2020 election will be a pivotal moment for firearms manufacturers. If Donald Trump is re-elected, the decline in the market will continue. In 2019, Remington, a prominent gun manufacturer, declared bankruptcy due to the declining market conditions. These poor conditions will continue unless a democrat is elected into office as they would revitalize gun rights uncertainty and once again increase the share price.

Geopolitical Military Events

A major military conflict involving the United States would greatly increase revenue of gun companies as the US military will require firearms. Ruger has been previously awarded contracts by the military, most notably in 2004 for supplying 5,000 9mm pistols for the US Army. Today, there are numerous conflicts throughout the world, with political tensions between the US, Iran, China, North Korea and Russia at a all time high. Recently, the United States assassinated a major general of Iran causing tensions between the nations to increase. Furthermore, Iran has launched missile attacks at US bases in Iraq. As civil and military unrest escalates between the two countries, the sales of Ruger firearms to not only the government but citizens as well will increase.

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Management Team

Christopher J. Killoy – President and CEO

Source: Company Website

Mr. Christopher J. Killoy is the President and CEO of Strum Ruger & Co. He joined the company in 2006 as the Vice President of Sales in 2003 before leaving to work as the General Manager for Savage Range Systems in 2005. He promptly returned to the company in 2006 with his previous role and became President & COO of the company in 2014. As of May 2017, Mr. Killoy was the President and CEO of Sturm Ruger & Co.

Mr. Killoy graduated from the United States Military Academy in 1977 with a Bachelor of Science and a concentration in economics. After serving in the US army in a variety of armor and infantry assignments, he transitioned into working in GE Aerospace and subsequently the Director of Marketing and Product Management at Smith and Wesson for seven years. Mr. Killoy offers a great deal of expertise to the business through his extensive experience in the gun businesses as well as his membership as a board member for several organizations such as the Sporting Arms and Ammunition Manufacturers Institute (SAAMI), the International Hunter Education Association Foundation, the National Shooting Sports Foundation (NSSF), and Velocity Outdoor, a subsidiary of Compass Diversified Holdings

For FY19, Mr. Killoy's total target compensation was $2,110,881, a 0.87% decrease from 2018. The compensation consisted of a $500,000 base salary (23.7% of total), $75,000 in profit-sharing (3.55% of total), $500,000 in performance based non-equity compensation (23.7% of total), $500,000 in performance-based stock awards (23.7% of total), $500,000 in retention award (23.7% of total), and $35,881 in all other compensation (1.7% of total). Mr. Killoy's performance is evaluated on the following business skills: leadership, strategic planning, financial goals and systems, financial results, succession planning, human resources, communication, industry relations, and board relations. The compensation levels are ultimately determined after performance evaluations on published and commissioned compensation studies. Although it is not clear from publications on what financial metrics Mr. Killoy's compensation is based upon, we expect it to be a combination of revenue and net income due to Ruger's declining sales.

Thomas A. Dineen – Senior Vice President, Treasurer, and CFO

Source: Company Website

Mr. Thomas A. Dineen became the Senior Vice President of Finance, Treasurer and Chief Financial Officer as of July 10, 2017. He had previously served and the Treasurer and Chief Financial Officer since 2003 and as an assistant controller from 2001 to 2003. Mr. Dineen joined the company in 1997 as Manager of corporate accounting. Prior to joining Sturm Ruger & Co, Mr. Dineen was an audit manager at KPMG. He graduated from Boston College with a Bachelor of Science in Accounting.

For FY19, Mr. Dineen's salary was $1,129,927, down 1.16% from FY18. His compensation consisted of a $350,000 base salary (31% of total), $52,500 in profit sharing (4.6% of total), $233,450 in performance based non-equity compensation (20.7% of total), $233,450 in performance-based stock award (20.7% of total), $233,450 in retention award (20.7% of total), and $27,077 in all other compensation (2.4% of total).

Thomas P. Sullivan – Senior Vice President of Operations

Mr. Thomas Sullivan became Senior Vice President of Operations on July 1, 2017. He is responsible for company operations, engineering, and product development. In his previous role he served as the Vice President of Newport and Mayodan operations. Mr. Sullivan has played an extensive role in implementing "lean manufacturing" methodologies and creating value for stakeholders. This includes his recent decisions in Q3 of this year to proactively manage the workforce and strategically implement shut-down days to keep costs low. This has heavily contributed to how Ruger is maintaining its profitability despite a declining industry. Prior to his role at Ruger, Mr. Sullivan was an executive in many different sectors such as automotive and hydraulics manufacturing. Mr. Sullivan also services on the executive board for the New Hampshire Business and Industry Association and is an advisor for the New Hampshire Manufacturing Extension Partnership. Mr. Sullivan holds a Bachelor of Science in Mechanical engineering from the Illinois Institute of Technology (IIT), a Master of Science in Mechanical Engineering from the Massachusetts Institute of Technology (MIT), and an MBA with a focus on Finance from the University of Chicago.

Source: Company Website

For FY19, Mr. Sullivan's salary was $1,131,007, down 1.18% from FY18. His compensation consisted of a $350,000 base salary (30.9% of total), $52,500 in profit sharing (4.6% of total), $233,450 in performance based non-equity compensation, $233,450 in performance-based stock award, $233,450 in retention award opportunity, and $28,157 in all other compensation (2.5% of total).

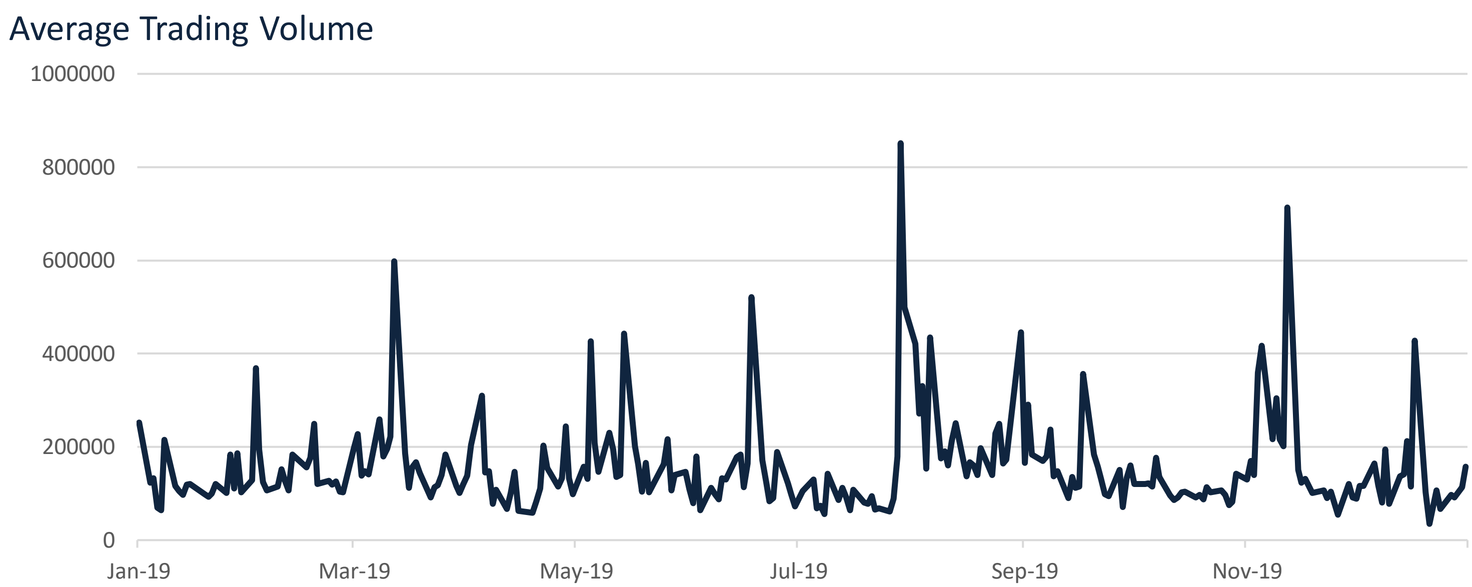
Shareholder Base, Liquidity, Market Depth

Sturm Ruger & Co has 17.49 million shares outstanding with a float currently at 15.6M shares, translating to an 89.19% float. Its ten largest shareholders are listed below. Insider ownership makes up 5.35% of ownership and is currently on an upward trend since 2013.

Holder	Shares	% Out	Value (in 1000s)
Blackrock Inc.	2,734,974	15.64%	$ 129,009.00
Vanguard Group, Inc	1,707,411	9.76%	$ 80,539.00
Renaissance Technologies, LLC	1,405,946	8.04%	$ 66,320.00
Deprince, Race & Zolo, Inc	644,795	3.69%	$ 30,415.00
State Street Corporation	469,253	2.68%	$ 22,135.00
Invesco Ltd.	414,430	2.37%	$ 19,549.00
Capital International Investors	357,788	2.05%	$ 16,877.00
London Company of Virginia	352,130	2.01%	$ 16,610.00
Bank of New York Mellon Corporation	261,061	1.49%	$ 12,314.00
Wellington Management Group LLP	248,387	1.42%	$ 11,716.00

Liquidity

As of January 5, 2018, Sturm Ruger & Co's year-to-date average daily trading volume was 157,500. Spikes in volume are attributed to the release of quarterly earnings reports as well as major events in the firearms industry that cause gun-rights uncertainty.



Relative Liquidity

The table below displays the share turnover, number of shares traded by average number of shares outstanding and the turnover ratio for Sturm Ruger Co and its main competitors in the industry. Ruger has a share turnover ratio of 120.59, much higher than the industry average of 90.28. It can be determined that Ruger Stock has a much higher liquidity compared to other major competitors.

Company	Avg. 12 Month Volume	Shares Outs. (MM)	Turnover Ratio
Strum Ruger & Co **(RGR)**	145,040	17.49	120.59
American Outdoor Brands **(AOBC)**	826,972	55.06	66.58
Vista Outdoor **(VSTO)**	691,125	57.83	83.67
Industry Mean	554,379	43.46	90.28

Valuation

Comparable Company Analysis

The companies listed below are comparable companies for Sturm Ruger & Co. They share similar manufacturing and operating activities and/or sell to the same customer base. Their primary consumer end markets are primarily in the same geographical regions of Canada and the United States.

American Outdoor Brands (NASDAQ: AOBC)

American Outdoor Brands primarily designs, manufacturers and sells firearms worldwide. The firearms segment of the business has products mainly under the Smith & Wesson brands. Its consumers include shooting and outdoor enthusiasts, sportsmen, competitive shorts, and many others. Its outdoor products and accessories segment offer products such as gun cleaning supplies, flashlights, tree saws, laser grips and other accessories.

Axon Enterprise Incorporated (NASDAQ: AAXN)

Axon Enterprise develops, manufactures, and sells conducted energy devices worldwide. The company operates in two segments tasers and software. The tasers sold include the TASER X26P and the TASERX2. The company also provides on-officer body cameras, in-car video systems and cloud-based record management.

Vista Outdoor Incorporated (NYSE: VSTO)

Vista Outdoors designs and manufactures products for outdoor sports and recreational markets in the United States and worldwide. The company operates in two segments: shooting sports and outdoor products. The shooting sports segments designs, develops, produces, and sources ammunition and firearms for consumers, law enforcement, United States government and international markets. The outdoor segment offers sport products such as helmets, golf clubs, and other goods.

MSA Safety Inc. (NYSE: MSA)

MSA Safety develops, manufactures and supplies safety products designed to protect people and facilities. They sell to oil, gas, petrochemical, fire service, construction, utilities and mining industries worldwide. The primary products the company offers includes fixed gas and flame detection systems, gas detection systems and replacement components. It serves distributors, industrial and military users through both direct and indirect sales channels. Both Ruger and MSA are involved in manufacturing for military purposes.

Aerojet Rocketdyne Holdings (NYSE: AJRD)

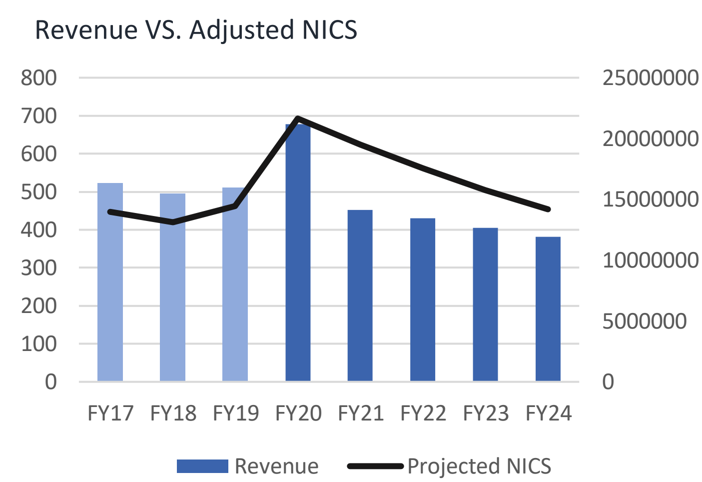
Aerojet Rocketdyne designs, develops, manufactures and sells aerospace and defense products. The company operates primarily in two segments: aerospace & defence and real estate. The aerospace & defence segment includes products and systems designed for the United States Government, National Aeronautics and Space Administration, as well as defence contractors. Products include breathing and armament system. The real estate segment includes re-zoning, entitlement, sale and leasing of the company's excess real estate assets.

Although these companies are relatively similar to Sturm Ruger & Co in terms of supply chain, they skew the company comparable analysis due to their disparity in size and target consumer base. As a result, we have only included the two true comparable companies to Ruger: American Outdoor Brands (AOBC) and Vist Outdoor Incorporated (VSTO).

Discounted Cash Flow

Revenue

We have driven revenue through units sold as well as average revenue from each unit sold. We project both drivers to steadily decrease until Q4 on FY20, in which we expect the elections to cause a surge in the revenue, in line with historical data. Due to recent approval ratings of 43% we predict Donald Trump will remain in office with a 46% certainty, causing us to forecast revenue with similar trajectories that were seen in Q1-Q4 of 2019. However, this decrease is only 75% of the 2019 quarterly values to account for the possibility for occurrence of events that may cause gun rights uncertainty or if geopolitical events result in military action. Furthermore, in Q4 of 2019, in which elections will occur, we project a 30% increase in units sold and a 50% increase in revenue per order. This is justified as consumers are more likely to purchase weapons that are at risk of becoming restricted, and these weapons on average cost more.



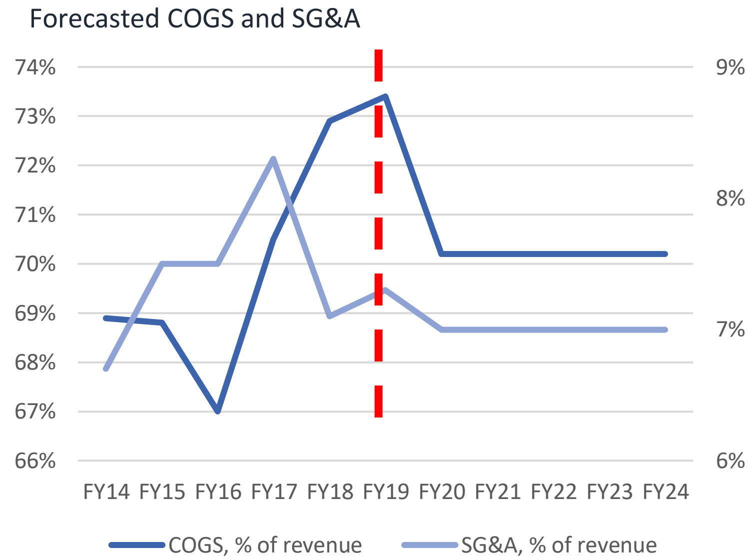
Our revenue trajectory is also in line with what we believe the adjusted National Instant Criminal Background Check System will be. There will be a spike in checks in FY20 due to the US Presidential Elections, similar to the spike in revenue we project. However, we believe NICS will slowly decrease at a rate of 10% per year subsequent to the US Presidential election. This is a strong estimate due to the combination of gun rights certainty caused by a Republican President as well as an increased quality of life as a result of an annual 2% increase in GDP pear year. We are assuming that an increased quality of life decreases the need for self-defence weapons.

Product Mix

We have straight-lined 99% of revenue will come from the sale of firearms and 1% of revenue will come from sale of casting, which is line with historical data.

Costs

The company's COGS has seen an upward trend since 2015 as it has risen 4% since FY14, from 68.9% to 72.9%. This is mainly due to an increased price of raw materials and manufacturing. We have decided to maintain an optimistic approach to COGS and have straight-lined an average of historical COGS as a percentage of revenue at 70.2%. This is due to our belief that Ruger possess a strong management with foundational knowledge in finance and engineering, allowing them to develop alternative methods of producing goods if commodity or manufacturing prices were to rise.



On the other hand, SG&A as a percentage of revenue has remained close to 7% year over year. Once again, we attribute this trend to effective management of the company as they control overhead costs and other indirect expenses. As a result, we forecast SG&A to remain at 7% per year

Capital Expenditures

In FY15 and FY16, capital expenditures as a percentage of beginning PP&E (FY14) were over 10%. This was relatively high, causing it to fall significantly in subsequent years as that level of investment was no longer required. However, with declining market conditions the company has once again chosen to increase capital expenditures to ensure future revenue. Furthermore, we believe that Ruger may consider inorganic growth through the acquisition of Savage firearms by 2024. As a result, we have forecasted CAPEX to be 12% each year, to account for a possible acquisition.

Weighted Average Cost of Capital

To determine Sturm Ruger & Co weighted average cost of capital (WACC), numbers were taken from the Bloomberg financial software. The cost of equity was calculated through a risk-free rate of 1.79% with an expected market return of 8.86%. A beta of 0.86 was used to come to a cost of equity of 7.87%.

The cost of debt was calculated by using a pre-tax cost of debt of 1.74% and an effective tax rate of 26.93%. This resulted in a 1.27% cost of debt.

Using these calculations for cost of equity and cost of debt, a WACC of 7.9% was found.

Tax Rate

We forecasted a rate of 21% as our effective tax rate.

Dividend Policy

Sturm Ruger & Co has committed to their dividends being approximately 40% of net income. As a result, we have forecasted dividends to match managements promises, despite our apprehension on whether a dividend of this size is feasible.

Weighted Price Target

We have chosen to favour our DCF over our comparable company analysis due to the limited number of quality comparable companies available in the gun industry. Within the DCF, the Perpetuity growth rate implied price is $32.33, and the Exit Multiple Implied Price is $53.03 weighed at 40% each. In terms of the comparable valuation, the EV/EBITDA Implied Price is $61.43, and the P/E Implied Price is $40.32, weighed at 10% each. This results in a share price of $44.34.

Recommendation

We believe that Sturm Ruger & Co is currently slightly overvalued by the market. This is mainly due to management actively responding to shareholder questions and holding clear and informative earnings call winning shareholder trust. Additionally, the company has a ROIC that is significantly higher than the industry average. Despite the upcoming presidential election being a catalyst for the share price, the inherent risk of investing in the industry does not make this company a buy. However, the company's commitment to quarterly dividends of 40% of net income makes the company an attractive investment.

Based on our Discounted Cashflow Model and Comparable Companies Analysis, we determine a fair share price of $44. We initiate a **HOLD** rating on Sturm Ruger & Co.

Risks

Government Policies

The sale, purchase, ownership and firearms are subject to a multitude of governmental regulations. These include the National Firearms act, the Federal Firearms act and the Gun Control Act of 1968. These laws prohibit the ownership of fully automatic weapons manufactured after 1986. Moreover, there are current talks and bills proposed in state legislatures to additionally regulate firearms. These include bills to require new technologies such as the incorporation of user-authenticated technology. If these bills are enacted they will prohibit the sale of certain Ruger weapons in parts of the country.

Furthermore, the company must follow laws pertaining to manufacturing including workplace safety, environment and firearms manufacture. These include proper waste disposable, firearms serial number tracking and air emissions. Failure to oblige with any of these laws and regulations may have a negative impact on the company.

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Dependence on Distributors

Over 90% of sales are made to 19 federally licensed, independent wholesale distributors. Although these distributors are regular credit checked as well as their financial statements being reviewed, these checks may not be completely effective. As a result, distributors may face bankruptcy and Ruger may not be able to collect accounts receivable on a timely basis.

Recently, a major distributor of Ruger Firearms, Ellet Brothers LLC, filed for bankruptcy and not only caused a major decrease in Ruger's share price but also negatively affected company revenue. However, we believe that this was an isolated incident as Ellet Brothers was involved in a lawsuit for fraudulent investment. Nonetheless, this does not discount the fact that Ruger has a significant dependence on distributors and events concerning their distributors impacts Ruger as well.

Prices of Raw Materials

There are many suppliers for the goods the company uses to manufacture their products including steel, walnut, beech, maple and laminated lumber for rifle stocks. Other products such as metal alloys and synthetic products are also required. The purchase prices of these products could be impacted by numerous factors causing their price to increase exponentially. Ruger believes that they have enough quantities of raw materials in inventory to allow for a transition to alternate materials without disrupting manufacturing. However, prolonged inflation of prices or if alternate materials cannot be sourced, the manufacturing process could be disrupted adversely affecting the company's financial condition.

Although one might expect recent import tariffs imposed by Donald Trump to cause a surge in steel prices, they have been brought down significantly with prices being near their minimum level. It is not expected that the prices of raw materials will be a major issue for Ruger in the future.

Appendix 1: Summary Page

Summary Page

	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec 24
(Figures in mm USD)	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Income Statement											
Revenue	544.5	551.1	664.3	522.3	495.6	511.3	676.9	452.7	430.2	404.8	380.8
EBITDA	93.0	130.8	169.8	110.6	99.0	99.0	154.3	103.2	98.1	92.3	86.8
Net Income	38.6	62.1	87.5	52.1	50.9	55.1	97.4	55.4	50.5	45.2	40.0
Earnings Per Share	$ 1.95	$ 3.21	$ 4.59	$ 2.91	$ 2.88	$ 3.12	$ 5.53	$ 3.14	$ 2.87	$ 2.56	$ 2.27
Cash Flow Statement											
Capital Expenditures	(45.6)	(28.7)	(35.2)	(33.6)	(10.5)	(14.6)	(43.0)	(44.4)	(45.7)	(47.0)	(48.4)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-
Divestitures	-	-	-	-	-	-	-	-	-	-	-
Dividend Payment	(31.4)	(20.6)	(32.8)	(23.9)	(19.2)	(24.7)	(38.6)	(22.0)	(20.0)	(17.9)	(15.9)
Dividend Per Share	$ 1.62	$ 1.10	$ 1.73	$ 1.36	$ 1.10	$ 1.41	$ 2.21	$ 1.26	$ 1.15	$ 1.03	$ 0.91
Dividend Payout to Earnings	81.4%	33.1%	37.5%	45.8%	37.7%	44.8%	39.6%	39.6%	39.6%	39.6%	39.6%
Dividend Payout to Core FCF	21.2%	16.2%	20.1%	19.0%	20.3%	23.2%	22.3%	16.5%	15.3%	14.0%	12.7%
Dividend Yield	3.8%	2.0%	3.1%	2.4%	2.0%	2.8%	4.5%	2.5%	2.3%	2.1%	1.8%
Balance Sheet											
Current Assets	118.2	189.3	223.6	166.8	232.2	291.5	403.1	442.1	454.4	462.1	466.8
Non-Current Assets	136.2	126.6	131.8	117.5	103.3	95.8	105.7	116.5	127.6	139.0	150.7
Assets	254.4	315.9	355.4	284.3	335.5	387.3	508.8	558.6	581.9	601.0	617.5
Current Liabilities	60.4	82.0	80.9	52.7	71.2	88.7	151.5	167.9	160.7	152.5	144.9
Non-Current Liabilities	8.5	6.2	8.6	1.5	0.1	2.2	2.2	2.2	2.2	2.2	2.2
Liabilities	68.9	88.1	89.5	54.2	71.3	90.9	153.7	170.1	162.9	154.7	147.0
Shareholders' Equity	185.5	227.7	265.9	230.1	264.2	296.4	355.1	388.5	419.0	446.3	470.5
Cash	8.9	69.2	87.1	63.5	38.5	77.4	113.6	238.7	253.7	297.0	302.8
Debt	-	-	-	-	-	-	-	-	-	-	-
Net Debt	(8.9)	(69.2)	(87.1)	(63.5)	(38.5)	(77.4)	(113.6)	(238.7)	(253.7)	(297.0)	(302.8)
Minority Interests	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Operating Metrics											
Return on Equity (ROE)	20.8%	27.3%	32.9%	22.7%	19.3%	18.6%	27.4%	14.2%	12.1%	10.1%	8.5%
Return on Assets (ROA)	15.2%	21.8%	26.1%	18.3%	15.2%	14.2%	19.1%	10.4%	8.9%	7.6%	6.6%
Return on Invested Capital (ROIC)	21.9%	39.2%	48.9%	31.3%	22.6%	25.2%	40.3%	37.0%	30.6%	30.2%	23.9%
Valuation Metrics											
Stock Price (High)	$ 52.41	$ 61.39	$ 65.95	$ 68.60	$ 69.30	$ 59.56	$ 49.33	$ 49.33	$ 49.33	$ 49.33	$ 49.33
Stock Price (Low)	$ 33.60	$ 48.10	$ 47.15	$ 44.80	$ 43.05	$ 39.88	$ 49.33	$ 49.33	$ 49.33	$ 49.33	$ 49.33
Stock Price (Average)	$ 43.01	$ 54.75	$ 56.55	$ 56.70	$ 56.18	$ 49.72	$ 49.33	$ 49.33	$ 49.33	$ 49.33	$ 49.33
Diluted Shares Outstanding (Average)	19.8	19.4	19.0	17.9	17.7	17.7	17.6	17.6	17.6	17.6	17.6
Market Capitalization (Average)	853.1	1,060.1	1,077.3	1,017.1	991.7	877.9	869.1	869.1	869.1	869.1	869.1
Enterprise Value (Average)	844.2	990.9	990.1	953.7	953.2569	800.6	755.5	630.4	615.4	572.2	566.4
P/E	22.1 x	17.1 x	12.3 x	19.5 x	19.5 x	15.9 x	8.9 x	15.7 x	17.2 x	19.2 x	21.7 x
EV/EBITDA	9.1 x	7.6 x	5.8 x	8.6 x	9.6 x	8.1 x	4.9 x	6.1 x	6.3 x	6.2 x	6.5 x
FCF Yield to Market Capitalization	-2.1%	7.8%	5.8%	5.9%	10.7%	6.3%	7.6%	16.4%	3.6%	6.6%	2.1%
FCF Yield to Enterprise Value	-2.2%	8.3%	6.3%	6.3%	11.2%	6.9%	8.8%	22.6%	5.0%	10.0%	3.2%
Free Cash Flow											
EBIT	56.3	94.5	134.4	76.3	67.0	68.3	121.2	69.6	63.5	56.7	50.2
Tax Expense	(18.6)	(34.0)	(48.4)	(25.5)	(17.8)	(18.4)	(32.7)	(18.7)	(17.1)	(15.3)	(13.5)
D&A	36.7	36.2	35.4	34.3	32.0	30.7	33.1	33.6	34.6	35.6	36.6
Capital Expenditures	(45.6)	(28.7)	(35.2)	(33.6)	(10.5)	(14.6)	(43.0)	(44.4)	(45.7)	(47.0)	(48.4)
Changes in NWC	(47.2)	14.5	(23.5)	9.0	35.7	(10.5)	(12.5)	102.5	(4.4)	27.4	(6.6)
Unlevered Free Cash Flow	(18.3)	82.6	62.6	60.5	106.3	55.5	66.1	142.5	30.9	57.4	18.3

Valuation Summary

Current Price	**$ 51.66**
Target Price	$ 44.34
Total Return	-14.2%
Recommendation	**HOLD**

DCF Valuation	
Perpetuity Growth Implied Price	$ 32.33
Exit Multiple Implied Price	$ 53.03
Comps Valuation	
Comps - EV/EBITDA Implied Price	$ 61.43
Comps - P/E Implied Price	$ 40.32

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Appendix 2: Discounted Cash Flow Analysis

Discounted Cash Flow Analysis

(Figures in mm USD)	Dec-14 FY2014	Dec-15 FY2015	Dec-16 FY2016	Dec-17 FY2017	Dec-18 FY2018	Mar-19 Q1-2019	Jun-19 Q2-2019	Sep-19 Q3-2019	Dec-19 Q4-2019	Dec-19 FY2019	Dec-20 FY2020	Dec-21 FY2021	Dec-22 FY2022	Dec-23 FY2023	Dec-24 FY2024
Free Cash Flow															
EBIT	56.3	94.5	134.4	76.3	67.0	16.5	7.5	5.6	38.8	68.3	121.2	69.6	63.5	56.7	50.2
Less: Tax expense	(18.6)	(34.0)	(48.4)	(25.5)	(17.8)	(4.4)	(2.2)	(1.6)	(10.5)	(18.4)	(32.7)	(18.7)	(17.1)	(15.3)	(13.5)
Add: Depreciation and amortization	36.7	36.2	35.4	34.3	32.0	7.5	7.5	7.5	8.2	30.7	33.1	33.6	34.6	35.6	36.6
Less: Capital expenditures	(45.6)	(28.7)	(35.2)	(33.6)	(10.5)	(2.7)	(1.2)	(5.3)	(5.4)	(14.6)	(43.0)	(44.4)	(45.7)	(47.0)	(48.4)
Less: Change in net working capital	(47.2)	14.5	(23.5)	9.0	35.7	(33.2)	(12.9)	2.6	33.0	(10.5)	(12.5)	102.5	(4.4)	27.4	(6.6)
Unlevered Free Cash Flow	**(18.3)**	**82.6**	**62.6**	**60.5**	**106.3**	**(16.3)**	**(1.3)**	**8.9**	**64.2**	**55.5**	**66.1**	**142.5**	**30.9**	**57.4**	**18.3**
Discount factor						-	-	-	0.25	0.25	1.25	2.25	3.25	4.25	5.25
Present Value of Unlevered Free Cash Flow						**-**	**-**	**-**	**63.0**	**63.0**	**60.6**	**120.2**	**24.1**	**41.6**	**12.3**

WACC Calculations

Cost of Equity	
Risk-free rate	1.79%
Expected market return	8.86%
Market Risk Premium	**7.07%**
Beta	0.86
Cost of Equity	**7.87%**

Cost of Debt	
Pre-tax cost of debt	1.74%
Effective tax rate	26.93%
Cost of Debt	**1.27%**

WACC	
Market value of equity	904.1
Market value of debt	-
Total Capitalization	904.1
Cost of equity	7.9%
Cost of debt	1.3%
WACC	**7.9%**

Discounted Cash Flow Valuations

Perpetuity Growth Method	
Perpetuity Growth Rate	2.0%
PV sum of unlevered FCF	321.8
Terminal value	221.2
Enterprise Value	**542.9**
Add: Cash	22.8
Less: Debt	-
Less: Other EV adjustments	-
Equity Value	**565.8**
Shares outstanding	17.5
Implied Share Price	**$ 32.33**

Current Price	$ 51.66
Implied Price	**$ 32.33**
Total Return	**-37.4%**

Exit Multiple Method	
Terminal EV/EBITDA Multiple	10.0 x
PV sum of unlevered FCF	321.8
Terminal value	583.4
Enterprise Value	**905.1**
Add: Cash	22.8
Less: Debt	-
Less: Other EV adjustments	-
Equity Value	**928.0**
Shares outstanding	17.5
Implied Share Price	**$ 53.03**

Current Price	$ 51.66
Implied Price	**$ 53.03**
Total Return	**2.6%**

Perpetuity Growth Rate \ WACC	8.90%	8.40%	7.90%	7.40%	6.90%
1.00%	$ 28.26	$ 29.27	$ 30.41	$ 31.71	$ 33.22
1.50%	$ 28.86	$ 29.98	$ 31.25	$ 32.72	$ 34.45
2.00%	$ 29.56	$ 30.80	$ 32.24	$ 33.92	$ 35.92
2.50%	$ 30.36	$ 31.76	$ 33.40	$ 35.36	$ 37.73
3.00%	$ 31.30	$ 32.90	$ 34.81	$ 37.12	$ 40.00

Terminal EV/EBITDA Multiple \ WACC	8.90%	8.40%	7.90%	7.40%	6.90%
8.0 x	$ 44.70	$ 45.49	$ 46.31	$ 47.15	$ 48.01
9.0 x	$ 47.87	$ 48.74	$ 49.64	$ 50.56	$ 51.50
10.0 x	$ 51.04	$ 51.99	$ 52.97	$ 53.97	$ 55.00
11.0 x	$ 54.21	$ 55.24	$ 56.30	$ 57.38	$ 58.49
12.0 x	$ 57.38	$ 58.49	$ 59.62	$ 60.79	$ 61.99

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Appendix 3: Comparable Company Analysis

Comparable Company Analysis

(Figures in mm USD)

Company	Ticker	Equity Value	Enterprise Value	2018A EV/EBITDA	2019E EV/EBITDA	2020E EV/EBITDA	2018A P/E	2019E P/E	2020E P/E
				EV/EBITDA Multiple			P/E Multiple		
American Outdoor Brands	(NASDAQ: AOBC)	513.5	725.5	9.1 x	7.0 x	6.0 x	25.2 x	28.2 x	16.6 x
Vista Outdoor Inc	(NYSE: VSTO)	409.2	1,049.9	6.2 x	6.6 x	9.2 x	(6.7 x)	(0.6 x)	(0.7 x)
Sturm, Ruger & Co Inc	**(NYSE: RGR)**	**904.1**	**881.2**	**8.9 x**	**5.7 x**	**8.5 x**	**17.9 x**	**17.7 x**	**10.5 x**
Median					**6.8 x**	**7.6 x**		**13.8 x**	**8.0 x**
Mean					**6.8 x**	**7.6 x**		**13.8 x**	**8.0 x**
High					**7.0 x**	**9.2 x**		**28.2 x**	**16.6 x**
Low					**6.6 x**	**6.0 x**		**(0.6 x)**	**(0.7 x)**

	EV/EBITDA Implied Price		P/E Implied Price	
Median	$ 61.43	$ 46.07	$ 40.32	$ 39.09
Mean	**$ 61.43**	**$ 46.07**	**$ 40.32**	**$ 39.09**
High	$ 63.41	$ 55.33	$ 82.47	$ 81.55
Low	$ 59.45	$ 36.81	-$ 1.83	-$ 3.37

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