The Standfast Report

COMMENTARY FOR INTELLIGENT INVESTORS
P.O. Box 1694, Boone, NC 28607 - Issue #2

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Dear Reader,   Wilkesboro, NC, March 26, 2023

In my spare time I analyze businesses with a view to investing in them. I get most of my information from quarterly and annual reports filed with the SEC (10-Qs and 10-Ks) and from third-party services. I subscribe to a business magazine (they have 2 or 3 good stories each issue), I listen 4 financial podcasts consistently, I read books on finance, investing and banking, and I occasionally read a finance-related article online. I am not an economist, financial advisor, investment advisor, CPA or any other sort of licensed or certified professional. The degree to which I can give well-rounded, useful or reliable views on broad subjects such as the direction of the economy or future returns of the stock market should be considered small to nonexistent. If I start writing about economic downturns, stock market bubbles, gold mines of value in certain sectors or the latest banking crisis then you should probably read something else. I will occasionally give brief general views on broad subjects that I feel I cannot easily avoid, but at the end of the day I focus on looking for good businesses at reasonable prices.

My general outlook for 2023 is that it will present lots of good buying opportunities for stocks and that 4-week U.S. Treasury Bills are better than a bank for parking some cash as I wait for good equity investments to percolate...or as I try to find time to evaluate the ones that already exist.

Smith & Wesson Brands, Inc.[1] The following sums up my view pretty well: “We believe that overall firearm demand remains healthy, as indicated by adjusted

[1] Disclaimer: The author has a financial position in this investment vehicle.

NICS data, but has normalized from the surge levels we experienced during much of calendar 2020 and 2021." See page 22 of Form 10-Q for quarterly period ended 01/31/2023.

Coming off high revenue levels for 2021-2022 ($1,059 million and $864 million respectively) the company is reverting toward the mean revenue of the past 10 years of $693 million[2]. For purposes of pricing, I estimate revenues for QE 04/30/2023 at $100 million which would make revenue for YE 04/30/2023 $434 million.[3] The market cap was $520 million at the close on Friday 03/24[4] which produced a P/S ratio of 1.2[5] (I like to see 1.5 or lower). Mean net income for the last 10 years is $86.3 million (which is also 12.5% of mean revenue of the past 10 years of $693 million). I estimate 6% net income on the $100 million revenue for QE 04/30/2023 producing my *estimated* net income of $30 million for YE 04/30/2023 and *estimated* P/E of 17.3.[6] Given that I think these revenue and profit estimates (*not* predictions) are conservative, I would buy more shares of Smith & Wesson Brands, Inc. at the Friday closing price of $11.32 or better (I already had some shares and bought more around this price in the last few minutes of trading Friday).

The backdrop for my view of Smith & Wesson Brands, Inc. consists of several factors including the company's longstanding profitability, the cultural importance of and economic demand for their products, the simple non-diversified business model and the imminent move of the company's headquarters and some manufacturing facilities to Maryville, Tennessee from Springfield, Massachusetts. Given today's general economic uncertainty and the company's high expected CapEx for 2023, I expect 2023 to present more buying opportunities than returns for the company.

Berkshire Hathaway, Inc.[7] has so many subsidiary businesses that I can't evaluate it in the same way I would evaluate a single business. In order to do the same quality of analysis I would have to evaluate each subsidiary, and I know I won't (and don't want to) do that. I acknowledge that my purchase of several Class B shares over the last few years has been a different sort of investment decision…it has been a decision to trust someone else with my capital, to delegate my responsibility to manage that capital. Essentially, to invest in Berkshire Hathaway is invest in their core earning power, historically successful management, capital flexibility, connections to the

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[2] Added annual revenue figures for 2013 through 2022 and divided by 10. See: https://www.macrotrends.net/stocks/charts/SWBI/smith-wesson-brands/revenue

[3] Added quarterly revenue figures for quarters 2022-07-31, 2022-10-31, 2023-01-31 plus $100 million and divided by 4. See the link in footnote #2.

[4] SWBI Market Cap of $519.566 million as reported by Yahoo! Finance on 03/26/2023. I rounded to the nearest million.

[5] Price to sales ratio, calculated here as market capitalization divided by (revenue from the last three reported quarters plus $100 million).

[6] Market cap of $520 million divided by estimated net income of $30 million.

[7] Disclaimer: The author has a financial position in this investment vehicle.

rich and powerful and broad business insights. I like this, but the P/S ratio, GAAP P/E ratio and “operating” P/E ratio are too high...even if we get $40 billion GAAP earnings and $7.7 billion “operating” earnings in 2023 Q1 and if the price does not change, GAAP P/E ratio would be about 56 and operating P/E would be about 21. I don’t think I will buy any more Class B shares in the neighborhood of $300.00. I feel good about owning Berkshire Hathaway shares...I will probably only sell if I find another business I would much rather have.

Just for fun...If you had purchased shares on August 1, 2022 of the companies I mentioned in the first issue of *The Standfast Report* *regardless of my opinions on them* and held those shares to today, then those positions (exclusive of any dividends) would have changed as follows:

Hennessy Advisors, Inc.: -25%
Sturm, Ruger & Company, Inc.: -5.5%
Smith & Wesson Brands, Inc.: -21.5%

For comparison...
S&P 500 Index: -4%

*****Factual corrections to issue #2 of The Standfast Report, page 3.*****

1) The percent change in Ruger's stock price over the period shown was -16.75% not -5.5%. Incidentally, total dividends paid per share by Ruger over the period shown was $6.30.

2) The percent change in the S&P 500 price over the period shown was -3.58% not -4%. I use the ^GSPC "Adj Close" figure from Yahoo! Finance for this calculation, which is the "price adjusted for splits and dividend and/or capital gain distributions."