

# The Standfast Report

COMMENTARY FOR INTELLIGENT INVESTORS

P.O. Box 1694, Boone, NC 28607 - Issue #3

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Dear Reader,

Wilkesboro, NC, April 25, 2023

Depositors of a bank are customers of and investors in that bank. A bank's customer deposits are another source of debt capital along with bonds and lines of credit etc. in the liabilities section of their balance sheet. With FDIC insurance up to \$250,000 safety is not an issue for most depositors, but equally (and more) safe fixed income investments with higher returns are available and so investors should shop around and force banks to compete on interest rates.

U.S. Treasury securities may be considered the \*safest\* securities on the planet which makes the 4-week T-Bill<sup>1</sup> an excellent place to \*park cash\* and get a respectable return of slightly better than 3%.<sup>2</sup> Returns on new issue T-Bills can and will change--this environment won't last forever--but for now returns on T-Bills are many times the returns on the average checking or savings account.

I found it very easy to buy T-Bills via TreasuryDirect.gov. T-Bills are also available at no additional cost via some brokerage firms.

Certain third-parties are pitching investment vehicles such as ETFs that give exposure to T-Bills with the additional benefits of liquidity and

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<sup>1</sup> Disclaimer: The author has a financial position in this investment vehicle.

<sup>2</sup> Based on the most recent Treasury auction results. Rates for some T-Bills with durations slightly longer than 4 weeks (the 8-week, 13-week and 17-week etc) have increased somewhat while rates for 4-week T-Bills have dropped rather significantly from between 4% and 5% to just over 3%. Most of the T-Bills I purchased over the last 6 weeks or so have been 4-week T-Bills, but this past week I requested my first 8-week T-Bill and if rates for the slightly longer duration T-Bills seem stay substantially above the 4-week, then I would expect to buy more of the slightly longer duration T-Bills. See:

<https://treasurydirect.gov/auctions/announcements-data-results/>

convenience but they add layers of cost and risk that, for me, defeat the purpose of T-Bills.

I stopped analyzing Third Coast Bank because I realized that I don't know how to feel comfortable owning a bank. All the banks I screened recently have lower ratios of total equity to total assets (about 0.07 to 0.13) than I like to see and I have no idea how to pick which banks (if any) will be successful. It seems like an unpredictable industry from an equity investment standpoint.

AMMO, Inc. was formed in 1990 under the name Retrospectiva, Inc. to manufacture and import textile products. After a period of inactivity and an ownership change, the company acquired (and started doing business as) AMMO, Inc. in March 2017.<sup>3</sup> In April 2021 the company "...entered into an agreement and plan of merger with Gemini, which, along with its subsidiaries, engages primarily in the operation of an online marketplace dedicated to firearms, hunting, shooting and related products, which created a second reportable segment."<sup>4</sup> The online marketplace referenced is GunBroker.com.

For the 9 months ending 12/31/2022, Total Sales of \$147.8mm breaks down as follows.<sup>5</sup>

Ammunition Sales: 61.3%

Marketplace fee revenue: 31.5%

Ammunition Casings Sales: 7.2%

Proprietary Ammunition, the unique part of their ammo manufacturing business, was only \$8.3mm for the 9 months ending 12/31/2022 while Standard Ammunition was \$82.3mm which "...directly competes with other brand manufacturers." and can include ammunition bought in the open market for resale.<sup>6</sup>

The company has interesting assets and growth intentions that are hard to value including a new manufacturing facility in Manitowoc, Wisconsin,<sup>7</sup> patents, governmental-based opportunities and ammunition products in the manufacturing business<sup>8</sup> along with (yet to be implemented) new convenience features for customers and market data analytics services for third-parties in the marketplace business.<sup>9</sup>

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<sup>3</sup> See page 8 of Form 10-Q for quarterly period ending 12/31/2022.

<sup>4</sup> See page 23 of Form 10-Q for quarterly period ending 12/31/2022.

<sup>5</sup> See page 12 of Form 10-Q for quarterly period ending 12/31/2022.

<sup>6</sup> See page 27 of Form 10-Q for quarterly period ending 12/31/2022.

<sup>7</sup><https://ammoinc.com/2022/09/26/ammo-inc-celebrates-grand-opening-of-state-of-the-art-ammunition-manufacturing-plant-in-manitowoc-wi/>

<sup>8</sup> See pages 10-11, 25, and 28 respectively (patents, opportunities, products) of Form 10-Q for quarterly period ending 12/31/2022.

<sup>9</sup> Payment Processing, Carting Ability, and GunBroker.com Analytics. Page 25 of Form 10-Q for quarterly period ending 12/31/2022.

The [previously announced separation of the company's ammunition and marketplace businesses](#)<sup>10</sup> into two separate publicly traded companies was [suspended](#)<sup>11</sup> because of market conditions.<sup>12</sup> If some proponents of the separation remain as owners and/or as Board members then it would seem that a revisiting of the plan is at least somewhat likely.<sup>13</sup> [Such a separation would simplify the valuation process for investors.](#)

It appears that all options for raising cash are on the table.<sup>14</sup>

From a high level the balance sheet for AMMO, Inc. as of 12/31/2022 seems very strong, though [53.3% the assets](#) at 12/31/2022 are [patents, other intangible assets](#) and [goodwill assigned to the marketplace segment.](#)<sup>15</sup> I would like to own and profit from AMMO, Inc. because it manufactures (and facilitates commerce of) products that are important to civilian, law enforcement, government and military markets, but [they have been unprofitable on average since about 2017](#)<sup>16</sup> and I don't see how they will rise above the competition in either of their two primary businesses.

[Just for fun...](#)If you had purchased shares at the close on March 27, 2023 of the companies I discussed in the second issue of *The Standfast Report* \*regardless of what I wrote about them\* and held those shares to today, then those positions (exclusive of any dividends) would have changed as follows:<sup>17</sup>

Smith & Wesson Brands, Inc. (SWBI)<sup>18</sup>: +9.46%

Berkshire Hathaway, Inc. (BRK-B)<sup>19</sup>: +7.65%

[For comparison...](#)

S&P 500 (^GSPC): +2.37%

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<sup>10</sup><https://ammoinc.com/2022/08/15/ammo-inc-announces-plan-to-separate-ammunition-and-marketplace-businesses-into-two-independent-publicly-traded-companies/>

<sup>11</sup> <https://ammoinc.com/2022/11/07/ammo-inc-reaches-settlement-agreement-with-the-urvan-group/>

<sup>12</sup> See footnote 11 above. The internal investigation into Mr. Urvan (large shareholder, Board member, founder of GunBroker.com) and Ms. Lokey regarding potential misconduct including misappropriation of the company's data and digital assets in the second half of 2022 may have been part of the backdrop for the suspension of the separation plan. On 11/07/2022 a settlement agreement with Mr. Urvan and Ms. Lokey was announced and Mr. Urvan remained on the Board.

<sup>13</sup> If the separation is revisited, then that would beg the question of why AMMO, Inc. acquired GunBroker.com in the first place. I have not found a clear, sensible answer to this question.

<sup>14</sup> "Existing working capital, cash flow from operations, bank borrowings, and sales of equity and debt securities are expected to be adequate to fund our operations over the next year. Generally, we have financed operations to date through the proceeds of stock sales, bank financings, and related-party notes." Liquidity, page 31 of Form 10-Q for quarterly period ending 12/31/2022.

<sup>15</sup> Balance sheet, page 3 of Form 10-Q for quarterly period ending 12/31/2022. Also see sections: Patents (page 10), Other Intangible Assets (page 11) and Goodwill (page 9).

<sup>16</sup> <https://www.macrotrends.net/stocks/charts/POWWW/ammo/net-income>

<sup>17</sup> For these calculations I divided the closing prices for today 04/25/2023 by the closing prices for Monday 03/27/2023, subtracted 1, and converted to percentage format. Price information from Yahoo! Finance. <https://finance.yahoo.com/>

<sup>18</sup> Disclaimer: The author has a financial position in this investment vehicle.

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