

Brunswick Corporation – BC: \$54.91

Mikaela Marier and Alex Bolle

Introduction

Brunswick Corporation (NYSE: BC) is a global designer, manufacturer and marketer of recreational products trading at a share price of \$54.91 as of November 26, 2018. The three main business lines include marine engines, marine boats, and fitness equipment. BC operates in 5 continents and employs over 15,000 people globally. Over 65% of revenues are generated in the United States, and 52.6% of total sales comes from the marine engine segment. Starting as a billiards manufacturer in 1845, which is still an active product line in the fitness segment, Brunswick has been able to evolve into the world leader in recreational products. BC's success is rooted in its consistent innovation, strong brand recognition, and its ability to adapt to the economic environment.



Recommendation

We are recommending a BUY for Brunswick Corporation. Through three valuation methods, we have determined that BC is currently trading at a price undervalued compared to its competitors and its true value. The three models used were an EV/EBITA multiple model, a P/E multiple model, and a discounted cash flow model that resulted in a target price range of \$69.59 - \$72.34, providing a potential upside return range of 26.7% - 31.7%. After a thorough analysis of the company's brands, growth opportunities, capital structure, risks, and financial results, we projected Brunswick Corporation's forward-looking financials to reflect our investment thesis.

Investment Thesis

Brunswick Corporation's business operations have changed significantly throughout its 173 year history as it has been able to successfully implement its aggressive and systematic growth strategy. BC has been able to establish its portfolio of brands as industry leaders in quality, innovation, and performance in each industry segment it operates in. BC's looks to focus on continued product leadership, targeted acquisitions, and growth-related investments in digital technologies, while looking to design, develop, and introduce consumers to new and technologically innovative products that benefit both its dealers and distributors. Through our valuation analysis and the following investment drivers, we believe that BC is currently trading at a price below its true value, and at a discount to its industry peers.

Innovative Product Lines

Brunswick Corporation has remained at the forefront of innovative product offerings as an industry leader in each of its three operating segments. BC allocates a vast portion of its capital towards research and development in an effort to provide consumers with differentiated product lines that focus on efficiency, capability, and performance. Specifically, through recent penetration of the active aging market with its fitness lines, BC has been able to expand its industry leading fitness brands and operations to an untapped consumer group, while establishing itself as an industry innovator in this distinct fitness technology. Brunswick Corporation is also guiding the marine industry to smart technologies through the implementation of its NauticOn software, as well as developing and offering exclusive technology and services to marine consumers, manufactures, and dealers with its new Boating Services Network. The Boating Services Network offers comprehensive retail financing, extended product protection, insurance, and full service business development assistance for manufactures and dealers. Lastly, BC's marine engines segment, maintains a strong concentration on sustainability through its utilization of industry exceeding engine technology with an emphasis on increasing efficiency and reducing pollution allowing for a strategic competitive advantage in the industry.

Mergers and Acquisitions

Brunswick Corporation has developed and implemented an aggressive and effective merger and acquisition strategy that is key to the sustained growth of the operating segments. BC pursues innovative and quality product offerings through continuous research and investment to grow its core brands across the three operating segments, as well as adding additional brands that offer complimentary technology, products, and services for its consumer base. Throughout Brunswick Corporation's history it has acquired many brands to offer a wide breadth of products allowing it to be the industry leader in each of the market segments it operates in. Recent acquisitions such as BLA Distributor, Garelick Manufacturing, Bell Recreational Products, and Power Products have allowed for differentiation from its competitor group and has provided excellent growth opportunities in the global market landscape. In addition to the aforementioned brands, BC has acquired 1 marine boat brand, 17 marine engine brands, and 3 brands in the fitness segment in the past five fiscal years exemplifying its commitment to develop its marine technologies and establish itself as the world leader in fitness equipment manufacturing and retail.

Portfolio of Brands

Brunswick Corporation brand holdings consists of global industry leaders in the marine engine, boat manufacturing, and fitness sectors which has allowed for market share and product line dominance in these highly fragmented industries. The current brand holdings align well with the current market demands for brand integration, associability, mobile technology, and exceptional customer service. BC's brands have strong reputations for quality, value, and innovative product development, productivity, efficiency, and capabilities while providing best in class services and support. With this diverse brand ownership, BC has continued to be at the forefront of each individual operational segment allowing for a competitive advantage with consumers, dealers, and distributors. BC is able to leverage its control through exclusive Mercury motor and proprietary technology offerings across its 14 boat brand holdings in the marine boating segment. The authority exhibited in the marine industry allows for increased interest in dealer and distributor partnerships growing the demand and financial success of the marine segment. Additionally, BC holds the top five fitness equipment brands in the world with a product breadth reaching the cardiovascular, strength, and active aging sub-sectors.

Valuation

In our valuation calculations, we utilized three different valuation methods to calculate the future estimated stock target price range. First, we used 5-year discounted cash flow model which resulted in a projected price of \$66.55. Two key inputs in the model are a 2.0% perpetuity growth rate and 9.071% WACC, which we believe both to be conservative estimates. Our WACC is slightly lower than historical averages due to the company's \$175 million debt offering taking place in December as discussed in the 2017 annual report, which would result in a lowered average cost of capital. See the sensitivity analysis below to see how changes in

these key inputs affect the stock price for the DCF model. The second method we used was an EV/EBITA exit multiple model. Utilizing an exit multiple of 8.9 derived by analyzing historical, industry, and peer

group trends we returned a stock price of \$76.95. In our 5 Year DCF and EV/EBITDA exit multiple valuation models, we also adjusted revenue estimates for the subsequent five years to grow at 4% per year based on industry analysis, current market conditions, and management guidance. Finally, we used a P/E multiple method with a projected P/E ratio of 14.79, which resulted in an estimated stock price of \$69.37. Weighting each method equally we calculated an estimated stock price of \$70.96 for BC. Due to likely fluctuations in the variables used, we built-in a 2.5% range, giving us a final target price range between \$69.59 and \$72.34, resulting in a projected upside of 26.7%-31.7%.

		Terminal Growth Rate				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	8.1%	68.76	72.80	77.52	83.08	89.74
	8.6%	64.19	67.64	71.62	76.25	81.71
	9.1%	60.20	63.17	66.55	70.45	75.00
	9.6%	56.67	59.25	62.16	65.49	69.32
	10.1%	53.54	55.79	58.32	61.18	64.44

Risk Factors

Overall Market Conditions – Moderate Probability, High Impact

Economic uncertainty and contraction, leads consumers to have less disposable income and often defer expenditures for discretionary items, which adversely affects Brunswick Corporation's financial performance, particularly in the marine market segment. Through mergers and acquisitions and development of new product lines, BC has been able to expand its portfolio to product offerings less susceptible to economic cycles, but a portion of operations remain highly cyclical and sensitive to consumer spending levels. Deterioration of the general economic condition will weaken consumer confidence and discretionary income reducing BC's revenue, or force a decrease in profit margins adversely affecting financial results.

Ineffective Distribution Network – Low Probability, High Impact

Brunswick Corporation relies heavily on third-party dealers and distributors to sell a significant portion of its product lines, specifically in the marine business. BC's financial success is dependent on maintaining a reliable network of distributors, with this there remains a high amount of competition from other manufactures to create and retain these relationships. In the event of economic downturn, BC expects an increase in dealer failures and voluntary market exits, especially if the overall consumer demand materially declines.

Increased Production Costs – Moderate Probability, High Impact

BC's product manufacturing is greatly dependent on the third-party supplementation of raw materials such as oil, aluminum, copper, steel, and resins, as well as product parts and components. Manufacturing costs and profit margins fluctuate greatly in relation to substantial price increases in raw materials as a result of market conditions, tariffs, and commodity prices. Components used in BC's manufacturing processes require components available from a sole supplier or limited number of suppliers; operational and financial complications that these suppliers face could adversely affect their ability to supply the needed parts, or increase component prices. Cost increases, defects, or sustained interruptions in the supply of raw materials, parts, or components as a result of the aforementioned factors poses a risk to BC's operations and financial results.

Fierce Market Competition – Moderate Probability, Moderate Impact

Brunswick Corporation's product portfolio experiences a high level of market competition from various competitors in the global market. Introduction of lower-priced alternative products in the market could reduce BC's ability to compete effectively, and its capability to continue financial growth and build brand value. BC's customers expect quality, innovation, and advanced product features when evaluating and making purchasing decisions, failure to differentiate products through innovation and expansion could result in a reduction in market share.

Foreign Exchange Rates – High Probability, Moderate Impact

BC conducts a substantial portion of its operations outside of the United States, but financial results are reported in US dollars. As a result, Brunswick Corporation is exposed to fluctuations in currency exchange rates, and financial results are adversely affected as the US dollar strengthens against other currencies, specifically European currencies, as a significant amount of revenues are derived in Europe. Also, significant fluctuations current exchange rates can affect consumer spending behavior, as it makes it more or less expensive to purchase products as currency rates shift.

Management

The three main executives for BC are Mark Schwabero – Chairman and CEO, William Metzger – Senior Vice President and CFO, and Randall Altman – Vice President and Treasurer. Starting January 1, 2019, David Foulkes will be taking over as CEO and Schwabero will be retiring. Although management changes can increase risk, Foulkes has been with the company for 11 years and therefore we believe this change in management will not have an adverse effect on the company’s operations, and a seamless transition and a continued emphasis on Brunswick’s operational goals will result in positive financial results.

Peer Analysis

Company	Price	Market Value (\$M)	Revenue (\$M)	EBITDA (\$M)	EV/EBITDA	Price/Earnings
Brunswick Co.	54.91	4,569	4,767	616	8.9x	11.3
Johnson Outdoors	71.75	713.6	545	77.9	7.5x	20.4
Marine Max	24.06	541.7	1,119	67.3	10.6x	12.5
Marine Products	22.78	785.9	302	38.2	20.3x	26.7
Malibu Boats	48.52	1,010	517	89.3	11.78x	16.1
Industry Average	43.96	1,524	1,450	178	11.8x	17.4

Brunswick Corporation competes in various highly competitive markets, but no single enterprise competes effectively with BC throughout its diversified product portfolio. In each product group, there are competitors that range in size from large, highly-diversified companies, to small single product group companies. As such, our peer analysis includes competitors that directly compete across the marine engine, boat manufacturing and retail sales, and outdoor recreation market segment due to this being the most significant revenue source and concentration of business operations for Brunswick Corporation. This list of peers includes Johnson Outdoors, Marine Max, Marine Products, and Malibu Boats all of which uphold prominent status in the marine industry, while directly competing with one or multiple product lines offered by BC. BC maintains the largest market cap, enterprise value, revenue stream, and EBITDA in the industry, while also maintaining a lower than industry average EV to EBITA and Price to Earnings ratios. Through this peer group analysis, the results substantiate and demonstrate the undervaluation of BC compared to its direct competitors, and the overall industry averages.

Ownership of Shares

The top five owners of BC stock are The Vanguard Group Inc., Blackrock Fund Advisors, Voya Investment Management, Inc., JPMorgan Investment Management, Inc., and State Street Capital Corporation. All of these holders specialize in investing, consulting, or financial services. Institutional holdings make up 98.08% of all share holdings, which is relatively high. Often, this is looked at as a sign of a strong company.

Institutional Holdings – 98.08%

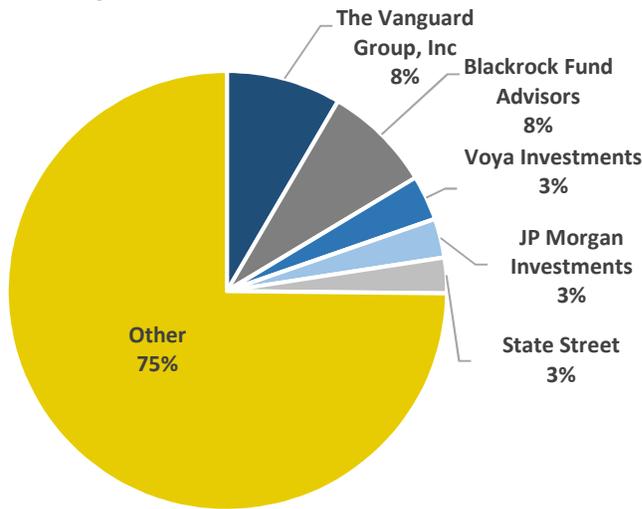
Total Number of Holders – 397

Total Shares Held – 85,890,194

Total Value of Holdings – 4,520,400,910

Net Activity – 366,334

Top 5 Shareholders



Institutional/Mutual Funds vs Insider Holdings

