

Malibu Boats Inc.

NASDAQ:MBUU

Analyst: Andrew Varone

Sector: Consumer Discretionary

BUY

Price Target:\$23.06

Key Statistics as of 4/21/2016

Market Price:	\$17.20
Industry:	Leisure Products
Market Cap:	\$309.52M
52-Week Range:	\$11.97-\$23.72
Beta:	0.42

Thesis Points:

- The increased age of registered boats and the ability for Malibu Boats to gain market share will be key drivers for revenues
- Entering the premium luxury segment through the M235 series will help improve margins
- Improving market conditions as well as the Fed wanting to raise interest rates will help promote boat sales in the next quarter

Company Description:

Malibu Boats, Inc. is a designer, manufacturer and marketer of performance sport boats. The Company's boats are used for water sports, including water skiing, wakeboarding and wake surfing, as well as general recreational boating. The Company sells its boats under two brands: Malibu and Axis. Its flagship Malibu brand boats are designed for consumers seeking a premium boating experience. The Company's Axis brand of boats are designed to appeal to consumers who desire a more affordable product but still demand high performance, functional simplicity and the option to upgrade key features. The Company's boats are constructed of fiberglass, equipped with inboard propulsion systems and available in a range of sizes and hull designs.



Thesis

Malibu Boats Inc. is a designer, manufacturer and marketer of performance sports boats. Malibu Boats is in the best of its class of any of the boat manufacturing companies. With 32% market share in 2014, Malibu Boats has successfully been able to take market share away from its competitors. This has been done through better boat quality as well as personalization through the extensive technology that they possess. Malibu Boats is looking to gain market share as they aim to enter the premium luxury segment of boats with their M235 series. Though the boat industry took a huge hit during the recession, it has been picking up steam of late. This along with the Federal Reserve wanting to raise interest rates will be key drivers in individuals buying more boats. At the price of \$17,200, Malibu Boats is considered a BUY. With a 1-year target of \$23.06, Malibu Boats has an upside potential of 25%.

Porter's 5 Forces

Bargaining Power of Suppliers: Low

The bargaining power of suppliers is low due to different automation companies constructing the framing and mechanical parts of the part. Also through interchangeable parts, Malibu Boats can easily substitute their parts further lowering the bargaining power of suppliers. The company itself also designs manufacturers and markets their boats. Meaning the only real input will be the raw materials needed to construct boats such as fiberglass.

Bargaining Power of Customers: Neutral

With any big ticket item, the customer will have the ability to haggle down a price on these luxury boats. For Malibu Boats itself, they have the best boats on the markets with the best warranty plans an individual can get.

Threat of Substitutes: Low-Neutral

For most people, a boat is an extreme luxury expense. They will decide to go for a more affordable option for water recreation such as a jet ski. Malibu boats has the top of class luxury boats. They have two divisions, one for luxury boats and one for affordable brand boats. Lastly, they sell other recreational water machinery such as a jet skis. This means that any substitute products on the market Malibu Boats sells.

Competitive Rivalry: Neutral

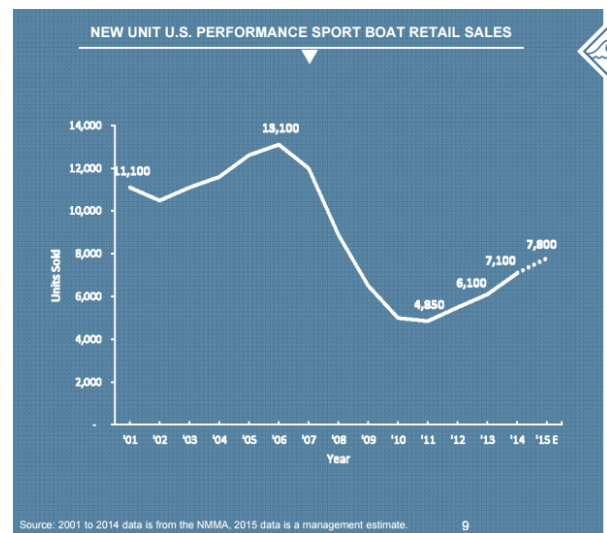
There are currently four boat companies that own 82% of the market share in the U.S. Lesser known brands have a tough time competing for market share. Lastly, the top four companies fight over market share at the top and try to be the best positioned for boat buyers in a strengthening economy.

Threat to New Entrants: Low

There is a brand name that is needed for customers to buy the boat. Lesser known boating manufacturers have a tough time entering the market and selling the boat that they have in their inventory. This can be problematic as there can be high holding cost for boats and the lack of sales could force a company out of business.

Industry Overview

There is a positive outlook for the economy going into 2016. This fares well for the boating industry as they are selling a luxury product that fares better in a good economic environment. Since a boat is a luxury big ticket item, the Great Recession hit the boating industry hard. So hard that it has yet to recover from the recession that occurred in 2008.

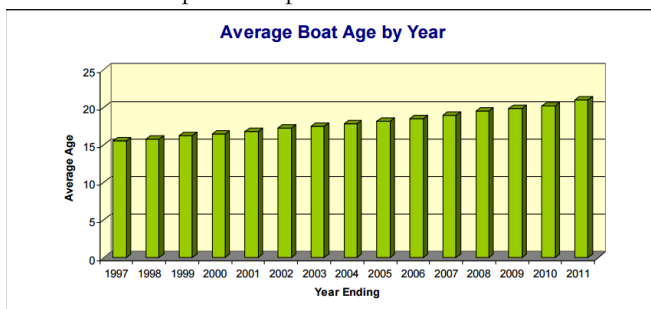


As this graph shows, the number of units sold pre-recession was over 13,000 a year. At its lowest point after the recession, only 4,800 new units were sold in 2011. The amount of boats sold, like the economy, has been recovering with each passing year. Despite this recovery, boat sales after the recession are just above half that of pre-recession numbers. The number of boats purchased every year is expected to continue to improve. This means that Malibu Boats should see improving revenues

due to the growth that is within the industry.

Boating Boom

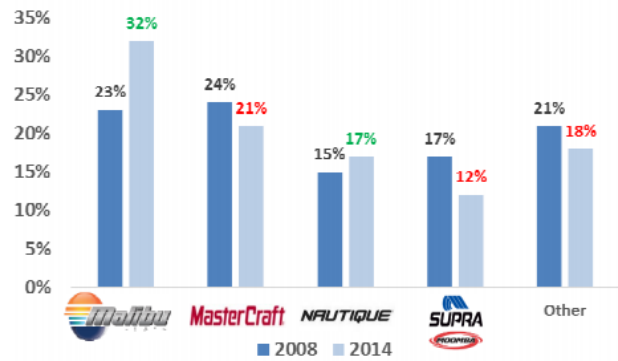
There was a boating boom in the United States from the 1970s to the 1990s. During this time, the amount of registered boats doubled from 6 million in 1972 to almost 12 million by time the 90s hit. Since the 1990s, the number of registered boats remained stagnant. Starting in 1990, there was a boom in other recreational water equipment. This includes water items such as canoes, water skis and jet skis. With this low entry of new boat registrations into the market, the average age of boats has been pushed up.



The average age of boats has increased by 5 years. From 15 years old in 1997 to 20 years old in 2011. This means that boats today are more likely to need service as they have been in service longer. Also, this may mean boat owners will be looking to get new boats if their old boat needs services that will be beyond the worth of repairing.

Taking Away Market Share

As discussed earlier, Malibu is the leader in the boating industry with 32% market share. The next competitor is MasterCraft and they only have 21% market share. After that Nautique has 17% market share. And the last major competitor, Supra, has 12% market share. All other boat manufactures combine for the last 18% of market share. Though Malibu is leading the industry with dominated market share, this was not always the case.



As seen from this graph, Malibu has fared the best after the recession in the boat industry. Despite a low amount of sales in the boat manufacturing industry, Malibu has been able to take away customers from their competitors with their market share growing from 23% to 32%. The rest of the industry saw a decline in their market share except for Nautique whose market share increased by 2%. This ability to continue to get customers despite low growth post-recession will prove to be key for Malibu in the upcoming years.

Diversification of Sales

Malibu Boats has two main companies that sell boats. The first is Malibu boats, which are known for their high performance/high class luxury boats and their tournament quality skit boats. The high class boats that they sell range from \$60,000-\$180,000 and have eight different models. They have three different ski boats that they sell and range from \$40,000 to \$75,000. The other company that they own, Axis, is known for their affordable boats. Axis has five models of boats that cost \$45,000-\$85,000. Lastly, Malibu Boats sells a wide variety of jet skis and other recreational water equipment. A key component that Malibu offers is the ability to build your own boat as well as customization with a wide variety of technology that the company possesses. With a wide range of boats that the company sells, they are able to suit any market that is looking to buy a boat for the upcoming summer months.

M235

For 2016, Malibu Boating has introduced four new models under their M235 series. These new boats are in the premium luxury segment, a segment that Malibu currently has 0% market share. Penetrating this new segment will allow Malibu to grow margins as higher luxury; higher cost boats have better margins than their

substitutes. Malibu, with its name and its already captured market share in other segments, is optimistic they can capture a significant market share in the premium luxury segment. Their target is 18% market share for boats 20/21 feet, up to 37% market share for boats over 24 feet.

Economic Conditions

Depending on an individual's geographical location, boating is an activity that can be very cyclical. With the weather getting nicer and the summer months upcoming, boat owners will be looking to dock their boats at their local ports. When they do a test run, they might find issues with their boat which will generate revenues for Malibu Boat if that is where they got their boat. Also, with a recovering economy and the retirement of the baby boomers, the market for boats could be heating up. With Federal Funds Rate at its target of 0.25%-0.50%, this is still the ideal time buy a boat. With the Federal Reserve choosing to only raise interest rates twice a year, those seeking a loan to purchase a boat will try and do so soon. This is due to the Federal Reserve wanting to raise interest rates at their next meeting in June.

Financials

In the sensitivity analysis that is below, it can be seen that leading driver for the stock price of Malibu Boats is revenues. With a rebounding economy and MBUU ability to gain market share, the stock price should continue to increase due to increasing revenues that are foreseen for Malibu Boats.

For revenues, they have beaten analyst estimates on four of the last five quarters. There is not great variation which means there is not much surprise and future revenues are reasonable to forecast. Contrary, Malibu has missed EBITDA every quarter for the last five quarters. There has been great deviation from the estimates due to the inability to forecast what type of boats will be the most popular. More affordable boats have been driving sales which result in worse margins. Over the next year, Malibu should be closer to their target on their EBITDA margins during earnings call. This is because they have entered the premium luxury segment which produces the highest margins.

Conclusion

At a price of \$17.20, Malibu Boats is considered a BUY with an upside potential of 25%. Revenues is the main driver for value creation through economies of scale for the stock price. With the economy rebounding as well as the summer months upcoming, those looking to buy boats will be soon in the market. With the Federal Reserve raising interest rates, they will try sooner than later. Lastly, with Malibu Boats extensive market share as well as their coverage of different segments will attract boat buyers to Malibu.

Malibu Boats, Inc. (MBUU)

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BULLISH

Analysis by Andrew Varone
4/21/2016

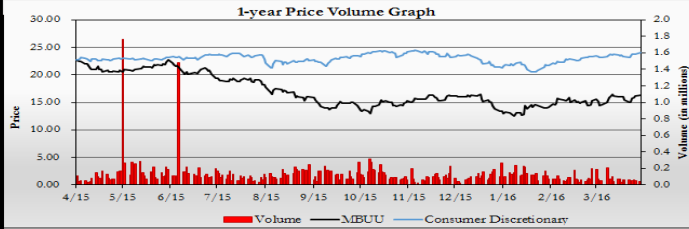
Current Price:
Divident Yield:

\$17.26
0.0%

Intrinsic Value
Target Price:

\$20.39
\$23.06

Target 1 year Return: 33.59%
Probability of Price Increase: 100%

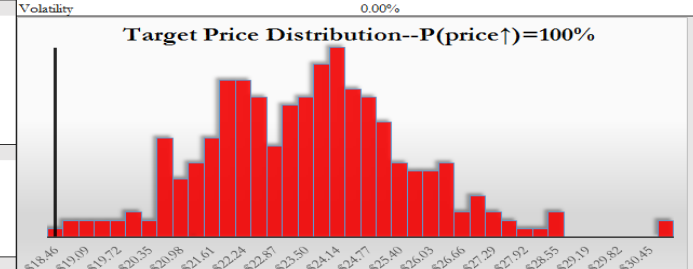


Description	Market Data
Malibu Boats, Inc. designs, manufactures, markets, distributes, and sells sport boats.	Market Capitalization \$303.22
	Daily volume (mil) 0.05
	Shares outstanding (mil) 17.97
	Diluted shares outstanding (mil) 17.15
	% shares held by institutions 78%
	% shares held by investments Managers 94%
	% shares held by hedge funds 8%
	% shares held by insiders 0.96%
	Short interest 4.05%
	Days to cover short interest 7.47
	52 week high \$23.72
	52-week low \$11.97
	Levered Beta 1.00
	Volatility 0.00%

General Information	Peers
Sector Consumer Discretionary	Marine Products Corp.
Industry Leisure Products	MCBC Holdings Inc.
Last Guidance November 3, 2015	Nauticus Inc.
Next earnings date N/A	Brunswick Corporation
Estimated Country Risk Premium 6.06%	Callaway Golf Co.
Effective Tax rate 40%	Arctic Cat Inc.
Effective Operating Tax rate 36%	Polaris Industries Inc.
	Hasbro Inc.

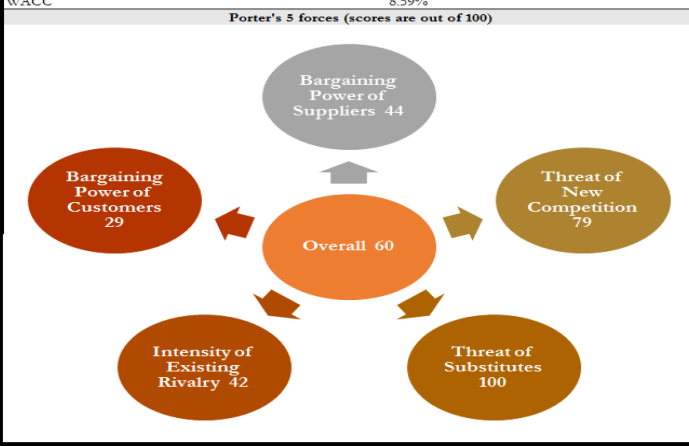
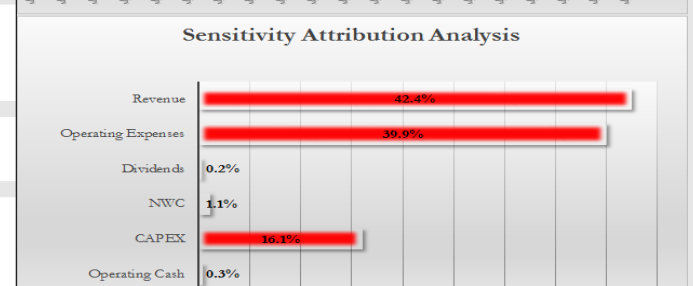
Quarter ending	Revenue	EBITDA
12/31/2014	1.99%	-11.12%
3/31/2015	0.28%	-20.12%
6/30/2015	3.72%	-0.16%
9/30/2015	-0.97%	-12.33%
12/31/2015	1.01%	-21.11%
Mean	1.21%	-12.97%
Standard error	0.8%	3.8%

Management	Position	Total compensations growth	Total return to shareholders
Spinger, Jack	Chief Executive Officer and	8.84% per annum over 4y	N/M
Wilson, Wayne	Chief Financial Officer and	8.98% per annum over 4y	N/M
Anderson, Ritchie	Chief Operating Officer	0.53% per annum over 4y	N/M
Alkerna, Robert	President	N/M	N/M
Noblett, Tim	Co-Owner	N/M	N/M
Noblett, Kimberly	Co-Owner	N/M	N/M



Profitability	MBUU (LTM)	MBUU (5 years historical average)	Industry (LTM)
ROIC	46.7%	-2.83%	10.15%
NOPAT Margin	12%	-9.49%	8.4%
Revenue/Invested Capital	4.03	0.30	1.20
ROE	78.7%	-8.66%	11.31%
Adjusted net margin	11%	-10.29%	7.7%
Revenue/Adjusted Book Value	7.26	0.84	1.48

Capital Structure	MBUU (LTM)	MBUU (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.32	0.08	0.17
Cost of Existing Debt	4.02%	8.70%	5.32%
Estimated Cost of new Borrowing	3.37%	3.13%	5.32%
CGFS Risk Rating	BBB	BBB	BB
Unlevered Beta (LTM)	0.86	1.09	0.90
WACC	8.59%	10.59%	8.98%



Period	Revenue growth	Invested Capital
Base Year	17.6%	\$18.79
12/31/2016	9.0%	\$75.76
12/31/2017	7.4%	\$97.25
12/31/2018	6.8%	\$94.48
12/31/2019	6.3%	\$60.29
12/31/2020	5.7%	\$78.43
12/31/2021	5.1%	\$96.32
12/31/2022	4.5%	\$117.28
12/31/2023	3.9%	\$138.15
12/31/2024	3.3%	\$160.96
12/31/2025	2.7%	\$184.01
Continuing Period	2.1%	

Valuation	ROIC/WACC
NOPAT margin	5.44
11.6%	6.85
18.4%	5.87
18.2%	4.89
17.6%	4.20
16.9%	3.62
16.3%	3.18
15.8%	2.77
15.3%	2.43
14.9%	2.15
14.4%	1.90
14.0%	1.70
13.6%	