

Brunswick Corporation

NYSE:BC

Analyst: Eric Crown

Sector: Consumer Disc.

BUY

Price Target: \$53

Key Statistics as of 11/04/2016

Market Price:	\$42.67
Industry:	Recreational Goods, Other
Market Cap:	\$3,850M
52-Week Range:	\$36.05-55.65
Beta:	1.67

Catalysts:

- Short Run Price Fluctuations
- Growth through Acquisition
- Economic State

Company Description:

Brunswick Corporation (BC) is a high quality producer of recreational products with an international reach. It was founded in 1845 and has been publicly traded since 1982. It operates in three different segments: Marine, Boat, and Fitness products, with the marine and boat segment making up over 80% of the company as of 2016. It is head quartered in Lake Forest Illinois. It sales its diverse products to the consumer, commercial use, and government markets.

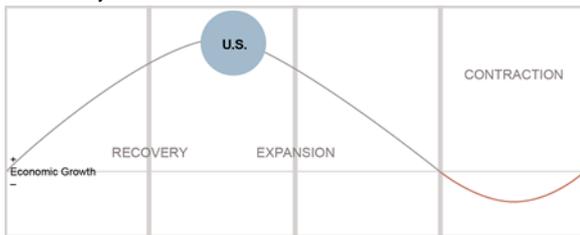


Thesis

Brunswick is a historic company with a history of delivering quality products to a global market. The quality and reliability of its products set it apart from competitors. They have a competent and experienced management team that are growing the company aggressively. The company is trading near 52 weeks low and is greatly undervalued. Now would be an ideal time to BUY and realize short term profits from the undervaluation and long term growth profits.

Industry Outlook

The consumer discretionary sector follows closely to the economic market, because these are goods that are not a necessity to the consumer. If the economy is doing poorly people do not have the funds to spend on as many wants. Recently the market has been performing fairly poorly which has resulted in a downturn in the consumer discretionary as well as Brunswick. This has created a low buy in for Brunswick, which was already trading lower than its 52 week average to begin with. This makes it an ample time to buy. One major risk however is the prevailing economy.



The graph above, provided by Fidelity, shows where the economy is now based on the average time frame of the economic cycle. This leads to a pause to buy Brunswick because an economic downturn would surely have adverse effects on the company. With a Beta of 1.67 a decline in the market would be very significant. Based on these facts I would recommend to wait and see if the recent lows in the market is just a small dip or the beginning of a market contraction. This is a major catalyst in the price of the stock and must be timed correctly to ensure maximum profits. The specific industry of marine vehicles products is seasonal, with sales generally highest in the second

calendar quarter of the year. With Q4 resulting in very few sales.

Segments

Brunswick is currently divided into three major segments: Marine Engines, Boats, and Fitness products. Brunswick's engine related products include Out/In board, engines, trolling motors, sterndrives, propellers, engine control systems, and marine parts and accessories. The Company's boat offerings include: fiberglass pleasure boats, yachts, offshore fishing boats, aluminum and fiberglass fishing boats, pontoon boats, deck boats, and inflatable boats. Brunswick's fitness products include cardiovascular and strength training equipment for both the commercial and consumer markets. Imbedded in this segment is also a complete line of billiards tables and other gaming tables and accessories. The Boat Group procures most of its outboard engines, gasoline sterndrive engines and gasoline inboard engines from Brunswick's Marine Engine segment. This vertical integration can help them reduce cost in the future.

In Millions of USD except Per Share	FY 2012	FY 2013	FY 2014	FY 2015
12 Months Ending	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Revenue	3,717.6 100.0%	3,887.5 100.0%	3,838.7 100.0%	4,105.7 100.0%
Marine	2,759.4 58.5%	2,883.7 58.6%	1,933.6 50.4%	2,036.5 49.6%
Boat	1,002.6 21.2%	1,032.0 21.0%	1,135.8 29.6%	1,274.6 31.0%
Fitness	635.9 13.5%	693.5 14.1%	769.3 20.0%	794.6 19.4%

As can be seen in the table above the marine engine segment is the largest with the boat segments rapidly growing. The marine segment has the highest operating margin of 17%, with fitness at 14% and boating at 2%. This is very low for boating and slightly concerning considering it is the fastest growing segment. However being the contrarian I am this entices me. If management could increase the boating operating margin, there would be substantial growth.

BC vs Competitors

There are not many companies that can compete directly with Brunswick because of the diverse portfolio Brunswick has. This being the case I decided to compare Brunswick to Polaris Industries (PII), Camping World Holdings (CWH) and Sunbird Yacht Company (300123).

	ROIC/WACC	ROIC	ROIC W/O GW	EBITA Margin	WACC	Ke	Kd
Brunswick:	1.1	17.80%	21.60%	10.50%	16.10%	17.30%	6.10%
Competitor:	1.25	12.10%	13%	8.60%	9.70%	11.40%	3.30%

As can be seen in the table provided above Brunswick outperforms its competitors in profitability. It has a

higher ROIC and EBITA margin than the chosen competitors. However Brunswick could improve by decreasing their debt. They have a much higher WACC, nearly double of the competitors. This is due to the many recent acquisitions they have undertaken. Once they slow down their aggressive acquisitions their debt, and cost of debt, will decrease. This will lead to a much higher ROIC/WACC ratio than the competitors, meaning they are creating much more value. Brunswick also has a leg up on its competition in quality of products. They won the Innovation Award for the Outboard Engines category for their X5 trolling motor in September 2015 at the International Boatbuilders Exhibition and Conference.

Earning is not high enough considering the growth rate. The technical analysis of this stock is a major catalyst in a potential price change. Another reason that the stock may be undervalued, besides the market, is the extensive Pension payments that have been made in prior years. In the fourth quarter of 2015 Brunswick paid \$82.3 million and \$27.9 million in the fourth quarter 2014 to settle a portion of its pension obligations. According to the Quarter 3 earnings call Pension expense in 2016 is projected to be \$15 million. This is good because they are paying off these liabilities and can start allocating these funds to grow the company. With an analyst one year median estimate of \$60 there is lots of upside potential with minimum downside risk.

Ownership

Top Ownership Type (%)			
54) Ownership Type	10/30/16	Curr	Change
41) Investment Advisor	80.52	80.28	-0.24
42) Hedge Fund Manager	11.78	11.90	+0.12
43) Pension Fund	2.47	2.52	+0.05
44) Individual	1.66	1.68	+0.02
45) Government	1.20	1.21	+0.01
46) Bank	1.12	1.13	+0.01
47) Insurance Company	1.04	1.05	+0.01
48) Corporation	0.06	0.08	+0.02
49) Endowment	0.07	0.07	0.00

The above table provided by Bloomberg shows the ownership for Brunswick. Hedge Fund manager hold 12 %, which is a fairly high percentage. This is a reassuring sign because it shows that there is potential for value creation. The fact that interest from hedge funds has gone up by 12 bases points is also positive.

Undervalued

The current state of the consumer discretionary market has lead Brunswick and other companies in the industry to very low prices. Brunswick is trading near its 52 week lows. It is also trading at a near 5 year low P/E of 12.90. These are all signs that Brunswick is undervalued due to the state of the industry. A slight improvement in the market could dramatically increase the price in the short run. With a Beta of 1.67 the price would fluctuate a lot to an increase in the market. Brunswick is trading near 5 year low multiples across the board. As well Brunswick has a PEG ratio of .820, which is well below one. Theoretically this means the stock is undervalued because the Price to

Growth through Acquisition

In the longer term Brunswick's strategy remains consistent. They try to design, develop and introduce high quality products featuring innovative technology and styling into the market. They accomplish this goal by innovating their existing product and through aggressive acquisitions. In the past two years they have purchased five companies in their marine and fitness segments. On November 6, 2015 they acquired Garelick Mfg. which design and produce marine product and accessories. These acquisition will expand the Company's marine parts and accessories business and add depth and breadth to its product portfolio. On July 8, 2015 they acquired SCIFIT Systems. This added fitness equipment designed for elderly customers, which is a quickly growing market, to their portfolio. Acquisitions like this and many others have been strategically done to add value and potential growth to the company. If they continue to expand their portfolio they will be more vertically integrated which will decrease cost. As well they will have a more diversified portfolios with products that could lead to future growth. Management is very confident in their growth potential stating in their Quarter 3 earnings report: *“As we finish the 2016 season, we're confident that the growth in the market demand is sustainable. This confidence is supported by dealer sentiment, strong order levels going into the new model year, new and innovative product offerings across the industry, favorable replacement cycle dynamics as existing boats age, as well as stable economic conditions and consumer sentiment.”*

Leadership

Brunswick has a very motivated and determined leadership. They make it clear that their main objective is creating value for the shareholders. As well they are very transparent and offer lots of guidance to investors, while not being overly optimistic. Mark D. Schwabero was named Chairman and Chief Executive Officer of Brunswick in February 2016. He served as President and Chief Operating Officer of Brunswick from 2014 to 2016 and Vice President and President - Mercury Marine from December 2008 to May 2014. Mark has lots of firsthand experience in the company that will help him meet his goals of creating value. Since 2014 management has initiated a share repurchase program with having already repurchased 4.8 million shares of the stock. Management has advised there will be \$110-\$120 of shares repurchased in 2016. This is another value creator because it is less shares outstanding which increases the shareholders stake in the company. Recently management announced an increase in the quarterly dividend payments from \$.15 to \$0.165 cents per share. All this shows that the management is capable and does everything in their power to create value for the shareholders.

Valuation

Long term management guidance was used for a majority of the continuing period values. All other values were set to industry averages. This yielded a price of \$44.60 while the stock is actively trading at \$42.66 as of November, 4th 2016. The one year target is around \$53 dollars. This value is actually lower than the analyst median estimate of \$60, which may be partially due to the share repurchase not being accounted for.

Summary

I recommend a BUY for Brunswick Incorporated. It is a historic company that offer superior products. This opportunity is the best of both a value and growth play. The stock has been undervalued according to trading ratios. With a small dividend, a

share repurchase program, and aggressive acquisition growth; management has taken many steps to increase the shareholder value. Both analyst and hedge fund managers see the potential for gains. The one factor that must be taken into consideration is the economy. If there is a contraction this could mean potential losses. Timing in purchasing the stock could play a big role in total returns. I would recommend putting half a position in now and another half once market movements have been made clearer.

Brunswick Corporation (BC)

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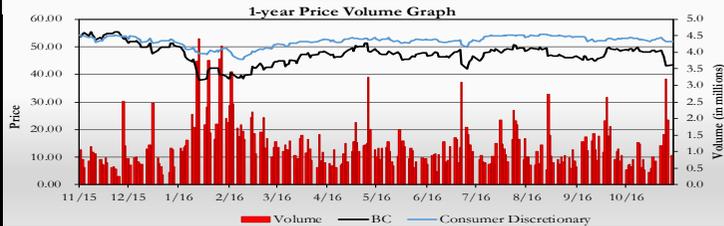
BULLISH

Analysis by Eric Crown
11/4/2016

Current Price: **\$42.19**
Divident Yield: **2.1%**

Intrinsic Value: **\$43.85**
Target Price: **\$53.00**

Target 1 year Return: **27.72%**
Probability of Price Increase: **98%**

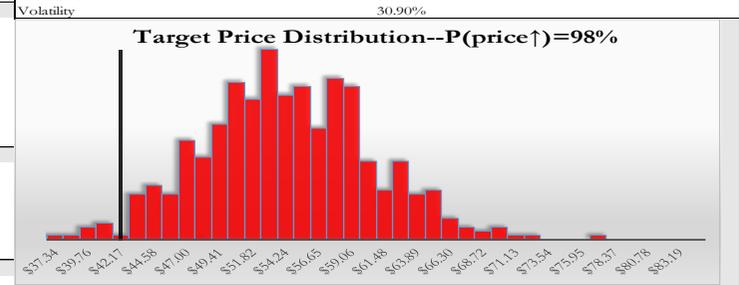


Description	
Brunswick Corporation designs, manufactures, and markets recreation products worldwide.	
General Information	
Sector	Consumer Discretionary
Industry	Leisure Products
Last Guidance	November 3, 2015
Next earnings date	January 26, 2017
Estimated Country Risk Premium	7.25%
Effective Tax rate	35%
Effective Operating Tax rate	46%

Market Data	
Market Capitalization	\$3,784.00
Daily volume (mil)	1.03
Shares outstanding (mil)	89.69
Diluted shares outstanding (mil)	92.73
% shares held by institutions	79%
% shares held by investments Managers	80%
% shares held by hedge funds	11%
% shares held by insiders	0.72%
Short interest	6.11%
Days to cover short interest	5.32
52 week high	\$55.65
52-week low	\$36.05
Levered Beta	1.98
Volatility	30.90%

Past Earning Surprises	
Quarter ending	Revenue
10/3/2015	-1.75%
12/31/2015	-2.79%
4/2/2016	-2.48%
7/2/2016	-1.21%
10/1/2016	-2.46%
Mean	-2.14%
Standard error	0.3%

EBITDA	
10/3/2015	-0.79%
12/31/2015	-22.49%
4/2/2016	-3.69%
7/2/2016	-0.89%
10/1/2016	-6.32%
Mean	-6.83%
Standard error	4.0%



Management	
Schwabero, Mark	Chairman, Chief Executive Of
Metzger, William	Chief Financial Officer and
Pfeifer, John	Vice President and President
Foulkes, David	Chief Technology Officer, Vi
Haan, Phillip	Vice President of Investor R
Dekker, Christopher	Vice President, General Coun

Profitability	
ROIC	16.9%
NOPAT Margin	7%
Revenue/ Invested Capital	2.46
ROE	17.5%
Adjusted net margin	6%
Revenue/ Adjusted Book Value	2.77

Invested Funds	
Total Cash/Total Capital	16.7%
Estimated Operating Cash/Total Capital	16.6%
Non-cash working Capital/Total Capital	13.2%
Invested Capital/Total Capital	77.4%

Capital Structure	
Total Debt/Common Equity (LTM)	0.10
Cost of Existing Debt	9.55%
Estimated Cost of new Borrowing	6.10%
CGFS Risk Rating	D
Unlevered Beta (LTM)	1.87
WACC	17.41%

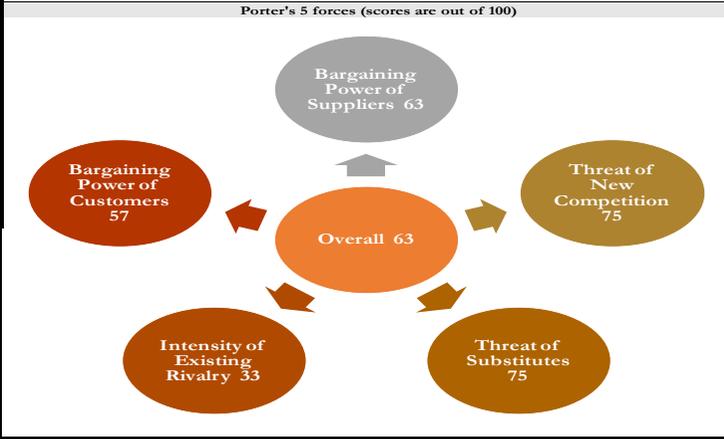
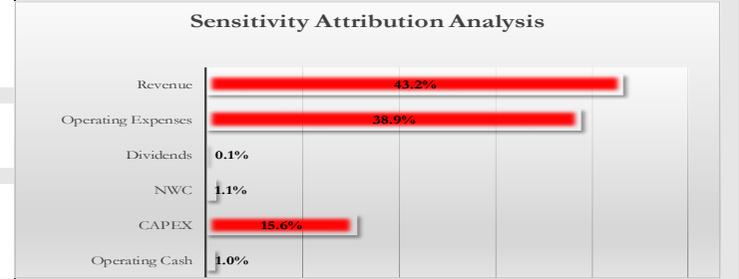
Total compensations growth	
25.92% per annum over 5y	7.54% per annum over 2y
31.19% per annum over 1y	N/M
N/M	N/M
N/M	N/M

Total return to shareholders	
2.62% per annum over 5y	5.85% per annum over 2y
-0.29% per annum over 1y	N/M
N/M	N/M
N/M	N/M

BC (LTM)		BC (5 years historical average)		Industry (LTM)	
ROIC	16.9%	19.58%	11.81%	ROIC	11.81%
NOPAT Margin	7%	5.86%	9.2%	NOPAT Margin	9.2%
Revenue/ Invested Capital	2.46	3.34	1.28	Revenue/ Invested Capital	1.28
ROE	17.5%	40.09%	13.39%	ROE	13.39%
Adjusted net margin	6%	4.76%	7.9%	Adjusted net margin	7.9%
Revenue/ Adjusted Book Value	2.77	8.42	1.69	Revenue/ Adjusted Book Value	1.69

BC (LTM)		BC (5 years historical average)		Industry (LTM)	
Total Cash/Total Capital	16.7%	25.6%	15%	Total Cash/Total Capital	15%
Estimated Operating Cash/Total Capital	16.6%	20.6%	N/A	Estimated Operating Cash/Total Capital	N/A
Non-cash working Capital/Total Capital	13.2%	15.5%	29%	Non-cash working Capital/Total Capital	29%
Invested Capital/Total Capital	77.4%	73.5%	85%	Invested Capital/Total Capital	85%

BC (LTM)		BC (5 years historical average)		Industry (LTM)	
Total Debt/Common Equity (LTM)	0.10	0.10	0.19	Total Debt/Common Equity (LTM)	0.19
Cost of Existing Debt	9.55%	14.24%	5.32%	Cost of Existing Debt	5.32%
Estimated Cost of new Borrowing	6.10%	9.33%	5.32%	Estimated Cost of new Borrowing	5.32%
CGFS Risk Rating	D	D	C	CGFS Risk Rating	C
Unlevered Beta (LTM)	1.87	2.45	0.89	Unlevered Beta (LTM)	0.89
WACC	17.41%	22.11%	10.01%	WACC	10.01%



Period	Revenue growth
Base Year	8.2%
10/1/2017	5.8%
10/1/2018	3.9%
10/1/2019	9.5%
10/1/2020	6.1%
10/1/2021	4.5%
10/1/2022	4.5%
10/1/2023	4.5%
10/1/2024	4.4%
10/1/2025	4.3%
10/1/2026	4.2%
Continuing Period	4.1%

Period	Invested Capital
Base Year	\$381.92
10/1/2017	\$563.84
10/1/2018	\$1,300.83
10/1/2019	\$1,485.62
10/1/2020	\$1,788.25
10/1/2021	\$2,039.26
10/1/2022	\$2,342.72
10/1/2023	\$2,550.90
10/1/2024	\$2,809.40
10/1/2025	\$3,033.95
10/1/2026	\$3,212.88
Continuing Period	

Valuation	
NOPAT margin	6.9%
ROIC/WACC	0.97

Net Claims	
Base Year	\$472.19
10/1/2017	\$195.13
10/1/2018	-\$97.42
10/1/2019	-\$373.86
10/1/2020	-\$640.18
10/1/2021	-\$906.52
10/1/2022	-\$1,163.26
10/1/2023	-\$1,394.39
10/1/2024	-\$1,624.80
10/1/2025	-\$1,840.73
10/1/2026	-\$2,041.21
Continuing Period	

Price per share	
Base Year	\$43.90
10/1/2017	\$53.21
10/1/2018	\$62.21
10/1/2019	\$71.49
10/1/2020	\$80.63
10/1/2021	\$89.54
10/1/2022	\$98.25
10/1/2023	\$106.64
10/1/2024	\$114.59
10/1/2025	\$121.94
10/1/2026	\$128.51
Continuing Period	