

## Company Description:

Johnson Outdoors Inc. designs, manufactures and markets outdoor equipment, diving, watercraft and marine electronics products worldwide.

## BUY:

Current Price:	\$61.91
Target Price:	\$75.55
Market Cap:	\$618.86M
Avg. Volume:	221.7K
Kd:	4.3%
ROA:	5.2%
ROE:	11.3%
Operating Margin	7.68%
Short Interest:	1.01%

## Catalysts:

### Short Term(within the year):

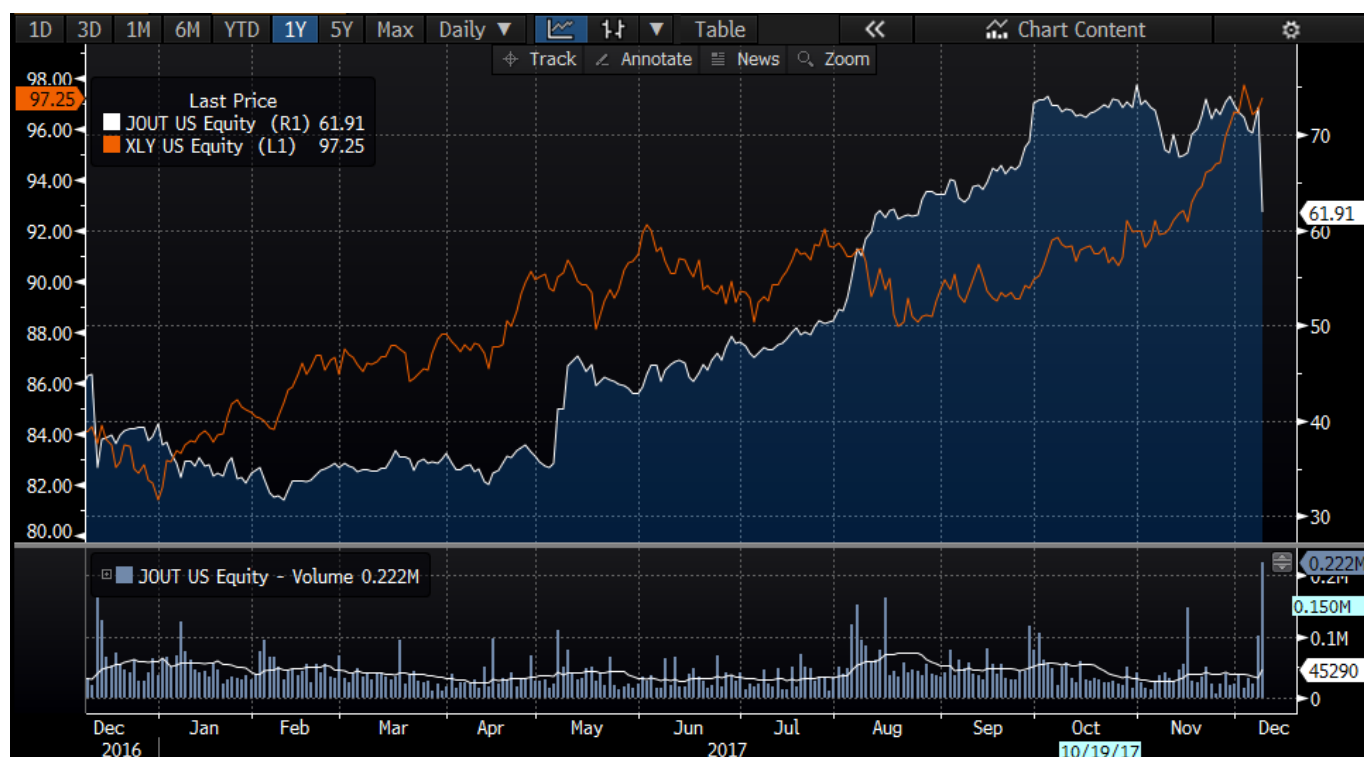
- Continued growth in flagship brands

### Mid Term(1-2 years):

- Benefits from Consumer Center transformation
- Potential for M&A activity as the company is actively searching and growing cash balances

### Long Term(3+):

- Benefits from increase in digital spending
- Global expansion



## Thesis:

Johnson Outdoors, a public corporation since 1987, produces, markets and distributes outdoor recreation equipment that is sold in 80 different countries. They offer a family of core brands across 16 product categories and employ 1,200 employees in 20 facilities worldwide. The experienced management team has delivered industry leading results over the past year and the financial sector has recently reacted negatively to an earnings call on December 8<sup>th</sup> that I believe will help to drive value as the stock price stabilizes in the coming weeks. Johnson Outdoors expects the transformation of its Consumer Center, as well as investment in digital marketing efforts and the production of digital and technological products to continue to drive growth in the coming year. Executives are actively seeking opportunities in the sphere of M&A activities and are prepared to take advantage of the proper situation should they discover it, utilizing their high levels of cash balances and ability to source funds at a reasonable level. Geographic expansion efforts in 2018 will help to give the company a stronger competitive advantage over its peers.

## Why Johnson Outdoors?

- Leading brands and market positions in attractive businesses
- Culture of innovation ensures products remain at the forefront of trends and technology
- Strong competitive advantages and barriers to entry
- Seasoned management team to execute strategy
- Strategic initiatives focused on driving accelerated profitable growth
- Strong balance sheet, cash flow generation provides flexibility



Source: <https://www.johnsonoutdoors.com/>

## Earnings Performance:



JOUT has managed to wither the trials of the suffering retail market and has continued to beat earnings each year for the last three years, as can be seen in the annual earnings chart in comparison to analyst expectations above. The impact of new product lines drove revenue growth and attention to cost controls and investment in CRM technology has allowed the company to bring these products to market efficiently and in alignment with customer wants and needs.

Measure	Actual	Estimate	Surprise	Comps Scorecard (4 of 12)	Past Surprise
11) EPS, Adj+	3.544	3.490	1.55%	Beat:4 Met:0 Missed:0	Beat 4 of 7
12) EPS, GAAP	3.510	3.490	0.57%	Beat:4 Met:0 Missed:0	Beat 3 of 5
13) Revenue	490.565M	485.000M	1.15%	Beat:3 Met:0 Missed:1	Beat 4 of 5
14) Net Income, Adj+	35.157M	34.600M	1.61%	Beat:4 Met:0 Missed:0	

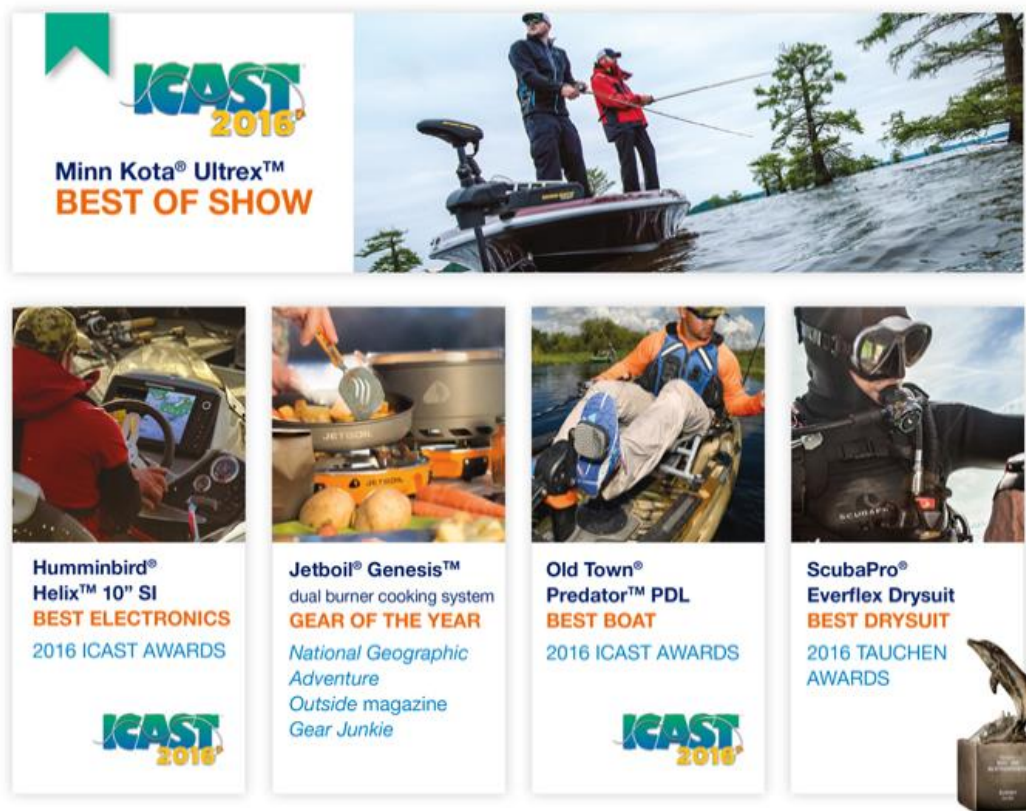
The table above shows earnings, revenue and net income figures for the company versus competitors as well as performance vs. expectation metrics. It can be noted that earnings, revenue and profit figures have all grown for the past quarter as well as the past year, and that JOUT beat all analyst expectations in earnings, revenue and net income figures and only missed one revenue expectation of the four total with regard to revenue.

## Business Strategy:

Johnson Outdoors has experienced annual sales growth of 13%, an industry leading figure, as a result of the proper identification of customer wants and needs, the release of several new products in the fishing and boating segments, deleveraging, as well as through the benefit of investment in product development and production in previous years. Production facilities across 20 countries boast additional output capacity as executive teams continue to develop new products. Net sales rose by 22% for the last quarter, which is usually a lagging sales quarter due to the transition into the winter season. Net income expanded 160% to a level of \$3.51 per diluted share and the operating margin improved 6.5 points year over year. Although expectations are set lower in 2018 in terms of revenue and profit margins, a strong cash position, focus on customer resource management technologies and digital marketing and distribution as well as an indicated interest in a strategic acquisitions will help to ensure that Johnson Outdoors continues to achieve sustained growth and profit in the coming years.

Innovation in the ScubaPro brand is expected to drive consumer demand in 2018. Executives have worked to reduce infrastructure costs over the past year and plan to continue to do the same in order to continue the impressive and profitable growth of previous years. Management has expressed that the company's customer base and retailers have come to trust Johnson Outdoors in executing R&D strategy effectively to bring them the most advanced new products and technology at a fair price; the management does the extra work so that customers do not have to. Innovation and strategically-timed launches at trade shows in anticipation of the necessary lag time for preseason orders have helped to drive growth over the past year. Challenging retail market conditions such as retailer bankruptcies constrained growth in the watercraft and camping departments. The company plans to position the Eureka brand and Oldtown Predator series of fishing boats, boasting a new pedal-drive craft, for success to offset lags in the market for 2018. Efforts across 2017 successfully brought the watercraft department into profitability in the last quarter. Products and product releases are diversified by segment and season to ensure consistent sales levels as an organization throughout the year.

## Award-Winning Innovation



## Ownership:

Institutional - Based on Current Filings				
51) Institutional	12/03/17	Curr	Change	
11) % of Shares Held	72.93	72.98	+0.05	↗
12) % of Float Held	90.62	90.68	+0.06	↗
13) # of Institutions	193	195	+1.04%	↗
14) # of Buyers	52	52	0.00%	↔
15) # of Sellers	54	53	-1.85%	↘
16) # of New Buyers	41	42	+2.44%	↗
17) # of Selloffs	15	14	-6.67%	↘
18) % Chg in Inst Positions	+3.88	+3.80	-0.08	↘

Johnson Outdoors is currently owned primarily by three investment groups. Investment advisors currently hold 44.59% of the available shares, exhibiting an increase of .04% year over year, while individuals and banks hold 22.92% and 22.56% respectively. The table above shows that the percentage of shares held has increased, the number of new buyers has increased and the number of selloffs has decreased whilst institutions have increased their positions. I interpret these as positive signs with regard to investor expectations for the future of the company.



## Growth in Flagship Brands:

The fishing segment was responsible for 60% of sales in 2017, as opposed to the historical average of approximately 33%. The reason for this was the release of the new products such as the Ultrex motor, which made big waves due to its accolade of being the most advanced cable steer model with foot pedal control that gives anglers a technical edge in the field. The Helix series of the Humminbird brand of fish-finders performed extremely well thanks to its new mega side and mega down imaging functionalities that produces one of the most detailed and clear fish-finder projections on the market. Contributing to the success of the fishing segment, aside from the success of newly released products, was the strong performance in sales of base brands, signifying brand-loyalty and repeat purchases from the existing customer base. Management expects continued growth in this segment as typically customers own these types of products for multiple years, therefore the increase in sales that can be attributed to new products hitting the market takes place for a period of longer than 1 year, typically around 2 years.



## Consumer Center Transformation:

One important aspect of the company's focus and investment in 2018 with the goal of driving long term growth will surround the transformation of the Consumer Center that the organization utilizes to develop an intimate understanding of their customer wants, needs and expectations. This is especially important with regard to the notion that lagging segments, such as the camping segment, have seen a consumer shift of purchasing larger portions of products online rather than in person at store locations. Executives have expressed the desire to distribute from a diversified portfolio of successful business products and are taking action to expand geographic reach through global expansion of infrastructure.

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## Digital Investment & Global Expansion:

Management has expressed the intent to increase capital expenditures in 2018 across two major areas. The first will be in relation to the company's digital strategy, with a focus on revamping the company websites and improving digital marketing efforts to best reach the growing online targeted customer base. The second area of focus will in the sphere of customer resource management to better identify customer wants, needs, expectations and behavior. Although numerical estimates were not given for these expenditures, management has expressed that there will be a meaningful increase in the yearly spending amount of \$12 million that will not be as significant as a two-fold increase. Higher revenues realized in 2017 as a result of previous investments in these areas help to signify the potential for continued growth that this investment will generate.

The desire to consistently simplify business processes in an effort to maintain cost controls and to increase margins has management streamlining and consolidating the low-profitability diving aspect of its business as sales momentum brings about challenges in managing operating expenses. Restructuring in the ScubaPro and Eureka segments will help Johnson Outdoor to capture a larger portion of the relatively untapped military consumer base which is an important target area of growth moving forward. As channel disruption has brought about challenges in the camping industry, such as the vast store closings across the Gander Mountain chain, management has expressed its intention to strengthen the online shopping portion of the business as to develop stronger direct to consumer distribution methods and to decrease dependency on distributors. Geographic positioning is key to the success of many organizations today as globalization is occurring at an accelerating rate thanks to advances in technology. Executives at Johnson Outdoors have indicated on the December 8<sup>th</sup> earnings call that efforts will be focused on global expansion in 2018 to strengthen the production and distribution of the entity as a whole.



## Conclusion:

In conclusion, I believe that Johnson Outdoors represents a good buy opportunity after its recent 14.97% drop in price as a result of analyst reactions to the December 8<sup>th</sup> earnings call. I value the company to be worth \$67.57 today and expect the company to grow over the next year, arriving at my target price of \$75.55 representing a 1-year expected return of over 22.5%. The line chart below from [www.google.com](http://www.google.com) shows a visual representation of the trading price over the past week period.



Continued revenue growth from new product lines will help to propel the company through the trying times that the retail sector is currently facing. Investment in customer resource management and digital technologies will help to align the company with new purchasing trends and to hedge against the risk of distribution dependencies. Record low debt levels and a strong cash position place the company in a strategic stance for acquisitions, of which executives have insured investors that only fair-value, strategically-aligned M&A activities will take place when the proper fit is discovered.

To give further credibility to my opinion that JOUT represents a good buy opportunity, I have taken measures to perform a “What-If” analysis in the case of lower than anticipated revenues. I adjusted revenue figures by a decrease of 2.2% for 2018, 2% for 2019, 1.8% for 2020, 1.6% for 2021 and 1.3% for 2022. Each revenue figure for the subsequent years through 2027 in the forecasted input of my model was decreased by a figure of .2%, totaling a 12.3% decrease over the 10 year period. In this hypothetical case, I calculated Johnson Outdoors to be worth an intrinsic value of \$63.53 and to achieve a target price of \$70.08 by 2019, generating a 12.72% return for the one year period in the pessimistic case of lower than expected revenues.

# Johnson Outdoors Inc. (JOUT)

## CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by T.J. Curtin  
12/18/2017

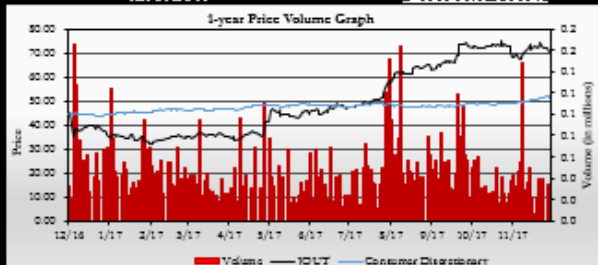
Current Price:  
Dividend Yield:

\$61.91  
0.5%

Intrinsic Value  
Target Price:

\$67.57  
\$75.55

Target 1 year Return: 22.57%  
Probability of Price Increase: 98%



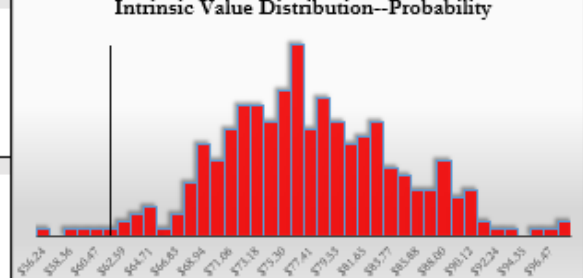
Description  
Johnson Outdoors Inc. designs, manufactures, and markets outdoor equipment, diving, watercraft, and marine electronic products worldwide.

General Information  
Sector: Consumer Discretionary  
Industry: Leisure Products  
Last Guidance: November 2, 2015  
Next earnings date: December 8, 2017  
Estimated Country Risk Premium: 4.34%  
Effective Tax rate: 24%  
Effective Operating Tax rate: 24%

Market Data	
Market Capitalization	\$608.74
Daily volume (mil)	0.22
Shares outstanding (mil)	9.83
Diluted shares outstanding (mil)	9.92
% shares held by institutions	116%
% shares held by investment managers	36%
% shares held by hedge funds	6%
% shares held by insiders	17.18%
Short interest	0.44%
Days to cover short interest	0.00
52-week high	\$76.18
52-week low	\$31.25
Volatility	37.15%

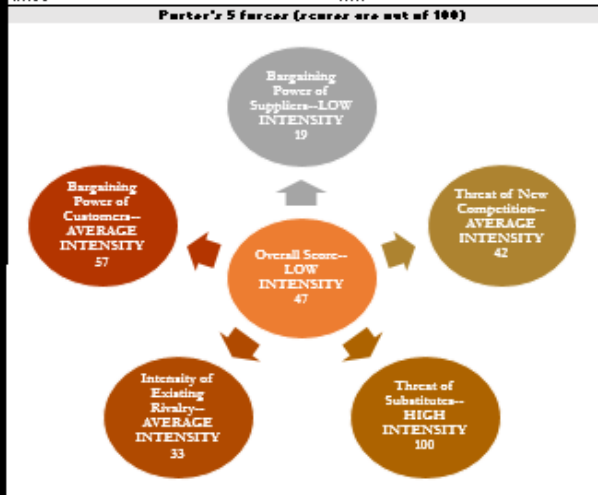
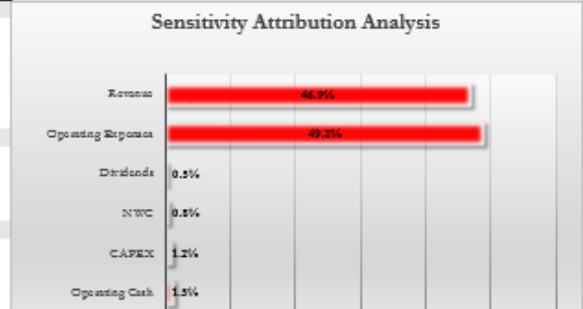
Quarter ending	Revenue	EBITDA
9/30/2016	-11.41%	-207.57%
12/30/2016	12.03%	47.76%
3/31/2017	6.93%	30.59%
6/30/2017	4.01%	34.50%
9/29/2017	11.92%	-2.84%
Mean	4.70%	-19.51%
Standard error	4.3%	47.7%

Peer	Total return to shareholders
Callaway Golf Company	8.29% per annum over 5y
Marine Products Corporation	8.29% per annum over 5y
Brunswick Corporation	NM
Navitell, Inc.	NM
Enclosed, Incorporated	NM
Clarus Corporation	NM
Acushnet Holding Corp.	NM



Management	Position
Johnson, Leopold, Helen	Chairman and Chief Executive
Johnson, David	Chief Financial Officer, Vice
Jamer, Karen	Vice President of Global Ops
Maan, John	Chief Information Officer and
Khalaf, Khalaf	Managing Director of Legal &
Penman, Patricia	Vice President of Marketing
Profitability	
JOUT (LTM)	JOUT (5 year historical avg Peer' Median (LTM)
Return on Capital (GAAP)	6.0%
Operating Margin	3.8%
Revenue/Capital (GAAP)	1.81
ROE (GAAP)	4.4%
Net margin	2.4%
Revenue/Book Value (GAAP)	1.87
Inverted Funds	
JOUT (LTM)	JOUT (5 year historical avg Peer' Median (LTM)
Cash/Capital	30.8%
NWC/Capital	16.7%
Operating Assets/Capital	52.5%
Goodwill/Capital	0.0%
Capital Structure	
JOUT (LTM)	JOUT (5 year historical avg Peer' Median (LTM)
Total Debt/Market Capitalization	0.10
Cost of Existing Debt	4.7%
CGFS Rating (F=zero, Z=zero, and default Probability: BB	BBB
WACC	8.8%

Period	Revenue Growth Forecast	Return on Capital Forecast
Base Year	13%	8.3%
9/29/2018	4%	13.6%
9/29/2019	4%	13.7%
9/29/2020	4%	13.5%
9/29/2021	4%	11.8%
9/29/2022	3%	10.5%
9/29/2023	3%	9.5%
9/29/2024	3%	8.7%
9/29/2025	3%	8.0%
9/29/2026	2%	7.4%
9/29/2027	2%	6.8%
Continuing Period	2%	6.4%



Period	Revenue Growth Forecast	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	13%	8.3%	8.8%	\$67.27
9/29/2018	4%	13.6%	10.7%	\$75.30
9/29/2019	4%	13.7%	10.6%	\$82.97
9/29/2020	4%	13.5%	10.5%	\$91.36
9/29/2021	4%	11.8%	10.5%	\$99.72
9/29/2022	3%	10.5%	10.5%	\$108.05
9/29/2023	3%	9.5%	10.4%	\$116.33
9/29/2024	3%	8.7%	10.4%	\$124.54
9/29/2025	3%	8.0%	10.4%	\$132.66
9/29/2026	2%	7.4%	10.4%	\$140.68
9/29/2027	2%	6.8%	10.4%	\$148.58
Continuing Period	2%	6.4%	10.3%	