

Mossberg's Investor Digest

Best Idea Profile:

Brunswick Corporation (NYSE:BC)

DESCRIPTION:

Brunswick is a market leader in marine, fitness, and bowling and billiards. Boating represents its biggest segment at 75% of sales. The company bought Mercury Marine in 1961. A partial but extensive list of its brand names serves to describe the company: Mercury and Mariner outboard engines; Mercury MerCruiser sterndrives and inboard engines; MotorGuide trolling motors; Attwood marine parts and accessories; Land 'N' Sea; Bayliner, Boston Whaler, Crestliner, Cypress Cay, Harris FloteBote, Lund, Meridian, Quicksilver, Sea Ray and Uttern boats; Life Fitness fitness equipment; Brunswick bowling centers, equipment and consumer products; Brunswick billiards tables and table tennis. The company was founded in 1845, and has traded on the NYSE for more than 85 years. Headquarters are in Lake Forest, Illinois, and the company employs 16,000.

KEY INVESTMENT CONSIDERATIONS:

Improving Market Conditions – The U.S. market for outboard boat and engine products appears to have bottomed out. The recession in 2007 decimated boat sales, taking them to half of what they were at the peak in the U.S. Therefore, the average age of boats on the water is quite old and likely due for upgrades.

Strong Boat Market– Brunswick is bringing new products to the smaller day boat market. It has stopped making older models of the large fiberglass boat and transitioning to new product which should be reaching the market in the second half of the year. Brunswick's U.S. boat segment was particularly strong in the fourth quarter with an increase of 17% amid strong demand.

Improved Leverage Expands Opportunities – Total debt outstanding has improved by \$112 million, ending 2013 at \$460 million. This is the lowest debt level since 1996, resulting in the lowest annual net interest expense since 2005. This sets up the opportunity to grow organically as well as invest in research and development, marketing, sales, technology and capacity. Management has also stated its intent to "invest in new adjacent business opportunities and explore small acquisitions."

Strong Pipeline – Total pipelines for boats, especially aluminum and fiberglass outboard boats, are higher than they were a year ago. The company has done a good job managing the growth in the overall marine market while maintaining inventories at levels that properly reflect current market demands.

Bowling and Billiards Improved – Although bowling and billiards was down 5% compared with last year's fourth quarter, the segment sales were actually up 1% if excluding the divestiture of its European bowling center portfolio that occurred earlier in the year.

Strong Fourth Quarter – This week Brunswick announced a strong finish to its fiscal year. 2013 revenue was up 5% and gross margin increased 70 basis points year over year. This represents the highest annual gross margin since 2000. It had a 31% increase in adjusted earnings per share. The abnormally severe weather much of the U.S. has experienced so far in 2014 may in fact impact first quarter comparisons but management does not expect any impact to its full year plan. Brunswick expects 2014 to be its fifth consecutive year of strong improvements in earnings with excellent free cash flow and top line growth.

VALUATION:

Brunswick has been beating consensus estimates for quite some time, and the stock reacted positively to this week's fourth quarter earnings report that demonstrated sales growth and margin expansion. The stock appears undervalued based on a bottoming out of the boating business and expectations for further growth on a base of finely tuned operations and balance sheet.

Brunswick Corporation (NYSE:BC)	
Investment Data (as of 1/30/14)	
Recent Price	\$41.23
52-Week Range	\$29.92 - \$47.08
Fiscal Year End	Dec
Dividend	\$0.10
Yield	0.2%
Shares Outstanding	91 M
Average Trading Volume (3 mos)	982 k
Market Capitalization	\$3.8 B
Cash	\$348 M
Long-term Debt	\$464 M
Enterprise Value (EV)	\$3.9 B
Book Value	\$3.19
TTM Revenue	\$3.8 B
P/ Revenue	1.0x
TTM EPS	\$1.21
P/ EPS	34.7 x
TTM EBITDA	\$407 M
EV/ EBITDA	9.5 x

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