

# Mossberg's Investor Digest

## Best Idea Profile

MarineMax (NYSE: HZO)

### DESCRIPTION:

Headquartered in Clearwater, Florida, MarineMax came public in 1998 shortly after combining with 5 independent boat dealers. Since coming public, the company has acquired 20 additional independent boat dealers, two boat brokerage operations and two full-service yacht repair operations, becoming the largest dealer of new and used high-end boats in the United States. The average selling price of new boats sold by MarineMax was \$133,000 during 2009, versus the industry average of 37,000 during 2008. In addition the company offers boat maintenance, repair, and storage services (8% of FY09 revenue). The company has 55 locations (down from 90 at peak) and 1,245 employees (1,195 at store-level).

### KEY INVESTMENT CONSIDERATIONS:

**Tighter credit markets boost HZO's competitive advantage** – According to the National Marine Manufacturers Association retail boat and related sales were \$25 billion during 2008. This is a highly fragmented market with many small dealers. Tighter credit markets and a depressed economic environment, make it more challenging for these smaller dealers to compete against the efficiencies of scale and scope enjoyed by MarineMax. In this difficult environment, a larger player like MarineMax has a greater opportunity to capture market share and come out of the trough an even stronger player.

**Industry rationalization should stabilize profitability for the industry** - Similar to MarineMax's decision to close almost 40% of its store base, there has been significant rationalization among boat retailers and manufactures. The demise of retailer Boater's World and manufacturer Genmar Holdings are good examples. In addition to store count and manufacturer rationalization, inventories have been dramatically reduced during this past year. According the NMMA, there has been a 70% decline in boat production in the United States. The rationalization of inventory and retail space should stabilize industry profitability and allow for HZO to return to targeted levels. Brunswick (NYSE: BC) a major supplier to MarineMax reported results recently and indicated they began to ramp production to address inventory requirements from dealers, a good sign that inventory levels have bottomed out.

**Interest in boating remains high** – While sales for the industry are off significantly, there is still significant interest in boating. Anecdotally, attendance figures at many of many major boat shows improved year over year. At the 50<sup>th</sup> Fort Lauderdale International Boat Show in early November, attendance increased 1% versus the prior year. At opening weekend of the Houston International boat show attendance was up 25% and attendance was up 9% for the duration of the show.

### VALUATION:

Trading near tangible book value, there appears to be some downside protection for the stock at current levels. At 17x the forward estimate, the stock appears fully valued. However, the forward earnings are likely still depressed and don't accurately reflect the earnings power of the company. Prior to the downturn, the company regularly produced return on equity in the low to mid teens and net margin in the 3% to 5% range. Applying historic margin levels to the current revenue run rate of about \$600 million, the company's earnings power would equal \$0.80 to \$1.35. At today's multiple that would equate to 50% to 100% upside.

### (NYSE: HZO)

Investment Data (as of 1/27/10)

<b>Recent Price</b>	<b>\$9.53</b>
52-Week Range	1.19 - 10.68
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	22 MM
Average Trading Volume (3 mos)	150,000
Market Capitalization	\$210 MM
Cash	\$26 MM
Debt	\$142 MM
Enterprise Value (EV)	\$326 MM
Debt/ Equity	0.7
Tangible BV/ Share	\$8.99
TTM Revenue	588 MM
P/ Revenue	0.4
2010 EPS Estimate	0.56
P/ EPS	17.1
TTM EBITDA	-60 MM
EV/ EBITDA	NA

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