

Malibu Boats (NASDAQ: MBUU)

Recommend Buy 2.5% | PT: \$78.39

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CIMG Investment Research

Malibu is Riding the Wave of the Boating Industry

For a long time, the boating industry showed relatively low growth with very few large players. However, the Covid pandemic in 2020 brought a surge in boat sales as consumers spent more time on the water. This rise in popularity has boosted sales across the industry, but we believe that Malibu is uniquely positioned to continue to benefit more than their competitors.

Malibu has long been focusing on improving their operations through vertical integration. Acquisitions and agreements on parts production has helped Malibu to expand margins and give themselves an edge over competitors in quality assurance. Despite their acquisition-heavy approach, the company is very healthy financially and has seen some of the strongest organic sales growth in the industry. Even with the exhibited strength of the company and high expectations moving forward, Malibu is trading at its lowest levels ever and is near the bottom of the industry in various trading metrics, providing an opportunity for us to invest.

Investment Thesis

Strong, Integrated Acquisitions have Diversified Malibu's Product Offering: Malibu has focused on acquiring strong companies in the industry to propel growth (pun intended). First, they acquired Cobalt in 2017, who has three different classes of boats – sterndrive, surf, and outboard- and multiple models within each class. Malibu then expanded into the Saltwater Fishing industry with their acquisition of Pursuit in 2018, which produces both center and dual console boats. These two acquisitions facilitated strong growth in the Malibu's average sales per unit in 2019. Another expansion in average sales per unit was seen in 2022 after they acquired Maverick Boats. Maverick Boats deepened Malibu's investment into the Saltwater Fishing segment. In addition, Malibu has been able to organically increase their core sales per unit by incrementally more each year while maintaining a 6.4% unit volume CAGR over the past 6 years. In addition to the diversified product offerings, the acquisitions allow Malibu to expand their in-house production capacity, as the increased Maverick's production capacity by 30% twice since acquiring the company in 2021.

A Resilient Consumer Base will Continue to Purchase Malibu's High-End Boats: Throughout 2022 the biggest word on the street has been inflation. This, paired with a potential recession, has given the market a beating- especially for luxury items. Where some worry over consumers not spending the extra dollar for Malibu's high-end boats, we see an opportunity. Malibu's CEO Jack Springer described their primary customers by saying, "If you look at our annual income across the board of our demographic, it's very, very high. The net worth is very, very high". That paired with the ~43 trillion dollars in net worth created in the last few years, we believe that Malibu's primary customers will remain a purchaser of the upgraded generations regardless of the economy. Malibu will continue to utilize their vertical integration through their eight brands and Malibu Electronics, which will expand margins, and maintain their top-tier patented systems, Surf Gate and Stern Turn. Combining these factors, we believe Malibu can continue to deliver the best boats on the market in a financially sound manner and utilize their dealer networks to reach their target consumer.

Industry-Leading Innovation Sets Malibu Apart from Competition: Year-after-year Malibu wins awards for its boats, technology, and equipment. In 2019 they continued their streak of innovation, deciding to manufacture their engines in-house by partnering with industry leaders such as General Motors and McLaren Engineering, leading to a plethora of awards and furthering their vertical integration initiative. In the watersports category, they have consistently been at the top of the field due to their patented Surf Gate technology which revolutionized the boating world in 2012. Since then, Malibu has been continually improving its Integrated Surf System with the addition of the Power Wedge and Quad-Hard-Tank-Ballast making them a favorite among amateurs and professionals alike.

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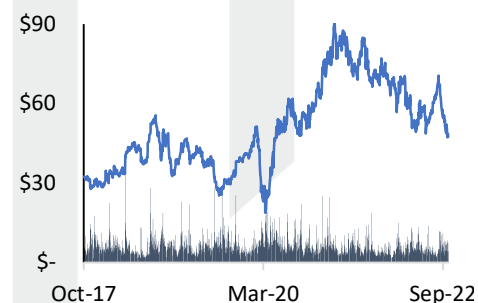
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Figure 1: MBUU 5-Year Stock Chart



Price	\$46.75
Dividend Yield	0%
Price Target	\$78.39
Upside	65%
52-Week Range	\$46.52 – \$78.10
Dil Shrs Outstand	20.986m
Mkt Cap	\$961m
Ent Value	\$1.03b
TTM P/E	5.8x
TTM EV/EBITDA	3.9x
TTM Revenue	\$1.21b
TTM FCF Yield	11.9%

Valuation

We valued MBUU using a DCF model, with a discount rate of 12% and a long-term growth rate of 2%. Utilizing our projections for MBUU and certain assumptions, we reached a price target of \$78.10, which implies an upside of 65% over the current share price of \$46.75 in our base case.

Company Overview

Malibu is a designer and manufacturer of high-end powerboats that operates through its 8 recognizable brands in the boating world: Malibu, Axis, Cobalt, Pursuit, Maverick, Hewes, Pathfinder, and Cobia. Each of these brands bring in different types of consumers for Malibu and are sold through their network of over 400 dealers globally. Malibu and Axis, being the original core of the company, make up approximately 50% of the company's total revenue. These brands are known for their performance boats and have placed Malibu at the top of the Performance Boat industry and the 24-29' boat segment. Cobalt was acquired in 2018 to expand the company's outboard segment offering, with sizes ranging 22-36'. At the time, Cobalt accounted for just 4% of the outboard market, but Malibu has turned Cobalt into the outboard industry leader with an 18% market share and counting, as Cobalt now makes up 22% of Malibu's total sales. Malibu decided to expand into the high-demand saltwater fishing industry in 2019 with their acquisition of Pursuit, which produces dual and center console boats ranging in size from 24-44'. Lastly, to round out its product offering in the saltwater fishing segment, Malibu acquired Maverick and their 3 other brands- Cobia, Pathfinder, and Hewes- in 2021. Maverick and Hewes are small fishing flats ranging 16-21', while Pathfinder produces bay boats ranging 20-27' and Cobia produces center and dual console boats ranging 20-35'. Due to these strong acquisitions in saltwater fishing, the segment now makes up 28% of Malibu's total sales. Geographically, North America, which is dominated by US sales, makes up approximately 94% of the company's total revenue. Lastly, just under 2% of the company's total sales comes from parts while the rest is boat sales.

Industry Overview

The Covid pandemic in 2020 brought a resurgence to the boating industry as more people spent time taking part in outdoor activities on the water. The demand for boats far outpaced the production capabilities of boat producers as production had to be halted at many manufacturing plants during the height of the pandemic. This pent-up demand is expected to last for several years, as new boat sales are expected to rise over a 5% CAGR during the next 5 years. This is expected to bring total new boat sales to \$60 billion in 2027 from its current \$35 billion market. This surge in popularity brought in many young boat owners, as millennials now make up 31% of boat owners in the United States. Malibu's industry-leading performance boats are very popular for young boat owners that want to enjoy water activities with their boats. In the United States, there are 100 million active boaters, and 11.9% of households own at least one boat. This number has grown over the past several years and is expected to continue to see slight increases moving forward. Nearly 60% of boat owners report an annual income of over \$75,000, with 20% of all boat owners reporting over \$150,000. Malibu's customers report at the high end of income, making them resilient in the face of recession.

Boating Hazards

As the pandemic accelerated boat sales, it decelerated the production of those same boats. Malibu is most vulnerable to shortages and price increases in petroleum-based resin, fiberglass, vinyl, and cost of freight/shipping. The supply chain constraints that MBUU has faced in the last few years left dealerships with less inventory than ever and low discount profiles. As the supply chain normalizes, inventories will rise and along with discount profiles. Given the current interest rates and an impending recession, these discount profiles will be further expanded as dealers work with consumers to push through sales. While the supply chain constraints wreaked havoc within the entire boating industry, MBUU proved most resourceful. The company has worked hard to vertically integrate and bring more of the production process into their own hands, making them more resilient than their less vertically integrated competitors. However, if volumes decrease due to a recession or decline in demand then MBUU's earnings stand to be cut by high fixed costs and lack of flexibility.

Sales Breakdown

