Fox Factory Holding Corporation (FOXF)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

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<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>87 - 35</td>
<td>Suitability:</td>
<td>Higher Risk</td>
<td></td>
<td>Q1</td>
<td>0.55A</td>
<td>0.52A</td>
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<tr>
<td>Market Cap (mil):</td>
<td>2,665</td>
<td>Price Target ($) :</td>
<td>80</td>
<td>Q2</td>
<td>0.68A</td>
<td>0.17E</td>
<td></td>
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<tr>
<td>Shareas Curr (mil):</td>
<td>39.2</td>
<td>L-Term Rev. Gr Rate Est:</td>
<td></td>
<td>Q3</td>
<td>0.83A</td>
<td>0.64E</td>
<td></td>
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<tr>
<td>Float (mil):</td>
<td>38.0</td>
<td>L-Term EPS Gr Rate Est:</td>
<td></td>
<td>Q4</td>
<td>0.65A</td>
<td>0.52E</td>
<td></td>
</tr>
<tr>
<td>Avg. Daily Vol (mil):</td>
<td>0.42</td>
<td>Debt/Cap:</td>
<td>51.8%</td>
<td>Total</td>
<td>2.72A</td>
<td>1.85E</td>
<td>2.40E</td>
</tr>
<tr>
<td>Dividend ($) :</td>
<td>0.00</td>
<td>ROE:</td>
<td>19.8%</td>
<td>FY P/E</td>
<td></td>
<td>25.0x</td>
<td>36.8x</td>
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<tr>
<td>Yield (%):</td>
<td>0.0</td>
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Headquartered | IPO/Founded | Revenue (Mil) | % Growth | Operating Margin |
Braselton, GA | 2013 / 1974 | 751.0 | 21.3% | 15.3% |

Management
CEO | Mike Dennison
CFO | John Blocher

Company Description
Fox is a leading designer, manufacturer, and marketer of premium suspension products, primarily for the high-end mountain bike and powersports markets. Based on its strong brand and superior technology, Fox components are featured on many of the most expensive products in each market. In 2018, the company generated 54% of revenue in the powered vehicle market and 46% of revenue from the specialty sports (formerly mountain bike) market. Key customers include Giant, Scott, Specialized, Trek, BRP, Ford, Toyota, Yamaha, and Polaris. The company sells to more than 200 OEMs and 5,000 retail dealers and distributors worldwide.

Revenue Profile

| Source: Company materials, Baird research |

Competition

Front Fork Brands - Overall Best

Rear Shock Brands - Overall Best

Seat Post Brands - Overall Best

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Quick Summary
Fox offered a mixed outlook as management contends with the pandemic. Key OEM customers for the Powered Vehicle segment suspended production, effectively halting revenue for over half of the largest segment. On a brighter note, demand for upfitted trucks remains healthy – and the pandemic appears to have rekindled interest in biking as consumers look for outdoor activities. We lack visibility into revenue trends, but are warming to Fox as a better secular story within our consumer discretionary coverage.

Investment Thesis
Price target. Our $80 price target represents ~32x our forward EPS estimate one year from now, above the historical average (~21x) as investors look past a period of depressed earnings associated with the impact of COVID-19.

Fox is a leading manufacturer of premium suspension components for mountain bikes and powered vehicles. With products that deliver superior ride dynamics for enthusiasts, Fox commands a premium and is often featured on the most expensive products in a segment. We expect Fox to expand in core markets, enter adjacent markets, and improve margins. Investment highlights include:

- Premium brand with superior technology
- Professional management team focused on growth
- Solid growth opportunities in core markets
  - Fill-out premium segment (bikes above $1,500)
  - Penetrate the aftermarket, especially in powered vehicles
- New growth opportunities in adjacent markets
  - On/off-road trucks (e.g., Ford Raptor)
  - RVs, v-twin motorcycles, military, commercial trucks
- Significant margin expansion opportunity
- Strong balance sheet and solid cash flow generation

Risks & Caveats
Fox sells into highly discretionary markets. Demand for its products is sensitive to fluctuations in consumer confidence and discretionary spending. As a result, a reduction in consumer demand – due to cyclical or secular trends – likely would reduce demand at the dealer and OEM levels, depressing orders. Moreover, any changes to the perceived advantages of Fox-branded products likely would limit pricing power for the company. Finally, Fox is making substantial changes to its production footprint, introducing execution risk to the story. Key risk factors include:

- Economic sensitivity (exposure to discretionary income and consumer confidence patterns)
- Customer concentration (e.g., Giant, Scott, Specialized, Trek, BRP, Ford, Toyota, Yamaha, Polaris, and others)
- OEM and dealer inventory levels (destocking and restocking cycles)
- Limited visibility into future order trends
- Execution risk related to production shift to Taiwan (potential margin implications)
- Ability to expand price further may be limited
- Brand degradation associated with the strategy to pursue lower end of premium segment
- Changes in production schedules for the Ford Raptor causing fluctuations in revenue
- Inability to expand substantially in adjacent markets (limiting the total addressable market)
- Product quality and recalls
- Limited liquidity
Appendix - Important Disclosures and Analyst Certification

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1 Robert W. Baird & Co. Incorporated makes a market in the securities of FOXF.

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