MasterCraft Boat Holdings, Inc. (MCFT)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

<table>
<thead>
<tr>
<th>Price ($) (5/28/20):</th>
<th>14.77</th>
</tr>
</thead>
<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>22 - 5</td>
</tr>
<tr>
<td>Market Cap (mil):</td>
<td>280</td>
</tr>
<tr>
<td>Shares Out (mil):</td>
<td>18.9</td>
</tr>
<tr>
<td>Float (mil):</td>
<td>18.2</td>
</tr>
<tr>
<td>Avg. Daily Vol (mil):</td>
<td>0.36</td>
</tr>
<tr>
<td>Dividend ($) :</td>
<td>0.00</td>
</tr>
<tr>
<td>Yield (%):</td>
<td>0.0</td>
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</tbody>
</table>

Rating: Neutral
Suitability: Speculative Risk
Price Target ($) : 15
L-Term Rev. Gr Rate Est: 10%
L-Term EPS Gr Rate Est: 15%
Debt/Cap: 72.9%
ROE: NM

<table>
<thead>
<tr>
<th>FY</th>
<th>2020E</th>
<th>2021E</th>
<th>2022E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>0.53A</td>
<td>0.23E</td>
<td></td>
</tr>
<tr>
<td>Q2</td>
<td>0.43A</td>
<td>0.25E</td>
<td></td>
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<tr>
<td>Q3</td>
<td>0.46A</td>
<td>0.41E</td>
<td></td>
</tr>
<tr>
<td>Q4</td>
<td>(0.19)E</td>
<td>0.51E</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1.25E</td>
<td>1.40E</td>
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<tr>
<td>FY P/E</td>
<td>11.8x</td>
<td>10.6x</td>
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<tr>
<td>EPS (Cal)</td>
<td>0.75E</td>
<td>1.56E</td>
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<tr>
<td>P/E (Cal)</td>
<td>19.7x</td>
<td>9.5x</td>
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</tbody>
</table>

Headquartered
Vonore, TN
IPO/Founded
2015 / 1968
Management
Chairmen & CEO
Fred Brightbill
CFO, Treasurer & Secretary
Tim Oxley

Company Description
MasterCraft Boat Holdings Inc. (the parent to MasterCraft, NauticStar, Crest, and Aviara) designs, builds, and markets premium performance sport boats primarily for water skiers, wakeboarders, and wake surfers. MasterCraft’s line boats, priced from $50,000 to $150,000, is sold to a global network of over 130 dealers in 40 countries. NauticStar manufactures 18-28 foot deck boats, which are sold through a network of ~70 dealers. Crest manufactures pontoon boats, which are sold through a network of ~120 dealers in the United States and Canada. In F2019, MasterCraft Boat Holdings launched Aviara, a new luxury day boat brand. As the No. 2 ski/wake manufacturer (one of the fastest-growing segments of the powerboat market), MasterCraft represented over 20% of the category. MasterCraft Boat Holdings is located near Knoxville, Tennessee.

Revenue Profile

Source: Company materials, Baird research
Quick Summary
After a strong start to the quarter that would have positioned the company for growth, management pivoted quickly to protect the company and its dealer network. The company has good brands and good people – but we expect the pandemic to weigh on financial results well into F2021. We anticipate further volatility as the market reacts to coronavirus headlines. Beyond this summer, we are concerned with the direction of the American economy. For now, no secular trend can offset the economic hardship brought about by the pandemic. But to the extent consumers shun crowded spaces (airplanes, concerts, hotels, cruise ships), outdoor activities (camping, boating, biking) may capture mindshare. We believe MCFT has the brands and people to weather the storm, but remain on the sidelines while the crisis unfolds, noting weak retail and a desire to reduce inventory will pressure results.

Investment Thesis
Price target. Our $15 price target is based on ~8-9x our NTM EPS estimate one year from now. Our estimates reflect a downturn scenario as the coronavirus outbreak triggers a likely recession. Excluding extremes, MasterCraft has trade at 6-15x NTM EPS, averaging 10x.

MasterCraft Boat Holdings designs and builds premium boats under the MasterCraft (ski/wake boats), Crest (pontoon boats), NauticStar (center console bay and fish), and Aviara (luxury day boats) brands. The company competes primarily in the premium segment of the performance sport boat market, with “white space” opportunities to leverage its brand to expand into the entry-level segment. Ultimately, we expect MasterCraft to expand in core markets (product upgrades), increase penetration in under-served markets (entry-level), and expand margins. Investment highlights include:
- Iconic brand with premium products
- Secular shift favoring performance sport boats
- Expanding into the entry-level market with the NXT
- Strong dealer network
- International growth opportunity (expanding in international markets)

Risks & Caveats
MasterCraft Boat Holdings 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 level, depressing orders. Moreover, MasterCraft competes in a highly competitive market, without the benefit of exclusive distribution – so MasterCraft is susceptible to broader industry-wide inventory concerns, potentially making it more difficult for MasterCraft product to sell through at retail (due to increased discounting). Key risk factors include:
- Economic cycles
- Credit availability
- Dealer inventory cycles (destocking and restocking)
- Dealer agreements and inventory repurchase obligations
- Highly competitive market – potential pressure on market share and margins
- Execution risk associated with the entry-level strategy (potential cannibalization)
- Supplier concentration
- Currency risk (especially CAD, EUR)
Appendix – Important Disclosures and Analyst Certification

Approved on 29 May 2020 08:30 EDT/ Published on 29 May 2020 08:35 EDT.

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

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