OneWater Marine Inc. (ONEW)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

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<td>14.99</td>
<td>Neutral</td>
<td>16</td>
<td>Q1</td>
<td>(0.17E)</td>
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**Headquartered**
Buford, GA

**IPO/Founded**
2020/2014

**Management**
CEO: Austin Singleton
CFO: Jack Ezell
COO: Anthony Asquith

**Company Description**
OneWater Marine Inc. is one of the largest recreational boat retailers in the United States, offering a broad portfolio of new and used premium boats, F&I products, parts and accessories, and services through 63 stores (21 dealer groups) in 11 states in the Southeast, Gulf Coast, Mid-Atlantic, and Northeast. The company has relationships with over 45 manufacturers covering over 70 brands. Since 2014, the company has acquired 40 additional store locations through 17 acquisitions, making it the most active consolidator in a fragmented marine retail industry. OneWater's dealerships operate under distinct brands, rather than a single national banner, to retain continuity of branding in local markets. In 2019, the OneWater Marine family of dealerships was recognized as a Boating Industry Top 100 Legend, honoring OneWater for being part of the trade magazine’s Top 100 Dealers for all 15 years of the program.

**Revenue Profile**

![Revenue Mix - F2019](image)

*Source: Company filings, Baird research*
**Competition**

OneWater maintains a network of 21 dealer groups with 63 stores in 11 states, most of which joined the OneWater family through acquisition. OneWater does not utilize a single national brand – instead, the company retains the branding of acquired dealerships to support post-acquisition continuity in local markets. Naturally, each market favors different boat segments (e.g., Florida is heavier in saltwater fishing, while inland markets may favor pontoons) so inventory at stores is catered toward local demand. OneWater believes it is the market leader by volume in 12 of its 17 markets (circled in red in the graphic below).

![Map of OneWater's dealer network](image)

*Source: Company materials*

**Quick Summary**

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), we believe outdoor activities (camping, boating, biking, off-roading) may capture mindshare. Mr. Singleton said recent boating traffic on his lake “looked like the fourth of July,” as consumers find a way to safely socially distance on their own terms. We like the vision OneWater framed during the IPO process and take comfort in the performance of the business amid a global pandemic, but also recognize the risk inherent in the current macro environment.
Investment Thesis

Price target. Our $16 price target represents ~7x NTM adjusted EBITDA a year from now. Our estimates reflect a weaker economic environment, as the coronavirus outbreak triggers a downturn and investors balance the risk of recession against a future recovery scenario. Given the limited trading history (OneWater IPO was February 2020), we compare OneWater to its direct competitor MarineMax. In past downturns, MarineMax has traded as high as 15-17x cyclically depressed EBITDA. Shares of MarineMax currently trade at 11-12x NTM EBITDA.

- **Leader in fragmented market.** OneWater Marine Inc is a leader in the $42 billion marine retail market with just 2% share. MarineMax (NYSE: HZO) is the only other pure-play retailer of similar scale, with ~3% of the retail market. In 2018, OneWater was named to Boating Industry’s Top 100 Hall of Fame and in 2019 was recognized as a Top 100 “Legend” for its consistent performance as a top operator.
- **Consolidator in industry with few exit options.** There are over 4,000 dealers in the marine industry, many of which are owned by aging principals that have few exit options. OneWater is building a liquidity bridge between dealers and the public markets – and management’s decades of experience in the industry have enabled them to develop strong relationships with potential targets.
- **Professional operator with specialized systems.** OneWater employs strong operating systems that leverage scale in ways a smaller dealer can’t – including an internally developed CRM. Inventory management is crucial in the marine retail business, and OneWater’s scale and systems enable the company to share inventory across the dealer network and drive solid inventory turns (2.4x for new and 3.6x for preowned in F2019).
- **Strong brand relationships.** OneWater partners with over 50 OEMs to carry more than 70 brands at its stores. Top brands include Pursuit (9% of revenue), Cobalt, (8%), and Malibu (6%) – all of which are owned by Malibu Boats, Inc (NASDAQ: MBBU) – Regal (8%), and Bennington (8%), the pontoon market leader owned by Polaris (NYSE: PII). OEM relationships are also a key source of acquisition targets, as OEMs seek to manage succession risk.
- **Veteran management team.** OneWater is captained by a veteran management team with over 70 years of combined experience in the boating industry. The depth of management’s relationships in the marine industry are important for both strong OEM/brand partnerships and execution of its acquisition strategy.

Risks & Caveats

- **Economic cycles.** Demand for boats is sensitive to economic conditions, especially wealth, credit, employment, consumer confidence, demographic trends, and tax policy in developed markets.
- **Growth dependent on the ability to acquire stores.** Part of OneWater’s growth strategy hinges on its ability to expand its store footprint – primarily through acquisitions. The company’s ability to grow is contingent on its ability to find attractive dealerships, gain consent of manufacturers, and acquire them at reasonable multiples, among other factors.
- **Inventory levels.** Maintaining appropriate inventory levels is crucial to protecting margins and ensuring the health of the business. If inventory levels become too high, OneWater may have to discount to turn product, potentially selling units at a loss. Additionally, excessive or aged inventory can result in higher floorplan interest expense. Finally, the preowned business is contingent on the company’s ability to source used inventory effectively.
- **Access to credit.** Consumer demand for boats is sensitive to the availability of consumer credit. Additionally, OneWater relies on the availability and reasonable cost of wholesale floorplan credit facilities to finance inventory purchases.
- **Supplier relationships.** One OEM (Malibu - MBBU) accounted for ~16% of revenue in F2019. OneWater depends on dealer agreements (generally renewable one-year terms) that enable OEMs to exert control over dealers, including geographic restrictions and requiring certain performance goals.
- **Weather.** Weather conditions may impact operating results, particularly if conditions deteriorate during seasonally important times. OneWater is susceptible to disruption from hurricanes, which may force boating areas to close or result in closure or physical damage to company facilities.
- **Financial leverage.** Post-deal, OneWater is expected have net leverage of ~2.2x LTM EBITDA. Investors may consider this level of leverage high for a business that participates in a cyclical industry.
- **Tax receivable agreement.** OneWater Marine Inc. is party to a tax receivable agreement, in which the company agrees to pay OneWater Unit Holders 85% of net cash tax savings resulting from the step-up in the tax basis after conversion of units. If there is change of control or the TRA terminates early, OneWater Marine Inc. is required to make immediate payment of the present value of anticipated future payments under the TRA, which would be substantial.
- **Voting power.** Following the IPO, Legacy Owners will control 63% of voting stock through either Class B shares or a conversion to Class A shares. The interests of legacy owners may conflict with the interests of other stockholders.
- **Trading liquidity.** OneWater has a market capitalization of less than ~$300 million and a limited float of less than 5 million shares.
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Robert W. Baird & Co. Incorporated and/or its affiliates have received investment banking compensation from OneWater Marine Inc. in the past 12 months.

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

Appendix – Important Disclosures and Analyst Certification

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