

EARNINGS PREVIEW | COMMENT

APRIL 26, 2010

**Brunswick Corporation (NYSE: BC)**  
**Checks Point To Early-Stage Recovery**

**Outperform**  
**Above Average Risk**

Price:	18.85	Price Target:	17.00
Shares O/S (MM):	88.3	Implied All-In Return:	(10%)
Dividend:	0.05	Market Cap (MM):	1,664
Float (MM):	88.2	Yield:	0.3%
Debt to Cap:	56%	Avg. Daily Volume (MM):	2.38
Institutional Ownership:	88%	3-Yr. Est. EPS Growth:	NM

**RBC Capital Markets Corp.**

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FY Dec	2008A	2009A	2010E	2011E
EPS (Op) - FD	(1.33)	(6.56)	(2.68)	(0.53)
P/E	NM	NM	NM	NM
Revenue (MM)	4,708.7	2,776.1	3,289.6	3,610.2
EPS (Op) - FD	Q1	Q2	Q3	Q4
2008	0.12A	(0.07)A	(0.61)A	(0.75)A
2009	(2.08)A	(1.85)A	(1.29)A	(1.33)A
2010	(0.93)E	(0.39)E	(0.55)E	(0.81)E
2011	(0.41)E	0.24E	(0.03)E	(0.33)E
Revenue (MM)				
2008	1,346.8A	1,485.4A	1,038.8A	837.7A
2009	734.7A	718.3A	665.8A	657.3A
2010	822.5E	918.7E	792.4E	756.0E
2011	904.2E	1,011.9E	866.9E	827.1E

All values in USD unless otherwise noted.

**Spring Dealer Survey and Q1 Earnings Preview (Reports 4/29)**

**Investment Opinion**

With the important spring selling season now upon us, we recently conducted extensive channel checks in an effort to assess current industry conditions. Our work included a survey of 185 boating dealers and discussions with key industry contacts. Takeaways are as follows:

- **While still fragile, we see encouraging signs of a recovery taking hold.** Inventories have been purged, product margins are improving, and an active pre-owned and service market provides evidence of a more engaged consumer. Dealer sentiment, while still not great, is on the upswing.
- **At the same time, the industry continues to face challenges.** New boat sales are slow to recover, especially when discounts are withdrawn. We attribute this to an overhang of good-condition pre-owned inventory and the effects of an extremely tight floorplan financing market. These issues are likely to correct with time.
- **Q1 results should demonstrate good progress.** We expect management to reiterate its expectations for full-year retail sales (down in the 10% range). With production increasing for the first time in several years, we expect that Brunswick's P&L will show strong leverage. While we do not have a strong view of how the stock will perform around the quarter given the recent run, we believe investors will come away encouraged by the direction of the business.
- **We still see the makings of a good cyclical recovery story.** With inventories in good shape and trends moving in the right direction, we continue to view this as the right part of the cycle for owning BC shares. We plan to revisit our estimates and target after Thursday's earnings release. Although the stock has moved past our target, we believe the recovery assumptions underlying our target could be conservative.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Conflicts Disclosures, see Page 16.

## The Healing Process Is Under Way

With the important spring selling season now upon us, we recently conducted extensive channel checks in an effort to assess current industry conditions. Our work included a survey of 185 boating dealers and discussions with key industry contacts. We offer our findings with the caveat that the marine industry is extremely difficult to generalize. Circumstances vary widely from dealer to dealer due to differences in dealers' local market conditions, financial health, OEM exposure, access to floorplan financing, and other factors.

While still fragile, we see encouraging signs of a recovery taking hold. Inventories have been purged, product margins are improving, and an active pre-owned and service market provides evidence of a more engaged consumer. Dealer sentiment, while still not great, is clearly on the upswing.

At the same time, the industry continues to face significant challenges. New boat sales are slow to recover, and dealers report difficulties selling newer boats after incentives are withdrawn. This is especially true for larger fiberglass boats.

Continued pressure in the new boat market is attributable to two primary issues, in our judgment. The first is an overhang of recent model year pre-owned inventory. As long as consumers are able to buy good quality pre-owned boats for fifty cents on the dollar, it will be tough for dealers to sell new boats at full price.

The second is the pressure created by extremely tight floorplan financing conditions. GE, which is the primary source of floorplan credit, tightened mercilessly in 2009. With the exception of the recent elimination of its 2% up-front fee, GE has yet to loosen up. This is forcing the industry into a build-to-order operating model. While possibly a blessing in disguise from a long-term perspective, this change is a shock to the system in the near term. In some cases, dealers are unwilling to take on any speculative inventory and therefore have no product to show. In other cases, dealers report difficulty getting product from the manufacturer on a timely basis.

We believe both of these issues are likely to correct with time. While the amount of "shadow inventory" in the system is difficult to assess, reports of strong pre-owned sales activity indicate a good absorption rate. The simple laws of capitalism are likely to help resolve the floorplan financing issue. If GE's risk-adjusted returns on new loans are as good as we think they are, then new competition will eventually surface. Frankly, we are a bit surprised that this hasn't happened already.

### Implications For Brunswick

Brunswick is scheduled to report Q1 results on Thursday, April 29. Overall, results should show continued progress. Our expectations are as follows:

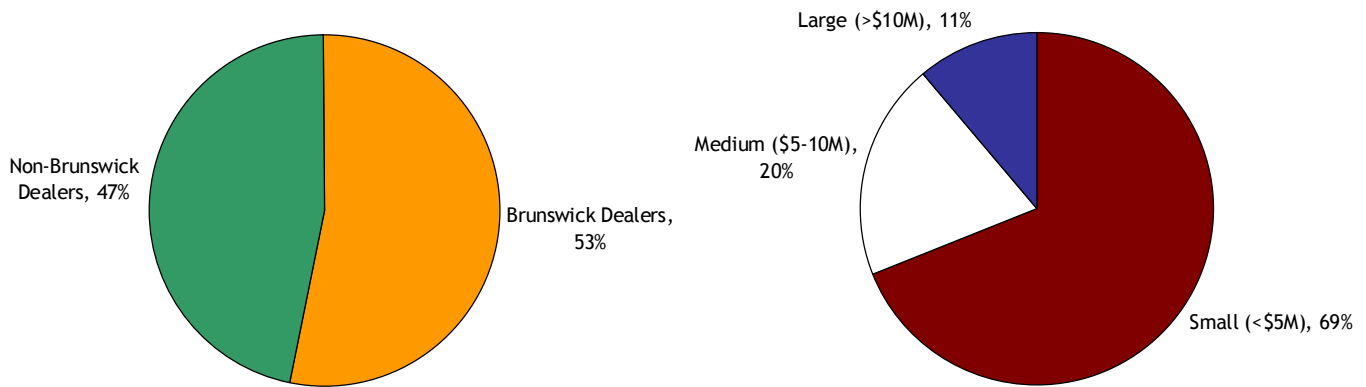
- **No change to the full-year industry outlook.** Last quarter, management indicated that it was planning for industry retail sales declines in the 10% range. We expect management to back this view, while at the same time noting that it is still a bit too early to call the year. We expect management to quote Q1 industry retail trends in line with or perhaps slightly better than the 20% declines reported in the second half of last year.
- **P&L leverage should be encouraging.** For the quarter, we are looking for a loss of \$0.93 (vs. consensus loss of \$0.96) on sales of \$823M (in line with consensus). While we are only \$0.03 ahead of the Street on the bottom line, we believe our estimate of ex-restructuring operating losses (\$43.4M) is a bit more optimistic than loss per share estimates suggest. We are comfortable with the leverage assumptions underlying our Q1 forecast.
- **Expect no big surprises on inventory.** Consistent with historical patterns, weeks of supply should be flat to slightly up from the Q4 level of 26 weeks. We would consider anything in the 26-28 week range to be a neutral data point.

Retail activity over the next three months will provide important insights into the rate of recovery. Barring significant departures from expectations, we believe near-term data points are more relevant to the out-years than 2010. Whereas Brunswick's 2010 sales recovery is more wholesale than retail driven, next year's sales and earnings prospects will be far more sensitive to changes in retail demand, in our opinion. Higher levels of used and non-current inventory this year would paint a more optimistic case for new boat demand recovery starting in 2011.

### Spring Dealer Survey Highlights

We surveyed about 185 dealers during the first two weeks of April. Our survey was split roughly evenly between Brunswick and non-Brunswick dealers (Exhibit 1). Please note that Brunswick dealers are typically multi-line dealers. As a result, their responses might not be fully representative of Brunswick's trends.

Exhibit 1: Dealer Survey Profile

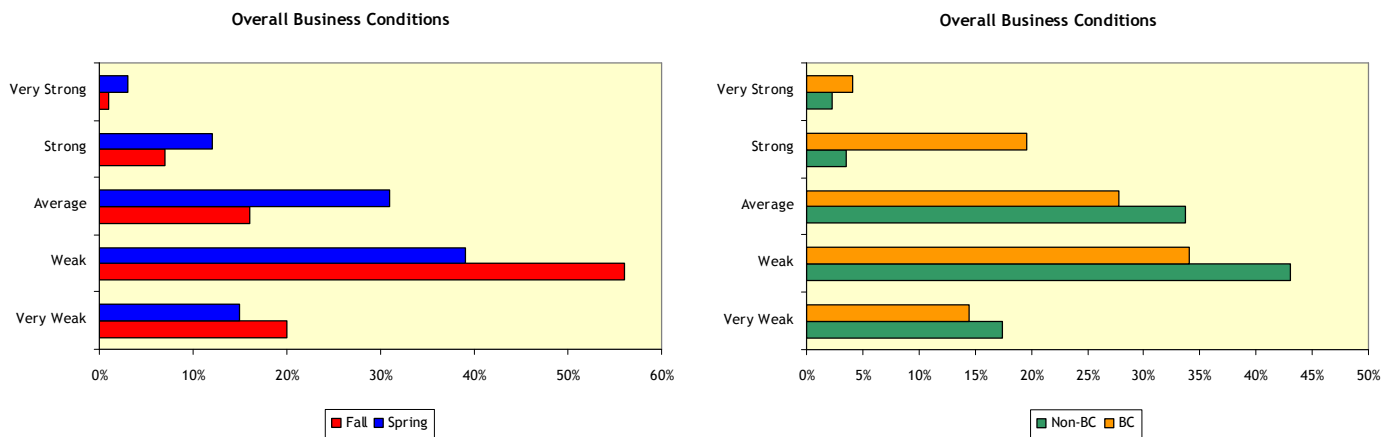


Source: RBC Capital Markets Spring 2010 Boat Dealer Survey

Current Conditions

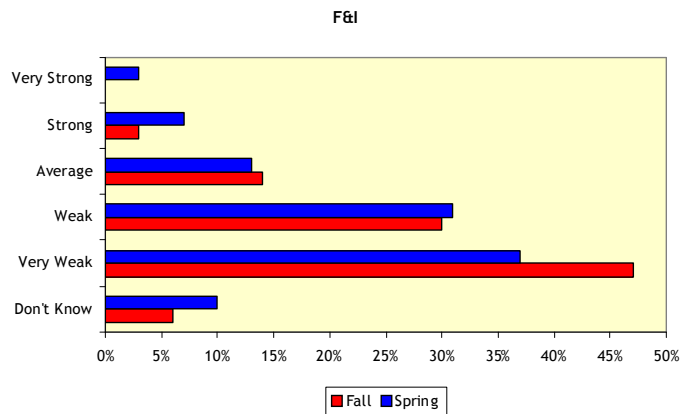
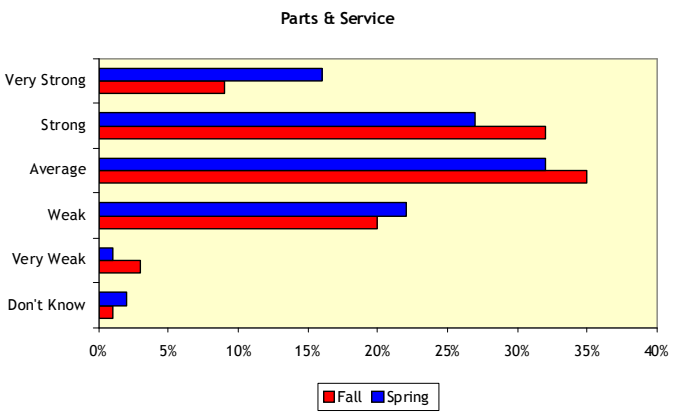
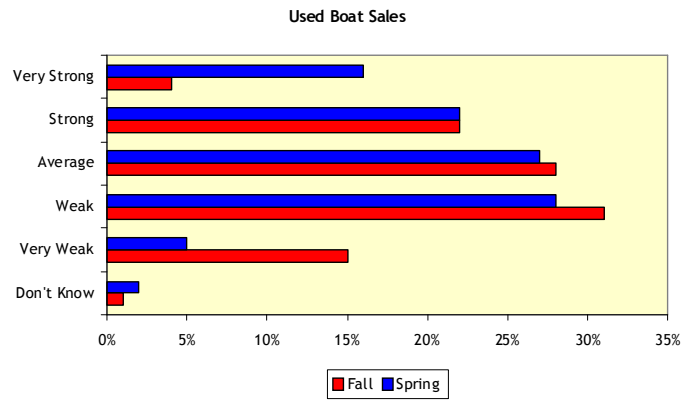
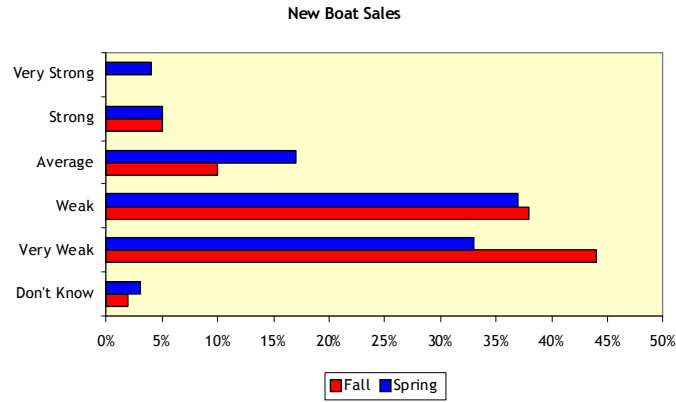
Dealers appeared more optimistic compared to our Fall 2009 survey (Exhibit 2). Brunswick dealers also appear generally more upbeat than non-Brunswick dealers. All parts of the business showed directional improvement (Exhibit 3). However, it seems clear that trends are better in pre-owned and P&A than new boat sales and Finance/Insurance. Our survey did not specifically address service, but many of our contacts have indicated strength in this area. Consumer confidence and credit availability continue to be the biggest impediments to growth (Exhibit 4).

Exhibit 2: Business Conditions Improving



Source: RBC Capital Markets Spring 2010 and Fall 2009 Boat Dealer Surveys

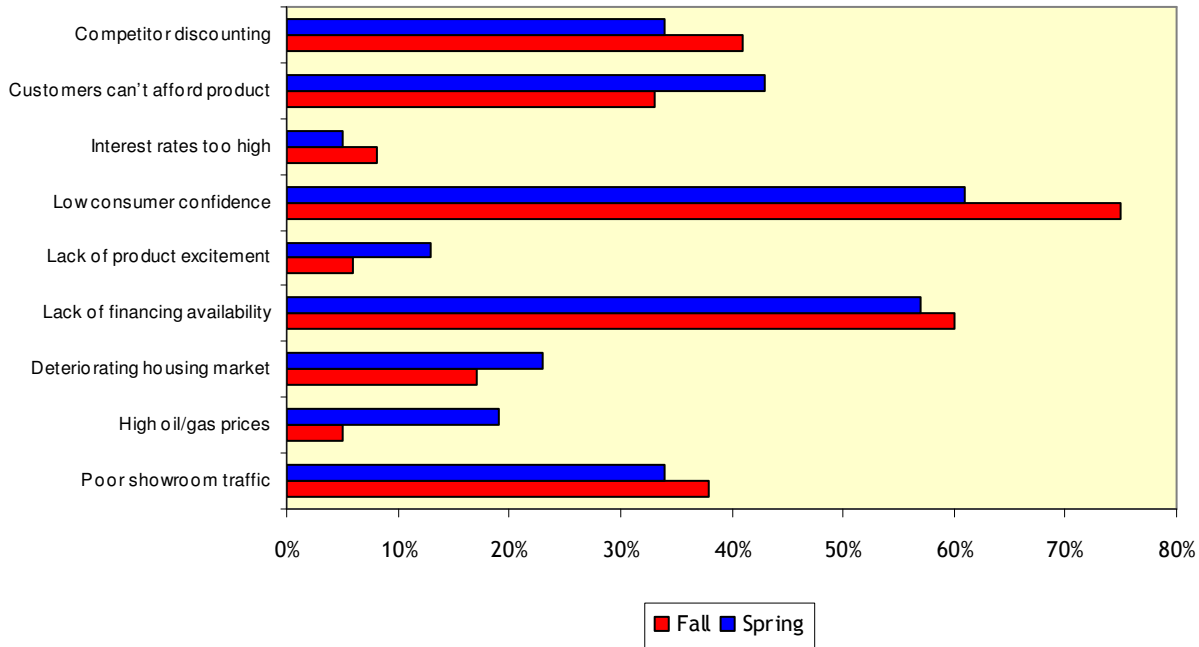
Exhibit 3: Pre-Owned and P&A Appear Stronger



Source: RBC Capital Markets Spring 2010 and Fall 2009 Boat Dealer Surveys

Exhibit 4: Consumer Confidence And Credit Availability Are Primary Concerns

What do you think are the biggest challenges currently facing your business?



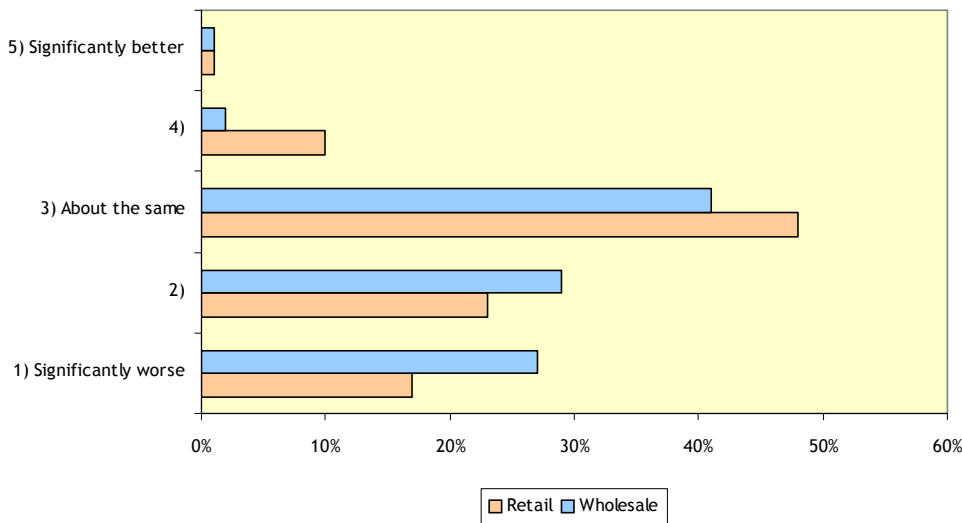
Source: RBC Capital Markets Spring 2010 and Fall 2009 Boat Dealer Surveys

Financing Availability

Shown in Exhibit 5, dealers continue to report very tight financing conditions, especially on the wholesale (floorplan) side. Financing availability remains a major source of concern among dealers, and there is no evidence to suggest that Brunswick dealers are any better off (Exhibit 6).

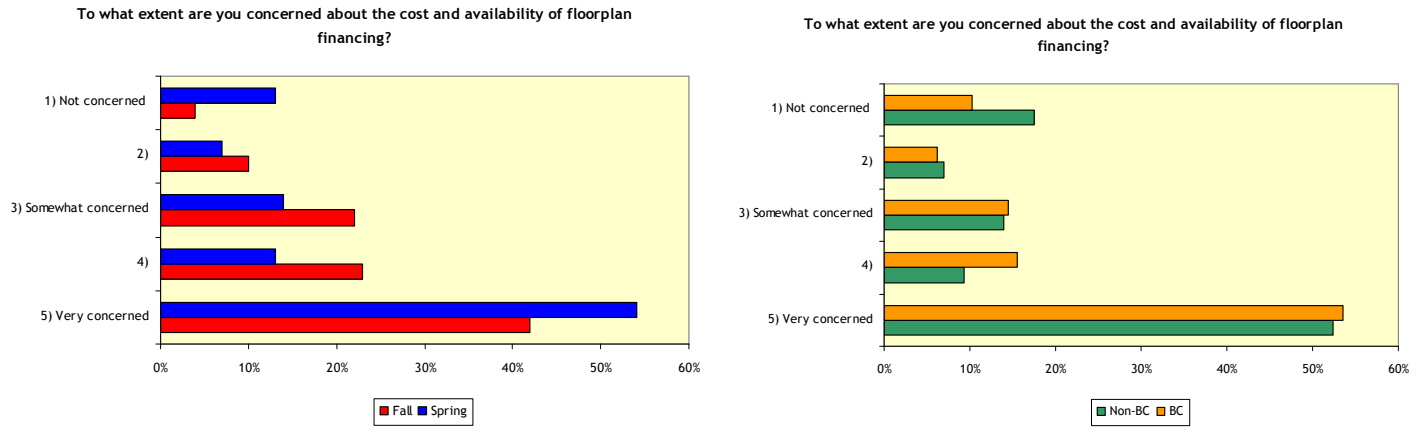
Exhibit 5: Most Indicate That Credit Conditions Are Still Worsening

What, if any, changes have you observed to financing conditions?



Source: RBC Capital Markets Spring 2010 and Fall 2009 Boat Dealer Surveys

Exhibit 6: Floorplan Financing Remains A Major Source Of Concern

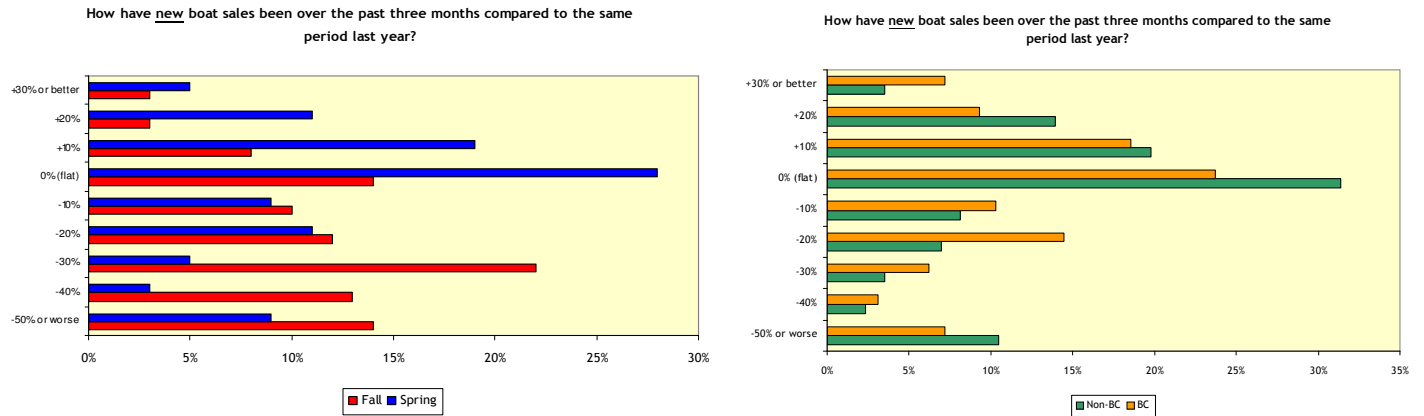


Source: RBC Capital Markets Spring 2010 and Fall 2009 Boat Dealer Surveys

Sales & Profitability Trends

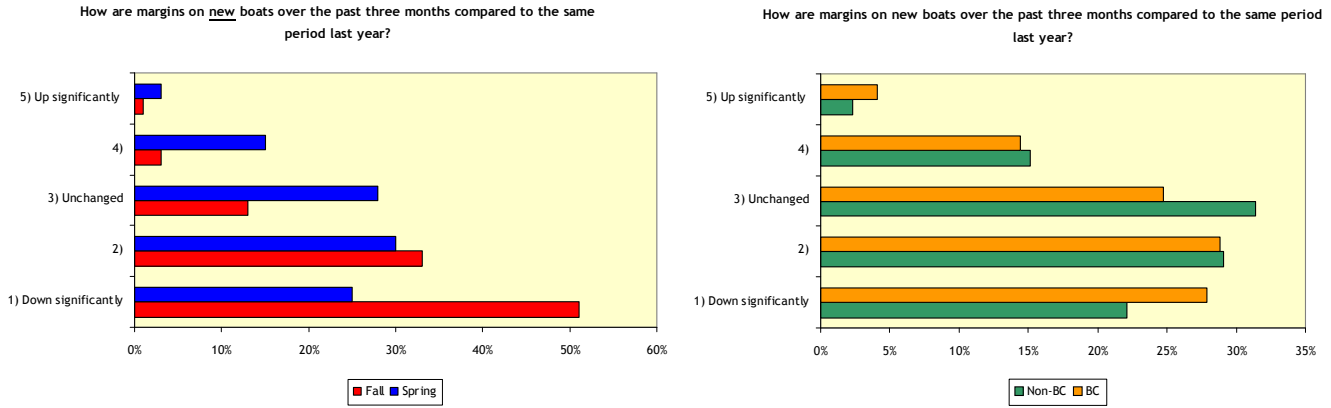
Retail growth trends appear noticeably better than last fall. In fact, 35% of dealers surveyed reported positive growth. We believe these results might overstate current trends to some extent due to survivorship bias. While still not great, we also see evidence to suggest improving profitability trends (Exhibit 8). Brunswick dealers appear to be outpacing non-Brunswick dealers on sales, but there is no clear evidence to suggest differential margin trends. Larger dealers generally reported better y/y profitability trends than smaller dealers.

Exhibit 7: Sales Trends Appear Noticeably Better



Source: RBC Capital Markets Spring 2010 and Fall 2009 Boat Dealer Surveys

Exhibit 8: Profitability Trends Are Improving

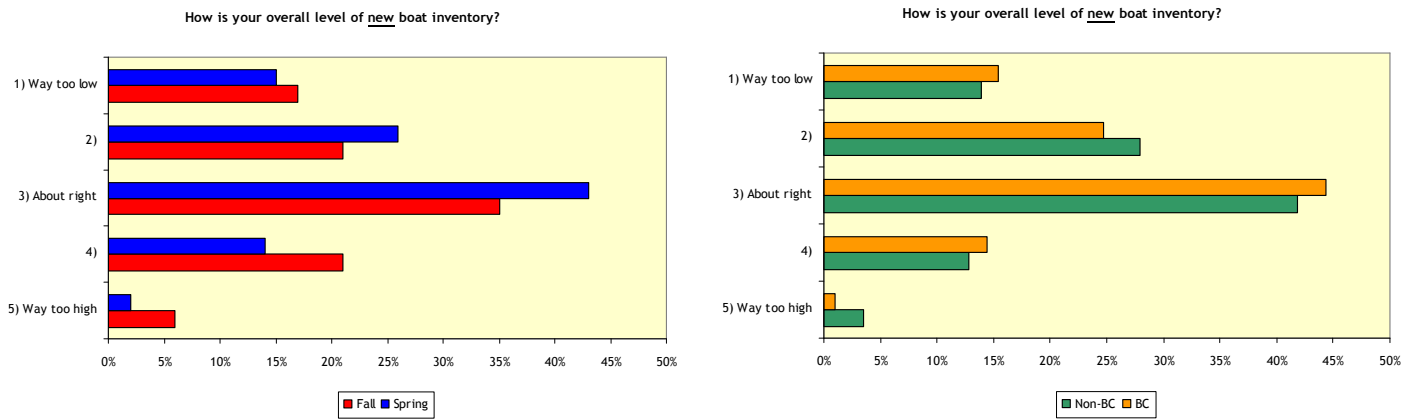


Source: RBC Capital Markets Spring 2010 and Fall 2009 Boat Dealer Surveys

Inventory

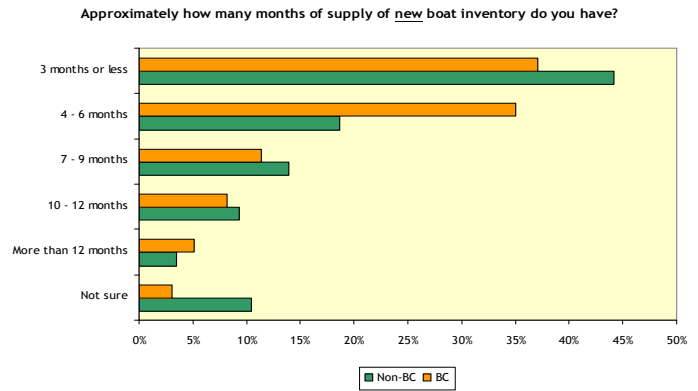
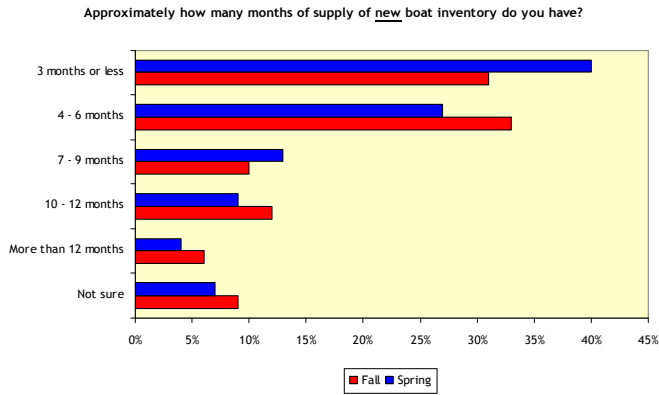
New boat inventory levels appear to be in good shape. Only one-third of dealers now carry more than six months of inventory, and 40% of dealers carry less than three months (Exhibit 10). Only 16% of dealers report that inventory levels are still too high. Inventory aging is improving, as the majority of inventory in the channel is aged less than a year (Exhibit 12). That said, dealers remain concerned about inventory aging – surely a reflection of high carrying costs. We did not observe meaningful differences in inventory trends for Brunswick vs. non-Brunswick dealers.

Exhibit 9: Inventory Is In Good Shape



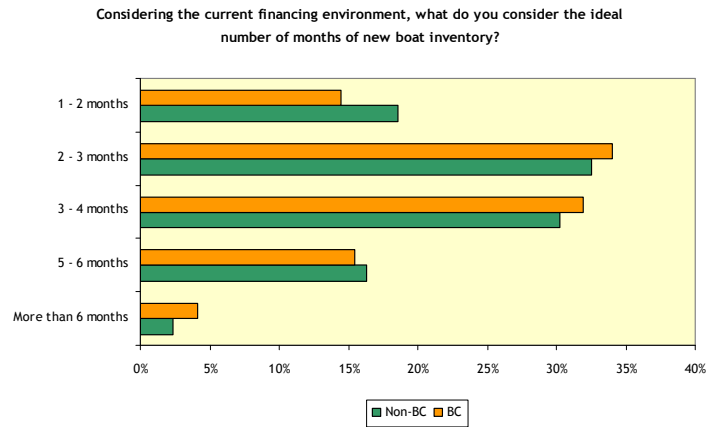
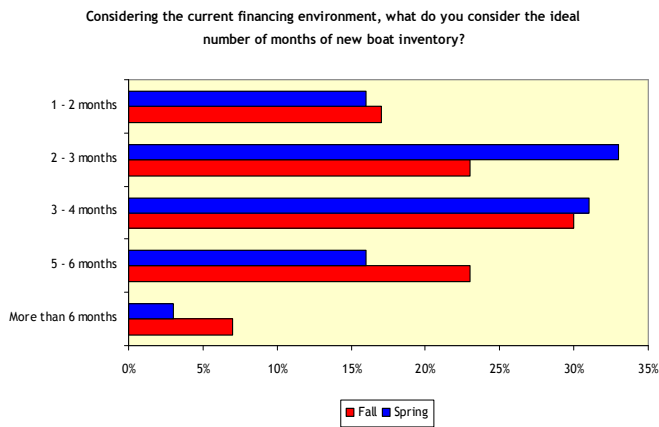
Source: RBC Capital Markets Spring 2010 and Fall 2009 Boat Dealer Surveys

Exhibit 10: Two-Thirds Of Dealers Have Less Than Six Months Of Inventory



Source: RBC Capital Markets Spring 2010 and Fall 2009 Boat Dealer Surveys

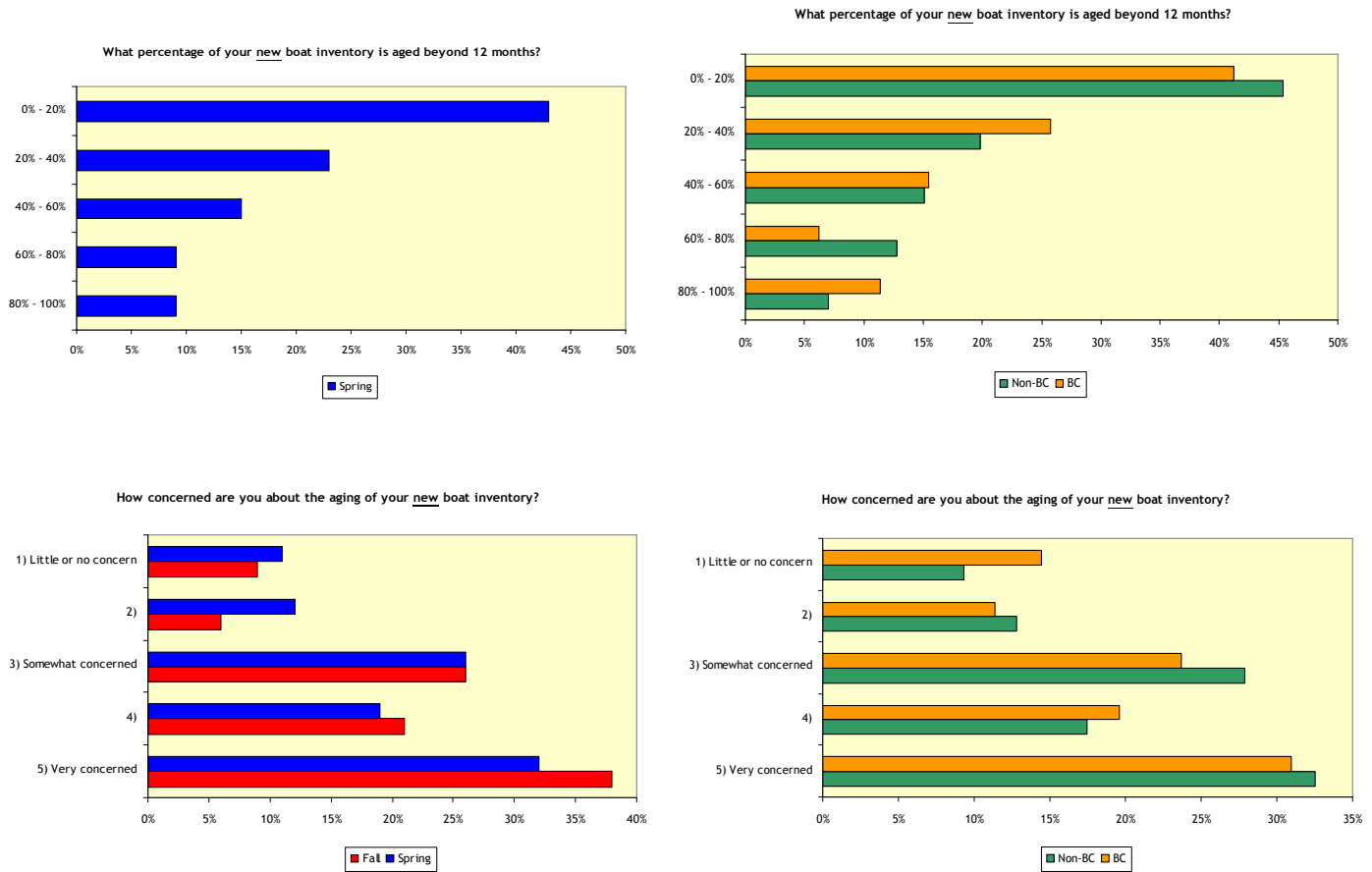
Exhibit 11: Most Dealers Are Managing Inventory To Four Months Or Less



Source: RBC Capital Markets Spring 2010 and Fall 2009 Boat Dealer Surveys



Exhibit 12: Inventory Aging Is In Much Better Shape, But Dealers Remain Concerned

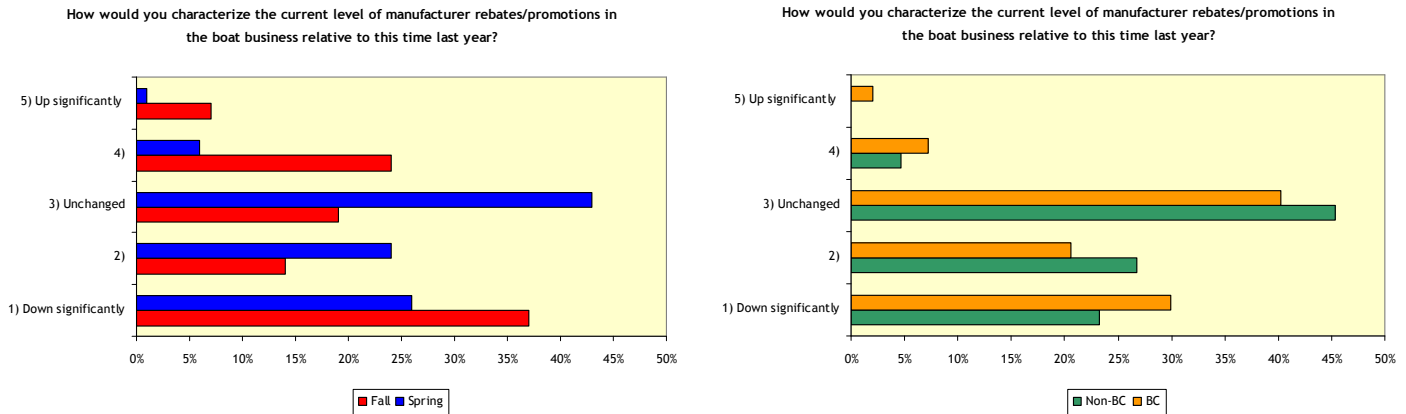


Source: RBC Capital Markets Spring 2010 and Fall 2009 Boat Dealer Surveys

**Manufacturer Discounting**

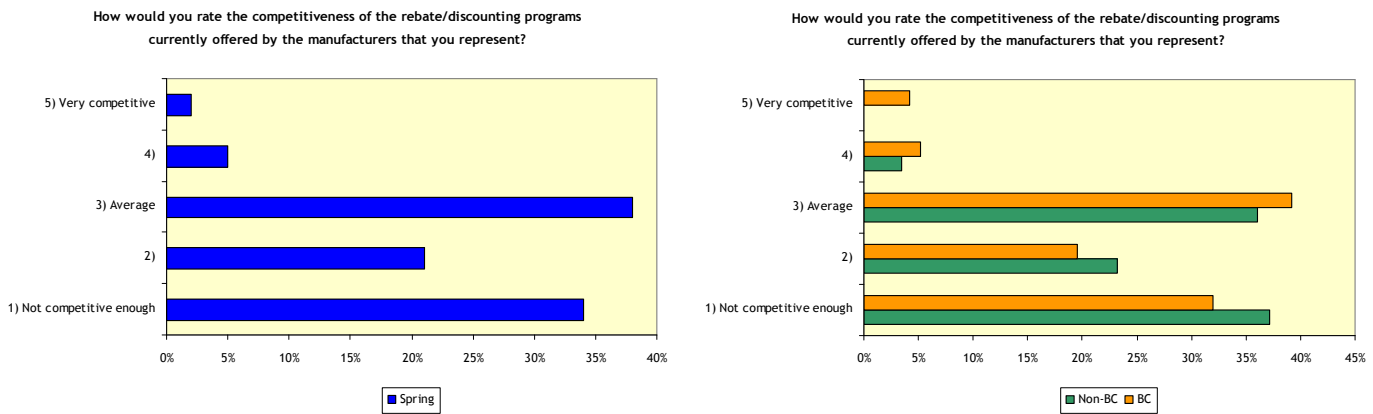
After peaking in the 3Q09 timeframe, discounts offered by manufacturers have clearly abated (Exhibit 13). We did not notice any major differences in responses from Brunswick dealers vs. non-Brunswick dealers. Although Brunswick does get more credit than other manufacturers, dealers widely believe manufacturers still do not provide enough financial incentive to help them sell product (Exhibit 14). Suffice it to say, we suspect this will always be the case.

Exhibit 13: Discounting Is Abating



Source: RBC Capital Markets Spring 2010 Boat Dealer Survey

Exhibit 14: Dealers Want More From Manufacturers (But Don't They Always?)



Source: RBC Capital Markets Spring 2010 Boat Dealer Survey

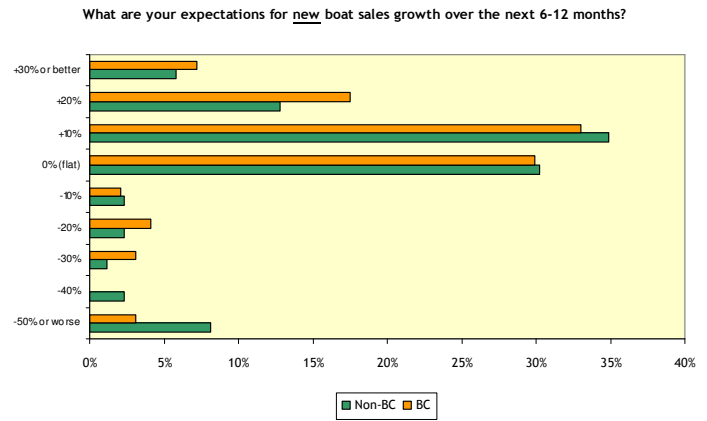
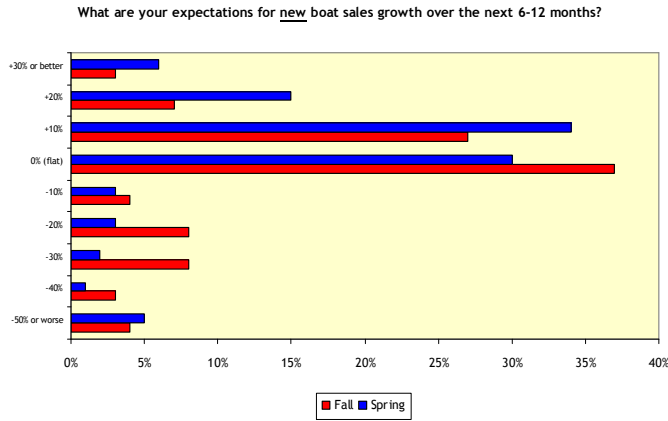
Future Outlook

Sales growth expectations have clearly improved since our fall survey. Fifty-five percent of dealers anticipate positive growth over the next 6-12 months, while only 14% of dealers forecast declines (Exhibit 15). Order expectations (Exhibit 16) have also improved considerably. However, these responses are difficult to reconcile with last year's destocking. Coming off a year in which dealers replenished one boat for every two sold, we would expect positive y/y sales growth expectations to translate to more significant increases in order expectations.

Dealers see a lesser need to right-size their business in response to the recent downturn. Compared to our last survey, fewer dealers feel compelled to cut orders, lower prices or reduce expenses (Exhibit 17).

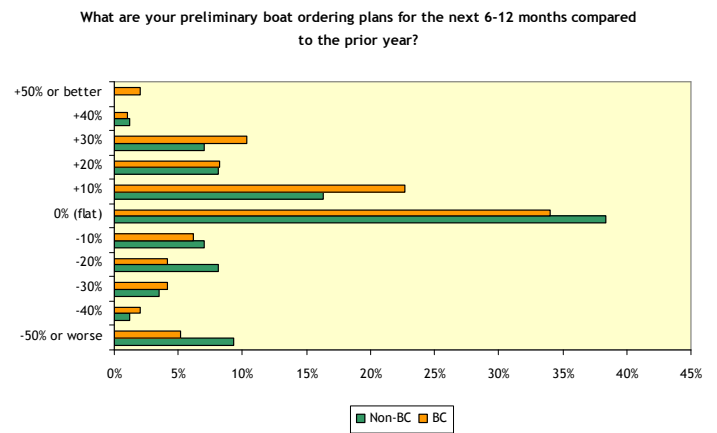
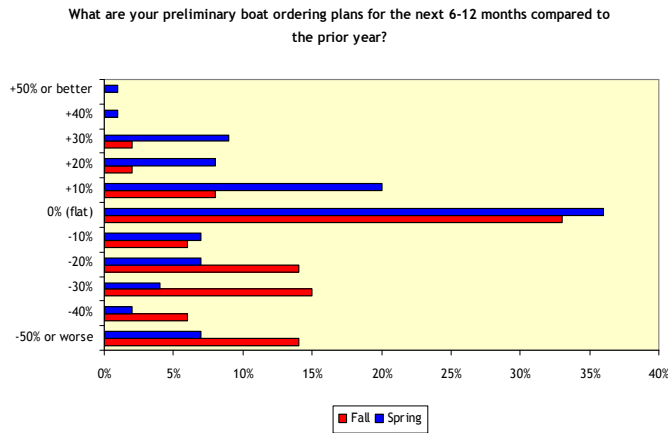
Views are split as to whether an actual recovery is under way (Exhibit 18). About 35% of respondents indicate business is improving. Most others believe the recovery will happen next year. Not surprisingly, dealers now feel a bit more optimistic about the long-term outlook compared to six months ago (Exhibit 19).

Exhibit 15: Sales Expectations Are More Optimistic



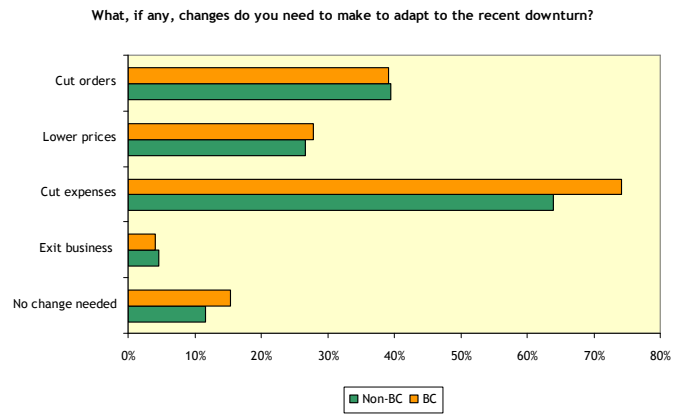
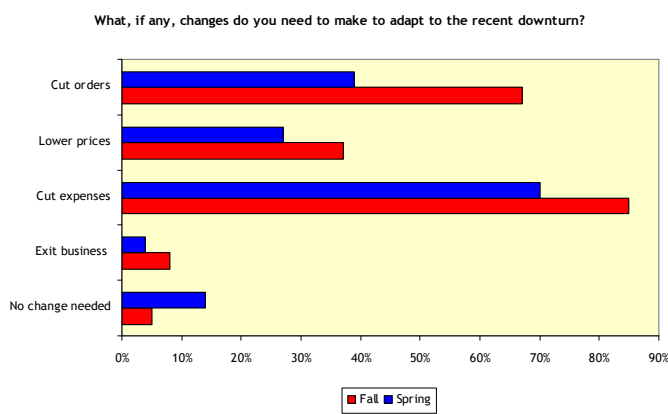
Source: RBC Capital Markets Spring 2010 and Fall 2009 Boat Dealer Surveys

Exhibit 16: Order Expectations Are Higher, But Perhaps Not As High As We Would Expect



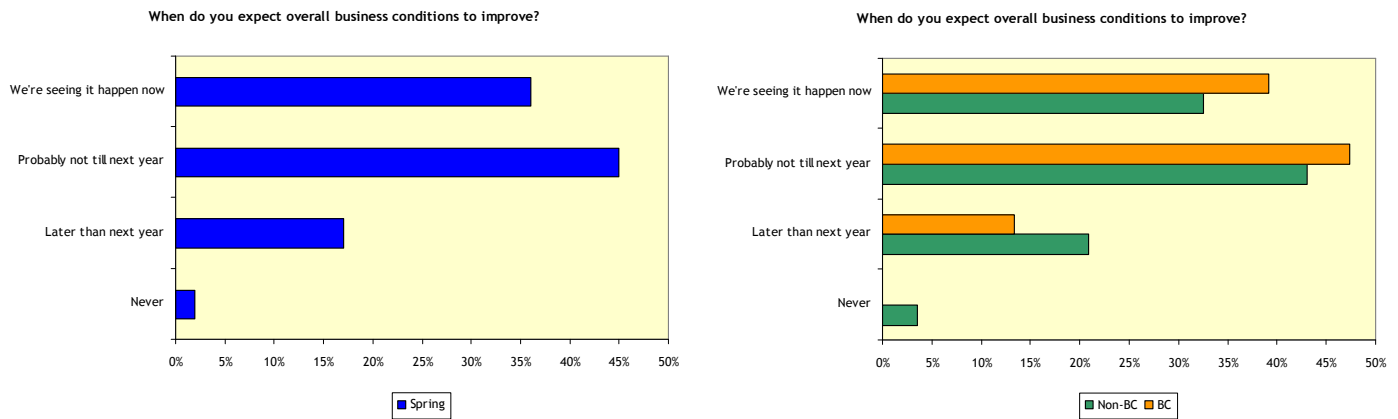
Source: RBC Capital Markets Spring 2010 and Fall 2009 Boat Dealer Surveys

Exhibit 17: Dealers Feel Less Compelled To “Cut”



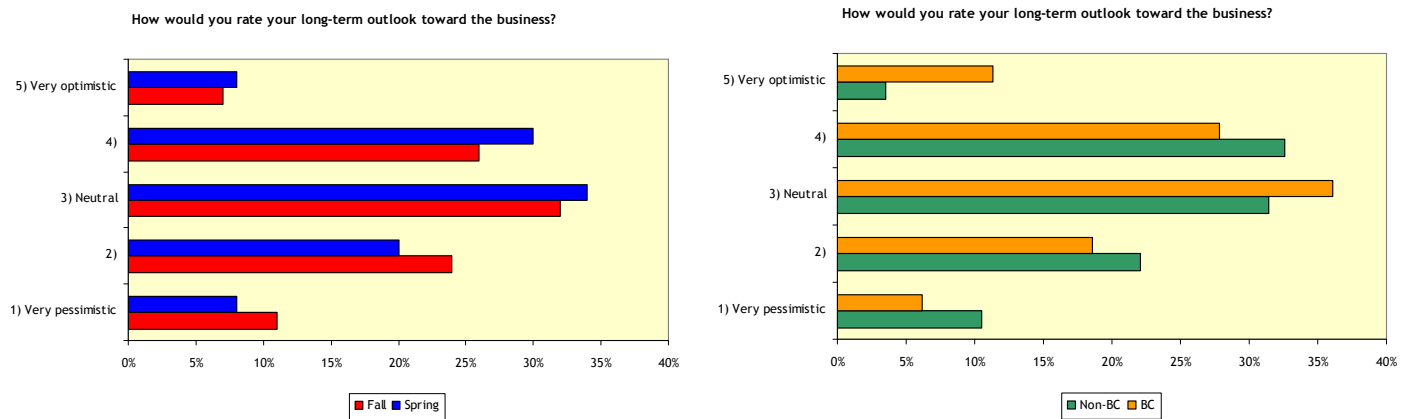
Source: RBC Capital Markets Spring 2010 and Fall 2009 Boat Dealer Surveys

Exhibit 18: Most Expect Recovery By Next Year At The Latest



Source: RBC Capital Markets Spring 2010 Boat Dealer Survey

Exhibit 19: Dealers Appear A Bit More Optimistic About The Outlook



Source: RBC Capital Markets Spring 2010 Boat Dealer Survey

Notable Dealer Quotes

“We are a Brunswick ‘exclusive’ dealer. We applaud their strategies over the past 24 months. They (we) will have a very bright future.”

“We’ve just completed our worse first quarter in the history of the business. We’re hoping it’s due to the weather conditions. Second quarter will tell if that’s true.”

“General public needs some confidence in their leaders in Washington, D.C.”

“Get this jerk out of the White House before he gives the country away.”

“Our sales are up for this year and factories cannot supply me with boats.”

“If we decide to stay in the business after this summer, we will keep inventory very low. There are many lines available; no need to stress over losing a boat line. 2012 looks like the year things might come back.”

“We have seen a significant pick-up of business. We carry three good brands and I think the consumer is looking for quality. Service business is up 30% due to customers doing more preventive maintenance versus buying new.”

“We still have a lot of cleaning out to do as far as inventory goes. Many more manufacturers and dealers will go out of business over the next 12 months.”

“I do not think that the boat business will ever return to the historic levels of the early 2000’s.”

“Business continues to decline and I don’t see it getting any better for at least two years.”

“This industry is in trouble for the next 5-10 years, and maybe even longer.”

“The auction market is ruining the new sales market. Banks should look to dealers to help them liquidate the repo’s. It would shed a different light on the market. Today’s shopper feels that there’s a fire sale at every corner because of the auctions.”

“It has been our past experience that when the overall economy starts improving the marine industry takes about four years to recover. It takes that long for the consumer to forget about the ‘cheap deals’ that were happening.”

“We are much more concerned about the floorplan rip-offs and lack of consumer willingness to purchase (at a profitable price) than we are about retail financing. The retail financing has improved very well – there’s just too much aged merchandise.”

“We have demand for product but cannot buy inventory due to the lack of floorplan availability.”

“Future is very iffy.”

“Builders overload dealers, then dealers dump and/or banks repo then dump, that is where we are now. Might try a different approach next time!”

“I’m afraid that this market is the new ‘normal.’ The market gains appear to be happening due to few dealers.”

“The floorplan finance companies have hurt the dealers with high interest rates and no additional credit to allow us to stock new product.”

“Need help from manufactures that have 2008-07 product in our dealership. It will not come. They are scabs on the industry!!!”

## Valuation

Our \$17 price target assumes that industry demand recovers to the 160k unit range over the next three years. Applying a valuation range of 6-8x EBITDA, discounted back two years at 15%, yields our \$17 price target.

## Price Target Impediment

Further demand weakness amid already heavy operating losses could lead to further liquidity/balance sheet issues that would be an impediment to our price target.

## Company Description

Brunswick Corporation (Lake Forest, Illinois) is a leading manufacturer of recreational powerboats, marine engines, fitness equipment, and bowling and billiards equipment.

Brunswick Corporation
Income Statement
(In Millions, except per share data)

Table with 17 columns (years 2006-2011) and multiple rows of financial data including Revenues, Total Revenues, Operating Earnings, Net Earnings, and Segment Margins.

Notes:

(5) Fiscal 2003 - Litigation fee in connection with a patent infringement lawsuit relating to the fitness segment.
(6) IQ05 - Earnings exclude one-time gain of \$18.7 million from sale of HZO stock
(7) IQ06 - Periods prior to IQ03 have not been restated to reflect the divestiture of Brunswick New Technologies
(8) IQ08 - one time tax gain of \$0.06 per share is added to tax expense in the form of \$5.592 million
(9) IQ07 - Impairment charge on boats
(10) IQ07 EPS excludes \$0.05 tax benefit
(11) IQ08 Earnings exclude restructuring charges (\$22MM fom operating earnings) plus net of Baja and NBK transactions result in earnings of \$0.12 per share at effective tax rate of 33%

Source: Brunswick Corporation and RBC Capital Markets estimates



## Required Disclosures

### Conflicts Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

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The author is employed by RBC Capital Markets Corp., a securities broker-dealer with principal offices located in New York, USA.

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An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

#### Ratings

**Top Pick (TP):** Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Qualifiers (any of the following criteria may be present):

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

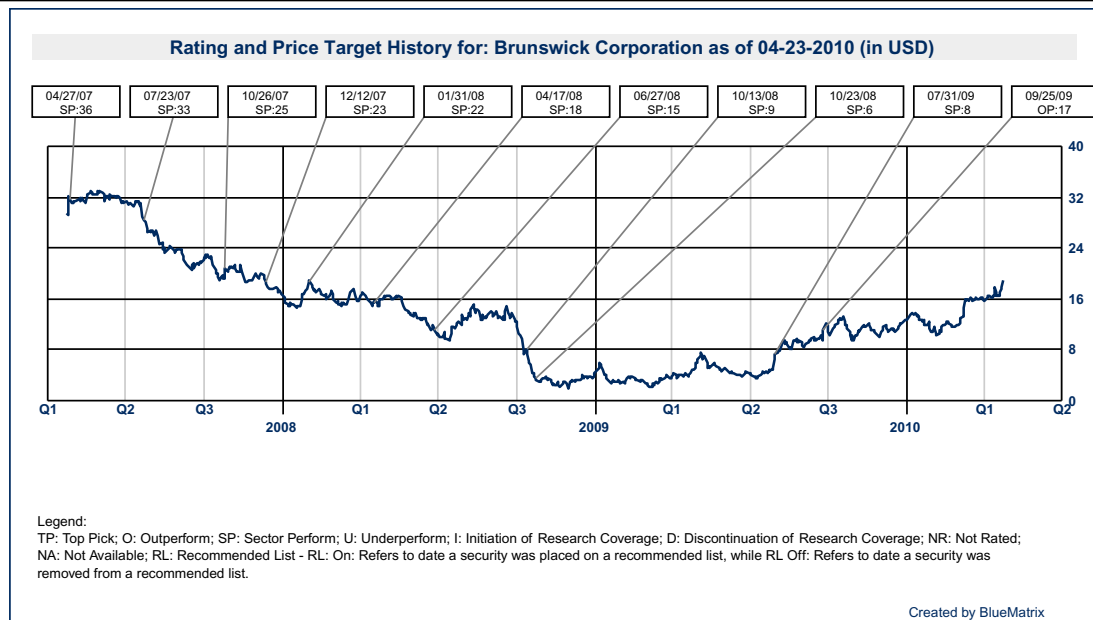
**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	614	49.60	192	31.27
HOLD[SP]	558	45.10	133	23.84
SELL[U]	66	5.30	9	13.64





References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets Corporation. These Recommended Lists include the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Prime Income List (RL 6), the Guided Portfolio: Large Cap (RL 7), and the Guided Portfolio: Dividend Growth (RL 8). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

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