

September 25, 2013  
BC-NYSE--Outperform (1) / V

Powersports

## BC: August U.S. Retail Industry Sales Modestly Better Than Our +10% Estimate

Timothy Conder, CPA, Senior Analyst (314) 875-2041

### Sector Rating: Powersports, Market Weight

Conclusion. August 2013 U.S. retail industry unit boat sales rose 11.8% yr/yr (+4.0% YTD) in the key powerboat segment (based on Statistical Surveys data from 26 states representing ~60% of the U.S. market) with continued strength in aluminum fishing/pontoon boats and 11-40' outboard fiberglass boats. August results were strong vs. challenging comps producing U.S. YTD retail unit sales now +4.0% (vs. +13.3% a year ago), following 1H13 increase of 0.8% (vs. +14.1% 1H12). Sales of aluminum boats above 16' rose 17.9% yr/yr in August to 3,751 units (pontoon sales +23.1% and aluminum fishing boats +12.4%). Smaller fiberglass boats rose +4.8% to 3,367 units (11-40' outboard fiberglass +9.6%, while sterndrive/inboard 14-30' fiberglass were down 6.0% yr/yr). Mid/larger fiberglass boats (31-99' sterndrive/inboard) rose +35.5% yr/yr to 168 units. Overall inboard fiberglass boat sales appear to be stabilizing (down 1.4% vs. decline of 13.5% in 1H13) as mid-size (31-62') boat sales accelerate to offset the drop in small (14-30') fiberglass boat sales. We reiterate our outlook for U.S. annual industry retail unit sales growth of +4-5%. Overall August U.S. retail unit sales were slightly better than our +10% estimates and coupled with our channel checks indicating U.S. channel inventories of boats remaining at historical lows providing for solid growth fundamentals looking toward 2014 (see our BC 9.12.13 note). Bottom Line: We remain constructive on BC shares.

Seasonality of U.S. retail boat unit sales (% of annual units 2000-2011): Q1: 18%, Q2: 43%, Q3: 28%, Q4: 10%. Q2/Q3 monthly breakdown Apr: 13%, May 15%, June 15%, Jul 13%, Aug 9%, Sept 6%.

Fundamentally, BC/industry growth drivers remain intact, in our view: (1) industry channel inventories (new/used boats) remain near record lows while consumer demand drivers remain constructive, (2) BC 2012/2013 R&D investments are producing a strong pipeline of richer margin boat and outboard engine products for late 2013 into 2014, (3) BC's May debt refinancing could free additional cash for accelerated pension funding, reinvestment, or dividends.

### Brunswick Corporation (BC-NYSE)

Price as of 9/24/2013: \$39.00

FY 13 EPS: \$2.65

FY 14 EPS: \$2.72

Shares Out.: 93.6 MM

Market Cap.: \$3,650.4 MM

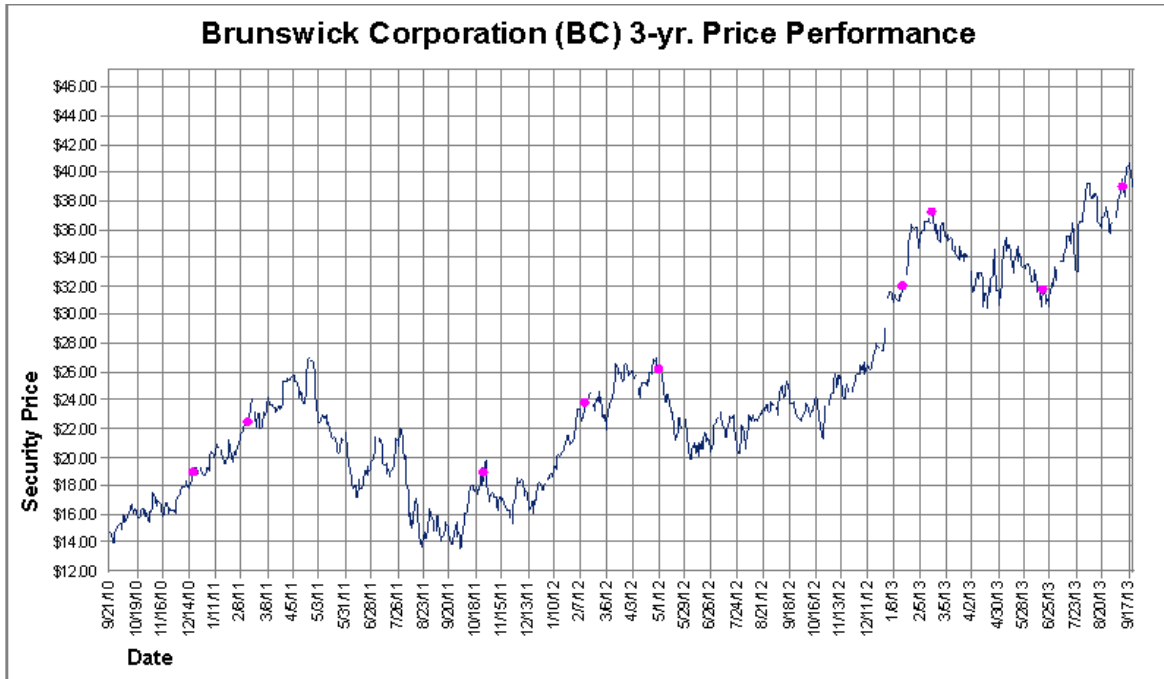
**Please see Disclosure Appendix for rating definitions, important disclosures, and required analyst certifications.**

**All estimates/forecasts are as of 09/25/13 unless otherwise stated.**

Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

# DISCLOSURE APPENDIX

## Required Disclosures



	Date	Publication Price (\$)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price (\$)
	9/21/2010		Conder			
	9/21/2010	NA	1	16.00	23.00	14.78
●	12/20/2010	19.09	1	20.00	22.00	18.84
●	2/16/2011	22.13	1	26.00	27.00	22.42
●	10/26/2011	18.03	1	25.00	27.00	18.79
●	2/13/2012	22.94	1	27.00	30.00	23.82
●	5/1/2012	26.29	1	29.00	31.00	26.13
●	1/17/2013	32.97	1	37.00	39.00	32.02
●	2/19/2013	36.34	1	40.00	42.00	37.23
●	6/18/2013	30.97	1	39.00	41.00	31.65
●	9/11/2013	38.29	1	42.00	44.00	39.00

Source: Wells Fargo Securities, LLC estimates and Reuters data

**Symbol Key**

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- Valuation Range Change

- ◆ Initiation, Resumption, Drop or Suspend
- Analyst Change
- Split Adjustment

**Rating Code Key**

- |   |                     |    |             |
|---|---------------------|----|-------------|
| 1 | Outperform/Buy      | SR | Suspended   |
| 2 | Market Perform/Hold | NR | Not Rated   |
| 3 | Underperform/Sell   | NE | No Estimate |

### Additional Information Available Upon Request

I certify that:

- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

**Please see Disclosure Appendix for rating definitions, important disclosures, and required analyst certifications.**

**All estimates/forecasts are as of 09/25/13 unless otherwise stated.**

Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

Wells Fargo Securities, LLC maintains a market in the common stock of Brunswick Corporation.  
Wells Fargo Securities, LLC or its affiliates has a significant financial interest in Brunswick Corporation.

**BC:** Risks to our valuation include: (1) a prolonged consumer downturn, (2) availability of credit/higher taxes limiting demand, (3) sales mix, (4) raw materials/component price increases, and (5) adverse foreign exchange.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

#### **STOCK RATING**

**1 = Outperform:** The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY

**2 = Market Perform:** The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

**3 = Underperform:** The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

#### **SECTOR RATING**

**O = Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**M = Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**U = Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

#### **VOLATILITY RATING**

**V =** A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

#### **As of: September 25, 2013**

48% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Outperform. Wells Fargo Securities, LLC has provided investment banking services for 49% of its Outperform-rated companies.

49% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Market Perform. Wells Fargo Securities, LLC has provided investment banking services for 36% of its Market Perform-rated companies.

3% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underperform. Wells Fargo Securities, LLC has provided investment banking services for 21% of its Underperform-rated companies.

#### **Important Information for Non-U.S. Recipients**

**EEA** - The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Services Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL a regulated person under the Act. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FSA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

**Australia** - Wells Fargo Securities, LLC is exempt from the requirements to hold an Australian financial services license in respect of the financial services it provides to wholesale clients in Australia. Wells Fargo Securities, LLC is regulated under U.S. laws which differ from Australian laws. Any offer or documentation provided to Australian recipients by Wells Fargo Securities, LLC in the course of providing the financial services will be prepared in accordance with the laws of the United States and not Australian laws.

**Please see Disclosure Appendix for rating definitions, important disclosures, and required analyst certifications.**

**All estimates/forecasts are as of 09/25/13 unless otherwise stated.**

**Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.**

**Hong Kong** - This report is issued and distributed in Hong Kong by Wells Fargo Securities Asia Limited ("WFSAL"), a Hong Kong incorporated investment firm licensed and regulated by the Securities and Futures Commission to carry on types 1, 4, 6 and 9 regulated activities (as defined in the Securities and Futures Ordinance, "the SFO"). This report is not intended for, and should not be relied on by, any person other than professional investors (as defined in the SFO). Any securities and related financial instruments described herein are not intended for sale, nor will be sold, to any person other than professional investors (as defined in the SFO).

**Japan** - This report is distributed in Japan by Wells Fargo Securities (Japan) Co., Ltd, registered with the Kanto Local Finance Bureau to conduct broking and dealing of type 1 and type 2 financial instruments and agency or intermediary service for entry into investment advisory or discretionary investment contracts. This report is intended for distribution only to professional investors (Tokutei Touseika) and is not intended for, and should not be relied upon by, ordinary customers (Ippan Touseika).

The ratings stated on the document are not provided by rating agencies registered with the Financial Services Agency of Japan (JFSA) but by group companies of JFSA-registered rating agencies. These group companies may include Moody's Investors Services Inc, Standard & Poor's Rating Services and/or Fitch Ratings. Any decisions to invest in securities or transactions should be made after reviewing policies and methodologies used for assigning credit ratings and assumptions, significance and limitations of the credit ratings stated on the respective rating agencies' websites.

### **About Wells Fargo Securities, LLC**

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Institutional Securities, LLC, a member of FINRA and SIPC, Wells Fargo Prime Services, LLC, a member of FINRA, NFA and SIPC, Wells Fargo Bank, N.A. and Wells Fargo Securities International Limited, authorized and regulated by the Financial Services Authority.

Wells Fargo Securities, LLC is a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the New York Stock Exchange, the Financial Industry Regulatory Authority and the Securities Investor Protection Corp.

This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal, or the entity that provided this report to them, if they desire further information. The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC, to be reliable, but Wells Fargo Securities, LLC, does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of Wells Fargo Securities, LLC, at this time, and are subject to change without notice. For the purposes of the U.K. Financial Services Authority's rules, this report constitutes impartial investment research. Each of Wells Fargo Securities, LLC, and Wells Fargo Securities International Limited is a separate legal entity and distinct from affiliated banks. Copyright © 2013 Wells Fargo Securities, LLC.

SECURITIES NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

**Please see Disclosure Appendix for rating definitions, important disclosures, and required analyst certifications.**

**All estimates/forecasts are as of 09/25/13 unless otherwise stated.**

**Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.**