

WESTPEAK RESEARCH ASSOCIATION

MasterCraft Boat Holdings, Inc. (NASDAQ: MCFT)

Consumer Discretionary – Recreational Powerboats

Clear Waters Ahead For MCFT

February 22, 2021

MasterCraft Boat Holdings, Inc. (“MasterCraft Holdings” or “the Company”) is the leading designer, manufacturer, and marketer of recreational powerboats and operates with dealers in thirty-seven countries. MasterCraft Holdings has four brands which they sell under – MasterCraft, NauticStar, Crest, and Aviara. Each brand is tailored towards a category in the recreational powerboat market from performance sportboats to outboard bay boats.

Thesis

After a volatile FY2020, MasterCraft Holdings is positioned to return to its high growth which was seen prior to the COVID-19 pandemic. Positive recreational powerboat market projections and a strong projected economic recovery in the U.S. both set Crest and Aviara to be able to grow their sales and lead MasterCraft Holdings to outperform expectations.

Drivers

Projected market growth in each segment MasterCraft Holdings operates in is being driven by projected economic recovery, vaccination against COVID-19, and an increase in consumer disposable income, allowing for MasterCraft Holdings to return to full manufacturing capacity and begin to capitalize on this higher demand.

Valuation

Based on our analysis, we have determined a target price of \$38.88 per share. We came to this valuation by conducting a Perpetuity Growth DCF Analysis weighed at 40%, an EV/EBITDA Comparable Analysis weighed at 40%, and an Exit Multiple DCF Analysis weighed at 20%. Given our determined price, we believe that MasterCraft Holdings is currently undervalued, so we are placing a **buy** rating on MasterCraft Holdings.

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Equity Research US

Price Target	USD\$ 38.88
Rating	Buy
Share Price (Feb. 26 Close)	USD\$ 25.63
Total Return	51.70%

Key Statistics

52 Week H/L	\$29.29/\$4.90
Market Capitalization	\$511M
Average Daily Trading Volume	\$0.178M
Net Debt	\$92M
Enterprise Value	\$572M
Net Debt/EBITDA	2.62x
Diluted Shares Outstanding	\$19M
Free Float	96.34%

WestPeak's Forecast

	2021E	2022E	2023E
Revenue	\$407M	\$456M	\$501M
EBITDA	\$73M	\$87M	\$95M
Net Income	\$40M	\$54M	\$61M
EPS	\$2.11	\$2.86	\$3.22
P/E	12.1x	9.0x	8.0x
EV/EBITDA	7.7x	5.8x	4.7x

1-Year Price Performance



Business Overview

Company Overview

MasterCraft Holdings, Inc. was founded in Maryville, Tennessee in 1968 with the goal of designing and manufacturing luxury recreational powerboats. MasterCraft Holdings sells boats through four distinct brands – MasterCraft, NauticStar, Crest, and Aviara (reportable segments are MasterCraft, NauticStar and Crest. MasterCraft includes both MasterCraft and Aviara). Each brand targets its own niche of the recreational powerboat market. MasterCraft Holdings sells its boats through its network of independent dealers around the globe. This network consists of over 190 locations in almost 40 countries.

MAP OF MASTERCRAFT HOLDINGS' GLOBAL DEALER NETWORK



Brands

MasterCraft

The MasterCraft brand is leading the U.S. markets in the performance sportboat segment as well as a quickly growing international representation with 190 dealer locations in 37 countries. MasterCraft boats are specifically designed to be used for most watersports that require a boat including waterskiing, wakeboarding, wakesurfing, as well as general recreational boating which is defined as the performance sportboat category of the recreational powerboat market.



MasterCraft XT22
Source: Company Website

NauticStar

NauticStar was MasterCraft Holdings' first acquisition and was acquired in October 2017. Since then, NauticStar has grown to become one of the leading manufacturers of outboard bay boats, deck boats, and offshore centre console boats which is defined as the outboard boat category of the recreational powerboat market. This expansion was done to further diversify MasterCraft Holdings' offerings from just performance sport boats. NauticStar is distributed through a dealer network of nearly 90 locations in 7 countries.



NauticStar 28 XS
Source: Company Website

Crest

Crest was acquired by MasterCraft Holdings in October 2018 with similar goals as the NauticStar acquisition – to further diversify their offerings of boats and to capture a larger audience. The Crest acquisition was made to enter the pontoon and outboard boat categories as it was considered to be one of the fastest-growing segments in the recreational powerboat market. Crest boats are distributed through a dealer network of over 125 locations across North America.



Crest Classic DLX
Source: Company Website

Aviara

Aviara is MasterCraft Holdings' latest addition to its portfolio of brands. Introduced in February 2019, Aviara is designed to satisfy consumers who want a recreational day boat with luxury at the forefront. Aviara has three hulls that consumers may choose from, with the key differences being size and propulsion system. After a hull is selected, the consumer may either purchase one of Aviara's existing specifications or design their own. Aviara targets the outboard and sterndrive categories of the recreational powerboat market. Aviara boats are distributed through MarineMax which is the largest recreational yacht retailer in the U.S.



Aviara AV40
Source: Company Website

Revenue Per Segment

The MasterCraft brand is currently MasterCraft Holdings' most popular brand, trailed by Crest, and then NauticStar. With the recent addition of Aviara which is reported under MasterCraft, the MasterCraft brand is expected to continue making up the majority of MasterCraft Holdings' revenue for the foreseeable future as Aviara will likely increase the segment's revenue.

Industry Analysis

MasterCraft Holdings operates in the recreational powerboat market, with each of its brands selling to a specific segment of the recreational powerboat market.

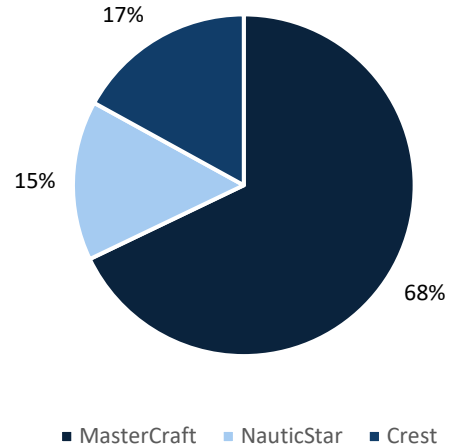
MasterCraft targets the performance sportboat category, NauticStar targets the outboard category, Crest targets the pontoon category, and Aviara targets both the outboard and sterndrive categories. Combining all of their brands, MasterCraft Holdings covers most of the fastest-growing categories in the recreational powerboat market according to the National Marine Manufacturers Association ("NMMA").

COVID-19 Pandemic

The COVID-19 pandemic led to a difficult calendar 2020 for the entire marine industry, but especially the recreational powerboat segment as it is a luxury consumer discretionary market. According to the Marine Chief Executive Officer ("CEO") Sentiment Report, 81% of boat manufacturers saw an overall decline in sales throughout the first quarter of calendar 2020, but worse was that 15% of manufacturers were forced to permanently shut down their operations. The market rebounded however in Q2 as boat sales increased by 59% in May compared to April. This has been attributed to two leading factors, the first being that the industry was entering summer selling season where the highest level of demand is typically seen. The second factor is that as people adapted to navigating government restrictions put in place to combat the virus, many found boating to be an ideal hobby to both get out of their homes and abide by government restrictions. This was shown in the surge of first-time buyers reported by boat dealers. Unfortunately, this surge of demand did not continue for the rest of the year and faded out as it typically does in a regular year.

MasterCraft Holdings experienced this industry trend in a similar fashion. The company specifically cited May through June of calendar 2020 as having strong demand for their boats. MasterCraft Holdings was also one of many companies that had to shut down production which led to a shortage of boats for their dealers to sell during those peak demand months. This low supply combined with the high demand lead MasterCraft Holdings to hit record low inventory levels across all brands as of June 30, 2020 – dropping between 40% and 50% of FY2019 inventory levels.

REVENUE PER SEGMENT



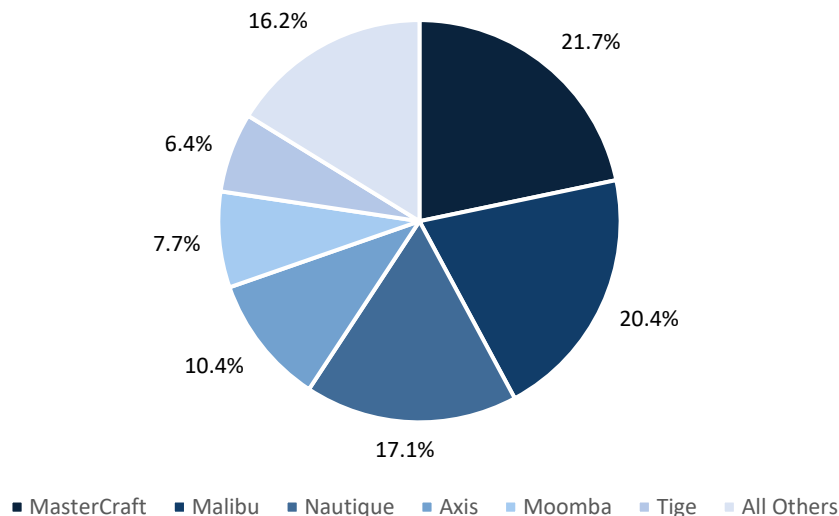
MasterCraft Holdings' Market Share Per Category

MasterCraft has the largest market share by brand in the performance sportboat category and is the third largest by manufacturer. Notably, MasterCraft was also able to gain 0.4% market share in FY2020 making it the second fastest-growing brand in the category behind Nautique which grew 0.5% in the same period. Another brand that saw significant change during FY2020 is Malibu, MasterCraft's largest competitor. They saw a 0.8% decline in market share which helped push MasterCraft to the top of the performance sportboat category.

NauticStar's outboard category is extremely different compared to MasterCraft's performance sportboat category. Instead of being dominated by a select few brands, the market is split relatively evenly between all brands with market share ranging from 3% to 7% per brand. NauticStar finished FY2020 in the middle of its competitors with a market share of 5.1% and a 0.1% decline from the previous year.

Crest has been seeing quicker growth compared to MasterCraft and NauticStar, growing 0.3% in FY2020, bringing them to a market share of 3.6% of the pontoon category. Currently, the pontoon market has two major brands dominating the market named Bennington and Tracker, with approximately 18% market share each. In FY2020 most brands shrank in market share except for Crest. Furthermore, from calendar 2011 to calendar 2017, Crest saw net sales grow at a CAGR of 23%, which is just over double what their competitors in the pontoon segment saw in the same timeframe. This growth was stifled partially due to the COVID-19 pandemic, but also due to MasterCraft Holdings having to take possession of all inventory and integrate it into the MasterCraft Holdings supply chain and dealer network. Crest has now been in MasterCraft Holdings' portfolio for just over 2 years (only 1 year leading up to the COVID-19 pandemic which hurts Crest's growth metrics). Taking all these factors into account, it is expected that Crest will be within the top brands in the pontoon category in the coming years according to projections from recent MasterCraft Holdings investor presentations and industry growth metrics from the NMMA.

MARKET SHARE BY BRAND - PERFORMANCE SPORTBOAT CATEGORY 2020

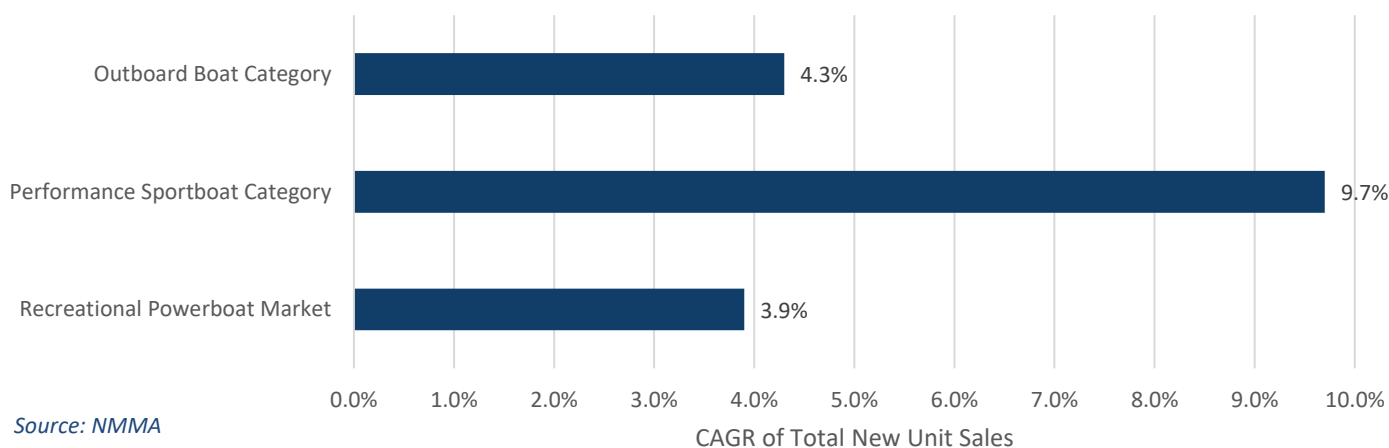


As Aviara was introduced recently and reports under the MasterCraft segment, no statistics have been published about Aviara's market share.

Historical Industry Performance

In previous years, MasterCraft Holdings had benefited from large and continually growing consumer demand for its products. The NMMA published statistics which showed that the entire market in which all of MasterCraft Holdings' brands operate, the recreational powerboat market, had grown at 3.9% combined annual growth rate ("CAGR") of total new unit sales from calendar 2015 to calendar 2019 and that the market is expected to continue growing through to calendar 2025. Breaking down the market growth and looking at it per category, the NMMA found that the performance sportboat category, which the MasterCraft brand operates within, had grown at a CAGR of 9.7% of total new unit sales in the same period. Similarly, the outboard category which Crest, Aviara, and NauticStar all operate, had grown at a CAGR of 4.3% of total new unit sales. Furthermore, due to similarities between boats across some categories within the recreational powerboat market, all of MasterCraft Holdings' brands also gain from the growth of similar categories such as the case with Aviara's outboard boat category being extremely close to the jetboat category.

RECREATIONAL POWERBOAT MARKET GROWTH PER CATEGORY 2015 - 2019



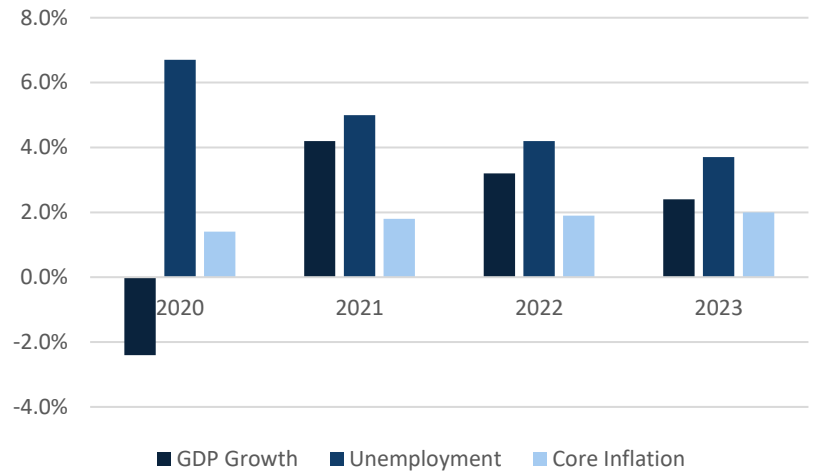
Industry Outlook

Looking ahead, the entire boat building industry in the U.S. is projected to recover after a poor performance through calendar 2020, however, not at the high rates as seen in previous years. In calendar 2020, the industry saw a 39.5% decline in revenue from calendar 2019. Projected industry revenue for calendar 2021 will also decline, albeit much less than calendar 2020, at -0.4%. From there, it is projected that the industry will stabilize for the foreseeable future at 4.9% revenue growth per year. The projected rebound is based on a recovery from the COVID-19 induced decline as well as recent advancements across boating categories leading to older models becoming outdated and needing to be replaced. Another contributing factor to this is the positive projections of GDP growth for major economies including the U.S. Seeing that recreational powerboats are a highly cyclical product and sales heavily depend on the economy and consumer disposable income, the better the economy is projected to do, the better the boating industry will likely do during those years.

After a difficult calendar 2020 for the U.S. economy, the Federal Reserve has given some positive projections for the economy, most importantly that the unemployment rate is expected to drop as well as the economy is expected to continue to grow. Again, since recreational powerboats is a highly cyclical market, an expanding economy is vital for MasterCraft Holdings to prosper.

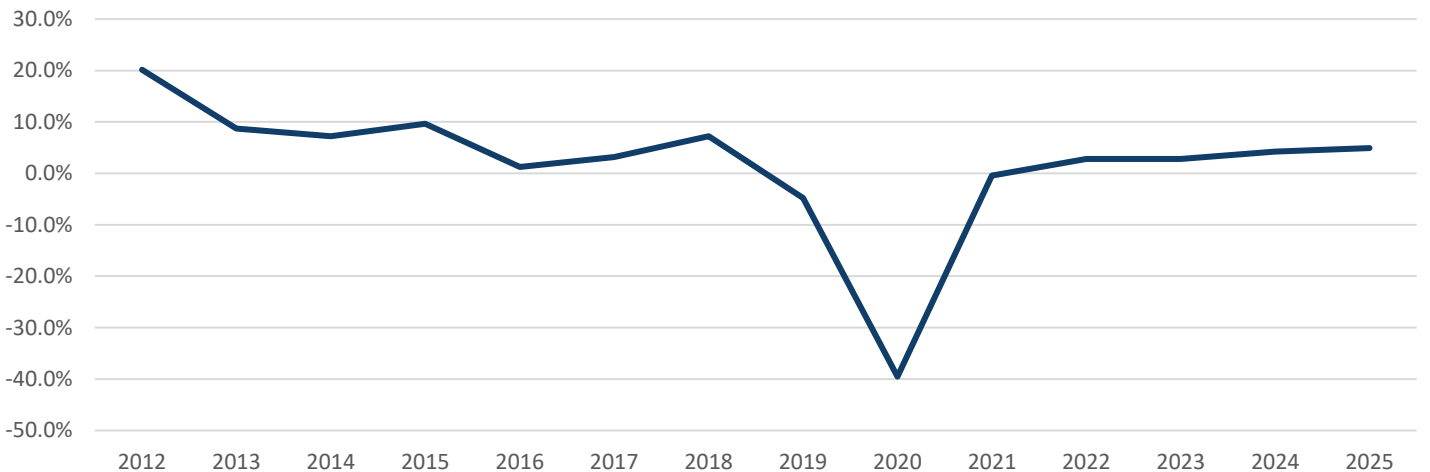
Combining both NMMA’s historical statistics of positive growth for the recreational powerboat market before FY2020, IBISWorld’s positive outlook for the boat building industry, and the projections for major economies means that MasterCraft Holdings will likely be able to recover from what was one of their worst years since their inception.

U.S. ECONOMIC PROJECTIONS 2020 - 2023



Source: U.S. Federal Reserve

U.S. BOAT BUILDING REVENUE GROWTH PROJECTION 2012 - 2025



Source: IBISWorld

Management Team

Of the 18.95mm shares outstanding, insiders own 4.48%. Initially, insiders only owned 0.44% of shares outstanding. This has increased steadily over the years due to MasterCraft Holdings’ compensation policy. MasterCraft Holdings operates with a compensation structure for executives that consists of a base salary, short-term incentive compensation, long-term equity incentive compensation, and employee benefits. Given this, we believe that management and their decisions are aligned with shareholder interests.

The key point supporting this alignment is that MasterCraft Holdings' stock ownership policy specifies that the Chief Executive Officer and Chief Financial Officer ("CFO") are required to own shares of MasterCraft Holdings' stock with an aggregate value of six times and three times their respective annual base salaries within five years of being appointed. As of September 2020, CFO Mr. Oxley owns 3.5 times his annual base salary. CEO Mr. Brightbill owns 1.8 times his annual base salary, however, this has been rapidly increasing since Mr. Oxley's appointment in December 2019 and is expected to reach its target within five years.

Furthermore, the short-term annual compensation is based on Adjusted EBITDA, target revenues, and actual revenues with target revenues setting a benchmark for measuring of executive performance. Executives are then compensated based on how well MasterCraft Holdings performs compared to targets. Long-term equity incentives are calculated similarly using Adjusted EBITDA and target revenues. In summary, the better MasterCraft Holdings' performs, the better compensation received by management.

Frederick Brightbill – CEO & Chairman

Mr. Brightbill has served on MasterCraft Holdings' board of directors since 2009. In December 2019, Mr. Brightbill was appointed as the new CEO. Prior to joining MasterCraft Holdings, Mr. Brightbill served as the President of the Aluminum Boat Group at the Brunswick Corporation ("Brunswick"). He was also President of the Outboard Business Unit and Integrated Operations Division at Mercury Marine. Mr. Brightbill graduated with a Bachelor of Science in Finance from the University of Illinois and received his Master of Business Administration from the University of Chicago. Furthermore, Mr. Brightbill owns 0.62% of shares outstanding, worth approximately \$2.5mm. Last year in 2020, Mr. Brightbill was paid a total of \$1.2mm consisting of \$0.456mm in salary, \$0.607mm in stock, \$0.104mm in non-equity incentive plan compensation, and \$0.018 in other compensation (matching 401(k) contributions, travel expenses, and other).



Frederick A. Brightbill
Source: Company Website

Timothy Oxley – CFO

Mr. Oxley became CFO of MasterCraft Holdings in 2012. Since taking this position, Mr. Oxley has been the head of MasterCraft Holdings' debt refinancing process as well as their forecasting and budgeting process. Prior to joining MasterCraft Holdings, Mr. Oxley worked for sixteen years with Brunswick, of which eight years were spent as CFO across Brunswick's marine divisions including Freshwater Boat Group, Baja Marine Corporation, and Sea Ray Boats. For the other eight years with Brunswick, Mr. Oxley was the Director of Budgeting for the Sea Ray Boats division. Before joining the boating industry, Mr. Oxley graduated from the University of Tennessee in 1981 with a Bachelor of Science in Accounting and became a Certified Public Accountant ("CPA"). After receiving his CPA, he joined Arthur Andersen LLP as a Senior Auditor. Furthermore, Mr. Oxley owns 0.52% of shares outstanding, worth approximately \$2.1mm. Last year in 2020, Mr. Oxley was paid a total of \$0.528mm consisting of \$0.300mm in salary, \$0.180mm in stock, \$0.033mm in non-equity incentive plan compensation, and \$0.016mm in other compensation (matching 401(k) contributions, travel expenses, and other).



Timothy M. Oxley
Source: Company Website

George Steinbarger – Chief Revenue Officer (“CRO”)

Mr. Steinbarger joined MasterCraft Holdings in 2018 and is currently the Chief Revenue Officer. Prior to his role as CRO, he served as MasterCraft Holdings’ Vice President of Business Development. Before joining MasterCraft Holdings, Mr. Steinbarger was a Senior Vice President of Investment Banking at Raymond James. Here he worked across industries in mergers and acquisitions and debt financing transactions. Furthermore, Mr. Steinbarger received his Master of Business Administration from the Crummer Graduate School of Business and graduated with a Bachelor of Science in Accounting from the University of Central Florida. Furthermore, Mr. Steinbarger owns 0.05% of shares outstanding, worth approximately \$0.22mm. Mr. Steinbarger is not a named executive, so details of his compensation are not published by MasterCraft Holdings.



George Steinbarger
Source: Company Website

Patrick May – President of Crest

Mr. May currently serves as President of Crest, which was acquired by MasterCraft Holdings in October 2018. Prior to the acquisition, Mr. May served as the CFO and Chief Operating Officer (“COO”) since Crest was founded in April 2010. Before joining Crest, he co-founded Woodward Capital Advisors (“Woodward”), a private investment banking firm where he served as President for nearly fifteen years. During his time at Woodward, Mr. May specialized in mergers and acquisitions for middle-market clients. Mr. May graduated from Ferris State University in 1982 with a Bachelor of Science in Public Administration and began his career as a lending officer at the Bank of America. Furthermore, Mr. May owns 0.07% of shares outstanding, worth approximately \$0.29mm. Mr. May is not a named executive, so details of his compensation are not published by MasterCraft Holdings.



Patrick May
Source: Company Website

Scott Womack – President of NauticStar

Mr. Womack was recently appointed President of NauticStar on August 3, 2020. Prior to his appointment, Mr. Womack worked for Autoneum Holdings AG (“Autoneum”) as Vice President of U.S. Operations and oversaw five manufacturing facilities. Before Autoneum, Mr. Womack served as COO of Varroc Lighting Systems and oversaw fifteen manufacturing facilities across six countries. In total, Mr. Womack brings twenty-seven years of experience in manufacturing and global operations and a history of leadership positions with major automotive suppliers. Mr. Womack graduated from the University of Phoenix with a Bachelor of Science in Business. Furthermore, Mr. Womack is a certified Six Sigma Black Belt and has a Lean Manufacturing certification. Mr. Womack is not a named executive, so his compensation is not reported by MasterCraft Holdings, however, his predecessor, Jay Povlin was a named executive and therefore Mr. Povlin’s compensation was reported leading to his departure. In 2020 (Mr. Povlin’s most compensated year during his time at MasterCraft Holdings), Mr. Povlin was paid a total of \$0.498mm consisting of \$0.300mm in salary, \$0.150mm in stock, and \$0.048mm in other compensation (matching 401(k) contributions, travel expenses, and other). Although Mr. Womack is not a named executive, his compensation could



Scott Womack
Source: Company Website

look similar to Mr. Povlin's compensation for 2020 as both have the same roles, with the only difference being a named executive or not.

Investment Thesis

Market View

Due to the volatility of the entire boating industry, most companies saw a drastic decline in revenue which was primarily attributed to the pandemic and MasterCraft Holdings fell to this decline as well. Although Crest was able to outperform the pontoon category in terms of market share, they also saw a major decline in revenue. The other brands in MasterCraft Holdings' portfolio saw a similar decline with little change in market share. Throughout the pandemic, MasterCraft Holdings has met market expectations, which was a consensus of poor performance, however, in Q2 FY2021, MasterCraft Holdings beat consensus. Crest and MasterCraft saw a 28.7% and 22.1% increase in revenue compared to Q2 of FY2020.

Investment Thesis 1 – Crest Outperforms

The market has not fully considered Crest's previous track record of revenue growth. From calendar 2011 to calendar 2017, Crest's net sales growth rate had grown at a CAGR of 23%, which was nearly twice as much as the majority of the pontoon market. This was unfortunately stifled due to Crest being purchased by MasterCraft Holdings, but then further exemplified due to the pandemic. Currently, there is no indication that Crest could not return to this high growth rate as they have since been fully integrated into MasterCraft Holdings' portfolio and the pandemic is tapering off. Furthermore, Crest has proven that they are capable of outperforming their competitors with their recent growth in market share. During FY2020, the majority of brands in the pontoon category shrank, however, Crest grew by 0.3% in the same period. The current market's consensus fails to take this into account and is discounting Crest due to their recent poor sales performance but fail to take into account the temporality of the reasons Crest's sales had declined and Crest's outperformance in market share.

Investment Thesis 2 – Aviara Outperforms & Value of Aviara's Dealer Network

The market has not considered the full value of Aviara's dealer network. Aviara will not be using MasterCraft Holdings' existing dealer networks as Aviara is in a drastically different segment compared to the rest of MasterCraft Holdings' portfolio. Instead, Aviara will be distributed through MarineMax's dealer network. MarineMax is one of the leading dealer networks for yachts and other luxury boats. This will allow Aviara to reach their target consumer in ways not possible if they were not distributed through MarineMax and instead through MasterCraft Holdings' network. Due to this unprecedented market reach, Aviara has the potential to drastically outperform the market's expectations. Currently, the market has paid little attention to the importance of the dealer network to Aviara and therefore has undervalued Aviara's potential revenue.

Valuation

Discounted Cash Flow Analysis Assumptions

Revenue Per Segment

Historically, MasterCraft, NauticStar, and Crest have all maintained the same revenue composition of MasterCraft Holdings' total revenue. However, given the recent addition of Aviara to the MasterCraft segment, we expect the MasterCraft segment to increase to approximately 70% for the foreseeable future due to the likely increase in revenue. Since Aviara is a completely new brand, it will likely take a few years to begin generating significant revenue to warrant a larger percentage for the MasterCraft segment. NauticStar and Crest are expected to comprise a slightly smaller portion of total revenue given the recent introduction of the Aviara brand. In addition to this, since Aviara is a higher-end product compared to MasterCraft, we expect to see an increase in the average revenue per unit within the MasterCraft segment.

Expanding Markets

Given the optimistic projections from the NMMA about the recreational powerboat market, it is expected for total new units sold to increase for all segments from Q1 FY2022 onwards. The MasterCraft segment is expected to increase in sales sooner in Q3 FY2021 compared to Crest and NauticStar segments according to these projections. Furthermore, the MasterCraft brand is MasterCraft Holdings' most popular brand by a significant amount further justifying its earlier recovery.

CAPEX

As Aviara is finalizing its key components and still may have large expenditures ahead related to manufacturing and distribution, management has previously mentioned a potential increase in CAPEX to account for this. To factor this in, we expect a CAPEX of 35% of beginning PP&E in Q3 FY2021 which will taper off in the following quarters as Aviara is finalized. Furthermore, in previous years CAPEX has been extremely high, but this has been due to the acquisitions of NauticStar and Crest. Currently, we do not foresee MasterCraft Holdings acquiring another brand or expanding into another market, so in the coming years CAPEX will be lower compared to previous years.

Weighted Price Target

We have chosen to comprise our implied share price of 40% weight on the Perpetuity Growth Discounted Cash Flow Analysis, 40% weight on the EV/EBITDA Implied Price Comparable Companies Analysis, and 20% weight on the Exit Multiple Discounted Cash Flow Analysis. The Perpetuity Growth Discounted Cash Flow Analysis is weighed at 40% as cash flows will become more predictable once Aviara is completed and their dealer network is fully utilized. The EV/EBITDA Implied Price Comparable Companies Analysis is weighed at 40% since the companies MasterCraft Holdings is being compared to are close to the company's business model, scale, and product offering thus making them an accurate comparison. The Exit Multiple Discounted Cash Flow Analysis is weighed at 20% in order to avoid bias and skewness of the fair share price as it resulted in an outlier share price.

Comparable Company Analysis Set

Marine Products Corporation (NYSE: MPX)

Marine Products Corporation is based in Atlanta, Georgia and designs, manufactures, and distributes recreational fiberglass powerboats under their two brands – Chaparral and Robalo. Marine Products Corporation sells its boats through a dealer network consisting of 195 domestic dealers and 93 international independent dealers.

Fountaine Pajot SA (ENXTPA: ALFPC)

Fountaine Pajot SA is based in Aigrefeuille-d’Aunis, France and is a subsidiary of La Compagnie Du Catamaran SAS. Fountaine Pajot SA manufactures and distributes catamarans across the globe, offering both sailing catamarans and yacht catamarans. Fountaine Pajot SA sells its boats through a network of 103 dealers in 40 countries, representing every continent.

OneWater Marine Inc. (NASDAQGM: ONEW)

OneWater Marine Inc. is based in Buford, Georgia and is a recreational powerboat retailer based in the United States. They offer both new and pre-owned powerboats, yachts and other marine-related products including boat parts and accessories. OneWater Maine Inc. also offers boat repair and maintenance, boat financing services, insurance, and both indoor and outdoor storage solutions. OneWater Marine Inc operates 61 stores and 21 dealer groups across the United States.

HanseYachts AG (XTRA: H9Y)

HanseYachts AG is based in Greifswald, Germany and designs, manufactures, and distributes sailing yachts and powerboats around the world. HanseYachts AG consists of 7 brands with Hanse, Dehler, Moody, and Privilege selling yachts and Sealine and Fjord selling powerboats. HanseYachts AG sells its boats through a network of 250 dealers in nearly 60 countries around the world.

Recommendation - Buy

We believe that MasterCraft Holdings is undervalued by the market. Their stock price has seen significant volatility during FY2020, however, we believe that its upcoming recovery has been underestimated by the market. First, the market has not considered Crest’s previous track record of revenue growth at twice the speed compared to the rest of the pontoon market prior to MasterCraft Holdings’ acquisition of them. Crest is currently positioned to return to this growth rate as indicated by their outperformance of competitors during the COVID-19 pandemic. Second, the market has not considered the full value of Aviara’s dealer network through MarineMax and only equating it to MasterCraft Holdings’ dealer network. MarineMax is providing Aviara with what would have been essentially unattainable through MasterCraft Holdings’ network and therefore the potential to substantially increase revenue. All these factors combined with the positive industry outlook and economic outlook for the upcoming years positions MasterCraft Holdings in the perfect place to outperform. Given this, we place a **buy** rating on MasterCraft Holdings.

Our implied share price weightings are as follows:

- A 40% weighting on the Perpetuity Growth Discounted Cash Flow Analysis which projects \$31.59 per share
- A 40% weighting on the EV/EBITDA Implied Price Comparable Companies Analysis which projects \$43.62 per share
- A 20% weighting on the Exit Multiple Discounted Cash Flow Analysis which projects \$43.97 per share

By using these weightings, we determine a **fair share price of \$38.88 per share**.

Catalysts

MasterCraft Holdings' FY2021 Earnings

Global progress is being made in the vaccination against COVID-19, especially in countries that make up the majority of MasterCraft Holdings' revenue, including the U.S. and Canada. As a result, it is expected to see a fall in unemployment rates and higher disposable income. Combining this with an economic recovery could lead to an increase in sales across all segments compared to the previous quarters. Furthermore, MasterCraft Holdings' publishes their 10-Ks in the first to second week of September, meaning that the scope of this projected increase in sales will be fully captured and, given that a recovery does ultimately happen, will provide a good baseline for what could be seen in the summer of 2022. Assuming sales increase during said period, the 10-K will likely include optimistic management discussion

Segment Specific Catalysts

Crest

MasterCraft Holdings' top-earning segment has always been the MasterCraft segment, however, we believe that Crest will exceed expectations in the coming years. Since their acquisition, Crest has been growing steadily and taking market share from competitors, but not at the speeds that they were seeing prior to the effect of the pandemic. In addition to this, Crest has had a steady decline in revenue since being acquired, partially due to having to adjust to the new supply and manufacturing structure of MasterCraft Holdings as well as being negatively affected by the COVID-19 pandemic. Despite this, given the growth projections of the pontoon market and favourable economic projections, we believe that Crest could return to its revenue growth figures of nearly twice that of the majority of the pontoon segment. A clear sign of Crest's potential is that while the majority of other brands in the pontoon segment were shrinking during the COVID-19 pandemic, Crest was able to grow 0.3% in FY2020.

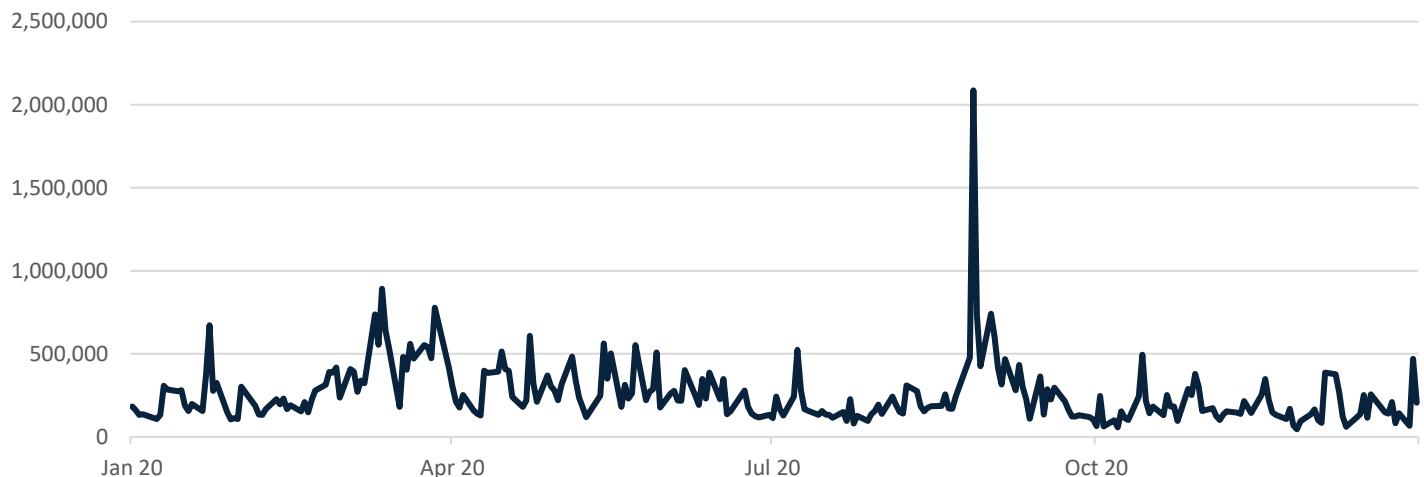
Aviara

Aviara is operating in one of the fastest-growing segments according to the NMMA. Although specific numbers are unavailable since Aviara is reported under the MasterCraft segment, Aviara was negatively affected due to the COVID-19 pandemic and likely more so as Aviara boats are a part of one of the most cyclical segments of the entire recreational powerboat market. Where Aviara stands to outperform is that they are being sold through MarineMax instead of MasterCraft Holdings' dealer network. MarineMax is the leading yacht and luxury boat distribution network with dealers across the globe. This gives Aviara instant access to markets and customers unseen by MasterCraft Holdings. Furthermore, as Aviara was a recent addition to the Company's portfolio, it is still in its early stages and still needs to be worked on. Aviara will likely be reaching the end of its finalizations on the tail of the COVID-19 pandemic. Once completed, Aviara will immediately enter a fast-growing segment and strong economic projections. In short, the Aviara brand will be launched into new markets for MasterCraft Holdings, has the backing of the strongest dealer network available for luxury boats, and favourable market conditions. This positions Aviara perfectly to outperform current expectations.

Liquidity

As of January 13 2021, MasterCraft Holdings' year-to-date daily average traded volume was 258,782 and a volume-weighted average price of \$16.08 per share. The year-to-date amount traded was approximately \$4.16mm. There are currently no concerns regarding the liquidity of MasterCraft Holdings' stock.

YEAR-TO-DATE DAILY TRADING VOLUME - JAN 2020



Source: Yahoo Finance

Shareholder Base

MasterCraft Holdings' shareholder base consists primarily of institutional investors, with institutions holding just over 76% of common stock according to S&P Capital IQ. Seeing that 80% of investors classify MasterCraft Holdings as a growth opportunity, both management's and shareholders' interests are aligned in wanting to expand MasterCraft Holdings.

Investor Name	% Shares Outstanding	Value (\$mm)	Investment Style	Insider? (Y/N)
Hamblin Watsa Investment Counsel Ltd.	9.86%	\$52.00mm	Growth	N
Divisar Capital Management, LLC	7.58%	\$40.00mm	Blend	N
BlackRock Institutional Trust Company, Inc.	6.43%	\$33.90mm	Growth	N
Systematic Financial Management LP	6.10%	\$32.10mm	Blend	N
Royce & Associates, LP	5.62%	\$29.70mm	Growth	N
The Vanguard Group, Inc.	5.61%	\$29.60mm	Growth	N
Wasatch Advisors Inc.	3.52%	\$18.50mm	Growth	N
Dimensional Fund Advisors L.P.	3.12%	\$16.50mm	Growth	N
Punch & Associates, Inc.	2.89%	\$15.20mm	Growth	N
ACK Asset Management LLC	2.53%	\$13.30mm	Growth	N
Top 10 Shareholders	52.26%	\$280.80mm		

Source: S&P Capital IQ

Risks

COVID-19 Pandemic

With new strains of COVID-19 being identified, there is a risk that a recovery may be forestalled by current vaccines being ineffective. If this were to happen, MasterCraft Holdings would likely see a significant drop in revenue and be forced to close manufacturing plants similar to what they did in 2020. If a more extreme economic slowdown were to occur, both the Aviara and MasterCraft brands would be the most vulnerable as they are MasterCraft Holdings' more premium brands and are therefore more susceptible to changes in economies. Aviara's revenue is unknown as it is reported under the MasterCraft segment, however, given how new it is, it likely is not enough to continue operations. The MasterCraft brand may be able to continue reduced operations and avoid a complete shutdown, however, it would depend on how widespread the economic slowdown and pandemic are.

Economic Recovery Slower Than Projected

Although the U.S. Federal Reserve has projected a swift recovery, these projections may be inaccurate and result in a slower recovery for MasterCraft Holdings. Furthermore, a slower economic recovery will also likely affect the recreational powerboat market as a whole.

Aviara May Not Meet Expectations

Although we are bullish on Aviara's future performance, there is the possibility that its success may be a novelty. Aviara is entering a market in which MasterCraft Holdings arguably has no previous experience in – ultra-luxury boating. It is difficult to project how Aviara will perform as it is not reported under its own segment.


Appendix 1 – Summary Page

Summary Page											
(Figures in mm USD)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Income Statement											
Revenue	221.6	228.6	332.7	466.4	363.1	406.9	456.3	501.2	557.3	622.4	695.1
EBITDA	25.7	36.9	62.7	44.5	(12.1)	72.9	86.7	95.2	105.9	118.2	132.1
Net Income	10.2	19.6	39.7	21.4	(24.0)	39.8	53.9	60.8	67.1	81.8	92.9
Earnings Per Share	\$ 0.56	\$ 1.05	\$ 2.12	\$ 1.14	\$ (1.28)	\$ 2.11	\$ 2.86	\$ 3.22	\$ 3.56	\$ 4.33	\$ 4.92
Cash Flow Statement											
Capital Expenditures	(3.8)	(4.1)	(5.3)	(14.1)	(14.2)	(28.1)	(11.2)	(10.8)	(10.2)	(8.8)	(8.4)
Acquisitions	-	-	(80.5)	(81.7)	-	-	-	-	-	-	-
Divestitures	-	-	0.1	0.0	0.0	-	-	-	-	-	-
Balance Sheet											
Current Assets	18.1	21.7	37.2	54.4	56.7	55.9	116.5	203.4	283.9	375.3	478.9
Non-Current Assets	64.4	61.7	139.7	194.4	151.2	165.9	162.7	159.3	152.5	150.6	148.5
Assets	82.5	83.3	176.9	248.8	207.9	221.7	279.2	362.7	436.4	525.9	627.4
Current Liabilities	44.4	36.9	50.9	68.5	55.4	42.6	46.2	68.9	75.5	83.2	91.8
Non-Current Liabilities	46.5	34.7	73.5	107.9	103.6	89.3	89.3	89.3	89.3	89.3	89.3
Liabilities	90.9	71.6	124.4	176.5	159.1	132.0	135.5	158.2	164.8	172.5	181.1
Shareholders' Equity	(8.4)	11.8	52.5	72.3	48.9	89.8	143.7	204.5	271.6	353.4	446.3
Cash	0.1	4.0	7.9	5.8	16.3	15.1	72.5	135.3	209.2	293.7	386.9
Debt	52.2	34.5	75.2	113.7	108.6	94.5	94.5	94.5	94.5	94.5	94.5
Net Debt	52.2	30.4	67.2	107.9	92.3	79.4	22.0	(40.7)	(114.7)	(199.2)	(292.4)
Minority Interests	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	2.0 x	0.8 x	1.1 x	2.4 x	n/a	1.1 x	0.3 x	n/a	n/a	n/a	n/a
Operating Metrics											
Return on Equity (ROE)	-121.9%	166.4%	75.5%	29.5%	-49.2%	44.4%	37.5%	29.7%	24.7%	23.1%	20.8%
Return on Assets (ROA)	12.4%	23.5%	22.4%	8.6%	-11.6%	18.0%	19.3%	16.8%	15.4%	15.6%	14.8%
Return on Invested Capital (ROIC)	22.5%	27.3%	34.3%	21.1%	-7.2%	32.9%	39.9%	44.4%	51.5%	58.5%	65.4%
Valuation Metrics											
Stock Price (High)	\$ 16.47	\$ 20.00	\$ 31.26	\$ 39.50	\$ 21.28	\$ 25.63	\$ 25.63	\$ 25.63	\$ 25.63	\$ 25.63	\$ 25.63
Stock Price (Low)	\$ 10.25	\$ 10.44	\$ 16.82	\$ 17.60	\$ 4.90	\$ 25.63	\$ 25.63	\$ 25.63	\$ 25.63	\$ 25.63	\$ 25.63
Stock Price (Average)	\$ 13.36	\$ 15.22	\$ 24.04	\$ 28.55	\$ 13.09	\$ 25.63	\$ 25.63	\$ 25.63	\$ 25.63	\$ 25.63	\$ 25.63
Diluted Shares Outstanding (Average)	18.3	18.6	18.7	18.8	18.7	18.9	18.9	18.9	18.9	18.9	18.9
Market Capitalization (Average)	243.9	283.4	449.9	535.8	245.2	483.6	483.6	483.6	483.6	483.6	483.6
Enterprise Value (Average)	296.1	313.8	517.1	643.7	337.5	562.9	505.6	442.8	368.8	284.4	191.2
P/E	23.9 x	14.5 x	11.3 x	25.1 x	n/a	12.1 x	9.0 x	8.0 x	7.2 x	5.9 x	5.2 x
EV/EBITDA	11.5 x	8.5 x	8.3 x	14.5 x	n/a	7.7 x	5.8 x	4.7 x	3.5 x	2.4 x	1.4 x
FCF Yield to Market Capitalization	6.0%	6.3%	10.7%	4.5%	-9.5%	3.9%	12.3%	13.3%	15.6%	17.7%	19.5%
FCF Yield to Enterprise Value	4.9%	5.6%	9.3%	3.7%	-6.9%	3.4%	11.7%	14.6%	20.5%	30.2%	49.3%
Free Cash Flow											
EBIT	22.0	33.5	56.0	33.3	(26.6)	54.8	72.3	81.0	89.0	107.5	121.6
Tax Expense	(8.3)	(11.7)	(12.9)	(5.4)	7.6	(12.5)	(16.4)	(18.4)	(20.2)	(24.5)	(27.7)
D&A	3.7	3.3	6.7	11.3	14.5	18.1	14.4	14.3	16.9	10.7	10.5
Capital Expenditures	(3.8)	(4.1)	(5.3)	(14.1)	(14.2)	(28.1)	(11.2)	(10.8)	(10.2)	(8.8)	(8.4)
Changes in NWC	1.1	(3.3)	3.8	(1.1)	(4.6)	(13.3)	0.3	(1.5)	0.1	0.8	(1.8)
Unlevered Free Cash Flow	14.6	17.7	48.3	24.0	(23.4)	19.1	59.3	64.5	75.6	85.8	94.2
Valuation Summary											
Current Price	\$ 25.63										
Target Price	\$ 38.88										
Total Return	51.7%										
Recommendation	BUY										
DCF Valuation											
Perpetuity Growth Implied Price	\$ 31.59										
Exit Multiple Implied Price	\$ 43.97										
Comps Valuation											
Comps - EV/EBITDA Implied Price	\$ 43.62										
Comps - P/E Implied Price	n/a										

Appendix 2 – Discounted Cash Flow Analysis

Discounted Cash Flow Analysis															
(Figures in mm USD)	FY2016	FY2017	FY2018	FY2019	FY2020	Q1-2021	Q2-2021	Q3-2021	Q4-2021	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
WACC Calculations															
Cost of Equity															
Risk-free rate	1.1%														
Expected market return	8.9%														
Market Risk Premium	7.8%														
Beta	1.85														
Cost of Equity	15.6%														
Cost of Debt															
Pre-tax cost of debt	1.0%														
Effective tax rate	22.8%														
Cost of Debt	0.8%														
WACC															
Market value of equity	483.6														
Market value of debt	96.6														
Total Capitalization	580.1														
Cost of equity	15.6%														
Cost of debt	1.1%														
WACC	13.2%														
Free Cash Flow															
EBIT	22.0	33.5	56.0	33.3	(26.6)	13.4	16.9	17.2	7.3	54.8	72.3	81.0	89.0	107.5	121.6
Less: Tax expense	(8.3)	(11.7)	(12.9)	(5.4)	7.6	(2.8)	(3.6)	(3.9)	(1.7)	(12.5)	(16.4)	(18.4)	(20.2)	(24.5)	(27.7)
Add: Depreciation and amortization	3.7	3.3	6.7	11.3	14.5	3.7	6.6	3.6	4.2	18.1	14.4	14.3	16.9	10.7	10.5
Less: Capital expenditures	(3.8)	(4.1)	(5.3)	(14.1)	(14.2)	(2.0)	(16.9)	(4.9)	(4.3)	(28.1)	(11.2)	(10.8)	(10.2)	(8.8)	(8.4)
Less: Change in net working capital	1.1	(3.3)	3.8	(1.1)	(4.6)	-	-	(15.3)	1.9	(13.3)	0.3	(1.5)	0.1	0.8	(1.8)
Unlevered Free Cash Flow	14.6	17.7	48.3	24.0	(23.4)	12.3	3.1	(3.3)	7.5	19.1	59.3	64.5	75.6	85.8	94.2
Discount factor	0.25	0.50	1.50	3.50	5.50	7.0	7.0	7.0	7.0	3.9	52.0	47.3	49.0	49.1	47.7
Present Value of Unlevered Free Cash Flow															
Discounted Cash Flow Valuations															
Perpetuity Growth Method															
Perpetuity Growth Rate	2.0%														
PV sum of unlevered FCF	249.0														
Terminal value	434.7														
Enterprise Value	683.7														
Add: Cash	8.9														
Less: Debt	96.6														
Less: Other EV adjustments	-														
Equity Value	596.0														
Shares outstanding	18.9														
Implied Share Price	\$31.59														
Current Price	\$25.63														
Implied Price	\$31.59														
Total Return	23.2%														
Exit Multiple Method															
Terminal EV/EBITDA Multiple	10.0 x														
PV sum of unlevered FCF	249.0														
Terminal value	668.2864														
Enterprise Value	917.2														
Add: Cash	8.9														
Less: Debt	96.6														
Less: Other EV adjustments	-														
Equity Value	829.5														
Shares outstanding	18.9														
Implied Share Price	\$ 43.97														
Current Price	\$ 25.63														
Implied Price	\$ 43.97														
Total Return	71.5%														
WACC Sensitivity Analysis															
Perpetuity Growth Rate	WACC														
		14.30%	13.80%	13.30%	12.80%	12.30%									
	1.00%	\$ 26.31	\$ 27.66	\$ 29.14	\$ 30.74	\$ 32.48									
	1.50%	\$ 27.11	\$ 28.55	\$ 30.12	\$ 31.83	\$ 33.69									
	2.00%	\$ 27.98	\$ 29.51	\$ 31.18	\$ 33.02	\$ 35.03									
2.50%	\$ 28.92	\$ 30.56	\$ 32.35	\$ 34.32	\$ 36.49										
3.00%	\$ 29.95	\$ 31.70	\$ 33.63	\$ 35.76	\$ 38.12										
Terminal EV/EBITDA Multiple	WACC														
		14.30%	13.80%	13.30%	12.80%	12.30%									
	8.0 x	\$ 34.97	\$ 35.82	\$ 36.68	\$ 37.57	\$ 38.49									
	9.0 x	\$ 38.33	\$ 39.25	\$ 40.20	\$ 41.18	\$ 42.18									
	10.0 x	\$ 41.69	\$ 42.69	\$ 43.73	\$ 44.79	\$ 45.88									
	11.0 x	\$ 45.04	\$ 46.13	\$ 47.25	\$ 48.40	\$ 49.58									
12.0 x	\$ 48.40	\$ 49.57	\$ 50.77	\$ 52.01	\$ 53.28										

Appendix 3 – Comparable Companies Analysis

 Comparable Company Analysis									
<i>(Figures in mm USD)</i>									
Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple			P/E Multiple		
				2019A EV/EBITDA	2020A EV/EBITDA	2021E EV/EBITDA	2019A P/E	2020A P/E	2021E P/E
Margine Products Corporation	(NYSE: MPX)	502.1	473.1	15.0 x	20.7 x	14.1 x	17.8 x	27.4 x	18.3 x
Fontaine Pajot SA	(ENXTPA: ALFPC)	194.6	186.9	5.6 x	4.7 x	5.8 x	14.1 x	11.9 x	16.4 x
HanseYachts AG	(XTRA: H9Y)	63.5	85.3	7.4 x	36.8 x	22.9 x	13.7 x	(3.1 x)	(8.9 x)
OneWater Marine Inc.	(NASDAQGM: ONEW)	339.9	537.6	12.6 x	6.3 x	6.9 x	0.1 x	11.4 x	8.1 x
MCFT	(XCH: TCK)	487.0	575.1	7.9 x	14.3 x	7.4 x	22.5 x	(20.0 x)	10.3 x
Median					13.5 x	10.5 x		11.9 x	16.4 x
Mean					17.1 x	12.4 x		16.9 x	14.2 x
High						36.8 x		27.4 x	18.3 x
Low						4.7 x		11.4 x	8.1 x
					EV/EBITDA Implied Price			P/E Implied Price	
Median					\$ 25.06	\$ 36.19		-\$ 15.26	\$ 40.61
Mean					\$ 33.04	\$ 43.62		-\$ 21.64	\$ 35.34
High					\$ 76.32	\$ 84.27		-\$ 35.11	\$ 45.34
Low					\$ 5.70	\$ 17.83		-\$ 14.54	\$ 20.06

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