



The Great Outdoors: Investing in a Revival of America's Pastime

The last few months have been a strain not only on global economies but also on the mental health of consumers around the World. With lockdown restrictions starting to lift there is likely to remain changes to consumer behavior with a lasting impact from COVID-19. One of the first places seeing an easing of restrictions are the outdoors, which for clear reasons is a much safer environment with the ease of social distancing and the natural air ventilation. There is also going to be a continuation of a hesitancy to take vacations that require air travel, go to bars/restaurants, spend time at shopping centers, museums and other indoor venues and concerts & sporting events may still be without crowds for the foreseeable future. Consumers will be looking for ways to spend their time and money this Summer and there is no better place than outdoor recreation, a vast array of opportunities across the US thanks to Theodore Roosevelt's conservation efforts. For many of us this has always been a special place to enjoy our time but I expect a surge of newcomers especially from urban markets that look to get out and explore areas preferably within driving distance. The shifting of consumer behavior, and budgets, is likely to be a positive revenue driver for many of the companies offering outdoor recreation equipment. I know personally that I will be upgrading all of my camping, hiking, fishing equipment with the money that had been allocated to vacation plans. Many of the stocks will also capture the healthy living / active lifestyle theme seeing a boost from the large Millennial demographic.

AMERICANS PARTICIPATING IN OUTDOOR RECREATION ANNUALLY SPEND

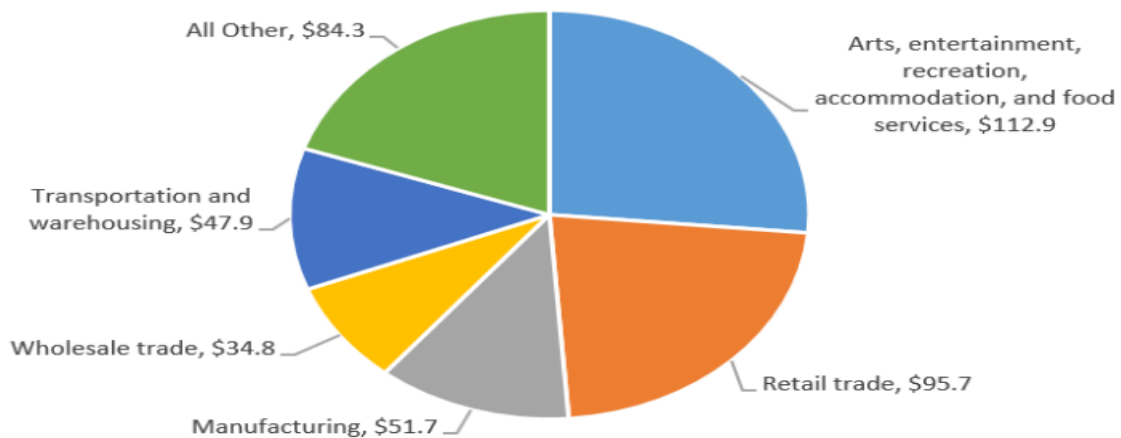
	GEAR, ACCESSORIES & VEHICLES	TRIP RELATED	TOTAL
CAMPING	\$31,271,155,486	\$135,591,624,999	\$166,862,780,485
FISHING*	\$11,867,666,850	\$23,908,160,290	\$35,775,827,140
HUNTING*	\$16,059,527,274	\$11,318,772,808	\$27,378,300,082
MOTORCYCLE RIDING	\$16,726,560,701	\$47,428,610,964	\$64,155,171,665
OFF ROADING	\$15,520,574,134	\$35,996,107,969	\$51,516,682,103
SNOW SPORTS	\$12,530,315,740	\$60,190,242,316	\$72,720,558,056
TRAIL SPORTS	\$25,342,546,672	\$176,144,141,213	\$201,486,687,885
WATER SPORTS	\$29,059,965,205	\$110,911,844,967	\$139,971,810,172
WHEEL SPORTS	\$13,857,894,195	\$82,864,146,456	\$96,722,040,651
WILDLIFE WATCHING	\$12,272,757,581	\$17,947,854,866	\$30,220,612,447
TOTAL	\$184,508,963,838	\$702,301,506,848	\$886,810,470,686

The outdoor recreation market is massive, one of the nation's largest economic sectors with \$887B in annual spending by consumers according to the Outdoor Industry Association. For comparison sake this is nearly twice the size of the Pharmaceuticals industry and nearly equal the size of the Financial Services and Insurance industry. A few of the largest sub-segments in order of most spending to least are Camping, Water Sports, Bicycling, Trail Sports, Off-Roading, Snow Sports, Motorcycling, Fishing, Wildlife Viewing and Hunting. Outdoor activities participation of U.S. population has averaged 49% over the last five years.

EACH YEAR AMERICANS SPEND MORE ON		TRAIL SPORTS GEAR (\$20 BILLION)	THAN ON	HOME ENTERTAINMENT (\$18 BILLION) ¹⁷	
		WATER SPORTS GEAR (\$14 BILLION)	THAN ON	MOVIE TICKETS (\$11 BILLION) ¹⁸	
		CYCLING AND SKATEBOARDING (\$97 BILLION)	THAN ON	VIDEO GAMES (\$61 BILLION) ¹⁹	

Investors must be mindful to determine how much exposure each company has to the outdoor recreation market to see if it is enough of a needle mover to offset weakness in other business segments. We come to find there are not a ton of pure-plays for this theme and surprised how many of our favorite outdoor brands are owned by much larger notable brands, and expect there could be a push for further acquisitions in the space. There are a number of interesting small cap stocks I will detail below as prime spots for opportunity.

Industry Composition of Outdoor Recreation
Nominal Value Added, 2017 (\$ Billions)



When we look at the spending numbers the next step is to look at leading brands and the components of those categories. A few areas I will look at including Backpacks, Boating, RV's, Kayaks, Coolers/Drinkware, Cooking Equipment, Sleeping Bags, Hiking Footwear, Sportswear/Apparel, Fishing Equipment, GPS Devices, Optics, and more. In an effort to determine the best stocks to participate in the growing outdoor recreation trend I researched the top brands and reverse engineered to find the publically traded owners of these brands, while also taking into consideration the travel portion of spending. I will break down the featured segments of this theme below and look at the stock components while highlighting the best in class names.

Apparel & Footwear

The apparel and footwear space is a clear area of consumer spending for outdoor recreational activities and there are a number of companies focused on active wear. This group really captures other favorite trends like Healthy Living and DTC sales mix shift. Nike (NKE) is massive and has some exposure to the outdoors but also a lot of exposure to group sports, so not the kind of name to focus on for this particular theme. Lululemon (LULU) is a high quality brand with a great DTC strategy that will continue to be successful, though could face

some headwinds from the closing of gyms, its apparel should still be rather popular for many outdoor activities. Adidas also owns a number of outdoor brands but like Nike not a major needle mover with the offset of sports and other categories. VF Corp (VFC) has a long history of success and has exited underperforming businesses like Wrangler and Workwear, now more focused with some outdoor brands like North Face and Timberland that could see a better surge in demand come Winter. It does own some other outdoor brands that are not as big of a revenue driver like Icebreaker, Smartwool, Reef, and Eagle Creek. The DTC channel is a focal point though two wholesale retailers that can see a demand uptick include Sportsman's Warehouse (SPWH) and Dick's Sporting Goods (DKS).

Some favorite pure-plays I do want to focus on are:

Wolverine (WWW) is a \$1.65B footwear name with a number of leading brands that should see an upturn in demand such as Sperry, Saucony and Merrell, the latter one of the most popular hiking boot brands and Sperry is the #1 brand in Boating. The concern is that 85% of sales in 2019 were via the Wholesale channel and just 10% ecommerce but I expect a positive mix shift to occur as it pursues DTC strategy like many peers. At 10.2X Earnings and 11.5% operating margins shares screen cheap and attractive.

Deckers Outdoor (DECK) is a favorite outdoor footwear name highlighted as an excellent buying opportunity into the sell-off in March, and the \$5B company remains attractive with a clean balance sheet, industry leading margins, and at 17.5X Earnings. It has a number of leading brands with major consumer momentum like UGG, Teva, Sanuk, Hoka One One and Koolaburra. DECK has pursued a strong DTC strategy with 35% of sales via that channel.

Columbia Sportswear (COLM) has long been a favorite operator and carries a smaller market cap at \$4.63B, a name I have long seen as an eventual acquisition target. COLM trades 17.7X Earnings and 1.57X Sales with a very strong cash-rich balance sheet. The main Columbia brand is a leader in outdoor apparel while it also owns SOREL in footwear and a strong growing brand I personally like in Mountain Hard Wear. Another adventure brand it owns in prAna. It has a strong DTC presence with over 40% of sales via that channel.

Clarus (CLAR) is a very small company I would highlight as a pure-play, the \$302M is focused on ski, climb, and mountain categories under brands such as Black Diamond, Sierra and PEIPS. CLAR trades 17.4X Earnings, 1.36X Sales and has a strong balance sheet. CLAR has a history of acquiring brands and has clear plans to drive further growth and margin expansion.

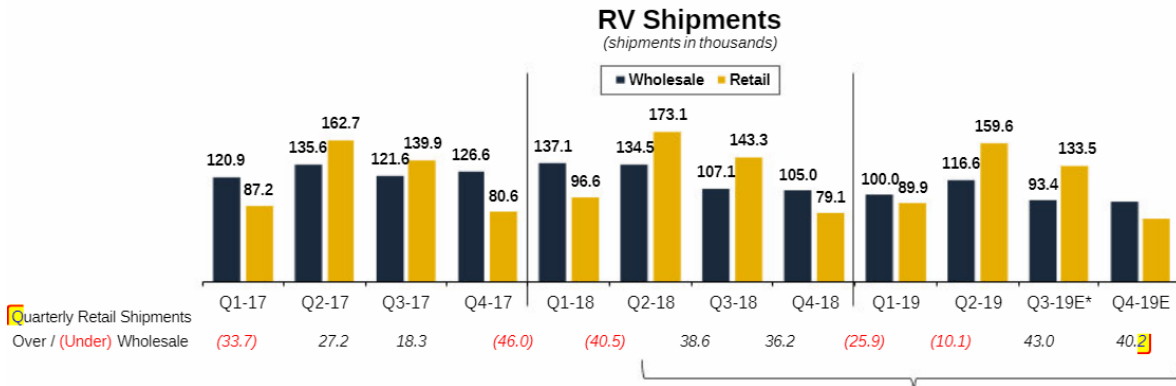
Fenix Outdoor (FOI-B:SS) and **Kathmandu (KMD:NZ)** are two potential International plays in this space. Fenix owns brands like Fjall Raven, Primus, and Hanwag while Kathmandu acquired the popular footwear brand Oboz.

Electronics

Garmin (GRMN) is the best play in this niche and has seen major momentum in its outdoor and fitness segments as it moves away from Auto. GRMN is facing some headwinds in Aerospace but also should see a positive offset in Boating. Its fitness segment saw 24% growth in Q1 driven by advanced wearables and Tacx. The Marine segment grew 22% driven by chartplotters and advanced sonar. The \$16B company has a debt-free balance sheet with a lot of cash, a 2.9% dividend yield and trades 20X Earnings and 4.2X Sales.

RV's and Boating

The RV industry saw a surge in unit shipments in 2016 and 2017 before pulling back some in 2018/2019 according to the RVIA. RV ownership has reached its highest level on record at 9 million households. Recent dealer surveys are showing a resurgence in demand and similar indications from Camping World's (CWH) recent earnings call while online RV rental service RVshare noted RV rental bookings rose 30% Y/Y the 2nd week of May.



RVIA projects wholesale units of 402k for 2019 and a range of 360k to 405k for FY 2020

Winnebago (WGO) is my preferred RV name compared to peers Camping World (CWH) and Thor (THO). WGO has industry-leading growth, margins and a more conservative balance sheet with strong FCF.

Two other less obvious ways to play the trend in RV usage/ownership is via the maker of supplies, notably **Patrick Industries (PATK)** and **LCI Industries (LCII)**. PATK also serves the Marine, Manufactured Housing and Industrial markets though RV accounts for 63% of revenues. PATK has been seeing steadily increasing RV content per unit and sees an addressable market of \$4B in RV and \$1.9B in Marine. PATK currently carries a \$1.23B market cap trading 15.9X Earnings, 0.55X Sales and 8.4X FCF. LCII is a leading supplier of highly engineered components to RV's but also exposure to buses, trucks, trailers, boats, trains and manufactured housing. It also owns the CURT brand for truck and towing with a \$7.5B addressable aftermarket. LCII has made over fifty acquisitions the last twenty years diversifying away from the RV industry though it remains its majority revenue driver. LCII has a \$2.37B market cap trading 18X Earnings, 0.97X Sales and 15.3X FCF with a 2.74% dividend yield. LCII trades a bit richer than PATK but also is the better operator and screens healthier across other key metrics.

The Boating industry should also see strong demand this Summer though partial negative offsets from falling consumer confidence and canceled Boat Shows. There are a few boating plays like MasterCraft (MCFT), Marine Products (MPX) and Engine maker Brunswick (BC) but my preferred name is **Malibu Boats (MBUU)**. MBUU is a leading maker of power/performance sporting boats and has been gaining market share for years with its leading brands while generating the strongest results. It has four key brands, Malibu, Axis, Cobalt, and Pursuit. It has the #1 market share position in the United States in the performance sport boat category through its Malibu and Axis brands and the #1 market share position in the United States in the 24'—29' segment of the sterndrive category through the Cobalt brand, and is in a leading position in the fiberglass outboard fishing boat market with the Pursuit brand. As of 2018 the three categories of outboard, sterndrive and performance sport boat represented an addressable market of \$8.9B. The performance sport boat sales is seeing strong US growth and 2018 units remain 20% below the 2006 peak. MBUU is taking an increased focus on the \$4.2B fiberglass outboard market. MBUU is the leader in the growing marine industry with a strong financial track record and sees opportunities for growth in International markets as well as expanding the product lines.



There are a few smaller interesting plays in the Boating space as well like MarineMax (HZO) which is a retailer of recreational boats and yachts and BRP Inc. (DOOO) which makes power sport vehicles and marine products. However, my favorite name is:

Johnson Outdoor (JOUT) is a \$695M maker of marine electronic products and is not as actively traded as many of the other names. JOUT has a debt-free balance sheet and trades 13X trailing earnings and 1.2X Sales. It has leading brands in Fishing like Minn Kota and Himmunbird, Diving with ScubaPro, Watercraft Recreation with Old Tow and Ocean Kayak, and Camping/Hiking with Eureka! And JetBoil. It is relatively unknown to most investors but a great pure-play.

Camping, Biking and Hiking

If we dive more deeply into a few of the major revenue generating activities there are not a lot of pure plays. A company like Newell Brands (NWL) owns popular outdoor brands like Coleman and Marmot, but also owns a lot of non-related consumer brands like Paper Mate, Sharpie, Elmer's, Mr. Coffee, Rubbermaid, Yankee Candle and others. Similarly, Helen of Troy (HELE) has long been a favorite stock and owns the Hydro Flask brand but also owns Braun, PUR, Vicks and others. Spectrum Brands (SPB) owns the Remington brand for Hunting, but not a major needle mover, though also owns some Home & Garden key brands as well as Repel which is used by outdoorsmen. There are two better pure-play names with healthier growth profiles:

Fox Factory (FOXF) is a \$2.6B maker of suspension products for mountain bikes and other outdoor vehicles. It has a number of strong leading market share customers and is penetrating new markets like RV and Boating. It sees room for growth by expanding to categories like lift kits, brakes, and wheels from its core suspension offering. It also wants to target new vehicles and new geographies FOXF trades 26.5X Earnings and 3.37X Sales and is seeing improving profitability.

YETI Holdings (YETI) is a \$2.6B leading consumer brand for outdoor enthusiasts with a leadership position in Coolers & Drinkware while expanding product categories. YETI has been making a conscious shift into an omnichannel and DTC approach, the fastest growing (35% Y/Y) and highest-margin. Their product lineup has been expanding in recent years into more outdoor living equipment which could see a boost as more people focus on investments in home space. YETI trades 23.3X Earnings and 2.8X Sales with strong topline growth.



Auto Travel

A less obvious potential beneficiary of consumers shifting a focus to outdoor activities is that miles driven may start to recover quickly as air-travel is replaced by closer trips via motor vehicle. The automotive repair/products plays like AutoZone (AZO), Advanced Auto (AAP) and O'Reilly Auto (ORLY) are three main players. This is also a very defensive Macro group, and **Advanced Auto (AAP)** a name seeing size September call buying that can see further comp and margin improvement as a driver for multiple expansion. An offshoot of this could cause a rise in gasoline demand, a likely positive for refiners, **Valero (VLO)** a best-in-class name. **Monro (MNRO)** is a \$1.95B provider of automotive repair and tire services that may be a beneficiary as well, the largest chain of undercar care facilities in the US with 1,098 stores in 26 states. **Thule Group (THULEL:SS)** is an intriguing International play, a maker of active products for RV's and Vehicles, while also exposure to strollers and other areas. Thule is a global market leader in several product categories, such as roof racks, rooftop cargo carriers and bike racks for vehicles.

Outdoor Home Living Spaces

Lastly, another focal point for consumers will be improving their personal outdoor living environments with budget allocations shifting from vacations to staycations. We have seen strong demand for home improvement and garden products with recent results from Lowe's (LOW) and Home Depot (HD). Renovation remains a very strong theme seeing increasing expenditures. There are a few other retail channels to play this theme such as Wayfair (W) as a leading ecommerce retailer of home & outdoor products and Central Garden & Pet (CENT) as a distributor of Pet & Garden supplies.

Tractor Supply Co (TSCO) is my preferred Retail play as one that has kept its doors open and seen strong sales and higher average ticket sizes. They recently selected a new CEO that is likely to continue a strong digital plan. The \$13B company trades 20.8X Earnings and 1.55X Sales with plenty of room for further expansion.

Scotts Miracle-Gro (SMG) is a best-in-class play in Home & Garden that has been posting very strong numbers, also benefitting from Cannabis legalization.

A shift to composite decking has been a strong theme for outdoor products and Fortune Brands (FBHS) bought Fiberon for \$470M, a provider of decking, while Universal Products (UFPI) also has a composite decking segment. **Trex (TREX)** remains the category leader and best-in-class brand, positioned well with 34% of home improvement spending taking place outdoor. **Pool Corp (POOL)** is also a fantastic company, a leader in a highly fragmented niche distribution market and operates with strong organic growth and 60% recurring revenues. Americas Pool is 85% of the business while Irrigation & Landscape is 9% and Europe/Australia is 6%. POOL has been a strong compounder with a performance CAGR of 26% since 1996 compared to the S&P at 8.3%. POOL has noted that weather is the largest external factor affecting short term demand. Population growth demographics suggest increased pool demand long-term with most of the population increases moving to warmer weather areas. The Pool & Outdoor Living Products market is estimated at \$11.5B with wholesale distribution the primary channel to market in the industry. It sells a variety of products with Chemicals at 14%, Tile at 11%, Lighting at 10%, Heaters at 9%, and Filters at 9% the most notable. It's estimated that 5.3M US in-ground pools are the market for 2018 driving 85% of sales with new construction adding 1-2% per year to the installed base and the aging installed base is driving renovation and remodel. POOL sees growth opportunities with market share gains, new locations, targeted categories and new product technology.

That concludes an overview of likely beneficiaries from an expected shift in consumer behavior in the near-term as well as longer term. I have taken the time to create an example ETF for the Outdoor Recreation theme, and if I was able to create one it could use a ticker like WILD, OREC or HIKE. Details are below:

Tickers	Company Name	Portfolio Weighting	Market Cap	EV to EBITDA	Revenue CAGR - 3 Year	EBITDA Margins	3 Year ROIC	FCF Margins	Debt to EBITDA
LOW	Lowe's Companies, Inc.	8.00%	92,299	12.7x	3%	11.07%	12.04	3.91%	2.2x
TSCO	Tractor Supply Company	5.00%	13,217	14.5x	6%	11.25%	19.17	7.12%	0.5x
POOL	Pool Corporation	7.50%	9,511	26.8x	5%	11.95%	18.58	8.30%	1.5x
AAP	ADVANCE AUTO PARTS INC	5.50%	9,224	10.7x	1%	10.64%	12.36	4.07%	0.9x
SMG	Scotts Miracle-Gro Co	6.50%	8,364	16.7x	10%	17.69%	5.55	5.84%	3.3x
TREX	TREX CO INC	6.00%	7,388	34.0x	6%	26.55%	62.06	11.95%	0.0x
DECK	DECKERS OUTDOOR CORP	5.50%	5,016	11.1x	5%		31.75	12.06%	
COLM	COLUMBIA SPORTSWEAR CO	5.50%	4,577	9.4x	2%	16.98%	16.71	5.32%	0.0x
YETI	YETI Holdings, Inc.	6.00%	2,645	15.1x	10%	20.47%	25.11	6.00%	1.7x
FOXF	FOX FACTORY HOLDING CORP	6.00%	2,607	20.5x	12%	19.47%	24.42	2.84%	0.4x
LCII	LCI INDUSTRIES	6.00%	2,389	10.8x	0%	11.62%	15.34	8.91%	1.7x
THULE:SS	Thule Group AB	6.00%	2,192	17.3x	-1%	18.94%	(5.85)	12.35%	1.7x
WGO	Winnebago Industries, Inc.	5.50%	1,950	11.8x	7%	9.05%	15.42	4.68%	1.5x
MNRO	MONRO, INC.	4.00%	1,934	13.5x	0%	15.19%	5.06	9.03%	2.2x
WWW	Wolverine World Wide, Inc.	5.00%	1,655	9.0x	-1%	12.99%	10.42	8.28%	2.3x
MBUU	MALIBU BOATS, INC.	4.50%	965	7.9x	11%	18.41%	44.03	9.29%	0.9x
JOUT	Johnson Outdoors Inc.	4.00%	726	7.2x	0%	13.82%	17.19	5.17%	0.0x
CLAR	Clarus Corp	3.50%	302	16.8x	2%	9.88%	3.50	2.36%	1.0x

Sources:

https://outdoorindustry.org/wp-content/uploads/2017/04/OIA_RecEconomy_FINAL_Single.pdf

<https://www.bea.gov/news/2019/outdoor-recreation-satellite-account-us-and-prototype-states-2017>

Company Presentations