



Acushnet Holdings (GOLF: \$24.21 In-Line; \$24 PT)

Only Modest Changes to Outlook and Estimates Following 4Q18 Earnings Report—Maintaining Our In-Line Rating and \$24 Price Target

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Key Data

Symbol: GOLF
Price (3/11/19): \$24.21
Rating: In-Line
Price Target: \$24

Estimates:

2019E EBITDA: \$239.2
2020E EBITDA: \$247.6
2019E EV/EBITDA: 9.6x
2020E EV/EBITDA: 9.3x

Company Description

Acushnet owns several popular golf brands, including Titleist and FootJoy.

Figure 1. Acushnet Holdings—Key Company Data, Prices as of 3/11/19

Key Data	FY: Dec	2018E		2019E		2020E	
		Old	New	Old	New	Old	New
Price:	\$24.21						
Price Target:	\$24.00						
52-Week Range:	\$20.24-\$27.87						
Market Cap (\$mn):	1,828						
Shares Out. (mn):	75.5						
Avg. Daily Vol.:	165,000						
Total Debt and LT Liab (\$mn)*	504						
Net Debt (\$mn)*:	473						
EV (\$mn):	2,300						
Dividend:	0.56						
Dividend yield:	2.3%						
EBITDA:							
Q1		77.1A	77.1A	79.0	77.8	--	--
Q2		79.4A	79.4A	83.1	78.0	--	--
Q3		38.3A	38.3A	43.5	42.8	--	--
Q4		37.0	36.1	42.8	40.7	--	--
Year		231.8	230.8	248.3	239.2	242.9	247.6
EV/EBITDA:			10.0x		9.6x		9.3x
Revenue (\$mn)							
Q1		442A	442A	452	444	--	--
Q2		478A	478A	489	480	--	--
Q3		370A	370A	375	380	--	--
Q4		338	343	340	356	--	--
Year		1,628	1,634	1,656	1,661	1,676	1,709

Sources: Company data and Imperial Capital, LLC.

■ **Financial Summary**

Acushnet Holdings (GOLF) generated revenue of \$1.7bn and adjusted EBITDA of \$231mn in the latest 12 month (LTM) period ended 12/31/18. The company had \$504mn in total debt and other long-term liabilities and \$31mn in cash as of that date.

■ **View**

We are maintaining our In-Line rating and our one-year price target of \$24 on GOLF shares. Our price target is based on 9.2x our 2020E EBITDA of \$248mn (7.9% free cash flow yield).

■ **Rationale**

We remain on the sidelines following 4Q18 results and initial 2019 guidance. We see muted upside in GOLF and prefer other stocks under coverage.

Quarterly overview: Acushnet reported 4Q18 results on 2/28/19 that were mixed versus our estimates. Revenue of \$343mn and EBITDA of \$36mn compared to our estimates of \$338mn and \$37mn, respectively. Most operating segments generated negative revenue and operating income growth during the quarter. Gross margin increased modestly.

Guidance update: Management provided 2019 guidance calling for revenue of \$1.655-1.685bn and EBITDA of \$235-245mn. Guidance includes \$20-25mn in contribution from the PG Professional Golf acquisition, which closed in October and likely added <\$5mn in 2018 revenue. Growth in FY19 is expected to be back-half weighted due to new product timing.

Balance sheet and free cash flow profile: GOLF ended the quarter with \$504mn in debt and pension liabilities, a comfortable position given the company's strong free cash flow profile. We estimate \$172mn in operating cash flow in 2019, offset by \$36mn in capital expenditures (management guidance). The strong cash generation gives management much flexibility, and it indicated on the call that share repurchases, dividends, and M&A are all being evaluated. On 2/14/19, the Board authorized the repurchase of an additional \$30mn in common stock, bringing the total authorization to \$50mn. There were no share repurchases in 2018. The company also increased its quarterly dividend to \$0.14 (\$42mn annually).

Retail outlook: Management appears confident that the retail environment remains healthy, as has been the case in recent years.

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Additional information is available upon request.

Capitalization

Figure 2. Acushnet Holdings—Capitalization as of 12/31/18, Prices as of 3/11/19

			Debt Face		Net Debt Face		Net Debt Market			Price / YTM Analysis			Interest Exp. Analysis	
LTM Revenue (12/31/18)	1,634													
LTM ADJ EBITDA (12/31/18)	231													
LTM EBITDA % (12/31/18)	14.1%													
LTM FCF (12/31/18)	131													
Settlement Date	NA													
	M/S&P Rating	Balance	Cum. Debt Face	LTM EBITDA Mult.	Net Cum. Debt Face	LTM EBITDA Mult.	Debt Mkt	Net Cum. Debt Mkt	LTM EBITDA Mult.	Price	YTM	Mat.	Rate/Coup.	Est. Int. Exp.
Cash		31												
LT Liabilities														
Debt		384	384		353		384	353				07/28/21	L +1.25-2.0	18.9
Pension - Underfunded Status		120												
Total		504	504	2.2x	473	2.0x	504	473	2.0x					18.9
Common Equity														
Common Stock (GOLF)		1,828												
Total Equity		1,828			2,180	9.4x	24.21	75.5					Interest	18.9

Sources: Company data and Imperial Capital, LLC.

Recent Financial Results

Figure 3. Acushnet Holdings—Quarterly Overview

	Q418A	IC Est	Growth
Sales	343.4	337.6	-2.3%
COGS	168.4	168.8	
Gross Profit	174.9	168.8	
Gross Margin	50.9%	50.0%	
S, G, A	140.2	131.6	
R&D	13.4	12.0	
Op Income	19.6	23.5	
Interest	(4.5)	(4.0)	
Other	0.6	0.0	
Pretax Income	15.8	19.5	
Taxes	3.5	5.5	
Net Income	12.3	14.1	
GAAP EPS	\$0.15	\$0.17	
Adj EBITDA	36.1	37.0	-11.8%
2019 guidance NEW:			
Revenue	1,655	1,685	
EBITDA	235	245	
2019 estimates PREV:			
Revenue	1,656		
EBITDA	248		

Sources: Company data and Imperial Capital, LLC.

Figure 4. Acushnet Holdings—Income Statement, 2016-2020E

Acushnet Holdings (GOLF)	2016	2017	1Q18 March	2Q18 June	3Q18 Sept	4Q18 Dec	2018	1Q19E March	2Q19E June	3Q19E Sept	4Q19E Dec	2019E	2020E
Sales	1,572.3	1,560.3	441.8	478.1	370.4	343.4	1,633.7	444.2	480.4	379.9	356.2	1,660.6	1,709.3
<i>Growth</i>	4.6%	-0.8%	1.9%	11.7%	6.7%	-2.3%	4.7%	0.5%	0.5%	2.6%	3.7%	1.6%	2.9%
Cost of Goods Sold	773.6	759.5	214.1	227.3	181.5	168.4	791.4	214.1	228.2	186.2	174.5	802.9	828.3
Gross Profit	798.7	800.8	227.7	250.8	188.9	174.9	842.4	230.1	252.2	193.7	181.6	857.7	881.0
Selling, General, Administrative	600.8	579.5	151.4	171.7	148.7	140.2	611.9	151.0	172.9	153.1	140.7	617.7	632.7
Research and Development	48.8	47.9	12.4	12.9	12.8	13.4	51.5	13.5	13.5	13.5	13.5	54.0	56.0
Intangible Amortization	6.6	6.5	1.6	1.6	1.6	1.8	6.6	1.8	1.8	1.8	1.8	7.2	7.2
Restructuring and Other	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Income	140.8	166.9	62.3	64.6	25.9	19.6	172.3	63.8	64.0	25.3	25.7	178.7	185.1
Interest	(49.9)	(15.7)	(4.4)	(5.2)	(4.3)	(4.5)	(18.4)	(4.5)	(4.5)	(4.0)	(4.0)	(17.0)	(16.0)
Other	(1.7)	0.4	0.4	(0.5)	(4.1)	0.6	(3.6)	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income	89.2	151.6	58.3	58.8	17.4	15.8	150.3	59.3	59.5	21.3	21.7	161.7	169.1
Taxes	39.7	55.1	15.2	18.4	10.1	3.5	47.2	17.8	17.8	6.4	6.5	48.5	50.7
Net Income	49.5	96.6	43.1	40.4	7.3	12.3	103.1	41.5	41.6	14.9	15.2	113.2	118.3
Noncontrolling Interest	(4.5)	(4.5)	(1.6)	(0.5)	(0.3)	(0.8)	(3.2)	(1.0)	(1.0)	(1.0)	(1.0)	(4.0)	(4.0)
Net Income	45.0	92.1	41.5	39.9	7.1	11.4	99.9	40.5	40.6	13.9	14.2	109.2	114.3
GAAP EPS	\$0.62	\$1.24	\$0.56	\$0.53	\$0.09	\$0.15	\$1.32	\$0.53	\$0.54	\$0.18	\$0.19	\$1.44	\$1.49
Shares Outstanding	64.3	74.5	74.7	75.0	74.8	75.5	75.5	75.7	75.9	76.1	76.3	76.0	76.8
Adj EBITDA	228.0	223.3	77.1	79.4	38.3	36.1	230.8	77.8	78.0	42.8	40.7	239.2	247.6
FCF	86.0	(45.9)	(92.7)	143.6	58.5	21.5	130.9	46.8	46.9	21.2	21.5	136.4	143.5
Gross Margin	50.8%	51.3%	51.5%	52.5%	51.0%	50.9%	51.6%	51.8%	52.5%	51.0%	51.0%	51.6%	51.5%
Selling, General, Administrative	38.2%	37.1%	34.3%	35.9%	40.1%	40.8%	37.5%	34.0%	36.0%	40.3%	39.5%	37.2%	37.0%
Research and Development	3.1%	3.1%	2.8%	2.7%	3.5%	3.9%	3.2%	3.0%	2.8%	3.6%	3.8%	3.3%	3.3%
Taxes	44.5%	36.3%	26.1%	31.3%	57.9%	22.2%	31.4%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Operating Income	9.0%	10.7%	14.1%	13.5%	7.0%	5.7%	10.5%	14.4%	13.3%	6.7%	7.2%	10.8%	10.8%
EBITDA	14.5%	14.3%	17.4%	16.6%	10.4%	10.5%	14.1%	17.5%	16.2%	11.3%	11.4%	14.4%	14.5%

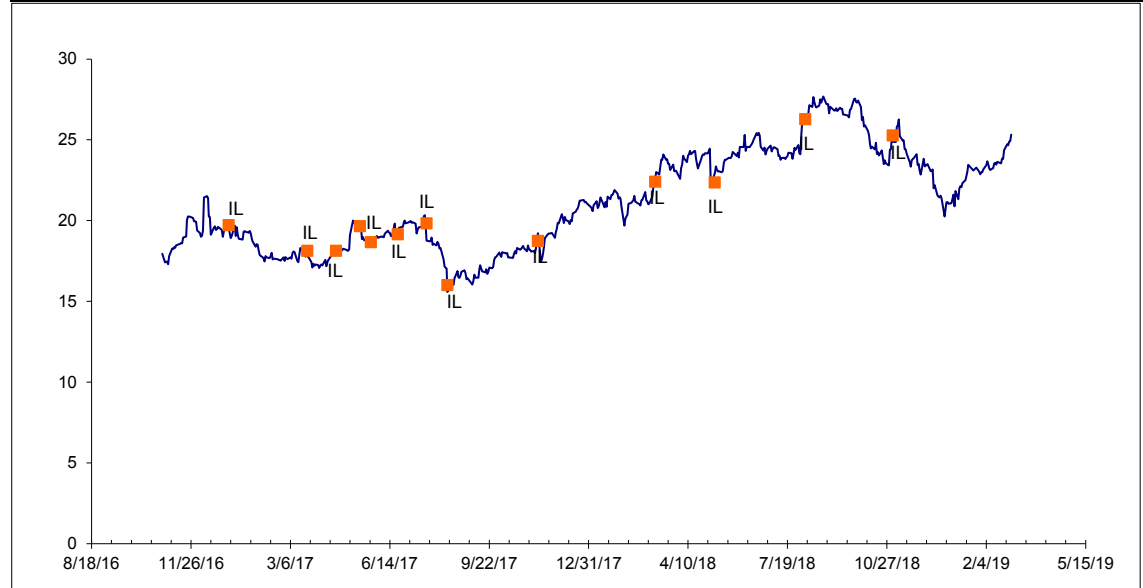
Sources: Company data and Imperial Capital, LLC.

Risk Factors

- **Reliance on ball segment:** Acushnet's ball segment generates a substantial portion of consolidated profitability.
- **Consumer:** Any weakness in consumer spending would negatively impact GOLF.
- **Controlled company:** A majority of GOLF is owned by entities affiliated with FILA.
- **Competition:** Acushnet competes against several well-capitalized peers.

Price Chart and Ratings History

Figure 5. Acushnet Holdings—Price Chart and Ratings History



Description	Price	IC Rating	Report Date
Common Stock	\$25.26	In-Line	11/2/18
Common Stock	\$26.28	In-Line	8/6/18
Common Stock	\$22.35	In-Line	5/7/18
Common Stock	\$22.41	In-Line	3/8/18
Common Stock	\$18.74	In-Line	11/10/17
Common Stock	\$16.00	In-Line	8/11/17
Common Stock	\$19.83	In-Line	7/21/17
Common Stock	\$19.15	In-Line	6/22/17
Common Stock	\$18.66	In-Line	5/26/17
Common Stock	\$19.65	In-Line	5/15/17
Common Stock	\$18.13	In-Line	4/21/17
Common Stock	\$18.12	In-Line	3/23/17
Common Stock	\$19.71	In-Line	1/3/17

Sources: Bloomberg and Imperial Capital, LLC.

Companies under coverage: George Kelly, CFA: Acushnet Holdings (GOLF), Brunswick Corporation (BC), Callaway Golf Company (ELY), Drive Shack (DS), Freshpet (FRPT), Haymaker Acquisition Corp (HYAC), Johnson Outdoors (JOUT), Lindblad Expeditions (LIND), MINDBODY (MB), National Beverage (FIZZ), Nautilus (NLS), Planet Fitness (PLNT), Primo Water (PRMW), Town Sports International Holdings (CLUB), YogaWorks (YOGA).

Important Disclosures, Certifications and Other Information

Ratings Distribution and Definitions

Equity Ratings Definitions (as of 7/1/09)		
Outperform	65.29%	Outperform: TRR expected to exceed basket by at least 10%
In-Line	29.75%	In-Line: TRR expected to be in-line with basket
Underperform	4.96%	Underperform: TRR expected to underperform basket by at least 10%
This Equity Ratings Distribution reflects the percentage distribution for rated equity securities for the twelve month period 1/1/18 through 12/31/18. Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Within the twelve month period ended 12/31/18, IC has provided investment banking services to 12.66% of companies with equity rated an Outperform, 0.00% of companies with equity rated an Underperform, and 11.11% of companies with equity rated an In-Line. As of 12/31/18.		
Fixed Income Ratings Definitions and Equity Ratings Definitions (prior to 7/1/09)		
Buy: TRR expected to exceed basket by at least 10%		
Hold: TRR expected to be in-line with basket		
Sell: TRR expected to underperform basket by at least 10%		
Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Please refer to our publication dated 7/1/09 for details associated with the transition of our Equity Ratings to the current definitions.		

For a discussion of the valuation methods used to determine our price target, if any, please see page 1. See page 4 for the risks that may impede achievement of such price target, and page 4 for our ratings history and price chart.

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