

EARNINGS BUSTERS

A SABRIENT PORTFOLIO

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PORTFOLIO REVIEW

We are replacing Valeant Pharmaceuticals International, Inc. (VRX) with Brunswick Corporation (BC).

Brunswick creates and sells recreational products predominantly in the marine boating and fitness equipment markets, both in the U.S. and internationally. The company has made an effort to diversify its product lines within each business segment to reduce the cyclical impact on earnings and provide growth through increased market share. BC currently has a strong balance sheet and has proven it has the ability to make strategic acquisitions that will allow the company to outperform its peers. The company is currently included in various Sabrient Rising Rate UIT portfolios.

BC is coming off of a strong 4th quarter of 2015 in which it experienced strong growth from its key business segments and reported EPS of \$0.52 that beat analyst consensus estimates by 7 cents. The company is expanding within each of its segments to include replacement parts and accessories in order to reduce reliance on new equipment sales, which can be cyclical in nature. This expansion was the main driver behind the 33% year-over-year bottom line growth in the marine engine segment, which generated \$41.9m in operating income and increased operating margins by 200 bps to 8.8%. The boating segment also saw improvement, generating \$2.6m in operating income compared to a loss of \$4.1m in the same quarter a year ago. Profitability in the boating segment was largely due to the increase in sales for the segment, which increased 14% year-over-year. As expansion continues in these markets through parts and accessory product lines, the company is expected to increase market share and drive earnings growth going forward.

During the current quarter BC announced the acquisition of Cybex, a fitness equipment manufacturer. The \$195 million dollar acquisition, financed almost exclusively through balance sheet cash, is part of the company's strategy to expand its highest margin business segment. It is expected that BC will be able to leverage its current assets and scale the Cybex brand to further cement its place as one of the global leaders in commercial fitness equipment. Within the next three years the company expects the Cybex brand to provide a boost of 20 cents to the yearly eps.

BC is currently undervalued based on the growth that is expected over the next year. The stock is also undervalued when compared to both its industry peers and the overall market. When compared to the S&P 500, BC is trading at a discount with a price-to-earnings ratio of

11.6 compared to an average of 18.1 for the S&P 500. The recreational products industry has an average valuation of 16.1x next year earnings, putting BC well below the industry average. BC's projected EPS growth rate of 17.2% over the next year is greater than the S&P 500's projected growth rate of -3.2% and the recreational products industry's 10.5% growth over the same period.

EXIT (SELL)

Valeant Pharmaceuticals International, Inc. (VRX)

BUY

Brunswick Corporation (BC)

Market Cap: Mid

Sector: Consumer Cyclical

Industry: Recreational Products

Earnings Quality Rank (out of 5): 5

Dividend Yield: 1.5%

Forward P/E Ratio (Next 12 months): 11.6

Price When Picked: \$42.29 (closing price on 2/18/16)

BUSINESS SUMMARY

Brunswick Corporation designs, manufactures, and markets recreational products in the United States and internationally. The company's Marine Engine segment offers outboard engines, sterndrive propulsion systems, and inboard engines under the Mercury, Mercury MerCruiser, Mariner, Mercury Racing, Mercury Sport Jet and Mercury Jet Drive, MotorGuide, Axius, and Zeus brands; and marine electronics and control integration systems, steering systems, instruments, controls, propellers, trolling motors, fuel systems, service parts, and marine lubricants under the Quicksilver, Mercury Precision Parts, Mercury Propellers, Attwood, Land 'N' Sea, Kellogg Marine Supply, Diversified Marine Products, Bell Recreational Products, Sea Choice, and MotorGuide brands, as well as supplies integrated diesel propulsion systems. It serves independent boat builders and end users, as well as local, state, and foreign governments through a network of marine dealers and distributors, specialty marine retailers, and marine service centers.

The company's Boat segment manufactures and markets fiberglass pleasure, offshore fishing, aluminum fishing, pontoon, deck, and inflatable boats, as well as luxury and sport yachts under the Bayliner, Boston Whaler, Crestliner, Cypress Cay, Harris, Lowe, Lund, Master Dealer, Meridian, Princecraft, Protector, Quicksilver, Rayglass, Sea Ray, and Uttern brands. Its Fitness segment provides cardiovascular fitness equipment, such as treadmills, total body cross-trainers, stair climbers, and stationary exercise bicycles; and strength-training equipment, as well as engages in the billiards business. This segment serves health clubs, corporations, schools and universities, hotels, professional sports teams, and the military and governmental agencies under the Air Hockey, Brunswick, Contender, Flex Deck, Gold Crown, Hammer Strength, Lifecycle, and Life Fitness brands.

The company was founded in 1845 and is headquartered in Lake Forest, Illinois

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Editor's Note: The *Sabrient Earnings Busters* newsletter is written by Daniel Vickers, analyst at Sabrient. Daniel also assists in the selection of stocks and maintenance of the portfolio. He can be reached at dvickers@gradientanalytics.com

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