Johnson Outdoors (JOUT)

Updated August 21st, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$36.08	**5 Year CAGR Estimate:**	6.1%	**Market Cap:**	$371.8 M
Fair Value Price:	$25.50	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	10/11/2024[1]
% Fair Value:	141%	**5 Year Valuation Multiple Estimate:**	-6.7%	**Dividend Payment Date:**	10/28/2024
Dividend Yield:	3.7%	**5 Year Price Target**	$41.07	**Years Of Dividend Growth:**	11
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Johnson Outdoors is a leading company in the outdoor recreation industry. The company operates through several well-known brands that cater to various aspects of outdoor activities. Old Town Canoes & Kayaks, for example, is renowned for its durable and high-performance watercraft. Minn Kota is a leader in electric trolling motors and boat accessories. Humminbird offers advanced marine electronics, including fish finders and GPS systems. Jetboil has a strong presence in efficient portable cooking systems. Its high-quality products are designed for fishing, boating, and camping enthusiasts. The company generated almost $664 million in revenues last year, and is based in Racine, Wisconsin.

On August 5th, 2024, Johnson Outdoors reported its fiscal Q3 results for the period ending June 30th, 2024. Note that the company's fiscal year ends every September 30th.

For the quarter, revenues came in at $172.5 million, down 7.8% from last year. The decline in revenues was due to tough market conditions. Consumer demand for outdoor recreation products remained depressed across all of the company's categories through the peak season. The down market and soft demand required management to significantly increase investment in promotional activity, further hurting profitability. Gross margins fell from 41.5% last year to 35.8%, with consumers also converging toward lower margin products between quarters. Accordingly, earnings per share plunged to $0.16, 89% lower compared to last year. We believe that Johnson Outdoors has an EPS potential of about $1.70 under "normal conditions", which we have utilized in our estimates. However EPS this year is likely to barely positive and land close to $0.07 due to heavy losses expected for Q4.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.92	$1.07	$1.34	$3.51	$4.05	$5.11	$5.47	$8.21	$4.37	$1.90	***$1.70***	***$2.74***
DPS	$0.30	$0.31	$0.33	$0.37	$0.48	$0.59	$0.72	$0.93	$1.21	$1.26	***$1.32***	***$1.61***
Shares[2]	9.6	9.7	9.9	9.9	10	10	10.1	10.1	10.2	10.2	***10.2***	***11.0***

Over the past decade, Johnson Outdoors has navigated a dynamic market landscape, including multiple successes and challenges. One significant period of increased profitability took place in 2021, during the COVID-19 pandemic. The surge in outdoor activities as people sought socially distant recreation led to a spike in demand for outdoor equipment, benefiting its key segments like kayaks and marine electronics.

That said, Johnson Outdoors has historically faced challenges that have constrained long-term profitability, including in its recent results. In 2018, the company struggled with higher costs and supply chain disruptions, which hurt its margins. The integration of acquired brands, such as the purchase of the kayak brand, Old Town, in 2017, introduced complexities in aligning operations and supply chains. The company's investments in innovation and new product development, while crucial for growth, have also boosted R&D expenditures, affecting profitability in the short term.

Also, rising raw material costs and operational inefficiencies have continued to pose challenges, evident in varying profit margins despite overall revenue growth. Post-COVID, the company's profitability has plummeted due to the significant

[1] Estimated dates based on past dividend dates.

[2] Share count is in millions.

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drop in demand for Johnson Outdoors' products as the socially distant recreation trend waned, while the cost-increasing factors have stayed. Moving forward, we expect EPS to grow at a CAGR of 10% backed by industry conditions stabilizing and the possibility of improving margins.

Regarding the dividend, the company has increased it for 11 consecutive years, which is impressive, given the volatile nature of its earnings. We believe the dividend will continue to grow moving forward, though by a much softer rate, which we have set at 4%. This is because management will likely seek to maintain a healthy payout ratio from here.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	28.4	24.8	20.1	13.2	17.9	14.1	13.5	13.4	18.5	30.7	***21.2***	***15.0***
Avg. Yld.	1.1%	1.2%	1.2%	0.8%	0.7%	0.8%	1.0%	0.8%	1.5%	2.2%	***3.7%***	***3.9%***

Johnson Outdoors' valuation has fluctuated significantly over the years, mirroring its volatile earnings. The stock is now trading at about 21.2 times its earnings under normal conditions. This multiple reflects investor optimism for a rebound in growth. While we expect earnings to improve, we believe a more conservative multiple of 15 times earnings better accounts for the risks of the company's cyclical business model. The stock's yield has also risen significantly, driven by a growing payout and a declining stock price, and could become even more attractive in the medium term.

Safety, Quality, Competitive Advantage, & Recession Resiliency

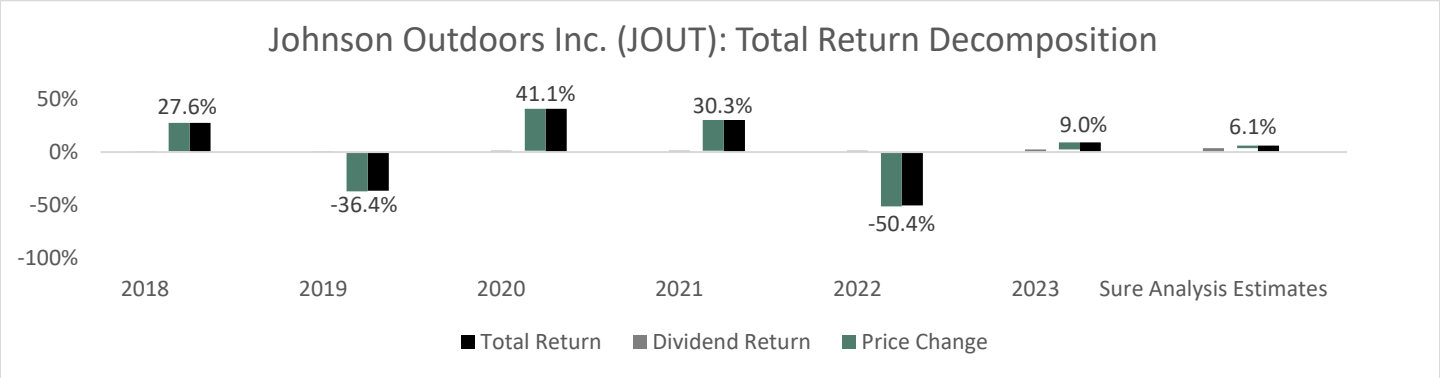
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	33%	29%	25%	11%	12%	12%	13%	11%	28%	66%	***78%***	***59%***

Johnson Outdoors' key quality lies in the strength of its brands, such as Humminbird, Minn Kota, and Old Town, which are known for their quality and durability. This has fostered customer loyalty, especially in marine electronics and watercraft. However, the nature of the outdoor recreation market means that Johnson Outdoors faces cyclical demand, which can be influenced by broader economic conditions. That said, the company has shown some recession resiliency. During economic downturns, while discretionary spending on high-end outdoor equipment may decline, the company benefits from its diverse product range, which includes lower-cost items that remain accessible to consumers even in tougher times. We also believe the dividend remains safe for now, and praise the fact that Jonson Outdoors has a net cash position of nearly $100 million, which currently equals about 27% of its market cap.

Final Thoughts & Recommendation

Johnson Outdoors has yet to recover from the heavy losses it recorded in 2022. Despite a modest rebound last year, the stock has sustained a further decline in 2024. We project annualized returns of 6.1% though 2029, driven by a rebound in earnings and the dividend, offset by the possibility of a notable valuation headwind. Accordingly, we rate JOUT a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	425	430	434	491	544	562	594	752	743	664
Gross Profit	169	172	176	211	242	250	265	334	271	244
Gross Margin	39.6%	39.9%	40.7%	43.0%	44.4%	44.4%	44.6%	44.5%	36.5%	36.8%
SG&A Expense	127	137	129	146	158	164	169	197	177	201
D&A	11	12	12	13	13	14	15	13	14	16
Operating Income	25	18	29	46	63	64	71	111	66	12
Operating Margin	5.9%	4.1%	6.7%	9.3%	11.6%	11.3%	12.0%	14.8%	8.9%	1.8%
Net Income	9	11	14	35	41	51	55	83	44	20
Net Margin	2.1%	2.5%	3.1%	7.2%	7.5%	9.1%	9.3%	11.1%	6.0%	2.9%
Free Cash Flow	20	8	32	35	44	29	46	37	(94)	19
Provision for Taxes	8	5	10	13	27	15	18	30	14	6

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	289	299	310	354	396	436	546	674	680	682
Cash & Equivalents	71	69	87	64	122	172	212	240	130	112
Acct. Recv.	44	45	42	47	41	45	67	71	92	43
Inventories	66	80	68	79	89	94	97	167	249	261
Goodwill	27	26	26	25	24	23	20	20	20	20
Total Liabilities	90	101	103	111	117	112	168	216	192	182
Accounts Payable	28	28	25	32	34	30	37	57	54	43
Long-Term Debt	8	7	7	-	-	-	-	-	-	-
Shareholder's Equity	198	198	207	243	279	325	378	459	488	500
LTD/E Ratio	0.04	0.04	0.04	-	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.2%	3.6%	4.4%	10.6%	10.9%	12.4%	11.2%	13.7%	6.6%	2.9%
Return on Equity	4.6%	5.4%	6.7%	15.6%	15.6%	17.0%	15.7%	19.9%	9.4%	4.0%
ROIC	4.4%	5.2%	6.4%	15.4%	15.6%	17.0%	15.7%	19.9%	9.4%	4.0%
Shares Out.	9.6	9.7	9.9	9.9	10	10	10.1	10.1	10.2	10.2
Revenue/Share	44.15	44.26	44.01	49.45	54.45	56.12	59.04	74.27	73.23	65.11
FCF/Share	2.07	0.79	3.22	3.50	4.42	2.90	4.56	3.65	(9.24)	1.87

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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