Jupiter Marine Intl. Holdings, Inc.

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Ticker Symbol: **JMIH** Richard J. Wayman, CFA (rwayman@researchstock.com)

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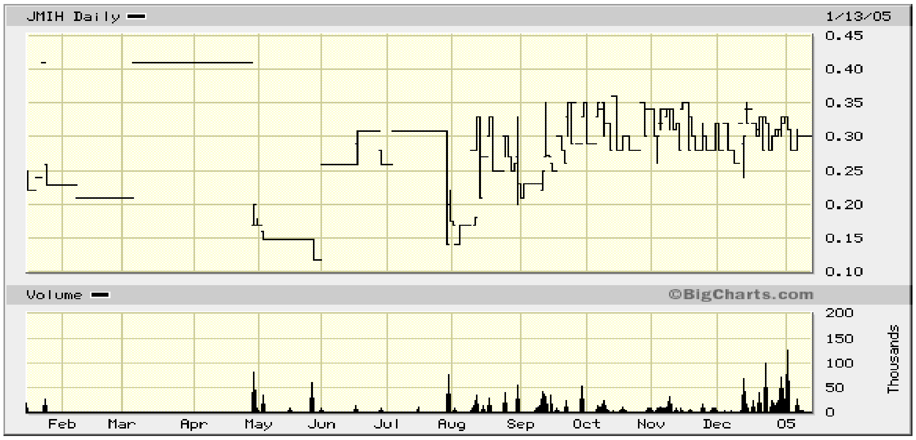
Expect Continued Improvement in Earnings and Cash Flows

Current Data	
Current Price	$0.30
52-Week Range	.41-.12
Shares Out (Mill)	15.1
Ave Vol (3 mo.)	11,500
Market Cap (Mill.)	$4.54
LTD/Tot Cap	0.0%
Institutional Holdings	na
Insider Ownerhship	59.7%
Book Value	$0.10
Valuation	**Current**
P/E (Last FY)	10.62
P/B	3.12
Price/ LTM Sales	0.42
Operating Data	**This Qtr**
Sales Growth	26.2%
EBITDA Margin Grwth	-8.7%
Net Inc. Growth	16.8%
EPS (FYE-Sept.)	
2004	$0.03
2005e	$0.04
2006e	$0.05



Annual Results (FY- July)						
($Million)	**2001**	**2002**	**2003**	**2004**	**Oct-03**	**Oct-04**
Sales	$6.8	$6.9	$9.3	$10.3	$2.2	$2.8
Gr Margin	16.8%	14.9%	20.7%	24.6%	25%	25%
EBITDA	0.2%	-2.6%	8.3%	8.5%	11%	10%
EPS	($0.10)	($0.16)	$0.03	$0.03	$0.01	$0.01
LTD/Cap.	39.6%	-43.4%	0.6%	0.0%	0.4%	0.0%
Times Int	0.2	-3.4	7.5	11.3	11.15	15.69

Company Description

JMIH designs, manufactures and markets a diverse mix of high quality sportfishing boats under the Jupiter brand name. Jupiter Marine boats are specifically designed to run at high speeds in offshore sea conditions while, at the same time, providing passengers with a smooth, comfortable and dry ride under adverse conditions. The outboard powered product line currently consists of five models of boats, including the 31' Open Center Console, 31' Cuddy Cabin, 31' Forward Seating Center Console, 27' Open Center Console and 27' Forward Seating Center Console.

Key Investment Points

• The company targets the "sweet spot" in salt water fishing segment (repeat buyer who recognizes, and is willing to pay for, quality) with handmade construction and ongoing R&D.

• The only publicly-traded "pure play" in this segment of the boating industry.

• Sales and profitability has steadily improved since the impact of 9/11 and introduction of new models. Continued growth is indicated by the backlog (which has grown steadily and is now at an all-time high) and the recently leased space (which will double production capacity).

• Because JMIH builds to orders, there is little inventory risk, but the challenge has been to optimize operating efficiencies by maximizing production levels.

• JMIH has no long term debt.

• Our 12-18 month target price is $0.65 with a range of $0.90 and $0.35. Stock appears undervalued because market is unaware of its potential.

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Operating Data-LTM			Sales	Gross	Op. Inc	LT Debt/
Company	Symbol	Sales(MM)	Growth	Margin	Margin	Total Cap
Jupiter Marine	**JMIH**	**$11**	**16%**	**25.2%**	**9.6%**	**0.0%**
Peer Group Avg*		$150	24.5%	22.0%	9.5%	72.6%
Peer Group						
Fountain Powerboat	FPWR	$63.8	19.3%	17.4%	4.5%	72.6%
Marine Products Corp.	MPX	$236.8	29.7%	26.6%	14.5%	na
Brunswick Corp	BC	$4,982.4	25.5%	28.3%	7.6%	44.3%

Valuation Data			P/E			Price/LTM	
		Price	2004	2005	2006	Sales	Book
Jupiter Marine	**JMIH**	**$0.30**	**19.0**	**11.0**	**6.3**	**0.4**	**3.1**
Peer Group Avg*		$14.33	22.6	21.9	na	1.5	5.7
Peer Group							
Fountain Powerboat	FPWR	$5.01	18.6	na	na	0.4	3.7
Marine Products Corp.	MPX	$23.65	26.6	21.9	na	2.7	7.7
Brunswick Corp	BC	46.96	17.0	13.9	na	0.9	2.72

* Peer Group excludes Brunswick Corp.

1Q05 Results

JMIH increased sales and profitability as production levels increased.

Sales increased 26.2% to $2.7 million as production levels increased. Boats at dealers increased to 17 from 14 (more boats at dealers should help increase sales, much as more car models on a dealer's lot does).

The gross margin was 25.2% versus 25.5% at 1Q04. The slight decline was the result of increased resin costs that offset increased operating leverage. Resin, which is a key manufacturing component, is oil-based and its cost has increased along with the price of oil during the last year.

Sales & Marketing costs increased in dollar terms as JMIH attended more trade shows and visited more dealers. As a percentage of sales, marketing costs declined to 3.4% from 3.6%.

Quarterly Operating Comparison	Oct-03	Oct-04	Chng
Sales	2.18	2.76	26%
COGS	1.63	2.06	27%
Gr. Profit	0.56	0.70	25%
Sales/Mrkt	0.08	0.09	22%
G&A	0.25	0.34	35%
Depr	0.06	0.07	26%
Other	0.00	0.00	na
Op Inc	0.17	0.19	11%
Net Other	0.00	-0.01	-70%
Taxes	0.00	0.00	na
Net Inc.	0.15	0.18	17%
Pref Div	0.03	0.02	-32%
Net to comm. SH	0.13	0.16	27%
Margins			
Gross	86.0%	86.4%	
Oper.	10.6%	10.7%	
Net.	27.8%	26.0%	
Ratios			
Assets/Equity	3.0	2.0	
TIE	11.1	15.7	
Op. Cash Flow	-$0.12	$0.18	250%

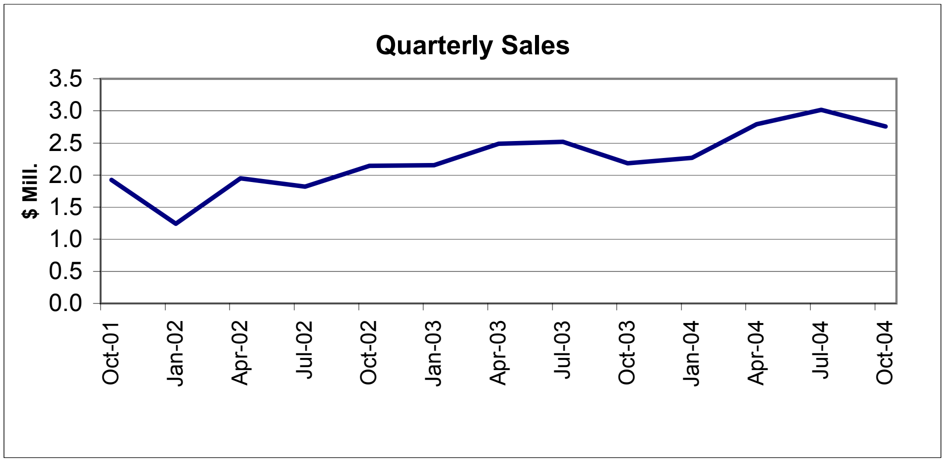
General & Administrative expenses increased to 12.2% of sales from 11.4% as the result of engaging business consultants. The consultants were paid with 460,000 shares of common stock (valued at $64,000). Excluding consulting costs, G&A expenses increased about 9%.

Depreciation expenses increased as the result of new boat molds.

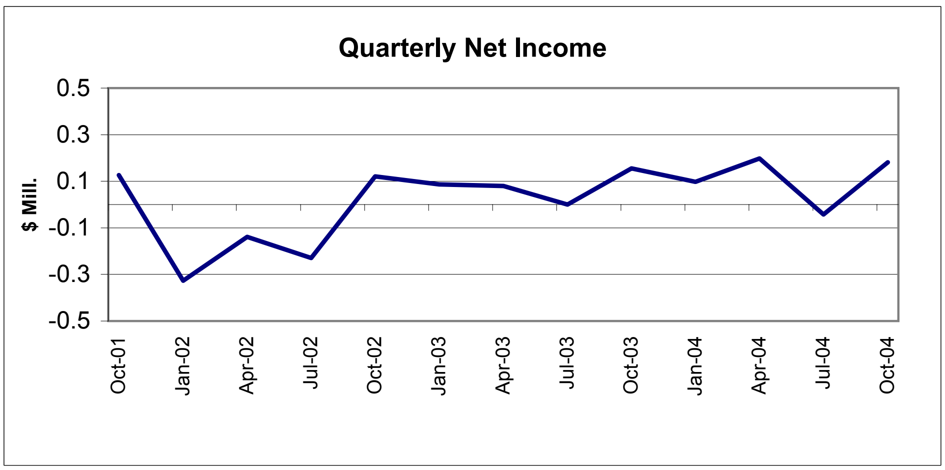
Operating cash flows improved, despite increased levels of receivables, as customer deposits increased $40,000 and inventories declined 10.4%. DSO increased to 4 days from 1 day in 1Q04 due to the timing of deliveries and the end of the quarter.

Financial Condition
With no debt and steady growth in operating cash flow, JMIH's financial condition continues to improve. Interest expense is related to the company's $500,000 line of credit and shareholder notes.

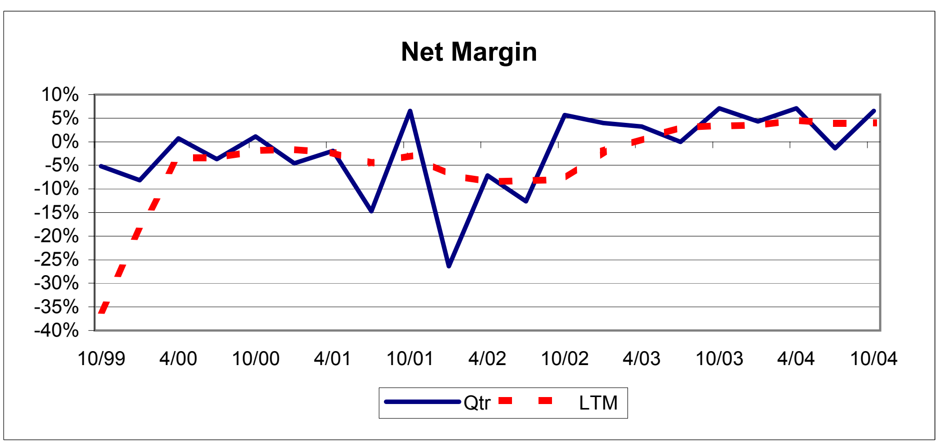
Longer Term Review

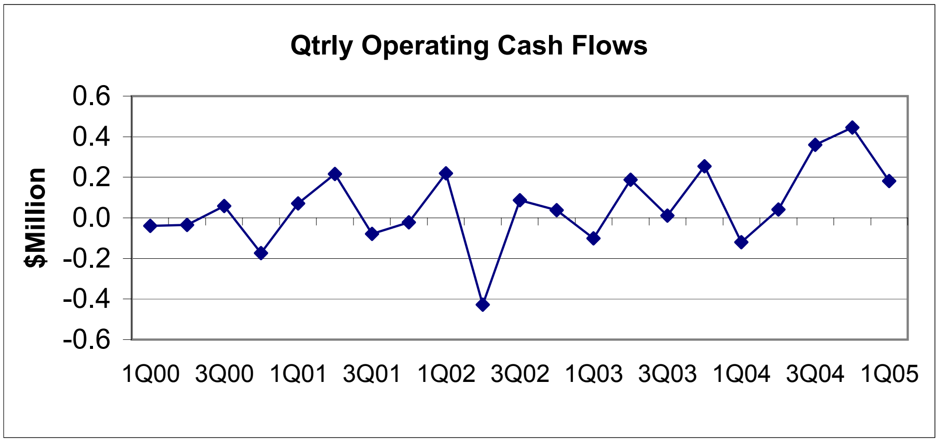


Quarterly sales have increased steadily since the impact of 9/11 on the leisure time industry. One major factor for this growth was the introduction of three new models in calendar 2003.

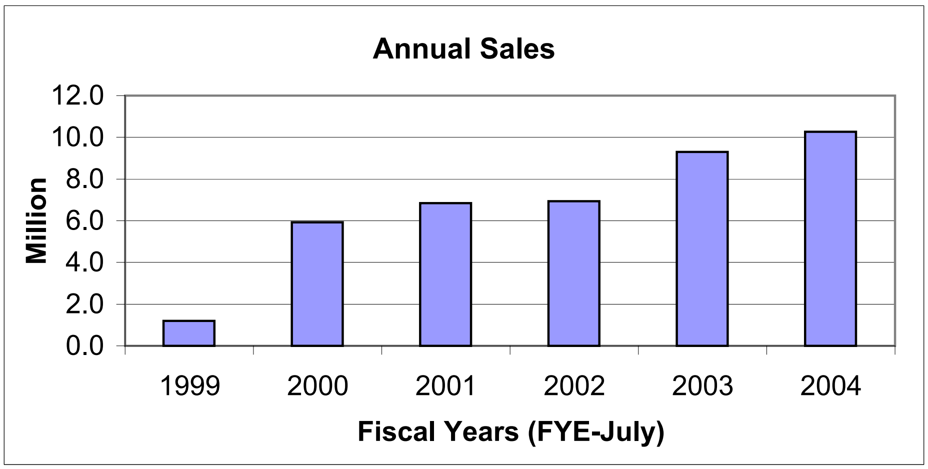


Being able to produce boats at a level that optimizes operating leverage allowed JMIH to post positive net income for six of the last eight quarters. The net losses posted in July 2003 and 2004 (4Q03 and 4Q04) were the result of expenses relating to consideration (stock) that was given to the CEO for providing a personal guarantee for the company's line of credit.

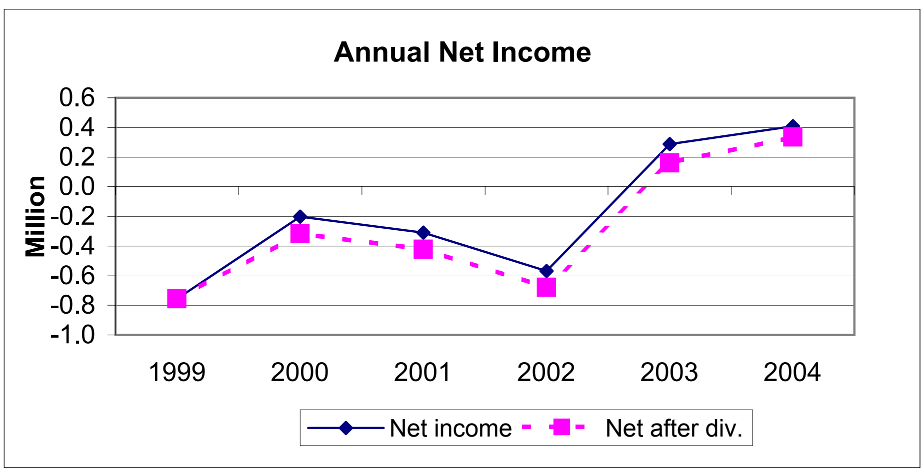




The improvement in operating cash flow is shown in the adjoining chart. The dip in sequential cash flows in 1Q05 was due to increased receivables that occurred as the result of shipments made near the end of the quarter. Generally, payments are received within four days after boats are delivered.



Annual sales have grown steadily since 9/11 due largely to R&D efforts. Sales increased 34% in FY03 when JMIH dropped two slow-moving models and added three new boats in the second half of fiscal 03. Sales increased 10% in 2004 but, if you exclude discontinued models, "continuing" sales rose 19%.



Annual operating profits have improved as JMIH benefited from increased operating leverage.

The table below shows the favorable trend in JMIH's financial condition. Debt levels declined (the only long term debt, a capital lease, was recently paid off) and times interest earned has steadily increased as the result of improved operating cash flow.

Annual Financial Condition

	2000	**2001**	**2002**	**2003**	**2004**
LTD/Capital	31%	40%	-43%	1%	0%
Times Interest Earned	119%	20%	-340%	750%	1130%
DSO	1	1	2	6	1
Op. Cash Flow (Mill.)	-$0.2	$0.2	-$0.1	$0.4	$0.7

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OUTLOOK

We think net income could grow significantly in 2005 as JMIH benefits from increased operating leverage and the ability to utilize operating loss carry forwards. Production capacity (and operating leverage) will increase significantly in FY06 due to the recently leased space (which is expected to double productive capacity). Gross margins could improve as the result of operating leverage and the introduction of the new 38' model. Operating income is expected to grow in the double-digit range but net income growth will slow in 2006 due to the need to pay taxes (we expect the net operating loss carry forward to be fully utilized ion FY 05). EPS growth will lag net income as the result of management options. Our earnings model shown in the table below is based upon the following assumptions:

Assumptions:

1. Annual sales growth of 21% in 2005 and 16% in 2006. The historical range has been between 34% (FY03) and 1.3% (FY02).

2. Gross margins between 24%-25%. The historical range has been between 29.2% (FY99) and 16.4% (FY00). Gross margins could exceed these levels if the sales mix contains more of the newer models and if operating leverage is better than assumed.

3. Sales & Marketing expenses at FY04 levels (3.4% of sales).

4. General & Administrative expenses grow at 6.0% per year.

5. Diluted shares outstanding increase 1 million per year due to the company's management incentive program.

6. Preferred dividend is eliminated in FY05 when all preferred shares are converted into common.

EARNINGS MODEL

(Millions, except EPS)	**2000**	**2001**	**2002**	**2003**	**2004**	**2005e**	**2006e**
Revenue	5.92	6.84	6.93	9.30	10.26	**12.45**	**15.46**
Cost of Goods Sold	4.95	5.69	5.90	7.37	7.73	**9.46**	**11.62**
GM	0.97	1.15	1.04	1.93	2.53	**2.99**	**3.83**
S&M	0.90	1.03	0.32	0.28	0.35	**0.42**	**0.53**
G&A	0.00	0.00	0.90	0.88	1.30	**1.43**	**1.55**
Depr	0.21	0.25	0.33	0.32	0.26	**0.37**	**0.46**
Other	0.00	0.11	0.00	0.00	0.00	**0.00**	**0.00**
Operating Income	-0.14	-0.23	-0.51	0.45	0.62	**0.77**	**1.30**
Interest Expense (Inc.)	0.06	0.08	0.05	0.10	0.08	**0.07**	**0.06**
Other Inc	0.00	0.00	0.00	0.00	-0.02	**0.00**	**0.00**
Other Exp	0.00	0.00	0.00	0.07	0.15	**0.00**	**0.00**
Income Before Taxes	-0.20	-0.31	-0.57	0.29	0.41	**0.70**	**1.24**
Income Taxes (34%)	0.00	0.00	0.00	0.00	0.00	**0.00**	**0.42**
Net Income	-0.20	-0.31	-0.57	0.29	0.41	**0.70**	**0.82**
Pref Div	0.11	0.11	0.11	0.13	0.07	**0.02**	**0.00**
Net to common	-0.32	-0.42	-0.68	0.16	0.33	**0.68**	**0.82**
Fully Diluted EPS	($0.08)	($0.10)	($0.16)	$0.03	$0.03	**$0.04**	**$0.05**
Diluted Shares	4.0785	4.124767	4.143839	9.735834	11.8534	**16.1**	**17.1**

Boldfaced data are forecast

Growth Rates							
Revenue		15.5%	1.3%	34.2%	10.3%	**21.3%**	**24.2%**
Operating Income		-65.4%	-119.0%	188.1%	36.2%	**24.3%**	**69.2%**
Net Income to Comm.		-33.9%	-60.3%	123.5%	110.5%	**102.9%**	**20.0%**
Diluted EPS		-32.4%	-59.5%	118.3%	-5.8%	**49.4%**	**13.0%**
As % Sales							
Gross Margin	16%	17%	15%	21%	25%	24%	25%
Op. Margin	-2%	-3%	-7%	5%	6%	6%	8%
Net to Comm. Margin	-5%	-6%	-10%	2%	3%	5%	5%

VALUATION

The stock appears to be undervalued based upon our earnings forecast. Our 12-18 month target price is $0.65 and is based upon our 2006 earnings target and current valuation multiples (see the table below). If the market "discovers" JMIH, our target price may be reached faster than anticipated.

The model assumes an equal weighting to the valuation multiples, but if you assume that the P/E drives the stock price for this sector, then the potential price range increases significantly.

VALUATION MODEL		**LTM Range**	**Current***	**Mult. F'cast**	**2005 Est.**	**Target Range**	**Mult. F'cast**	**2006 Est.**	**Target Range**
P/E*	High	68.7	6.3	30.0	$0.04	$1.27	30.0	$0.05	$1.43
	Low	-39.3		15.0		$0.63	15.0	$0.00	$0.72
Price/Book	High	5.4	3.1	5.0	$0.12	$0.59	5.0	$0.16	$0.79
	Low	1.2		1.2		$0.14	1.2	$0.00	$0.19
Price/Sales	High	0.5	0.4	0.55	$0.77	$0.43	0.55	$0.90	$0.50
	Low	0.1		0.14		$0.11	0.14	$0.00	$0.13
				Range	High	$0.76	Range	High	$0.91
					Low	$0.29		Low	$0.34
					Average	$0.53		Average	$0.62

* Current P/E is based on last 12 month average.

Investment Risks

Here is a summary of what I feel are the most pertinent risks related to JMIH. Investors should read the company's SEC filings in order to get more information on the risks associated with this or any investment.

<u>Share Price Volatility Risk.</u> Share prices could vary significantly because the shares are thinly traded (Officers and Directors own 59.7% of outstanding shares).

<u>Dilution Risk.</u> The number of common shares outstanding has increased significantly since 2003, which reduces earnings per share. The main reasons for the increased number of shares outstanding are: (1) conversion of preferred shares into common shares, (2) options issued to employees, and (3) shares issued for services provided by consultants.

<u>Key Man Risk.</u> The CEO is a key factor in the company's ability to develop and execute a business strategy as well as the R&D efforts. If he were unable to continue to perform these duties, it could have a material adverse effect on the company, if a comparable substitute were unavailable. In this case, the CEO's son appears to have the experience and the ability to step in and run the company.

<u>Valuation Risk (Market Ignorance Risk).</u> Because this company is not widely followed, the market is largely unaware of its investment potential. Consequently, if the company does perform as we expect, it is possible that them market may continue to undervalue the stock.

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