

Brunswick Earnings Conference Call Q1, 2015 – April 29, 2015

Bruce Byots – Vice President, Corporate and Investor Relations

Good morning, and thank you for joining us. On the call this morning is Dusty McCoy, Brunswick's Chairman and CEO, Mark Schwabero, President and Chief Operating Officer, and Bill Metzger, CFO.

Before we begin with our prepared remarks, I would like to remind everyone that during this call our comments will include certain forward-looking statements about future results. Please keep in mind that our actual results could differ materially from these expectations.

For the details on the factors to consider, please refer to our recent SEC filings and today's press release. All of these documents are available on our website at Brunswick.com.

During our presentation, we are using certain non-GAAP financial information. Reconciliations of GAAP to non-GAAP financial measures are provided in this presentation, as well as in the supplemental information sections of the consolidated financial statements accompanying today's results.

I would also like to remind you that the figures in this presentation reflect continuing operations only, unless otherwise noted.

I would now like to turn the call over to Dusty.

Dusty McCoy – Chairman and CEO

Thank you, Bruce and good morning everyone.

Our goal in 2015 is to continue to enhance and expand the growth we have been demonstrating for several quarters.

Our key end-markets continue to be resilient, and the U.S. market provides us with a solid platform from which to continue the growth of our businesses.

Our recently launched new engines, boats and fitness equipment, are beginning to generate market share gains around the world. Mark and I will provide insights into how our current product line-up is enabling us to generate above-market growth rates.

As the year is unfolding, the challenges of the increasingly volatile global economic landscape and the intensifying headwinds of foreign currency present risks, but they also offer opportunities for all of Brunswick to leverage our fundamental advantages in the marketplace – great people, technology, innovation, leading brand position, product quality and the unrivaled breadth and strength of our distribution networks.

Although we must manage these risks, we are focused on taking advantage of the opportunities we have created and are increasingly confident we will achieve the 2015 growth goals evidenced in our guidance for the year.

Now let me provide you with an overview of our first quarter results. To more accurately reflect the operating and market fundamentals of our operating segments, we will also present net sales on a constant-currency basis, excluding currency changes.

Reported revenue in the quarter increased 10 percent. On a constant currency basis, revenue increased by 14 percent. This is in line with our first-half sales growth guidance of high-single to low double-digit percents. We experienced growth in all of the major product categories. The highest growth rates were reported by marine parts and accessories and fiberglass sterndrive/inboard boats.

As expected, our gross margin decreased by 90 basis points compared to the prior year; and, operating expenses increased by 5 percent. Operating expense was 17.3 percent of sales.

Operating earnings increased by 8 percent versus prior year. As expected, operating margins were down 20 basis points to 9.0 percent.

Continuing down the P&L, pretax earnings increased by 13 percent. Finally, diluted EPS was \$0.59, reflecting a \$0.07 increase over the prior year period.

As we detailed on our January call, although our full-year plan reflects improvements in operating margins, first-half operating margins are expected to be flat to slightly down compared to the same period in 2014 - - with the key drivers being foreign exchange headwinds, the absence of 2014 favorable warranty adjustment, and continued increases in investments to support our strategic objectives, where the growth rate of these investments is heavily weighted to the first-half of 2015.

In addition to these items, our new product launch successes are introducing additional costs and inefficiencies in the first-half, as we open and expand plant capacity to meet demand, continue to introduce a significant number of new products into production in each of our segments, and ramp up production as our sales continue to experience significant growth.

The strong sales performance represents the third consecutive quarter of double-digit growth rates - - reflecting solid market demand and contributions from recent investments in new product launches throughout our organization.

On a constant currency basis, sales in our combined Marine segments increased by 16 percent, while our Fitness segment increased by 6 percent.

From a geographic perspective, consolidated U.S. sales increased by 17 percent.

On a constant currency basis :

- Sales to Europe increased by 16 percent.

- Rest-of-World sales increased by 4 percent.

In summary, combined sales outside the U.S. increased by 9 percent

Operating earnings were \$88.7 million for the quarter, an increase of \$6.8 million compared to 2014.

Operating margins decreased by 20 basis points to 9.0 percent due to the factors described earlier.

Pretax earnings increased by \$9.8 million, or 13 percent, as we also benefited from lower net interest expense and higher other income.

Diluted EPS from continuing operations, for the quarter, equaled \$0.59 per share, reflecting a \$0.07 increase.

Now I will provide our perspective on the global marine market.

First a quick update on how the U.S. market performed in 2014. The U.S. powerboat industry grew to approximately 167 thousand units, or by 5.5 percent in 2014.

In the first quarter of 2015, the preliminary U.S. powerboat industry grew approximately 7 percent, as once again outboard boats led the way. March, which comprises about 9 to 10 percent of the year at retail on average, demonstrated comparable growth trends. As a reminder, in the first quarter of 2014 the U.S. experienced fairly widespread adverse weather conditions.

Given our assumption of a continuation of a sub-three percent annual GDP growth rate, we anticipate 2015 U.S. industry growth rates to be comparable with 2014.

Next, let me provide some additional color on marine markets outside the United States.

Let's start with Europe. Overall unit retail demand for boats and engines improved in the first quarter compared to a year ago. Scandinavia and Southern Europe were particularly strong, while Eastern Europe was weak. The retail market in Russia has dropped significantly – more than 50 percent - due to slowing economic conditions and the weakening of the Ruble.

ECB monetary actions should continue to help retail market demand in Europe, and because most Brunswick Marine product in Europe is priced in local currency, the strengthening of the U.S. dollar hasn't affected retail demand. However, the negative effects of translation are lowering margins on product not manufactured in the region. For the full-year, we are planning for overall demand in Europe to be flat to slightly up.

In Canada, first quarter retail was down sharply, reflecting weakness in March. We anticipate that the retail boat market in Q2 and Q3 will likely remain difficult and down versus a year ago, as consumers react to the price impact of the stronger dollar level, which is making product more expensive in Canadian dollars. Overall, we believe that the Canadian market will be down for the full-year.

In South America, specifically Brazil, retail boat demand is down over 20 percent over the last six months, compared to the same period a year earlier. The weakening Real has severely limited demand for boats being imported into Brazil from the U.S. or Europe. As a result, Brunswick boats manufactured in Brazil have picked up market share due to our local manufacturing presence, but we are still challenged for sales due to an overall weak retail boat market and declines in sales of boats that we import into the region. For the full-year, we are planning for the overall South American market to be down.

Finally, in Asia Pacific, first quarter retail markets in the region were flat to slightly down with last year. Our plan reflects a flat to slightly down market for 2015.

In summary, for the reasons just described, global market demand for the year is expected to increase in the 3 to 5 percent range, which is consistent with the assumption used in our multi-year plan. During the first quarter, markets performed more towards the higher end of that range.

Now, I'll turn the call over to Mark for a closer look at our segment results.

Mark Schwabero – President and COO

Thanks Dusty. I'll start with the Marine Engine segment, where first quarter sales, on a constant currency basis, increased by 16 percent. Overall, acquisitions contributed 4 percent to the segment's year-over-year growth.

From a geographic perspective, sales in the U.S. were up 19 percent, reflecting an increase in all major product categories. Excluding 2014 acquisitions, U.S. sales increased approximately 14 percent.

Sales to Mercury's European customers, excluding currency changes, increased by 21 percent, which included a 9 percent benefit from an acquisition completed in 2014. Excluding Russia, revenues were up in all categories.

Rest-of-World sales on a constant currency basis increased by 5 percent, as these regions benefited from gains in outboard engines, as well as parts and accessories. This growth was partially offset by lower sterndrive/inboard sales.

On a product category basis, the outboard engine business reported solid overall sales growth in the quarter, which included benefits from Mercury's 75, 90 and 115hp FourStrokes introduced in 2014, as well as the new 350 and 400 hp engines launched in Q1, 2015, which fortify our position in targeted growth segments.

These new engines have been well-received by OEMs and consumers, particularly in larger offshore boats, and have led to market share increases within these horsepower categories, including gains in targeted saltwater and re-power markets.

Our outlook for the U.S. outboard engine business continues to reflect favorable retail demand. Europe and Rest-of-World markets all demonstrated year-over-year growth with the exception of the high volume, small horsepower engine market in Russia, due to the weak retail demand mentioned earlier.

On the sterndrive side, Mercury's award winning and recently launched 4.5 liter 250hp purpose-built engine is receiving very positive feedback from OEMs and consumers. Sterndrive engine sales continued to be affected by unfavorable global retail demand trends, however, this category did experience modest growth. Diesel engine unit sales were up modestly during the first quarter.

Mercury's parts and accessories businesses, excluding the impact of currency and acquisitions, delivered strong sales growth during the quarter, with gains in most major markets.

Revenue benefited from new product launches and market share gains. This includes product successes such as: Attwood's portable and integrated fuel systems, as well as their new LED and underwater lighting system products; Whale's new and award-winning range of intelligent control pump systems; MotorGuide's new trolling motors; Joystick piloting systems for outboard engines; a refreshed helm suite with new control and features; the award-winning Eco Enertia propeller and Quicksilver, a leader in lubricants for not only marine, but also for motorcycles, ATVs and snowmobiles.

In addition, the continued sales records achieved by our distribution business portfolio, including Land 'N' Sea, Kellogg Marine, Diversified Products, and the recently acquired Bell Recreational Products businesses demonstrate their ability to deliver on superior product availability, on-time delivery and product category expansions.

In addition, favorable weather conditions combined with lower fuel costs have provided improved market conditions in the United States.

Lastly, earlier this week, we announced the completion of our third P&A acquisition. We acquired BLA, Australia's largest provider of marine products - - strengthening our presence in the region.

Mercury's operating earnings increased by 20 percent compared to last year's first quarter. Operating margins were at 13.2 percent, 100 basis points higher than the prior year quarter.

The improvement in operating earnings reflected higher sales - - including a favorable product mix benefit from parts and accessories growth and recently launched outboard products. Partially offsetting these positive factors were the unfavorable effects of foreign exchange and increased investments for long-term growth.

In our Boat segment, first quarter revenues on a constant currency basis increased by 15 percent, with strong growth in fiberglass sterndrive/inboard boats and solid gains in outboard boats.

Our boat brands made progress during the quarter in gaining share. This occurred not only in the U.S. market, but also in key regions including, Europe, Brazil and Canada. Our share gains reflect the advancements made by our various product development teams – both in terms of shortening the average age of our boat models, as well as bringing fresh new concepts into the marketplace. This has been demonstrated across our brands and categories including: Boston Whaler's Dauntless family of boats and 320 Vantage; Sea Ray's 19 foot SPX and L-Series Yachts and Lund's 1750 Rebel XS and Harris' dual console pontoon.

In the U.S., which represented over two-thirds of the segment, sales increased 21 percent.

In the quarter, European sales on a constant currency basis, increased by 21 percent versus the prior year. This performance resulted from the introduction of new products, including larger, higher-priced products by our European manufactured outboard boat brands.

Rest-of-World sales on a constant currency basis, decreased by 3 percent, which reflected the weaker demand in Canada, which was down 12 percent on a constant currency basis, due to conditions described by Dusty earlier in the call.

In the first quarter, Brunswick's global retail unit sales increased by 12 percent compared to prior year, reflecting more favorable U.S. weather conditions, as well as, market share gains. Global wholesale unit shipments increased by 4 percent. This compares to the Boat group dollar sales increase of 12 percent, as the segment also benefited from higher average selling prices due to a favorable shift in mix across most of its boat lines. For the remainder of the year, and particularly in the second half, wholesale unit growth will be a bigger contributor to sales increases than average sales price growth.

Regarding our pipelines, dealers ended the quarter with 40 weeks of boats-on-hand measured on a trailing 12-month retail basis, comparable to the prior year level.

Pipelines for aluminum products are up compared to last year, due to an expanded distribution network and new product introductions. Fiberglass sterndrive/inboard pipelines are flat versus the prior year, while fiberglass outboard pipelines are down slightly.

Our plan assumes that the wholesale unit growth rate for the full-year will be consistent with our retail unit growth rate.

In addition, current pipeline levels are appropriate, given our growth expectations in the various boat categories, and we continue to be comfortable with these overall levels.

The Boat segment's first quarter operating earnings declined by \$700 thousand, when compared to the prior year.

Operating performance in the quarter included planned cost increases associated with new product integrations, capacity expansions and production ramp-up, partially offset by higher sales, including several new product introductions.

In addition, foreign exchange had an unfavorable impact on first quarter earnings.

On a constant currency basis, sales at Life Fitness increased by 6 percent for the quarter. Growth resulted from higher sales to U.S. health clubs and hospitality customers, as well as sales gains in international markets, particularly certain developing regions. Partially offsetting this growth was lower sales to local and federal governments.

The segment continued to benefit from new product introductions in all regions, with this quarter representing its tenth consecutive quarter of year-over-year revenue growth.

Life Fitness continues to develop new products and services that drive market share growth in their commercial cardio and strength categories. Recent examples that have led to their share gains include: Explore Console for the Elevation Series, Powermill Climber, Flexstrider, E-series Cross Trainers and the multi-purpose Synrgy family of training systems.

Segment operating earnings in the quarter decreased 13 percent, as the impact from higher sales was more than offset by the absence of a favorable warranty adjustment in 2014 and an unfavorable impact from foreign exchange.

In addition, Life Fitness incurred costs associated with planned capacity expansion activities and new product integrations.

Now, I'll turn the call over to Bill for additional comments on the financials, starting with a consolidated perspective on how foreign exchange affected our results.

Bill Metzger – CFO

Thanks, Mark.

I would like to start with discussing the impact that foreign currency is having on our sales comparisons. As a reminder, approximately 20 percent of our sales are transacted in a currency other than the U.S. dollar. Our most material exposures include sales in Euros, Canadian Dollars, Brazilian Real and Australian Dollars. In the first quarter, consolidated sales comparisons were negatively affected by almost 4 percent, which was higher than our previous

guidance due to further strengthening of the dollar. For the full year, we are estimating a similar impact on year-over-year comparisons.

The impact on operating earnings in the first quarter is approximately \$10 million, which was also modestly higher than expected. For the full-year, we are now estimating that operating earnings comparisons will be negatively affected by \$30 to \$35 million or 8 to 9 percent. This estimate includes the impact of translation on all sales and costs transacted in a currency other than the U.S. dollar, benefits from hedging activities of \$11 million, and pricing actions in certain international markets.

Additionally, estimates for the full-year assume that rates remain consistent with current rates for the remainder of the year.

Regarding our tax provision:

Our effective book tax rate, as adjusted, was 34.0 percent for the quarter.

Our effective book tax rate for full-year 2015 guidance is 34 percent, which excludes any benefit from the extension of the U.S. R&D tax credit, which would lower the rate by approximately 1.5 percent for the year.

Our estimated effective cash tax rate for 2015 reflects a low double-digit percent level.

Turning to a review of our cash flow statement. Cash used for continuing operating activities was \$125.9 million, a slight change of \$1.8 million versus the prior year.

As planned, pension contributions were approximately \$61 million in the quarter, an increase versus the prior year due to the timing of our 2015 pension contributions.

Normal seasonal changes in balances resulted in a use of cash in our primary working capital accounts and totaled approximately \$161 million, which is improved from the prior year. The biggest changes occurred in:

- Accounts and notes receivable, which increased by \$88 million,
- Accrued expenses decreased by \$78 million,
- Inventory increased by \$28 million, and
- Accounts payable increased by \$33 million.

Given the seasonality of sales in our marine businesses, we anticipate the liquidation of working capital over the balance of the year.

Total free cash flow amounted to a negative \$(168) million, versus a negative \$(145) million in the prior year - - a difference of about \$23 million.

Capital spending was approximately \$34 million, which included investments in new products in our marine and fitness businesses, as well as capacity expansion projects.

Our business units continue to remain focused on generating strong free cash flow, which will allow us to continue to fund future investments in growth and enhance shareholder returns.

Cash and marketable securities totaled \$426 million. The decline from year-end 2014 reflects a seasonal free cash flow usage of \$168 million, as well as cash returned to shareholders through share repurchases and dividends of approximately \$20 million and \$12 million, respectively.

Let me conclude with some comments on certain items that will impact our P&L and cash flow for 2015.

Our estimate for depreciation and amortization is approximately \$90 million.

We expect pension expense to be approximately \$13 million. Any pension related charges associated with the second phase of the lump sum buyouts, planned in Q4, are excluded from our adjusted EPS guidance.

Net interest expense is expected to be about \$26 million.

Combined equity earnings and other income are anticipated to be comparable to prior year.

And, we expect our average diluted shares outstanding for the full-year to be approximately 94.5 million. The anticipated reduction in average shares outstanding reflects continued execution of our \$200 million share repurchase program initiated in 2014, with purchases in line with the previous quarters, partially offset by stock compensation plan activity. Through the end of Q1, we have purchased \$40 million, or 787 thousand shares of stock, under the program. We expect to systematically complete the remainder of the current program by the end of 2016.

On the cash flow side, our plan reflects \$70 to \$75 million of cash contributions to our pension plans, which includes an amount that will be used to fund the lump sum benefit buyouts in 2015 - - a majority of those contributions have already been funded in Q1 to maximize returns and plan expense benefits.

Our current plan anticipates working capital changes to result in a modest usage of cash of \$20 million to \$40 million, and capital expenditures of approximately 4 percent of sales, with a substantial portion directed at growth and profit enhancing projects, including executing against capacity expansion plans in each of our segments.

Despite higher investment spending levels and a modest usage of cash for working capital, we plan to generate strong free cash flow for the full-year in the range of \$170 million to \$190 million.

I will now turn the call back to Dusty to continue our outlook comments.

Dusty McCoy – Chairman and CEO

Thanks, Bill. Our overall operating plans and assumptions for 2015 remain consistent with those we communicated on our last call. The first quarter produced results within the range of our initial guidance and expectations.

We continue to target 2015 to be another year of strong earnings growth with outstanding cash flow generation. Our plan reflects approximately 6 percent to 8 percent sales growth, which includes benefits from the success of our new products and the continuation of solid growth in the U.S., partially offset by weakness in certain international marine markets. Our guidance does not include any additional acquisitions made in 2015. We have also incorporated our assessment of the impact from changes in foreign exchange reflecting current rates.

For the full-year, we anticipate a slight improvement in gross margin levels and solid gains in operating margins. As I mentioned in my opening remarks - - our earnings growth will be more heavily weighted to the second-half of the year, reflecting improved manufacturing efficiencies and cost reductions, as well as less severe FX comparisons.

Earnings will benefit from managing costs through initiatives such as Lean Six Sigma, and by implementing programs to improve product costs through supply chain initiatives and manufacturing efficiencies.

As a result of ongoing growth investments, full-year operating expenses, will increase, but as a percentage of sales, are expected to be lower than 2014 levels - - approximately 17.0 to 17.2 percent. For the second half of 2015, we expect the increase in overall operating expenses to be more modest than planned in the first half.

As a result, our pretax earnings should continue to demonstrate strong growth of 15 percent to 20 percent. Finally, with one quarter behind us, we are raising the bottom end of our initial 2015 EPS guidance, as adjusted, to now reflect a range \$2.75 to \$2.85.

An early look at 2015 second quarter indicates continued strong top-line growth - - forecasted in the 6 to 8 percent range and operating margins to be flat compared to the same period in 2014.

Turning to our segments, the 2015 plan reflects continued revenue and operating earnings growth in our Marine Engine segment.

Specifically, we are planning for revenue growth in the mid-single digit range, with a solid improvement in operating margins, despite currency headwinds and the continued negative impact on operating leverage from acquisitions. In addition, we will continue to make significant investments at Mercury.

Our current plan reflects a stable pricing environment for our larger horsepower engine businesses.

Looking at our Boat segment, our plan assumes that we continue to successfully execute our large fiberglass boat strategy, which is a key part of an increasing number of new products that will be shipped into the market.

Our plan also reflects solid growth of outboard boats under 28 feet throughout the year and, therefore, influences our overall average sales price. As a result, increases in average-sale-prices will be at lower rate of growth versus 2014.

Our current plan reflects a stable pricing environment for our boat businesses.

We are targeting 2015 annual revenue growth in the low double-digit range, and we expect margins to be up, with year-over-year improvement in the segment's operating margin to be equal to or modestly less than achieved in 2014.

In our Fitness segment, our plan is based on continued revenue growth and maintaining strong operating margins. In 2015, we are now targeting revenue growth in the low to mid-single digit range, reflecting the impact of the stronger U.S. dollar.

We will continue to make significant investments at Life Fitness - - aggressively leveraging innovation to achieve competitive differentiation in its products and services, which should continue to enable market share growth and create business opportunities beyond its core business model.

We are planning for margins to be flat to slightly up at Life Fitness for the full-year.

Our capital strategy for 2015 remains consistent with what we described to you on our last call. We plan to: maintain strong cash and liquidity positions, deploy capital to strengthen our Marine and Fitness segments and to execute our pension de-risking plans, as well as return cash to shareholders through a balanced approach that includes dividends and share repurchases.

In conclusion, although we face some challenges in 2015, we are well-positioned to continue to successfully execute our growth strategy and increase shareholder value. The management team and the 12 thousand-plus employees of Brunswick will remain focused on:

- Bringing to market a steady cadence of new product introductions aimed at attracting and capturing sales through consumer-friendly features and capabilities;
- Expanding capacity throughout all of our businesses – engine, boat and fitness -- to meet increasing demand;
- Increasing efficiencies and streamlining costs by continuing to operate our businesses as successfully as possible and
- Identifying and funding the best opportunities we see for growth, as well as managing and adjusting Brunswick's product portfolio as necessary.

Thank you and now we are happy to take your questions.