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PRESENTATION

Operator

Good morning and welcome to the Brunswick Corporation 2016 first-quarter earnings conference call. All participants will be in a listen only mode until the question and answer period.

Today's meeting will be recorded.

If you have any objections you may disconnect at this time. I one now like to introduce Bruce Byots, Vice President, Investor Relations.

Bruce Byots - *Brunswick Corporation - VP of IR*

Good morning and thank you for joining us. On the call this morning is Mark Schwabero, Chairman and CEO 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 supplemental information sections of the consolidated financial statements. I would like to remind you that these figures in this presentation reflect continuing operations only unless otherwise noted.

I would now like to turn the call over to the CEO, Mark Schwabero.

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

Thanks, Bruce. I'm having trouble getting used to the title as well, and good morning to everyone on the phone today.

I'd like to focus my remarks on our first-quarter results, as well as provide insights into our global marine markets, and I will let Bill elaborate on our financial performance, including comments pertaining to our segments, as well as the P&L and cash flow expectations. I will then wrap up with our current 2016 full-year outlook.

First quarter results reflect the continue successful execution of our growth strategy. Although it's early in the marine season, initial indications underscore a healthy US marketplace, which is consistent with our assumptions entering the year. And our 2016 outlook continues to represent another year of strong earnings growth and free cash flow, as well as investment in our businesses. We are making excellent progress integrating Cybex into the fitness segment and are already starting to see the benefits of combining these commercial fitness equipment leaders.

Revenue in the first quarter increased 9%. On a constant currency basis revenue increased by 10% with acquisitions contributing 4% of our growth. The strongest growth rates were reported by fiberglass outboard boats and our marine parts and accessories, and outboard engines exhibited solid growth rates, as well. Our gross margin increased 10 basis points compared to the prior year. Our operating expenses increased 7%, and were 17% of sales, which compared to 17.3% of sales in 2015.

Excluding the impact of acquisitions, our operating expenses decreased by 1%. Adjusted operated earnings increased by 13% versus our prior year, with operating margins of 9.3%, up 30 basis points compared to last year. As expected, our operating leverage for the quarter was approximately 13% on an adjusted basis.

Continuing down the P&L, the adjusted pretax earnings increased by 12%, while diluted EPS, as adjusted, of $0.71 was up 12% -- or $0.12 for 20%. Finally, free cash flow totaled an outflow of $133 million, an improvement of $35 million versus the prior year.

For the year on a constant currency basis, sales in our combined marine segments and fitness segment increased by 8% and 19% respectively. Acquisitions contributed 3% to the engine business and almost all of the growth in the fitness segment. From a geographic perspective, consolidated US sales increased by 11% and on a constant currency basis, European sales increased by 14% and the rest of the world sales increased by 3%. In total, the combined sales outside the US on a constant currency basis increased by 8%.

In the first quarter of 2016, adjusted operated earnings were $99.8 million, an increase of $11.1 million, or 13% compared to the first quarter of 2015. Our adjusted operating margin of 9.3% is 30 basis points higher than the prior year.

And now I will give you a little perspective on the US marine market. Based upon the preliminary data, the first quarter, which on average comprises about 16% of the year at retail, reflected a growth rate of approximately 9%, which is comparable to the Q1 2015 growth rate. Outboard sales increased by approximately 11% and fiberglass sterndrive/inboard grew by 7%. We are encouraged by the early-season strength of the market and are maintaining our initial assumptions of the 2016 US industry growth will be similar to that of 2015.

Next, I would like to review with you our current marine market perspectives on Europe, Canada and the rest of the world. Please let really remind you again we are still early in the season in most of our markets, particularly in Canada. In Europe, our full-year outlook continues to reflect modest retail unit growth.

We continue to experience mixed regional results throughout the continent, but overall, demand remains relatively healthy. In Canada, our forecast for 2016 is also subject to different demand characteristics throughout that country, with a slight growth in Ontario and Alberta continuing to be down. We are continuing our original assumption that the overall Canadian market will be stable; however, early-season results have been weaker than we anticipated.

Commenting on dealers, dealers are managing there inventories very conservatively and are looking for indicators that currency volatility and the economic conditions will become less challenging before they restock. In other rest of the world markets, our outlook for Asia-Pacific continues to reflect stable retail demand while Latin America remains a difficult market, with retail unit declines anticipated to be in the low double-digit range.

Please keep in mind that the Asia-Pacific and Latin America markets are largely commercial markets for our outboard engine segments. Our targeted growth rate in commercial markets are mid-single digits.

In summary, we are maintaining our view that the 2016 global unit market is in the 3% to 5% range and that our revenue growth will continue to outperform through share gains and mix improvements, as well as benefits from acquisitions in our parts and accessories business. And now I'd like to turn the call over to Bill for comments on our segments and our financial statements.

Bill Metzger - *Brunswick Corporation - SVP & CFO*

Thanks, Mark.

I'll start with the marine engine segment, where first-quarter sales on a constant currency basis increased by 9%. Overall, 2015 acquisitions, including BLA in the second quarter and Garelick in the fourth quarter, contributed 3% for the segment's quarterly sales growth. From a geographic perspective, sales in the US were up 7%, reflecting increases in parts and accessories and outboard engines.

Sales to Mercury's European customers, excluding currency charges were up 20%, led by strength in outboard engines and parts and accessories. This performance reflects benefits from new engine products and our strategy to expand the parts and accessories business in this region.

Rest of the world sales on a constant currency basis increased by 10%. The majority of the growth in the quarter came from the BLA acquisition. Performance in this region was mixed, with modest growth in Canada and Asia-Pacific, offset by declines in Latin America.

On a product category basis, the outboard engine business reported solid sales growth in the quarter, which included strong contributions from Mercury's new 350-horsepower and 400-horsepower engines launched in Q1 2015. These new engines, combined with other products introduced over the past several years, have resulted in market share gains in targeted saltwater, repower and commercial markets.

There continue to be shifts in consumer preferences for outboard power boats, four-stroke versus two-stroke engines and greater horsepower engines, which has created short-term challenges for our manufacturing equipment. These factors, along with future product interruptions, have driven our decision to continue to expand capacity to meet demand, particularly at the higher horsepower range. These actions should benefit results in the succeeding quarters. Sterndrive engine sales continued to be affected by the shift to outboards and unfavorable global retail demand trends; however our share remains stable.

Mercury's parts and accessories business delivered strong sales growth during the quarter. Revenue benefited from recent acquisitions, new product launches and market share gains, including the successful execution of our international growth strategy. In addition, the continued sales records achieved by our portfolio of distribution businesses including land and sea, Kellogg Marine, Diversified Products, Bell and BLA demonstrated their ability to achieve superior customer service, product availability, on-time delivery and product category expansions.

Mercury's operating earnings increased by 6% compared to last year's first quarter. Operating margins were at 13.1%, 10 basis points lower than the prior-year quarter. The improvement in operating earnings reflected higher sales, a favorable product mix from recently launched outboard products and cost reductions, including benefits from lower commodity costs and savings related to sourcing initiatives. Partially offsetting these positive factors were increases in growth-related investments and unfavorable effects of foreign exchange.

In our boat segment, first-quarter revenues on a constant currency basis increased by 7% with strong growth rates in fiberglass outboard and larger sterndrive inboard boats. Sales of our aluminum outboard boats, as well as smaller sterndrive inboard boats, were down modestly. In the first quarter, our boat brand continue to make progress in gaining share. In the US, which represented three-fourths of this segment, sales increased by 14%.

In the quarter, European sales on a constant currency basis declined by 1% versus the prior year. This slight decline was mostly due to strong comparable growth in the prior-year quarter, as sales in Europe grew 21% in 2015. Rest of world sales on a constant currency basis declined by 13%, reflecting weaker demand in Canada and the Africa and Middle East regions.

For the first quarter, global retail unit sales increased by 10% compared to the prior year. US retail units during the same period increased by 14%. Global wholesale unit shipments were down 6% versus an increase in dollar sales of 6%, as revenues benefited from a favorable shift in mix to larger boats. For the remainder of the year, wholesale unit growth will be a bigger contributor to sales increases than average sales price growth, as several of our recent large boat introductions passed the one-year anniversary of production and new product [launches are more] balanced across the portfolio.

In 2016, we are again seeing the wholesale unit growth rate trail retail performance early in the season. This is due to several factors, including dealer stocking of new runabout products in 2015, which was not repeated in 2016 and the factors Mark mentioned regarding the Canadian market. For the full year, we're planning for wholesale and retail shipments to be in balance.

Regarding our pipelines, dealers ended the quarter with 38 weeks of boats on hand measured on a trailing 12- month retail basis compared to 40 weeks at the end of Q1 of 2015, with units up modestly compared to last year. We believe current pipeline levels are appropriate, given our growth expectations in the various boat categories and markets, and we continue to be comfortable with these overall levels.

The boat segment's first quarter operating earnings increased $8.7 million when compared to the prior year. Operating margins were at 4.9%, which reflect a 250 basis points improvement over last year's first quarter. Operating performance in the quarter benefited from higher sales and a favorable product mix, including pricing benefits from newer, fresher models. Also contributing to the increase were lower commodity costs and savings from sourcing initiatives.

Shifting to our fitness segment, sales increased by 19% for the quarter on a constant currency basis. Excluding acquisitions, Life Fitness sales increased by 1% on a constant currency basis. Sales in the US were down slightly, excluding the impact of acquisitions, reflecting improvements of sales to local and federal governments and slight increases in sales to health clubs, which were more than offset by weakness in consumer channels. International sales were modest, led by growth in Europe and Asia. Cybex and SCIFIT contributed about 18% for the segment sales growth rate in the quarter.

Segment operating earnings declined by $1.9 million as adjusted. Operating margins were at 10.9% as adjusted, which was 300 basis points lower than the prior year. Segment earnings were affected by benefits from cost reductions in savings related to sourcing initiatives, as well as favorable warranty adjustments. These factors were more than offset by unfavorable impact of customer and channel mix, increases in growth related to investments and $1.6 million in purchase accounting adjustments related to Cybex. The Life Fitness segment had approximately $4 million of restructuring integration charges in the first quarter and anticipates $7 million to $10 million of restructuring and integration costs related to the Cybex acquisition for the full-year 2016.

Next I will discuss the impact that foreign currency is having on our sales comparisons. As a reminder, our most material exposures include sales in euros, Canadian dollars, Brazilian real and Australian dollars, along with engine purchases in yen. In the first quarter, consolidated sales comparisons were unfavorably affected by approximately 1% and operating earnings were negatively affected by $5 million. These results were largely in line with our previous expectations.

Moving to full year 2016, we are anticipating that consolidated sales comparisons versus 2015 will be unfavorably effected by approximately less than 0.5%. Operated earnings comparisons are anticipated to have an unfavorable impact of $5 million to $10 million, or approximately 2%, which has improved from previous guidance due to the recent weakening of the US dollar against most currencies, slightly offset by the strengthening of the yen.

I would like to point out that a significant portion of the operating earnings impact is anticipated to occur in the first half of the year. These estimates for 2016 assume that foreign exchange rates remain consistent with current rates for the remainder of the year.

Our year-to-date effective book tax rate for the first quarter of 2016 as adjusted was 31%, 3 points lower than the 2015 rate. This reflects the benefit from the US R&D tax credit, as well as benefits from optimizing our international legal entity and cash management structures. Our effective book tax rate guidance for the full year 2016 is 31% to 31.5% as adjusted, and we are expecting our cash tax rate to be in the low midteen percent range.

Turning to a review of our cash flow statement, cash used for continuing operated activities was $90 million, an improvement of $36 million versus the prior year. As planned, pension contributions were $36 million, approximately $25 million less than the first quarter 2015. Net increases in our primary working capital accounts totaled $153 million, which is just under $8 million lower than the prior year.

The biggest changes included accounts and notes receivable, which increased by $98 million, accrued expenses which decreased by $45 million, inventory increased by $39 million and accounts payable increased by $25 million. Given the seasonality of sales in our marine businesses we anticipate the liquidation of working capital over the balance of the year.

Q1 2016 free cash flow was an outflow of $133 million versus $168 million in the prior year, an improvement of $35 million.

Capital spending was $46 million for the quarter, which included investments in new products, as well as capacity expansions in our marine and fitness segments. Our business units continue to remain focused on generating strong free cash flow, which will allow us to continue to fund future investments and growth, including acquisitions and enhanced shareholder returns.

Cash and marketable securities totaled $283 million. The change from year-end 2015 reflects the seasonal free cash flow usage of $133 million. In addition, spending on acquisitions during the quarter totaled $195 million. Cash returned to shareholders through share repurchases and dividends totaled approximately $40 million and $14 million, respectively.

Now let me conclude with comments on certain items that will impact our P&L and cash flow for 2016. Our estimate for depreciation and amortization is approximately $110 million. We expect a 2016 pension expense to be approximately $15 million, $3 million higher than the prior year.

That interest expense is expected to be flat with last year and combined equity earnings and other income are also anticipated to be comparable to 2015. And we expect diluted shares outstanding to be approximately $92 million to $92.5 million for the full year and range between $92.5 million and $91.5 million for the remaining quarterly periods. The reduction in average shares outstanding between years reflects the execution of our share repurchase program, consistent with our capital strategy.

On the cash flow side, our current plan anticipates working capital changes to result in a usage of cash of $60 million to $80 million, which includes the payout of deferred compensation balance in connection with our recent management transition. We are planning for capital expenditures to be 4% to 4.5% of sales.

This increased level of spending reflects substantial new product investments in our outboard engine business and continued capacity investments to support new products and growth, which are driving capital expenditures a bit higher than our long-term planning targets.

We also plan to continue to fund investment in product tooling and cost reduction projects. Our plan reflects approximately $35 million to $40 million of cash contributions to our pension plans, which is a reduction from 2015 levels. And we anticipate our cash taxes to increase in 2016 versus 2015.

Netting together these factors, along with our anticipated improved earnings performance, we expect to generate free cash flow for the full year in excess of $200 million. Our plan also assumes that share repurchases total approximately $100 million for the year in 2016.

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

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

Thanks, Bill.

Our overall operating plans and assumptions for 2016 remain relatively consistent with those we communicated in January during our Q4 earnings call. We continue to target 2016 to be another year of outstanding earnings growth with strong free cash flow generation. Our plan reflects approximately 9% to 11% sales growth, which includes the continuation of solid market growth in the US and Europe, partially offset by weakness in certain international marine markets. Our plan also reflects benefits from the success of our new products and market share gains.

We currently estimate that acquisitions will account for about 5 percentage points at our 2016 growth rate, reflecting the completed acquisitions. We anticipate a slight improvement in gross margin levels and in operating margins. Operating expenses are estimated to increase in 2016, but as a percent of sales are expected to be slightly lower than 2015 levels.

Looking forward to the remainder of 2016, our plan includes increased investment spending to support our growth plans. These investments will be directed toward new products, initiatives that help us advance our productivity, likely in Six Sigma, and investments to support our overall growth plans, including our information technology.

Our decision to proceed with these investments is based upon a favorable view of our markets, our long-term growth opportunities and our proven ability to deliver on our previous investments. While the severe headwinds we faced from foreign currency in 2015 are starting to subside, we continue to view this as a potential area that will need to be monitored throughout 2016, both from a risk, as well as from an opportunity perspective.

The cost actions taken in 2015 to respond to foreign currency continue to yield benefits in 2016. As we assess the full year and our operating plans, we are adjusting our full-year EPS guidance from $3.40 to $3.50 a share. An early look at the second quarter indicates strong topline growth rates, towards the lower end of our full-year guidance. We expect operating margins in Q2 to be lower than the prior year by approximately 50 basis points due to the increased investments to support growth that I just described on the previous slide.

Turning to our segments, the 2016 forecast reflects continued revenue and operating earnings growth in our marine engine segment, Mercury's engine targets -- growth targets are based on a fresh and innovative outboard product platform, and this growth is further supported by our market-leading P&A businesses that we plan to grow, both organically and through acquisitions. Specifically, we are planning for revenue growth in the mid to high single-digit percentage range with a solid improvement in operating margins. Our plans continue to reflect a stable pricing environment for our larger horsepower engine business.

Looking at the boat segment, we are targeting 2016 annual revenue growth in the mid to high single-digit percentage range with a solid year-over-year improvement in operating margins from approximately 100 basis points to 120 basis points. This represents a lower rate of improvement in both sales and operating margins compared to the prior two years, and for the first quarter, which included the mix benefits associated with the success of our large boat platform.

Moving forward, these benefits will be less pronounced as new product introductions will be more of replacing existing products and are more balanced across the portfolio. We remain positioned to achieve our long-term targets of 6% to 7% operating margins.

In our fitness segment, our plan is based upon continued revenue growth and maintaining strong operating margins. In 2016, including the Cybex acquisition and having a full year of SCIFIT, we are targeting revenue growth in the mid to high 20% range, resulting in total revenue approaching $1 billion. Although the first quarter growth was modest, our outlook excluding completed acquisitions continues to reflect mid to high single-digit growth based upon the underlying fundamentals from the market that we have previously described to you.

As we previously stated, Cybex margins have historically been lower than those of Life Fitness, largely due to our higher operating cost base on a percentage of sales basis. However, after the initial period of margin dilution, we expect to return the combined business margin levels to traditional Life Fitness margins by 2018 due to the cost reduction and revenue growth.

We are planning for 2016 operating margins as adjusted to be lower due to the impact of the Cybex acquisition, including the purchase accounting adjustments, with the impact being more first half weighted due to seasonality of the Cybex business and limited benefits from the integration savings. Lastly, I would like to add that we continue to believe Cybex will continue to provide a net benefit of $0.08 to our 2016 EPS as adjusted.

And with that, I'd like to thank you again and we will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question and answer session.

(Operator Instructions)

Our first question comes from James Hardiman from Wedbush Securities. Please go ahead.

James Hardiman - *Wedbush Securities - Analyst*

Good morning, thanks for taking my call. The first question, just the overall guide, you raised the lower end by $0.05, so about $0.025 at the midpoint. Tie that with what seems to be better currency, it looks like about a $10 million improvement versus your prior guidance which is more like a $0.075 benefit to numbers. Why weren't you able to move the guidance up, certainly given better FX numbers versus your prior guide?

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

I think the first half of the question, it is pretty early in the year yet, as I mentioned in my comments, pretty early in the year to start moving our guidance around. It is early in the marine season, it's the off-season relative to fitness, so that is part of it, James. Continuing to watch it, but we felt comfortable with the currency FX moderating enough that we believe we could take some of the risk off the table and raise the guidance. Bill, I don't know if you'd like to --

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Bill Metzger - *Brunswick Corporation - SVP & CFO*

I would echo Mark's comments. It's awfully early in the year to be changing guidance related to currency, market volatility being such. Wouldn't certainly want to be in a habit of having to pull guidance down if currency happened to go the other way. As we demonstrated in 2015, currency is one of the factors that as it moves, we adjust operating plans accordingly. And just felt it prudent to leave the top end alone, even though we've got a little bit of currency tailwind relative to what our initial plans were. We obviously quantified that for you so you could understand exactly how much it was. But also when we access what some of the other moving parts are, we don't feel it's right to move the top end of the guidance.

James Hardiman - *Wedbush Securities - Analyst*

Got it, that makes sense. Then talk a little bit about the retail versus wholesale dynamic. Obviously global retail up 10%. US up 14%, those are both obviously really good numbers, but then wholesale shipments were down 6% globally, 1% in the US. So a pretty big delta between those two numbers.

In your prepared remarks you talked about the prior-year comparison being a factor there, so it's tough for me to tell if it's just the growth rates are significantly different or the actual units are significantly different.

As I think about your subsequent comment, which was that wholesale and retail will be in balance for the rest of the year. Does that mean that you're going to have to ship more than you retailed during the balance of the year to offset the first quarter, or will the growth rate be similar as we move forward? How should we think about that?

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

Let me roll back just a little from your question, James, and then specifically answer it. Fundamentally, what we do in the marine business is, during the -- let's pick a point during early third quarter and into the fourth quarter, we typically are always by design shipping out more wholesale than the retail activity.

You're coming out at out of the heart of the season. We are launching all the new products. Dealers are starting to bring some of those products in obviously to have them available for boat shows and other things going into the early part of the season. By design, our wholesale is going to be higher than retail typically in the second half of the year and then by design, the retail is going to be higher than wholesale in the first half of the year as that product sells out and moves through the channel by being able to be out there and in the market and the dealers having it.

The phenomena we are seeing of retail up, wholesale being down, quite frankly plays out exactly as the way we have as a business model for the business. And number two, the fact the pipelines are coming down is exactly as we would anticipate as well. When you are in season, even on the trailing 12 basis, you would expect to see the lowering. James, it is literally the way we try to run the business and look at the business to have that phenomena happen.

To the upside side of your question, it goes like this. The stronger the retail is in the first half and the lower the pipelines and the bigger that difference actually becomes some of the upside we would see in the second half, but it doesn't give us instantaneous upside. First-quarter retail isn't going to give us an increase in first-quarter wholesale.

James Hardiman - *Wedbush Securities - Analyst*

Got it.

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

It is just part of the overall cycle of how the business runs on the marine side.

James Hardiman - *Wedbush Securities - Analyst*

Okay, so basically --

Bill Metzger - *Brunswick Corporation - SVP & CFO*

James, between the new product introductions in 2015 and what's going on in Canada, really tries to identify what I would think to be the two biggest disconnects between what is going on in retail and what is going on in wholesale combined with Mark's comment that this early in the season, there is obviously not a plan for retail to be as strong as it is. Is going to catch up over the next few quarters as the retail season continues to unfold and dealers restock to levels that are appropriate. It is just a natural phenomenon.

James Hardiman - *Wedbush Securities - Analyst*

Okay, that makes a lot of sense. Thanks guys.

Operator

Thank you. Our next question comes from Randy Konik from Jefferies. Please go ahead.

Randy Konik - *Jefferies & Co. - Analyst*

Thanks a lot, thanks for taking my question. I just was more curious I want to talk about really the category of pricing. You talked about the engine market being stable, and I think you spoke about the idea that you are getting -- you've gotten favorable mix from the move toward the larger boats. Can you give us some perspective on where you see the larger boat mix unfolding over the next, let's say one to two years? And then besides mix shift towards, let's say larger boats, give us some perspective on pricing trends on the like for like footage boats there.

And then I'm just curious, as it relates to pricing around the parts and accessories business, how should we be thinking about pricing trends there, both from a mix perspective in different categories within parts of the accessories segment, but also over the next few years. Are there any areas where they may be underpriced? Just curious around this whole pricing complex. Thanks.

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

Randy, you have got about four or five questions there that I'll try to -- I hope I don't miss one in this. But pricing, when we talk about pricing on larger engines, we are just expecting stability and comparability there. And that's more in line -- our comments there are more around questions we get about yen versus dollars and what we see from competition. We are seeing a pretty stable market from a pricing environment for large and engine.

Larger boat trends, our comments there were more about -- we got a little heavier weighted in large boats is we were bringing all those platforms out, the new 650s and 590s and our L-class and things. We probably have a little bit of filling out to the dealer and pent-up demand on those orders, so our comments there are not reflecting about the market. It is more a reflection that we probably over indexed a little bit as that whole ramp-up of the bigger boat platforms were happening and now we get to a more traditional level loading of new product happening across the entire base.

In terms of your question about ASPs for like for like, although by definition, ASP means average selling price, what is really happening is the content going up. I would take examples that would relate to some of our outboard, outboard boats in general or even within the whaler category. You are seeing higher horsepower outboards moving up. Our average horsepower of engines sold are moving up, which drives up the ASPs. Secondly, you are seeing more other content, things like our joystick as features. You are seeing things on colored engines but also seeing a lot of content on boats.

People are going in at the time of order, they are wanting more features and putting more things on those boats, whether it is about sound systems and other things. The net/net of all of that is the ASP is going up, but I don't want to feel like there is a lot of pricing that goes on in the market. It is really just a much more significant contenting of boats that are going on a like for like footage basis.

And last one on P&A, typically P&A has kind of has a 2% to 3% price up on an annual basis, it's kind of what goes on. You could have a category, it is a little more competitive than another category, but traditionally that's kind of what happens on a price basis within the P&A arena. I hope that answered all of those, Randy.

Randy Konik - *Jefferies & Co. - Analyst*

Yes, super helpful. And just maybe, can you discuss, there's some leadership change during the quarter or so. What is your overarching perspective there, and how you see the different leadership structures or individuals impacting the business and how things may change or not change going forward? Thanks.

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

I guess it starts with myself. I think the board did a very good job and myself and working with Dusty on the overall succession there. I think the comments I've heard from the investment community and shareholders have been it's kind of a non-event, and I think that is probably the best way to go through that. The other changes we've made have been very positive with really great succession plans within the business.

And then most recently, one of -- naming Hugh Bower as head of the boat business, that is really part of the overall strategy of getting somebody back over the business. When I was in the COO role it was more or less mine, but now the COO, I really want to have somebody back in. Hugh's track record and the things he brings to the party I think are the right things for we what we want to do with that business.

Randy Konik - *Jefferies & Co. - Analyst*

Great, thanks, guys. Very helpful.

Operator

Our next question comes from Tim Conder from Wells Fargo.

Tim Conder - *Wells Fargo Securities, LLC - Analyst*

Thank you. First of all, let me just ask a couple of clarification questions. The 5% of growth from acquisitions that you -- Mark, that you called out in the guidance for the year on topline, those are from acquisitions that are already completed? I just wanted to make sure I understood that correctly.

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

That's correct.

Tim Conder - *Wells Fargo Securities, LLC - Analyst*

In your concluding preamble comments, if I -- did you say something about 6% to 7% operating margins, or did I misinterpret something there?

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

What I said was we continue to be on track of having our boat margins, we said at the investor day in November, we thought we could get our boat margins in the 6% to 7% range. What I was reiterating was that we feel comfortable that 6% to 7% is still a doable number across that three-year planning period for boats.

Bill Metzger - *Brunswick Corporation - SVP & CFO*

That 6% to 7%, Tim, was the 2018 target.

Tim Conder - *Wells Fargo Securities, LLC - Analyst*

I remember that, I just didn't quite catch that part in the preamble. Thank you, gentlemen. Given your commentary, this is more on the cadence wholesale versus retail and all of that also, and given your commentary with the expanded capacity of higher horsepower engines, so we should anticipate seeing acceleration in the engine segment growth beginning in Q2? Is that also what we should interpret that as?

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

I would characterize it, Tim, as a positive factor balanced out against other stuff, but it's going to be a tailwind.

Tim Conder - *Wells Fargo Securities, LLC - Analyst*

Okay. It sounds like you've touched on this a little bit, but again, just want to make sure here. The aluminum boats being weak, you talked wholesale/retail, is the wholesale in aluminum being down a little bit, is that due predominantly to making some adjustments with what you are seeing in Canada early, and just how Canada has been a little problematic over the last 18 to 24 months?

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

The real short answer to that is yes. Canada is a significant sales region for our aluminum boat business. It being a little sovereign, the dealers being a little more reserved or delayed, and they are looking for, as I mentioned in my comments, about a little more stability both in terms of currency and the economic environment. And as a result of them being a little more conservative, that has had some impact on the wholesale, and we try to offset it in other areas and other markets, but that's a little more of a headwind there on the wholesale side, Tim.

Tim Conder - *Wells Fargo Securities, LLC - Analyst*

Okay, and then Life Fitness, somewhat of a similar question, you called out in the US, it was, down predominantly led by the consumer portion of that. But isn't the consumer like 20% of overall Life Fitness's mix, so just maybe a little more color on what is going on on the Life Fitness wholesale? And again we understand that this time of the year is not the major portion for Life Fitness business, it is more skewed in the latter part of the year, but a little more color on that, given consumer historically has not been that large part of the mix.

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

The consumer is about 10% of Life Fitness. So yes, it is a smaller part but clearly we are seeing softness in the quarter through some of the big boxes' activity there, and I would use one as a quick example, something like Sears, where we watched that fairly closely for all kinds of different reasons. We've seen some of the softness there.

The other part I would characterize, due to some of the headwinds, we've seen some good things in hospitality and government, but we've also seen, what I'm just going to put in the first quarter, Tim, some things just on timing. For people, maybe it shifted a little, they might be shifting some orders from first to second or from first into third, and there are some concentration there of some customers in that arena.

I guess the overriding comment to make to you is that we still really like the fundamentals of the business, and when we look at the order rates and stuff coming into us for later deliveries through the year, we are still feeling very good about that underlying business, that's is why we are reaffirming our statements about where we think the growth rates would be for Fitness during the year.

Tim Conder - *Wells Fargo Securities, LLC - Analyst*

Two last ones, what is your ability to ramp up production, say California would get even more rain than they have and further make dents into the drought, and all of that. What is your ability to respond here in season on boat products? And then, not ask for a little bit, but aluminum alloy royalty potential, just maybe any update there, what you see timing, opportunity, size-wise? Thank you, gentlemen.

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

The question on California, California is a pretty small market. If California ramps up by 10%, 15%, or 20%, Tim, it would be a negligible impact to the real industry or to us in total. That's one point. On the alloy side, I would say we would have -- across all of our production and across our brands and stuff, we would have no inability to meet an increase in an area like California.

The second thing on the alloy, one of the opportunities we had working there has basically been canceled by the OEM. They are cancelling the car model that we were working on with them, so it's nothing about the alloy itself. The other program continues to move forward, but again, any impact on our business in the near-term or 2016 would be pretty negligible. Let's just say negligible, Tim.

Tim Conder - *Wells Fargo Securities, LLC - Analyst*

Thank you, gentlemen.

Operator

Our next question comes from Joseph Spak from RBC Capital Markets.

Ritapa Ray - *RBC Capital Markets - Analyst*

This is Ritapa Ray on for Joseph. Thanks for taking our questions. Two questions, the first one being: beside the purchase accounting drag in the quarter, I thought I heard it was $1.6 million, should we expect a similar magnitude in Q2 2016 and then, I guess locking at margins, are there any offsets? The second question is: are you hearing of any potential supply disruptions for a major competitor on the outboard side as a result of the recent earthquakes in Japan?

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

I will let Bill answer the Cybex piece first.

Bill Metzger - *Brunswick Corporation - SVP & CFO*

It decreases a little bit in Q2. One of the big impacts in Q1 is obviously the inventory step-up moving through, and then we get into more normal. Some of that trails into Q2, but then it tails off a lot in the back half of the year.

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

On the question have we've been hearing rumors of that, to a large competitor, the answer is no. What I will tell you, though, is that we have gone through the impacts of that on our supply base coming to the US from Japan. Or our supply base supplying our joint venture making engines in Japan, and quite frankly, we have no impact, at all, to any of our engine operations from the earthquake.

Ritapa Ray - *RBC Capital Markets - Analyst*

Thank you very much.

Operator

Our next question comes from Michael Swartz from JPMorgan.

Michael Swartz - *SunTrust Robinson Humphrey - Analyst*

Good morning, guys.

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

Good morning, Mike.

Michael Swartz - *SunTrust Robinson Humphrey - Analyst*

Mark, could you maybe give us a little more color, how do we interpret the strength we've seen in the US retail marine market thus far through the year, with your commentary of expecting similar growth to last year, I think year-to-date we are up about 10% last year, we were up 6% to 7% -- so help us think about that on a full-year basis.

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

Let's go to just one of the data points. Through the first three quarters of this year versus the first three quarters of last year, Mike, it's flat. We are up exactly the same year-over-year. It was in slide 8 that was in the deck, first-quarter of 2015, power boats were up 10%, first quarter of 2016, they're up10% -- industry was up 9% in first quarter last year, it's was up 9% this year. Very different pattern to being up.

If you remember, the month of January was down, and March is much higher. We are actually ending the first quarter in retail in essentially a flat position to where retail was at the end of the first quarter of 2015. Given that as a data point, why don't you go ahead and ask your question.

Michael Swartz - *SunTrust Robinson Humphrey - Analyst*

When you're saying flat, you're just saying a similar rate of growth, so up 10% versus up 10%?

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

Correct. A similar rate of growth. So as we looked at the marine industry for the full year for 2016, we were making pretty much that same assumption, that would be very similar to 2015, so when we look at the first quarter data, we are seeing the growth in 2016 is similar to 2015, so our full-year outlook for 2016 remains very similar to the outlook we provided back at investor day and at our Q4 call in January.

Michael Swartz - *SunTrust Robinson Humphrey - Analyst*

You referred to it, the kind of mix of how we get there through the first quarter is vastly different if we look at this year-- some of the key fiberglass categories are up 7% versus down 5% last year, so I would assume, all else equal, that would be very beneficial to you?

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

The mix, there are puts and takes every time in the retail data, and again with 16% of the industry for the year happens in the first quarter. The initial data there, there has been some uptick in the category that has traditionally shown declines. That is been in our favor.

There is been a little less growth on the aluminum side. The net/net, Mike, as we move through probably another two months or so of data, we can probably develop some more firm assessments. But right now, when you look at the broader market, we are seeing similar growth rates from 2016 to 2015. The mix is a little different.

Michael Swartz - *SunTrust Robinson Humphrey - Analyst*

Just on the pipelines, maybe for Bill, I think you said pipelines were 38 weeks this year, versus 40 last year. What was that in the US, understanding that-- and I would least assume the Canadian pipelines were down pretty significantly, so what does that mean for the US pipeline?

Bill Metzger - *Brunswick Corporation - SVP & CFO*

It's going to be pretty similar. A big portion of what we have is in the fields is in the US, maybe slightly less of a decrease because the Canadian markets are obviously driving the larger-than-average decline -- but is going to be mostly US. It is not like US is flat, and international makes up the delta, it is still across the portfolio.

Michael Swartz - *SunTrust Robinson Humphrey - Analyst*

Okay, great. That's all I have.

Operator

Our next question comes from David MacGregor from Longbow Research. Please go ahead.

David MacGregor - *Longbow Research - Analyst*

Just a question on the parts and accessories, you called that out as an area of strength. Is the growth you are seeing there relatively evenly distributed across Mercury and Atwood, or is one skewing more than the other?

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

You take, David, a couple of the elements there. Again, going a little farther backward than the specific question, to put it into context. The P&A business has a Mercury component to it, and that has not only the component parts but it also has products like our props, and rigging, and all the things. That has been lifting up a little more, because of my earlier comments about what ASPs are doing. People with higher horsepower go to more expensive props and joysticks and all of the other kind of things, so we are getting a little more lift there on the Mercury side.

The Atwood side, I would say, has had a flatter growth rate to it, and then the other element that is showing some nice growth is the distribution side, which is clearly about our continued ability to have the breadth of the product line, the same day/next day delivery, and making it really be a one-stop shop for our customers who come to us for their product needs on the distribution. So little more on the Mercury and the distribution, and a little less on the Atwood.

David MacGregor - *Longbow Research - Analyst*

Right. As you look at the strength across the parts and accessories business right now, does this inflate seller expectations and put your acquisition cadence on a slower trajectory?

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

No, it really doesn't. To go back, we said we would do about $70 million a year over a five-year period, and we're pretty much on target for the first two years of that, and we are in the third year right now, so we think $70 million is still a good cadence. We've said that would be made up of one to two product acquisitions and one to two distribution acquisitions.

And we've said that would be either to extend our product categories or extend our capabilities from a geographic or a segment basis. Our basic thesis hasn't changed, the cadence hasn't changed. We think $70 million is a doable number yet. Our pipeline has opportunities centered across all three of those dimensions I just talked about.

David MacGregor - *Longbow Research - Analyst*

Thanks, Mark.

Operator

Our next question comes from Jimmy Baker of B. Riley & Co.

Jimmy Baker - *B. Riley & Co. - Analyst*

Good morning, thanks for taking my questions. Mark, I want to follow up on, I think it was your responses to Mike's earlier questions.

I completely understand that it is far too early to call the year's retail performance, but I guess it would be a little more concerning to me if your reasoning for not being constructive is that you think we are tracking with 2015. Yes, your year-to-date retail growth is similar to 2015, but then you saw retail down in Q3 last year, so is your expectation that all this momentum is sort of set to reverse as we get towards the back half of the year?

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

I wouldn't say that, Jimmy. My comments are more along the line that we are probably just being a bit cautious, and everyone saw the euphoria about the first quarter, and we are just reminding people first quarter is kind of like-- if we see the continued cadence of that as we get a couple more months, we will probably have a little more optimism than we are expressing today.

But the net/net is, we are not worried about the next rest of the year. We just think it's a little too early to call yet. But as Bill made in his comments, I think there is some tailwind opportunities there for us.

Jimmy Baker - *B. Riley & Co. - Analyst*

Okay, understood. I guess more of a clarification question on the Mercury side of the business. In the press release, it mentioned the marine engine segment was up 8% internationally and in your slide presentation, we can see domestically, it was up 7%.

Both of those are above the segment growth of 6%. Is that delta just a function of no growth internally to the boat group, and how should we think about that as we move through the year, and your wholesale activity from the boat group catches up with retail?

Bill Metzger - *Brunswick Corporation - SVP & CFO*

Jimmy, I will take this. I would say the inter-company sales performance versus the total is very much somewhat driven by what's going on in our wholesale business, but there is a couple of other factors I think that are in play that are worth noting. The performance of the Mercury business in the commercial segment where-- we are obviously not playing there in boats-- is an important factor.

I think outboards are outperforming sterndrives where we are a little more over-indexed to sterndrive, and the boat business is a factor. If you take a look at our businesses on the boat and engine side, we are taking share. There is nothing in any of the metrics related to how our internal sales are stacking up against third party sales that's an issue. It's more of a timing and mix at a very high level, and both of the underlying businesses we are talking about are very healthy.

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

Jimmy, I would just layer on that, a reminder to go back, the three areas we've really focused on growth are saltwater, repower and the commercial and just, to build again on Bill's -- so the commercial is not about boats. That's engines going into commercial applications. Where our boats are not a benefactor of that.

The repower power obviously doesn't run through the boat side, and then saltwater, a lot of our growth there is, we have had great growth with things in the Sea Ray side and the Whaler side, but we're picking up growth now, and a lot of other independent OEMs. That growth there doesn't flow through the boat side as well. I'm just taking it back to the base strategy of why some of those elements are the way they are.

Jimmy Baker - *B. Riley & Co. - Analyst*

Right, I guess my question is just that, presumably boat group unit wholesale was a headwind to Mercury in Q1, and is it fair to expect that to dissipate as we move throughout the year and the boat group volume improves.

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

That's a fair assumption, Jimmy.

Jimmy Baker - *B. Riley & Co. - Analyst*

Okay, thanks.

Operator

Our next question comes from Craig Kennison from Baird.

Craig Kennison - *Robert W. Baird & Company, Inc. - Analyst*

Good morning. I'll keep it quick here. Would you please comment on used boat prices, and also credit availability at the consumer and dealer level?

Bill Metzger - *Brunswick Corporation - SVP & CFO*

I will keep my answer equally as quick. I would say that used boat pricing-- and again, we hear a lot of anecdotal information from dealers on that topic. Used pricing continues to improve a little bit, i.e. increase, as we get to a point where just availability of late-model product continues to shrink as a result of wholesale activity being limited over the last five to seven years.

That, Craig, I think continues to be a potential tailwind for us as we move forward. And on the retail financing side, not a lot of changes to report over the last three months. It continues to be very constructive. Availability continues to be, and capacity continues to be, solid. No material changes in underwriting. I would say we are very equal to where we were three months ago, and as we get into the season, I wouldn't say there is any big new tailwinds, nor is there any big headwinds facing us.

Craig Kennison - *Robert W. Baird & Company, Inc. - Analyst*

Great, thank you.

Operator

Our next question comes from Rommel Dionisio from Wunderlich Securities.

Rommel Dionisio - *Wunderlich Securities, Inc. - Analyst*

Thanks, one quick question. As we've seen the reversal to some degree in the Canadian currency, and oil prices starting to rise, are you guys seeing any sort of evidence, anecdotal or otherwise, from these last few weeks, from your dealers or customers that there might be some kind of stabilization or perhaps even a rebound in momentum from Canada?

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

We haven't seen a lot in the dealer order rates yet, but we've said about the mixed reactions across the country, there was a slight uptick in Ontario, which is about 40% of the Canadian market, so as compared to places like Alberta, which is a much, much smaller part where we are seeing continued decline. To your overall question, yes, there was a bit of an uptick in the Ontario market. We remain cautiously optimistic that is going to translate into some stocking levels, by Canadian dealers, in that part of the country as we move into the season a little more.

Rommel Dionisio - *Wunderlich Securities, Inc. - Analyst*

Thanks very much, Mark.

Operator

Our next question comes from Gerrick Johnson from BMO Capital Markets.

Gerrick Johnson - *BMO Capital Markets - Analyst*

Good morning, everybody. The additional invest in spending on high horsepower outboards, was that something that was contemplated in the original guidance, or were there some incremental decisions that were made later on?

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Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

No, that was contemplated in the initial guidance, Gerrick.

Gerrick Johnson - *BMO Capital Markets - Analyst*

Okay. You kind of touched on this with Jimmy's question, but I was hoping we could talk about outboard share. How that is holding up in the market both packaged as well as repower, and then freshwater versus saltwater? Thanks.

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

At the macro level, we are still continuing to grow share both in the US and the rest of the world. So the three focus areas we've really talked about again, the share growth in salt and in commercial and our repower activities are all picking up. I would say our share in the freshwater category is flattish, but we have a very, very strong share position.

I would characterize that more as flattish, Gerrick, but in the areas of the focus growth, and if you think about it strategically, our view has been to defend salt and grown in repower commercial, and [bend] fresh and grow in commercial repower and salt, and that's really playing out that way.

Gerrick Johnson - *BMO Capital Markets - Analyst*

A question I get all the time is on discounting in that segment. Seems Yamaha is pretty stable but Suzuki may be a little promotional, is that what you are seeing, or anything else you can provide us about discounting in that marketplace?

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

Everyone runs programs from time to time. We are continuing to see that. I think I've said it before, that one of the Japanese looks a little more aggressive in some markets than the others, but again, it's not in a consistent fashion across the world, Gerrick, but on isolated cases, we've seen one doing a little more discounting than others.

Gerrick Johnson - *BMO Capital Markets - Analyst*

All right, thank you, very much.

Operator

Thank you. I one now turn the call back over to Mark for some concluding remarks.

Mark Schwabero - *Brunswick Corporation - Chairman & CEO*

Again, I just want to thank everyone for taking their time from a busy day in earnings call season to be with us on the call today. Some great questions, great interactions. We continue looking forward to visits and seeing some of you as the year progresses.

Again, I want to reiterate we look forward to delivering on the commitments we made and the guidance we provided for the year. And in fact, it has already been stated, we moved the bottom up a little bit, and we will continue to watch the year play out. Thanks, everyone.

Operator

Thank you. Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.