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DOO.TO - Q4 2017 BRP Inc Earnings Call

EVENT DATE/TIME: MARCH 21, 2018 / 1:00PM GMT



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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the BRP Inc.'s FY '18 Fourth Quarter Full Year Results Conference Call.

I would now like to turn the meeting over to Mr. Philippe Deschenese. Please go ahead, Mr. Deschenese.

Philippe Deschenese

Thank you, Maute. Good morning, and welcome to BRP's fourth quarter and year-end result conference call for fiscal 2018. Joining me this morning are José Boisjoli, President and Chief Executive Officer; and Sebastien Martel, Chief Financial Officer.

Before we move to the prepared remarks, I would like to remind everyone that certain forward-looking statements will be made during the call that are subject to a number of risks and uncertainties. I invite you to read BRP's MD&A for a listing of these. Also during the call, reference will be made to supporting slides, and you can find the presentation on our website at brp.com, under the Investor Relations section.

So with that, I'll turn the call over to José.

José Boisjoli - BRP Inc. - President, CEO & Director

Thank you, Philippe. Good morning, everyone, and thank you for joining us. It's a real pleasure for me to present our fourth quarter and full year results this morning, an all-time record in terms of revenue for the fifth year in a row since becoming a public company. We can count on a fully aligned team for this success. And to them, I say thank you.

The past year was marked by excellent retail momentum around the world fueled by a strong product lineup and brands that keep gaining traction with both consumers and dealers. Let's dive right in. We ended the year with record financial results as we've delivered a normalized earning per share that came in above our guidance range. Our revenue were up 8% to reach \$4.5 billion. Our normalized EBITDA was up 11% to \$559 million. And normalized earning per share ended at \$2.38, an increase of 21% over last year.



This solid growth is the result of our focused efforts over the last few years. Our North American powersports retail sales were up 5% compared to an industry that was flat. When excluding snowmobile, which had very strong retail sales in the fourth quarter last year due to production timing, our retail sales were up 18% against an industry that was also flat. Most of our retail growth came from the Can-Am off-road business. In particular, this came from side-by-side, which continued to grow rapidly with a low 40% retail increase. This is despite the fact that we are now lapping quarters when both the Defender and Maverick X3 models were in the market. Our ATV business also performed well with a mid-single-digit retail growth, continuing to gain market share in an industry that was down mid-single digit.

Taking a look at the full year. Our retail momentum is not only strong in North America, where we are seeing an 11% increase versus a flat industry. But as you can see from this slide, we are also outpacing the industry in all our different markets around the world with impressive numbers. I want to highlight the exceptional increase in Latin America that came -- that can be attributed to continued growth in Mexico and Brazil. Once again this year, the alignment of all our employee around our key strategic priorities of growth, agility and lean enterprise was instrumental in the achievement of solid result and the delivery of multiple project to help us achieve our long-term objective. More specifically, we introduced 2 new side-by-side platform, the new Sea-Doo platform and extended the REV Gen 4 snowmobile platform to new Ski-Doo and Lynx model. We announced Spyder Project S planned for this coming fall. We created even more engagement with our dealers by offering the best value proposition in the industry. We located our North American sales office in Dallas, Texas, and we returned capital to our shareholders through share buyback program and the payment of quarterly dividends.

In term of our manufacturing side, it is a great pleasure for me to state that all work is proceeding according to plan. The new late -- the new assembly line in Valcourt was completed and has been operational since last September. Our Mexican site are all on plan. Production ramp-up for Juárez 2 Phase 1 will begin over the coming weeks, while Querétaro and Juárez 2 Phase 2 are planned for the third quarter of fiscal year '19 and first quarter of fiscal year '20, respectively.

Getting into the product category review. Year-round product revenue were up 2% in the quarter, driven by a higher volume of side-by-side fueled by continued strong demand for our Can-Am Maverick X3 and Defender models and by the introduction of the Maverick Trail vehicle. Also contributing to the growth was a higher volume of Spyder vehicles sold late into the quarter.

In term of retail performance, 7 months into the season, the industry ATV -- the ATV industry is about flat. Can-Am ATVs continue to outpace of the industry as our retail sales are up high single digit over the same period. ATVs also continued to gain market share internationally, notably in Latin America, where our retail continue to grow at a double-digit pace.

Turning to side-by-side. Also 7 month into the season, the North American industry is up high single-digit percentage. Can-Am side-by-side accelerated its growth in the quarter, and our retail is now up in the mid-30% season-to-date. The momentum is excellent, and we continue to gain market share in both the utility and sports segment. The Maverick Trail model are also off to a good start as they were well received. So far, the retail sell-through has been very good.

Internationally, our lineup continued to gain market share with strong double-digit retail growth around the world, most notably in Mexico, Brazil, Europe and Scandinavia. It has been an exceptional year for our Can-Am side-by-side business with excellent traction with consumers, dealers and the media.

This momentum is showing every sign of continuing as we continue to increase momentum with our dealer network. All our new model are well received, and there is more to come as we continue to deliver on our commitment to introduce a new side-by-side every 6 months until 2020. And as I mentioned, the first phase of capacity increase at Juárez 2 will be completed shortly, allowing us to produce 30% more units. Everything is aligned and on plan, so we can expect to experience strong growth in the year ahead.

Now a quick word about -- on Spyder. It is very early into the season, and the North American 3-wheel motorcycle retail is down about 30%. Spyder was lagging the industry over the same period as we had very few current model units available in the quarter due to shipment timing compared to previous year.

Looking ahead, we are well positioned for the coming year. Our network inventory is much cleaner than in past season, and our team is making good progress on the different initiative we've launched following the key learning gain from the 7 key states we targeted. Those 2 key learning were: Many consumers are looking for an entry level price point product and that the 3-wheel vehicle riding school partnership are critical to its success. As you know, we are launching Project S in the fall of 2018, an entry-level vehicle with an MSRP under USD 10,000. And we have a dedicated team focusing on signing riding school partnership in 36 states. With these initiative, we are on plan to unlock the full potential of Spyder.

Turning to Seasonal Products on Slide 9. Seasonal Product revenue were down 9%, primarily due to a lower volume of snowmobiles sold. As you remember, last year fourth quarter was very heavy in snowmobile shipments due to the introduction of our new snowmobile platform that made us shift more production to latter in the year. Back to a normal production pattern this year, we had more shipment in the third quarter but fewer in the fourth quarter compared to last year, in line with our expectation. Partially offsetting this impact were higher shipment of personal watercraft.

Looking at retail. 10 months into the season, the snowmobile industry is up in the high single-digit percentage. Over the same period, Ski-Doo retail is up low-teen percentage. Driven by the popularity of the new platform, Ski-Doo is now the leader in every single segment of the industry and holds a record market position season-to-date in North America.

Looking at Scandinavia. We are having a very good season, driven by favorable snow condition. For the last quarter, the Scandinavian industry was up high teen percentage, while BRP with both Ski-Doo and Lynx brands was up in the low 20%. We introduced in February our 2019 lineup for Ski-Doo and just last week for Lynx. The highlights of these new lineup were the introduction of our first turbo snowmobile and the expansion of the new platform to the 4-stroke engine family and to the new 600 -- our E-TEC introduced earlier in January. The reaction to these product was excellent.

Now turning to watercraft. We are currently in the low season in North America, but we are seeing strong result with boat show certificate. In counter-season market, where we are currently at the end of the season, the new platform is driving strong retail growth. Australia and New Zealand are showing over 30% growth, and Brazil is up over 100%. All signs are positive for Sea-Doo. And with the investment we are currently making to increase production capacity in Querétaro, we have all the levers needed to make the most of the strong momentum.

Now looking at Propulsion System on Slide 10. Revenue for Propulsion System were down 19%, primarily due to a lower volume of motorcycle engine sold as we are coming to the end of our supply agreement with BMW. This will also negatively impact our revenue for Propulsion System in fiscal year '19 but will only have a limited impact on our margin. For Evinrude, the industry trend remained the same with engine package sold with boats continuing to gain share. And the segment in which we are most present, the engine-only segment is weakening.

In term of retail, 7 months into the season, the North American outboard engine industry is up mid-single digit. Meanwhile, Evinrude retail improved in the quarter, being up mid single-digit. Yet the good quarterly performance was not enough to catch up, and retail remain down mid-single-digit percentage for the season to date. However, we continue to see positive sign with the Evinrude E-TEC G2. We are progressively gaining market share in the segment in which it is available, and its innovative feature are being recognized. The iDock introduced last summer is now limited in availability and will be offered in high volumes as the year progress. We are continuing on our plan with the Evinrude business.

Now looking at Parts, Accessories and Clothing. Revenue for Parts, Accessories and Clothing increased by 8%, resulting from the higher volume of side-by-side accessories driven by the good momentum we have with the Can-Am Maverick X3 and Defender lineups as well as the introduction of the Maverick Trail. The trend is excellent with our accessories business since we just had a record year with over 750 new accessories introduced to complement our different product lines and improve the riding experience to our consumers.

And on this note, I will turn the call over to Sebastien and will return for closing remarks.

Sebastien Martel - BRP Inc. - CFO

Thank you, José, and good morning, everyone. As you have seen, we have completed the fourth quarter results that came in slightly ahead of our expectations, driven by continued strong demand for Can-Am off-road vehicles and an overall favorable snowmobile season. These were offset in part by softer results for our propulsion business.

We are reporting revenues that reached \$1,263,000,000 for the quarter, down 3% over last year, notably due to a difference in timing of snowmobile shipments compared to last year. Revenues this quarter were also negatively impacted by unfavorable foreign exchange rate variations.

The gross profit margin ended at \$317 million, representing a gross profit margin of 25.1%, down 60 basis points from last year's fourth quarter. Primarily cause for this were a lower volume of snowmobile sold, higher production costs and unfavorable impact from product mix, pricing and sales program, all of which were partly offset by a higher volume of PWC, SSVs and PACs sold. The normalized EBITDA came in at \$197 million and the normalized EPS at \$0.96.

For the full year, our revenues came in at the higher end of our guidance range, up 8%. And our normalized earnings per share ended above our guidance at \$2.38, a growth of 21% over last year's results. We completed the year investing \$230 million in CapEx and generating \$330 million of free cash flow, an increase of \$11 million over last year.

Turning to Slide 14. You will see that our normalized net income ended the quarter at \$99 million, which is a decline of \$13 million from last year. This can be attributed to 3 factors: a net negative impact from volume mix, pricing and sales program for \$4 million; higher production costs and operating expenses for \$7 million; and higher depreciation expense for \$5 million. These elements were partly offset by a favorable foreign exchange rate impact of \$3 million.

Now looking at our network inventory position on Slide 15. Our network inventory is up 4% over last year's fourth quarter level, and it continues to be primarily driven by the increase in inventory of our new Can-Am SSV models to support increased consumer demand. The increase is also a result of the growing business of dealers we have added over the last 4 years. Partly offsetting this growth was a reduction in snowmobile network inventory based on a good retail sales so far this season and by an overall reduction in the rest of the lineup, notably for Spyder. Overall, we are very comfortable with our inventory position as we head into fiscal year '19.

And now before heading into the guidance, I want to update you on some mandatory changes to accounting standards that we'll be by adopting starting with the first quarter of fiscal '19. The first one, IFRS 15 revenue recognition, will impact the way we account for retail sales programs and extended warranty given the sales programs. For retail sales programs, previously, we were recording our sales program cost at either the time of revenue recognition or the announcement of the sales program, whichever was later. Going forward, new accounting rules require that we record the estimated retail sales program at the time of vehicle wholesale. Therefore, in general, we will be recording sales program cost at an earlier date than previously.

IFRS 15 also impacts extended warranties given as sales program. Previously, we were recording the estimated warranty cost at the announcement of the program. Going forward, we will allocate a portion of the unit revenue to the extended warranty given as a sales program. This portion of revenue will be deducted from unit revenues and will be amortized over the life of the extended warranty. Warranty claims will be booked as a cost as they occur. In summary, IFRS 15 does not impact total cash spent on sales incentive, only the timing of when the related expenses are recorded.

The second new accounting standard, IFRS 9 financial instruments, will impact the way we account for changes to the terms and conditions of our long-term debt. Previously, when the opportunity arose, we have made changes to the terms of our long-term debt such as the reduction in the interest rate and/or extension of the maturity date. In these situations, and where the debt was deemed not to have been extinguished for accounting purposes but rather as a continuation of the old debt, the reduction in the interest rate was reflected over the remaining life of the long-term debt. Going forward, in these situation, the standard setters have decided to take a balance sheet approach to such changes, and they will be recognized as an adjustment in the carrying value of the debt. That being said, the corresponding gain when the negotiated interest rate is lower will be reflected on the P&L at the renegotiation date. The future interest expense will therefore not change and will continue to be recorded at the original effective interest rate. Given that we will maintain previous accounting method for purposes of our credit agreements, we will normalize the impact of IFRS 9 on our non-GAAP metrics.

So as I mentioned, these changes will be adopted starting the first quarter of fiscal '19, and they will be applied retroactively to fiscal year '18, with the opening balance sheet impact reflected on the January 31, 2017, numbers.



Let's have a look at Slide 17 for the impact of these new IFRS standards on our fiscal year '18 results. The fiscal year '18 old GAAP figures represent the actual results for fiscal year '18 as reported this morning. The fiscal year '18 new GAAP figures reflect the adoption of IFRS 9 and 15 standards.

Starting at the top of the P&L. The adoption of IFRS 15 will reduce our fiscal year '18 revenues by \$33.6 million and our gross margin by \$21.7 million. In a nutshell, the impact is related to units that are in the network on January 31, 2018, but will be retained in fiscal '19 and reflects the earlier recognition of sales program cost and the deferral of revenue related to extended warranty contracts. As for IFRS 9, we will have a onetime gain of \$20 million recorded as financing income. This gain is related to the repricing we did in October 2017 when we reduced the contractual interest rate on our term loan by 50 basis points.

On the (inaudible) as you can see, the financing costs will be increased by \$7 million as based on IFRS 9 as the interest expense on the P&L will remain at the original effective interest rate. As I previously mentioned, the impact of IFRS 9 will be normalized in our non-GAAP metrics.

To sum it up, based on new GAAP, our fiscal year '18 results will be revenues of \$4,453,000,000; normalized EBITDA of \$537 million, and this will have a negative impact of \$0.13 on our normalized earnings per share for fiscal '18, resulting in a normalized earnings per share of \$2.25. The fiscal year '18 new GAAP numbers are the reference from which we establish the fiscal year '19 guidance, as we will see on Slide 18.

Therefore, for fiscal '19, we are -- expected total revenues for the year to be up between 5% and 8%. Year-Round Product revenues are expected to grow between 11% and 14%, primarily driven by the continued strong demand for our SSVs and supported by the completion of the first phase of additional production capacity at Juárez 2. A few years ago, we announced that we would be introducing a new side-by-side every 6 months until 2020. We are now more than halfway through this commitment, so there will be more exciting product news to come again this year that will continue to drive growth. We are expecting ATV to grow modestly as we continue to gain market share in a stable industry and are expecting moderate growth in Spyder with the introduction and first shipments of Project S.

Seasonal Products revenue growth is expected to be between 2% and 5%, driven by both snowmobile and PWC. We are anticipating share growth in both these product lines for the -- with the momentum we have in the market and the strong product lineup plan. The PWC industry has been very healthy over the last few seasons with high single-digit growth, and we also expect continued industry growth for the next season.

Propulsion Systems revenues are expected to be down 4% to 8% due to the phaseout of the motorcycle engine supply contract with BMW, partly offset by revenue growth for outboard engines.

Finally, PAC revenues are expected to grow between 1% and 5%, driven by continued growth for SSV and PWC accessories. The normalized EBITDA is expected to grow between 16% and 18%, and our effective tax rate is expected to be between 26.5% and 27.5%. The U.S. tax reform is expected to reduce our tax rate by approximately 1%, representing about \$0.01 of EPS. The depreciation expense is forecasted at \$180 million and the normalized financing costs at \$65 million. Accounting for all these elements, we expect industry-leading growth of our normalized earnings per share to be between 20% and 25%. The earnings per share is based on a share count of 101.5 million shares.

Finally, given the ongoing capacity expansion projects we have due to the strong growth of our business and focus on continuing to introduce market-shaping products, our CapEx for fiscal '19 is expected to be between \$315 million and \$330 million.

Lastly, as we are coming out of a very strong year and given the positive outlook we have for the business, we are in a strong position to continue returning capital to shareholders. This is why this morning we announced the increase of our quarterly dividend to \$0.09 and the renewal of the NCIB for the coming year. We strive to provide strong returns to our shareholders, and we believe that this allocation of capital plan will help us achieve that objective, all the while preserving our financial flexibility to deliver on our growth plan.

In terms of normalized EBITDA generation cadence this year, there are a few elements I'd like to highlight: First, as already mentioned, IFRS 15 will have an impact on the timing of revenue recognition for retail sales program between the quarters. Looking at fiscal year '18, the new GAAP is expected to lead to a stronger first half driven by the first quarter and a weaker second half compared to previous GAAP. Now looking at the fiscal '19, we expect the normalized EBITDA generation between the first and second half of the year to be similar to fiscal year '18 under new accounting

standards. The main driver of the growth in the first half is the expected continued strong momentum in SSV, which should accelerate in the second quarter as the first phase of production capacity increase is fully ramped up.

In the second half, we expect most of the growth when compared to fiscal year '18 under new GAAP to come in the fourth quarter. This growth is expected to be mainly driven by continued strong demand for side-by-side, shipment of new snowmobile models and future product introductions.

With this, I will turn the call back to José.

José Boisjoli - BRP Inc. - President, CEO & Director

Thank you, Sebastien. To recap, we ended the year with record financial result and all-time record in term of revenue for the fifth year in a row. Our retail momentum is not only strong in North America, but we are also outpacing the industry in all markets around the world. We created even more engagement with our dealers by offering the best value proposition in the industry. Our plan increase in capacity in both Juárez 2 and Querétaro manufacturing facility will be key growth enabler for fiscal year 2019. In addition, we announced last month the creation of the powersport group and the new senior management member with the appointment of Bertrand Thiébaud. The merger of the global retail and service team with the product engineering and manufacturing operation team will generate more focus and operational synergies, which will be positive going forward.

In the current economic environment, we continue to outpace the industry, and I strongly believe that our success is due to the quality of our team globally, great dealer network momentum and the diversification of our product offering, geographic sales and manufacturing footprint. Our plan was well executed worldwide by our employee this year, and we have been successful in achieving our strategic priorities of growth, agility and lean enterprise.

Before I conclude, I would like to have a final comment. One of the most important factor behind our success is hiring the right people for our team combined with our continued focus on improving business processes, tools and governance. It is our ability to keep challenging traditional thinking and push new technologies that distinguish BRP from our competition. And with our ingenuity, we constantly redefine the industry in which we operate. We have proven it many times over the years, and we plan to continue at that pace.

All in all, I'm confident that we are well positioned to deliver on our fiscal year '19 guidance that call for revenue growth of 5% to 8% and a normalized EPS growth of 20% to 25%.

And on that note, I will turn the call back to Maute for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Craig Kennison from Baird.

Craig R. Kennison - Robert W. Baird & Co. Incorporated, Research Division - Director of Research Operations and Senior Research Analyst

The first one had to do with capital deployment. You mentioned the normal course issuer bid. I'm wondering, how much flexibility do you have in executing that buyback? And does the authorization suggest that you're out of the M&A business for a while?



Sebastien Martel - *BRP Inc. - CFO*

Absolutely, absolutely not. The NCIB is something that we have been doing now for 3 years, and we've -- we took advantage of it as we believe it's a great return of capital to shareholders. We believe there is a lot more momentum in our stock going forward. And therefore, it's a good time to buy that stock at the price, and we'll take advantage of that situation again going forward. Our leverage ratio was fairly low as well. So if an M&A opportunity would arise, we have that flexibility in our balance sheet to lever up and crystallize any opportunities that we may see.

Craig R. Kennison - *Robert W. Baird & Co. Incorporated, Research Division - Director of Research Operations and Senior Research Analyst*

And the second question has to do with steel and aluminum. What percentage of your cost of goods sold are attributable to those 2 commodities? And how would you expect tariffs to impact your business?

Sebastien Martel - *BRP Inc. - CFO*

Yes. The big -- we are probably a lot more exposed to steel than aluminum. And when I look at the overall commodity buys that we do versus my total building material costs, it represents less than 10% of my overall building material cost. So there is an exposure, but it is not substantial. Obviously, we've all seen the commodity prices go up in the last 6 months, and we keep a close eye on it. And we tend to have pretty much long-term supply contracts with our suppliers. And therefore, we are, I guess, isolated from short-term variations in commodity price movements. And in terms of tariffs, most of the sourcing that we do for aluminum is North America-based or Europe-based. And therefore, we are not subject to the recent tariff and trade discussions that have been taking place on the public field over the last few weeks.

Operator

A following question is from Robin Farley from UBS.

Robin Margaret Farley - *UBS Investment Bank, Research Division - MD and Research Analyst*

I wonder if you could give us a little more color on the retail environment in a couple of different ways. I'm specifically thinking about side-by-side and off-road here. I know you talk about this season to date, but I wonder if you could tell us a little more about Q4. And then also since the quarter ended, just how things have trended so far into this year. And just kind of some of the -- your thoughts on how demand is in oil and gas regions and farm buyers, that kind of thing.

José Boisjoli - *BRP Inc. - President, CEO & Director*

First on side-by-side, the industry is quite healthy. And I know that there was in Q3 a lot of noncurrent because some of our competitor were very aggressive with program. But it calmed down a bit in Q4, and the industry was up high single digit. And like I said, we were up about 40%. Then we're definitely outpacing the industry, but it's quite reassuring to see that the industry season-to-date is up about 10%, and we believe that this momentum can continue in the year to come. On the ATV side, it's another story. There is customer shifting from high-end ATV to low-end side-by-side, and the industry season-to-date is about flattish. We are growing high single digit season-to-date mainly because, first, we have good product, but also with the momentum we have with our dealer network. We have excellent momentum. Obviously, the leading product is side-by-side, but this has a pulling effect on the ATV. And again, we don't see that trend slowing down in the year to come, and that's why we're quite aggressive on our guidance for the years. Then in a nutshell, this is how we see the industry for off-road. When I look at the overall economic environment, we believe that our industry are tied into unemployment. Unemployment rate is very low in most of the country in the world. The other one is the housing market. When those 2 things are good, typically, our industry are doing good. And so far, the housing market -- or the modeling is good and the unemployment rate are low in many, many country. Then that's why we're quite confident in our guidance for Year-Round Product in the year to come.

Robin Margaret Farley - *UBS Investment Bank, Research Division - MD and Research Analyst*

That's great. And then my other question is just in the release, you talk about higher sales programs, and I wonder if you could just give us some color around your ASP and how that may have changed and been impacted by that.

José Boisjoli - *BRP Inc. - President, CEO & Director*

Yes, yes. If I look at this, let's start with snowmobile. Snowmobile was a tough season. Some of our competitor had noncurrent inventory, and they were aggressive during all season. To be honest, we're very happy because we've gained market share this year in an industry that have grown, but we were very disciplined and we had normal program until the end of January. And in February, we came out with normal, I would say, noncurrent program for the end of the season. Then I would say, snowmobile, the season in North America was an aggressive program from some of our competitor. But we've remained disciplined and happy that we've gained market share despite the situation. Watercraft, I would say it's green. It's early into the season, but the promotion level are very low right now. And like I said in my statement, we have good certificate result. Creating -- I think it's created by -- we believe the -- will position for a good season, but also the new platform with all the feature and the new radio is exciting for many customers, and we have good momentum. On the off-road, I just mentioned, the intensity was very intense in Q3, slowdown in Q4, and we believe it will remain like this probably for the first half of fiscal year '19.

Operator

Our following question is from Mark Petrie from CIBC.

Mark Robert Petrie - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst*

I just had a couple of questions with regards to the guidance for fiscal 2019. And maybe you could just give a little bit more color in terms of where you expect your margin leverage to be delivered in terms of gross margin versus SG&A. And then any color on timing that you could add from what you already gave us.

Sebastien Martel - *BRP Inc. - CFO*

Mark, in terms of where we believe the lift and profitability is going to be coming from, we're expecting to continue to invest in our operating expenses. You'll see the operating expenses as a percentage of revenue going up probably by, let's say, 100 basis points versus where we ended fiscal year '18. That's coming from continued investment in R&D, increased marketing spend and also a bit of admin as well going up. And so that's going to be compensated by an important lift in margins. Obviously, with the revenue growth, we're expecting that's going to be favorable in terms of operational leverage. Some of the hiccups that we had in fiscal year '18 in terms of capacity, running at full capacity therefore, incurring higher costs. We had a bit more warranty cost as well in fiscal year '18, which are -- planning for that to disappear. And so margins are going to be lifting up by, at least, 100 basis points as well.

Mark Robert Petrie - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst*

And is product mix helpful in there? Or is that relatively static?

Sebastien Martel - *BRP Inc. - CFO*

No. The mix is -- the mix -- the outlook for the mix is good. Obviously, we're introducing some more entry-level products with the Project S on Spyder, the Maverick Trail, which is going to be a full 12 months of sales next year. But the mix is still very rich. We're seeing great demand for the Maverick X3, snowmobile mix as well. The outlook is rich, where we've gained market share in the mountain segments, and that calls for positive

good orders from the dealers and good mix as well. And watercraft as well with the new platform, the mix is also rich. So all in all, I'm expecting mix to be a bit positive next year.

Mark Robert Petrie - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst

Okay. And then just -- also just following up in terms of the guidance. The PAC revenue growth sort of lags both year-round and seasonal or pretty much in line with seasonal. Is that just a matter of a little bit less in terms of new item introduction? Or what's driving that?

Sebastien Martel - BRP Inc. - CFO

No. We are always -- I mean, we're always cautious in our planning for the snowmobile season. Obviously, that could influence a lot our PAC sales, and we always like to plan for normal snow. This year, the snow was good in Scandinavia, Russia and even some parts of North America, which drove some good PAC sales. Obviously, we're planning for strong growth on the ORV side. We have strong accessory deliveries this year, and there's going to be a full year next year as well. And that, obviously, is going to help fuel some growth. So I mean, we're going to obviously monitor the PAC sales diligently. And if we need to, we'll make adjustments as we go through the year.

Mark Robert Petrie - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst

Okay. And then I just wanted to circle back. You talked about sort of the ramp-up with the dealers both in terms of -- or specifically in terms of supporting better relationships with learning schools for the Spyder in anticipation for the launch of the S. And wondering if you could just give a bit more detail in terms of how you're tracking on that as it relates to your goals by the time that product launches.

José Boisjoli - BRP Inc. - President, CEO & Director

Yes. We -- if you remember, we put together a team in the last 2 years, and one of the big finding was in Florida, where the driving school were not really organized. And last year, we really signed many driving school. And because the motorcycle industry is flattish, they were very happy to have additional customers. And from that learning, this year, we're planning in 36 states to accelerate the pace, and we're planning to sign over 100 additional school in the 36 states in this coming year. And we believe this is critical because many of our customer, in the average age of 62 years old, when they come to a dealership, they never had a powersport product, and you need to facilitate the passage of their license. Then this is what we're doing right now, and we feel confident about the plan.

Mark Robert Petrie - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst

And when would those schools be added by?

José Boisjoli - BRP Inc. - President, CEO & Director

Every -- we have a target by month. And every month, we're adding school, and we're targeting over 100 over the year.

Operator

Our following question is from Derek Dley from Canaccord Genuity.



Derek Dley - *Canaccord Genuity Limited, Research Division - MD & Consumer Products Analyst*

Just wondering if you could just comment on your decision in mid-February to organize all the brands, less Evinrude and Spyder, underneath one global division and leader. Why did you guys choose to undergo that reorganization?

José Boisjoli - *BRP Inc. - President, CEO & Director*

If you remember 3 year ago, I had the VP leading the product engineering and manufacturing operation, and I've done it since that time. And with the business growing with more product line and all the addition on the side-by-side models, we felt that -- I felt it was the time to merge the global retail and sales organization with the product engineering and manufacturing operation under the leadership of one person because I believe there is some synergy that can be created, particularly in the order to delivery area. And I felt that it was the right time to -- for the -- to put those 2 group together. And also obviously, we're constantly doing our work on possible M&A or new business, and I will definitely dedicate a bit more time in that going forward.

Derek Dley - *Canaccord Genuity Limited, Research Division - MD & Consumer Products Analyst*

Okay. And just switching gears a little bit. You commented, I believe, it was at the Investor Day -- or sorry, the Club event, that you'd been outperforming in the U.S. in the multiline dealers versus the sort of single or 1 or 2 line dealers. Are you expecting the same type of outperformance at those dealerships in 2019?

Sebastien Martel - *BRP Inc. - CFO*

Yes. And when I look at the momentum all through the year, the multi-brand dealers have been performing well. The retail growth is, in some quarters, more than double the retail growth that we're seeing in single-line dealers. And so obviously, we're working to make sure that, that momentum continues. We're happy to see that the single-line dealers are very focused on the BRP products, but also that the multiline dealers are given more attention and given more floor space than the BRP brands.

Operator

Our following question is from Gerrick Johnson from BMO Capital Markets.

Gerrick Luke Johnson - *BMO Capital Markets Equity Research - Senior Toys and Leisure Analyst*

I was hoping you could discuss trail and where in the distribution channel that had been placed in the quarter and the plans for the continued rollout.

José Boisjoli - *BRP Inc. - President, CEO & Director*

Maverick Trail production started, I think, Gerrick, started October, November. We ship to dealers, obviously, in the snowmobile. You know that this model is more Midwest and East product than Southwest, then the product were shipped at the time. We saw some retail. But so far, order from the dealers and our retail is above our expectation. Then the real test will come with higher volume in the spring. But we have positive sign, and it's all good.

Gerrick Luke Johnson - *BMO Capital Markets Equity Research - Senior Toys and Leisure Analyst*

Okay. So the model is where it needs to be, we're just waiting for retail at this point?

José Boisjoli - BRP Inc. - President, CEO & Director

Yes. I mean, retail happened, and we are above our plan. But we ship the product into, let's say, the low season for the Midwest and the East. One part that we're very happy, it seems that the accessories per unit is higher than what we have planned, and this is positive.

Gerrick Luke Johnson - BMO Capital Markets Equity Research - Senior Toys and Leisure Analyst

Okay. And then on propulsion. Anecdotally, it appears, at boat shows we've been to, fewer dealers are supporting the Evinrude brand. Can you explain your comments about gaining share? Where specifically are you gaining share with Evinrude?

José Boisjoli - BRP Inc. - President, CEO & Director

The Evinrude business is a complicated business because you have a wide range of horsepower from 10 horsepower to 300-plus horsepower. And right now, we are in the middle of the transition of the G1 to the G2. We have all the product above 150 is available in the G2, and under 50 is G1. And it's a bit difficult because that transition is long. And we have traction with the G2 because, obviously, of the performance, the look, the high (inaudible) and incredible value for the consumer who has a boat with a twin engine. But during that period of transition, it's a bit more difficult than what we were expecting because the G1 are getting -- it's a good product but are getting older. Then we are in the middle of it. We will continue our plan. You should see all the lineup migrating to the G2 in the coming years, and this is basically the situation.

Gerrick Luke Johnson - BMO Capital Markets Equity Research - Senior Toys and Leisure Analyst

Okay. Well, there is a comment that you're gaining share, and it wasn't clear to me what it related to. Is it the G2 models in the horsepowers that you compete in? That's where you're getting share?

José Boisjoli - BRP Inc. - President, CEO & Director

Yes, exactly. It's more like -- yes. Between 150 and 250, that's the area where we're gaining share right now with the G2.

Operator

Our following question is from Steve Arthur from RBC Capital Markets.

Steven Arthur - RBC Capital Markets, LLC, Research Division - Analyst

Just a couple of last questions, just on capacity expansion. I think you mentioned Phase I of Juárez 2 has about 30%. Just wondering, when you look at everything that's going on with Valcourt and Mexico over the next year, if you can just summarize the level of expansion that we should see there. And does that fully support the 2020 plan or even look beyond that?

José Boisjoli - BRP Inc. - President, CEO & Director

The expansion is as planned. We believe at this point that all the manufacturing facility are well aligned to meet all future demand. Depending on the growth on side-by-side. As you know, with Juárez 1, Juárez 2, we're almost doubling our capacity, and that will be operational. In time, we could miss. But for the time being, we're quite comfortable with our planning.



Steven Arthur - RBC Capital Markets, LLC, Research Division - Analyst

Okay. So doubling capacity at those facilities.

José Boisjoli - BRP Inc. - President, CEO & Director

Doubling capacity in Juárez 2.

Steven Arthur - RBC Capital Markets, LLC, Research Division - Analyst

In Juárez 2, right.

José Boisjoli - BRP Inc. - President, CEO & Director

Yes, in Juárez 2. For the rest, we're quite comfortable with the 6 press in Querétaro and the new process that we have implemented with the new watercraft. We believe that Querétaro is good for the time being. But overall, after those extension, we believe we are okay and should be very close to the \$6 billion.

Steven Arthur - RBC Capital Markets, LLC, Research Division - Analyst

Okay, okay. And just following up on Project S as well. I'm just wondering if, more broadly, if there's anything else you can share in terms of your market research, your dealer feedback, perspectives on the market demand at the \$10,000 price point level. And any further thoughts on cannibalization of the other Spyder lines?

José Boisjoli - BRP Inc. - President, CEO & Director

No. I would say it's almost a replica. Not much we can add from what you already know. It's almost a replica of the Spark story. There will be some cannibalization, but minor. Because when you think of Project S, think to the Spark versus a traditional watercraft, then the Project S and the traditional F3 and R3 will be different product. We've done a lot of consumer clinic in the last months -- few months to better align and make sure that our marketing plan for the launch will be well executed. We had some clinic with consumer and some clinic with dealer. But so far, the project is on plan. It will be introduced at Club in September, and we're very enthusiastic about this program.

Steven Arthur - RBC Capital Markets, LLC, Research Division - Analyst

Yes, looking forward to seeing it. Just a final one just on inventory. It's up only 4% year-over-year. It seems quite modest and generally, very positive. But I'm just wondering if as you look across the product lines, if there's any areas of concern with inventory actually being too light with dealers in certain product areas.

Sebastien Martel - BRP Inc. - CFO

No. Well, we've had feedback from leaders that they were -- that they'd like to have certain SSV models earlier. Obviously, we are capacity constraint, so some units are getting to the dealers, let's say, a month, 1.5 months later than what they would like to seem. Spyder, we've reduced the inventory levels compared to a year ago, so we're at a good spot. The new models are now arriving at the dealerships. Snowmobile, we've had a great season in North America. We've depleted inventory. We've gained market share, and so we're well positioned for next year. And the watercraft, the demand is still strong early in the season. So again, no soft spots there for watercraft either. So all in all, we are -- besides SSV, we're in certain, let's say, model SKUs we are short, the rest is good.



Operator

Our following question is from Jaime Katz from the Morningstar.

Jaime M. Katz - Morningstar Inc., Research Division - Equity Analyst

I want to ask an earlier question a different way. Given that you guys are putting all of this excess capacity into your manufacturing channel, how much slack will be left in the network? Or how much -- what sort of capacity utilization will you guys be at after the completion of all of the projects?

Sebastien Martel - BRP Inc. - CFO

Well, I mean, we are building the capacity, and we'll talk more about SSV. We are building capacity because we feel demand is going to be there. So our objective is to be at almost 90%, 95% of capacity utilization once we are fully ramped up with the second phase, which is going to be in fiscal year '20. We are not spending that money just for hopes of the unit that are going to be there, so we're working to make sure that we fill the plants up. And obviously, we'll have -- we'll reevaluate the situation probably in 9 to 12 months and determine whether or not we need to further increase capacity or we'll leave the capacity at that level based on what we see in the market.

Jaime M. Katz - Morningstar Inc., Research Division - Equity Analyst

Okay. And then given that you guys have put out this higher CapEx number, which will bring you theoretically to this 90% to 95% capacity utilization, is it right to think that there could be potentially inflated CapEx next year if demand shapes up as you expect? Or should we expect CapEx to really convert back to more of a normalized level maybe between \$200 million to \$220 million or something like that over time?

Sebastien Martel - BRP Inc. - CFO

Yes. Obviously, next year or the year that we're in, the CapEx is going to be a record year for us, and we're doing it for the right reasons. And again, the returns are good on those investments. I'm not anticipating that same level of CapEx for fiscal year '20. However, if demand was there and we needed to invest in capacity, obviously, the answer is pretty simple, that we go ahead with these projects. So yes, if -- I would expect it to come back down in fiscal year '20. But \$220 million is probably a bit low. And might expect, let's say, \$250 million to \$275 million would be a better ballpark for CapEx investment going forward.

Jaime M. Katz - Morningstar Inc., Research Division - Equity Analyst

Okay. And then lastly, you guys did a very nice recap of industry growth in the most recent year. I'm curious what your projections are for the year ahead given that you expect to still take share in either side-by-side or ORV in total and also in personal watercraft.

José Boisjoli - BRP Inc. - President, CEO & Director

Then if you look in North America right now, the last -- since the season begins, snowmobile is high. It's up high single -- side-by-side, it's up high single digit. Snowmobile is also high -- up high single digit. Watercraft is up low single digit. But like you saw, very good growth in counter-season market like Brazil and Australia and New Zealand. And outboard engine is up mid-single digit. Then I would say our industry, since the season -- the new season began, are quite positive in North America. And when you look at international, we have good recovery right now in Brazil. Russia also. It's not fast-paced, but at least, it's recovering. Mexico, it's been growing constantly. Scandinavia, the market is healthy. Then when we look at the big picture, we saw, since the new season -- or the season model year started last fall, that things are pointing in the right direction. And with this economical environment, which is not perfect but is overall okay, we don't see that slowing down. And again, we have -- and that's one of the

things that I'm most proud of. We have competitive product in all of single -- of our product line. And we see all this, we are confident with our guidance and the industry going forward.

Operator

(Operator Instructions) Our following question is from Cameron Doerksen from National Bank Financial.

Cameron Doerksen - *National Bank Financial, Inc., Research Division - Analyst*

I guess maybe just firstly, just a quick question on the revenue growth guidance for fiscal '19. I'm just wondering what your foreign exchange rate assumption is embedded in there. We've had FX moving around quite a bit, so just wondering what your assumption is there.

Sebastien Martel - *BRP Inc. - CFO*

We use the rate of CAD 1.25, so it's a bit lower than what we're seeing today in the market at CAD 1.30. It's lower than the average that we had last year. We finished the average of CAD 1.24. So FX on our guidance is negative probably about 1.5% compared to last year.

Cameron Doerksen - *National Bank Financial, Inc., Research Division - Analyst*

Okay. And just on the Russia market. I mean, I know it's not huge, but you mentioned that it was sort of recovering slowly. Just wondering if you can talk a bit about the decision to go to a direct distribution model there because I think you've been using a distributor there for quite a number of years. So just any thoughts on why that change was made.

José Boisjoli - *BRP Inc. - President, CEO & Director*

Yes. In -- we've been in Russia for more than 15 years. And for -- until 2016, the fall of 2016, our partner for many years, Rosan, had difficulty. And in fall '16, we've signed a temporary distributor. In fact, it was a big dealer in the region of Moscow, and we signed him as a distributor for a temporary basis, and we decided to go direct this summer. Now if you look at Russia, the middle class is getting richer. The -- and this country is probably the one resemble the most to Canada. You have 4 season. Snowmobile business is very good there. ATV and side-by-side is good. Then when you look at all this, we know well the market. The -- we have about 100 dealer covering all Russia that we know well, and we felt that it was the right time for us to go direct.

Operator

We have no further questions registered at this time. I would now like to turn the meeting back over to Mr. Deschenese.

José Boisjoli - *BRP Inc. - President, CEO & Director*

Great. Thank you, everyone, for joining us this morning. We look forward to speaking with you again for our first quarter of fiscal 2019 results on May 31. Thanks again, everyone, and have a good day.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time, and we thank you for your participation.

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