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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the BRP Inc.'s FY '20 First Quarter Results Conference Call.

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

Philippe Deschênes - *BRP Inc. - Manager of Treasury & IR*

Thank you, Maude.

Good morning, and welcome to BRP's conference call for the first quarter of fiscal year '20. 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 risk and uncertainty. 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 & Chairman*

Thank you, Philippe.

Good morning, everyone, and thank you for joining us. I am pleased to report that we are off to a good start for fiscal year '20. Despite challenging weather, especially in Northern U.S. and Canada, our product line continued to drive strong consumer demand, which resulted in another quarter of robust retail growth in most of our market.

We continued executing well on our plan, notably as we've delivered a very successful launch of Ryker; completed our side-by-side capacity expansion; and came to an agreement to acquire Telwater, the leading manufacturer of aluminum fishing boat in Australia. Our financial result came in line with our expectation, and we are increasing our guidance by \$0.05 to reflect our NCIB done and our strong PAC sales in Q1.

Now let's get into the highlight of the quarter, starting with the financial results on Slide 4. Our revenue for the quarter were up 17% to reach \$1.3 billion primarily driven by continued growth in Year-Round Products. All region contributed to the growth with revenue up 19% in United States, 12% in Canada and 17% for International primarily driven by a very strong performance in EMEA with a 26% revenue growth for the quarter.

Our normalized EBITDA was up 16% to \$147 million, resulting in a normalized earnings per share of \$0.54, up 4% over last year.

Despite unfavorable weather in the northern portion of North America and some dynamic political and economic environment in certain parts of the world, such as the Middle East, and countries like Argentina and Mexico, we continue to deliver strong retail growth and outpaced the industry in most of our markets.

Our retail sales were down 13% in LatAm and up 14% in North America, 18% in EMEA and 5% in Asia Pacific.

Now on to Slide 6. As I mentioned, weather was a big factor in North America, especially in the northern portion of the U.S. and in Canada where we experienced a cold and wet spring season. This led some consumer to delay their purchase and, as a result, our retail sales suffered, as you can see from February and March -- sorry, as you can see for February and March, particularly in the Snowbelt, but saw a rebound in April.

For the quarter, our Powersports retail in the Snowbelt, excluding snowmobile, grew 15%, whereas in the Sun Belt, where weather was running more favorable, our retail grew 21%. On a positive note, we saw retail improve as weather got better late in April, and this trend is continuing so far in May.

Looking at the retail by product line on Slide 7. All our product lines saw solid growth in the quarter, notably led by of the 3-wheeled vehicle, which was up over 110% driven by the introduction of Ryker. Meanwhile, side-by-side ATV and watercraft all saw robust high single-digit growth. And snowmobile had a good end of season with retail up mid-single digit.

All our industry grew in the quarter despite unfavorable weather condition, and we continued to outpace the competition in both side-by-side and ATV. Watercraft is currently at the beginning of the season but showing positive growth. This shows that our consumer base is healthy and that the demand for our product remains strong.

Now looking at side-by-side performance in more detail on Slide 8. We are pleased with the continued success we have experienced with side-by-side this season. 10 months into the season '19, our retail is up high-teen percent, and we are the largest market share taker in the industry with strong gain in both the utility and sports segment. The customer pull for our lineup remained strong, and we had difficulty meeting demand for the Defender due to the planned 2-week production shutdown at our Juarez 2 facility.

We are not satisfied with our high single-digit growth. I'll remind you that we are lapping a strong mid-30s-digit growth for the same period last year. This year, we were affected by a combination of bad weather, our production shortage but also strong promotion from some of our competition. We saw the trend improving late in the quarter as we have access to additional production capacity with retail growing high-teen percentage in April, and this continued to be strong in May. With the additional capacity and the solid pipeline of product introduction we have for the year, notably with the eighth new side-by-side platform coming up next week, we are confident in our ability to continue to drive solid growth going forward.

Now let's turn to Slide 9 for the Year-Round Products highlight. Revenue were up 19% for the quarter driven by the introduction of the Can-Am Ryker and a higher volume of ATVs sold. On the retail side, 10 months into the season '19, the North American side-by-side industry is up mid-single digits. As previously mentioned, our side-by-side retail is up high-teen percent over the same period. We continue to experience solid momentum, especially with the Defender, which is gaining market share around the world.

Turning to ATV. The North American ATV industry is also 10 months into the season, and retail is down low single digit. For the same period, Can-Am ATV is up high single digit, notably gaining share in the more profitable high-cc segment.

Now the 3-wheeled vehicle business. 6 months into the season '19, the North American 3-wheeled motorcycle industry is up low 40% range primarily driven by our Can-Am 3-wheeled vehicle lineup, for which retail was up over 120% for the same period.

We are seeing exceptional traction with the Ryker. It has generated over 1 billion media and online impression worldwide so far. And our website visit and build-your-own site are up over 140% and 560%, respectively, compared to the same period last year. The Ryker demo tour is ongoing across the U.S. and is gathering a lot of interest with over 8,000 participant registrations so far. Ryker is also doing well in Europe and across all international markets. It is still early into the season, but we are pleased with our momentum. And we are well positioned ahead of the summer season.

Turning to Seasonal Products on Slide 10. Seasonal Products revenue were up 7% primarily driven by a favorable product mix for personal watercraft. In term of retail, the North American snowmobile industry ended its season '19 with retail up low single-digit percentage. Ski-Doo retail was slightly down for the season.

Our performance can be summarized by lower noncurrent availability in the network versus the competition and bad timing with very uneven snow condition throughout the winter months. Still, we ended the season on a good note, and we are in a good position for the upcoming next season. Our network inventory is well balanced, and we had the highest level in 5 years of spring unit booking, which are presold units to consumer. The strong results are testimony to our solid lineup. In Europe, Ski-Doo and Lynx continued to perform well late into the season with this quarter retail up mid-teen percent. Globally, despite the winter condition, we are pleased with the result as our lineup remain the clear industry leader around the world.

Now personal watercraft. The season ended strong in counter-season market with double-digit retail growth in the quarter for Brazil, Australia and New Zealand. In North America, early into the retail season, the personal watercraft industry is up high single digit season-to-date. Sea-Doo retail is also up high single digit over the same period with strong demand for our higher-end models. All sign are positive as we head into the peak of the retail season in North America and Europe.

Continuing with a look at Powersports PAC and OEM engine on Slide 11. Revenue were up 19% in the quarter driven by solid growth in the snowmobile part business resulting from the extended riding season due to the late spring and a higher volume of accessories for 3-wheeled vehicle, side-by-side vehicle and personal watercraft.

Another highlight of the quarter is the early success we are experiencing with Ryker accessories, which are trending about 50% higher than target per unit sold. A key contributor to this performance is the Ryker Design Lab, which is being well received by both dealer and consumer.

Our accessories business is growing at a fast pace driven by the growth of vehicle sales but also by the ingenuity of our accessory lineup, which deliver high value for our consumers. An example of this is our LinQ system, which facilitate the mounting of accessories on the vehicle and allow the use of accessories across multiple product lines.

Now looking at the Marine category on Slide 12. Revenue were up 33% in the quarter driven by the acquisition of Alumacraft and Manitou, which were partially offset by a lower volume of outboard engines sold. 10 months into the season '19, the North American outboard engine industry is up low single digit with Evinrude retail down low-teen percent. This decline continued to be affected by the same trend with industry growth driven by the package business where boat and motor are sold together. This is one of the principal reasons we made our entry into the boat business.

For the retail of our boat brand for Q1, we estimate the retail of Manitou to be up around high single digit and the retail of Alumacraft to be flattish versus last year. We are satisfied with those results as both continue to go through a transition phase with their dealers, who are responding positively to our strategy.



Finally, we announced earlier this month our intention to acquire 80% of Telwater, the leading manufacturer of aluminum boat in Australia. This acquisition is another step in our marine strategy of buy, build and transform as we continue to develop a critical mass through the acquisition of high-quality boat OEMs with the objective of transforming the industry through innovation and becoming a leading global marine company. I would like to remind you this is a mid- to long-term strategy but with a high potential.

On that note, I will turn the call over to Sebastien.

Sebastien Martel - BRP Inc. - CFO

Thank you, José, and good morning, everyone.

Despite unfavorable weather, we continued our growth trajectory as we delivered solid results for the first quarter of fiscal '20 notably driven by the continued strong demand for our lineup and the success of our newly introduced product, the Ryker.

Our total company revenues came in at \$1.3 billion for the quarter, a record for a first quarter and a growth of 17% over last year.

Our gross profit margin ended at 22.5%, a decline of 230 basis points from last year's first quarter due to higher production, distribution and commodity costs and an unfavorable product mix, which were partly offset by a higher volume of vehicles sold and higher parts and accessories sale notably driven by the extended riding season for snowmobile.

Our normalized EBITDA came in at \$147 million, up 16% from last year. And our normalized diluted EPS came in at \$0.54, up 4% from last year.

We invested \$52 million in CapEx and generated the same amount in free cash flow.

Turning to Slide 15. Our quarterly normalized net income remained almost flat compared to last year as it ended the quarter at \$53 million. In terms of year-over-year variation, we saw an increase of \$54 million driven by favorable impacts coming from volume, mix, pricing sales programs and FX. These elements were offset by higher production and distribution costs, higher depreciation expense for a total negative impact of \$24 million, higher operating expenses for \$25 million mainly driven by the launch of the Ryker and higher financing costs for \$6 million.

Turning to Slide 16 for a look at our network inventory position. Our network inventory position is where we want it ahead of peak summer retail. It is up 10% versus last year's first quarter primarily driven by fast-turning products, notably the Ryker for which retail is very strong early in the season, and we are seeing some dealers depleting their inventory faster than initially planned; and SSV for which we are still behind demand for certain models. Despite a year-over-year increase in terms of inventory level for SSV, our number of days are slightly lower compared to last year. As for other product lines, we have the right level of PWC inventory in the network just ahead of the core retail season. Snowmobile is slightly higher than last year but is well balanced across the network. And our ATV and Spyder inventory are trending in line with demand. So overall, we are very comfortable with our network inventory at this time of the year.

Now looking at Slide 17 for an update of the guidance for the year. As I mentioned, we started the year on the right track with solid Q1 results, and we are progressing well on our plan to deliver our guidance for the year. We are reviewing upward our revenue guidance ranges for all product categories to reflect the impact of stronger U.S. dollar and the improved forecast of parts sales driven by the extended snowmobile riding season this past winter. These 2 elements are resulting in an increase of 2% of our total company revenue guidance range. And we are now expecting revenues to be up between 9% to 13% given that we are mostly naturally hedged on the U.S. dollar at the EBITDA level and these adjustments only have a minor impact on normalized EBITDA guidance. As a result, the low end of the guidance range has been increased, and we are now expecting a normalized EBITDA growth of 20% to 23%.

With the adjustment to EBITDA guidance, and also taking into account the lower share count resulting from the shares repurchased under the NCIB as at the end of the first quarter, our normalized EPS guidance range is increased by \$0.05, and we are now expecting a normalized EPS growth of 15% to 21% for the year.

And finally, a quick update on our capital allocation plans. Our capital allocation priorities have always been to: one, first invest in the business to deliver on our growth objectives; and secondly, return excess capital to shareholders through dividends and share repurchases. Despite our solid track record of delivering robust growth and the fact that the business is well positioned to sustain that growth trajectory going forward, our stock is currently trading at its lowest level in over 3 years. We are disappointed with the valuation of our stock, and we believe that repurchasing shares at the current level represents a good way of enhancing the return we provide to our shareholders. Therefore, we have decided to employ the strength of our balance sheet to deploy additional capital toward share buybacks, so we've announced this morning the launch of a \$300 million substantial issuer bid to repurchase and cancel some of our outstanding shares. The SIB is expected to be completed by July and will be funded with a combination of cash on hand, drawing on existing credit facilities and planned incremental term loan issuance. Our major shareholders have announced their intention of participating to the SIB on a proportionate basis. We believe that this capital allocation plan will enhance the return we provide to all shareholders while preserving our financial flexibility to continue investing in our growth and providing solid returns to our shareholders.

With this, I'll turn the call back to José.

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

Thank you, Sebastien.

Once again, we are very happy with our first quarter results and solid financial performance. Leading indicators show that the economy is doing well with steady growth, low unemployment and little inflation.

During the quarter, we have experienced strong retail momentum in North America and in Europe, with all our sector trending positive. And we are very satisfied with our year-over-year revenue growth of 17%, even while operating in a dynamic political and economic environment. We continue to outpace the competition and are positive about the outlook for the rest of this year, as we are entering the peak of retail season for our summer products in North America and Europe. We are confident to meet our increased guidance of EPS growth of 15% to 21% for fiscal year '20.

Given the state of our business, our financial capacity and flexibility, we are also pleased to announce the launch of the SIB to purchase for cancellation up to \$300 million of BRP share.

Our strategy of diversifying our product portfolio, our geographic sales and our manufacturing footprint has proven itself again and again over the years and will continue to do so in the future. Moreover, we are very proud to be able to count on the effort of our employees at all levels of the company, our greatest competitive advantage.

On that note, I will turn the call over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our 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

Wanted to go to Slide 6. You had commented on weather being a factor and how the Snowbelt had underperformed. I'm wondering if, at some point, you should expect Snowbelt markets to outperform Sun Belt markets as that demand catches up with the weather.



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

Difficult to say. I would say that we are -- our dealer network is more developed in the Snowbelt because of our snowmobile heritage than it is on the Sun Belt. Then I think if the weather turn out, we could see that trend, but it's very difficult to predict. I would be cautious about this.

Sebastien Martel - BRP Inc. - CFO

And obviously, when -- sorry, Craig, when the summer weather picks up in Northern U.S. or in Canada, PWC retail will obviously pick up as well here in these regions. And so there might be some lapping that's being done versus the Sun Belt on PWC and Ryker as well.

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

Yes, that helps. I'm just trying to understand whether you think these sales have been lost for the season or simply deferred into a future period this month, this year.

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

Yes. We don't think these sales are lost. We've talked to many dealers in the Snowbelt who are affected, and everyone believes that customer just delayed the purchase or they take deliveries of their unit.

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

And then secondly, with respect to the tariffs being considered in the U.S. and imposed on China, how is BRP positioned on Chinese tariffs relative to maybe other competitors in the Powersports space?

Sebastien Martel - BRP Inc. - CFO

Yes. Well, we estimate that the recent price -- or the recent tariff increase that was announced from the U.S.-China trade dispute not to be significantly material to us, less than \$5 million. And so I can understand that there could be question as to why it's so immaterial for us. And it's not necessarily a question of manufacturing strategy, but it's much more a question of sourcing and how you source your components. And as you know, we do put a lot of emphasis and pride in designing the best products in the industry, putting a lot of technology and obviously high quality. And in order to do so, we are very diligent in how we source our components. And the factors that we consider in sourcing are obviously supplier knowhow, quality, lead times, pricing that we get for those components and also the existing free-trade agreements that are out there in NAFTA and UVTA (sic) [EFTA]. And therefore, because of those criteria, we actually source only a small percentage of our components from China. And therefore, the extent to which we are impacting from the trade dispute has a lot more to do with our sourcing strategy versus where we've decided to establish our manufacturing plants.

Operator

Our following question is from Robin Farley from UBS.

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

I wanted to clarify a couple of things. One is your higher EPS guidance. Does that include the impact of the \$300 million share cancellation or not yet since you don't know the specific terms of that yet? I'm just wondering if any of that's factored in yet. And then also, I think previously you

talked about a split between first half and second half profit growth that had kind of implied a decline in first half profit just given the -- that the split would be more like your fiscal '18. You had mentioned that last quarter. I'm just wondering if that is still the case with your expectations for this year.

Sebastien Martel - BRP Inc. - CFO

Yes. On your first question, no, the guidance does not factor in any impact coming from the SIB that we announced this morning. We'll adjust our guidance based on the results. That's expected to close in July. So when we talk in August, we'll have the final numbers. And on the distribution of our profitability, we're not expecting any big changes versus what we communicated in March when we talked about the Q4 results. More...

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

Okay. Great. And if I could add just one more. Do you have any color you could share on average selling price change and -- for your off-road business? And any color around mix or promotional levels that -- impacting that change in ASP?

Sebastien Martel - BRP Inc. - CFO

Yes. ASPs, when I look globally, the ASPs, we're relatively flat full year, side-by-side, a bit higher year-over-year in the low single digit. Obviously, Ryker impacting ASPs downward. So Year-Round Products was flat. Ryker offset more than the increase that we saw on side-by-side. And on the seasonal, ASPs were also up. We had a richer mix on personal watercraft, and that helped the ASP. So overall, we're flattish year-over-year, down Year-Round and up Seasonal.

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

On the current promotional environment, we would say that the situation is improving. 2, 3 years ago, some OEM had a lot of noncurrent inventory and promotion was very aggressive. Right now, the network inventory is in better shape than in the last few years. And I would -- we would rate at this point the promotional environment for off-road vehicle normal. For watercraft, one of our competitor had some noncurrent in the South more than we had. But overall, we'd qualify it as normal.

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

With regards to the snowmobiles and the highest level of snow checks in 5 years, what do you attribute that to? Is it the lineup? Is it sort of the long kind of tail end to the season? Is it the lack of noncurrent last year? What are the factors that you think drive that?

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

The 3 that I just mentioned. Now I think the long season, we -- I mean, we've been doing this for many years. Every year that the winter is long, it's like the snowmobilers stay in the snow mindset, and they are more interested to learn about the new product. And they are excited to, I would say, finalize their purchase for the following season. The other thing is we launched 2 quite big product used in the summit -- the mountain category. We came out with a Summit Expert. It's a package that is unique in the industry right now, and it was quite popular. And the other one is in the more utility segment, rec-utility, I would say. The new platform -- all the new line model on the Gen 4 platform is replacing model that were 10 years old. Then this is why we had very strong snow check, like we call it.

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

Okay. And then on the gross margin, you called out sort of mix as a factor. Can you just walk through the puts and takes there? And then how do you expect that to play out in Q2 and for the full year?

Sebastien Martel - BRP Inc. - CFO

Yes. The margins were down, as I mentioned, 230 basis points. Volume and mix offsetted each other. And then the other elements impacting negatively, we had currency for about 60 basis points; depreciation expense was at 40 basis points; production costs that we talked for the past 2 calls, we're seeing higher increases in commodity year-over-year; some tariffs, et cetera. So that's about 80 basis points. And as you might recall, we did close the plant down for 2 weeks in February in Juarez for side-by-side production. And so the whole production ramp-up cost absorption, well, for those 2-weeks' period is about a 50 basis point headwind on the margin.

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

Okay. And then just the last one. Seb, appreciate the comments on capital allocations. Capital allocation and shares are, I think, as you said, good value. But at the same time, there's clearly more uncertainty in the market than there was the last time you employed the SIB. And you have been more active on M&A as well. So could you just walk through sort of how you and the Board arrived at the decision of an SIB as opposed to just fully leveraging the NCIB and maintaining greater flexibility?

Sebastien Martel - BRP Inc. - CFO

Yes. Obviously, the strength of the balance sheet is a very high priority of José, myself and the Board. And that's the number one factor that we considered. But we do have a strong balance sheet today. And the reason why we have a strong balance sheet is we have very -- a good capital structure in terms of debt. Our debt matures in 6 years. It's covenant light, so we're not necessarily restricted if there was to be an economic slowdown. Also, we have a \$700 million revolving credit facility, and that provides us the necessary cash flow if needed if an economic slowdown was to happen. So we are comfortable with increasing leverage more to do an SIB, especially where the valuations are. Yes, still having that financial flexibility if there was to be a downturn or a slowdown in demand for our products. But obviously, it was top of mind in our decision to go ahead with the SIB.

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

And how do you think about M&A from here?

Sebastien Martel - BRP Inc. - CFO

Well, as you know, we've -- we're going to be closing on the Telwater. We should be closing on the Telwater acquisition in the second quarter. We've done acquisitions, but they're not necessarily significantly material. They're important but not necessarily jeopardizing or putting an extreme pressure on the balance sheet. Going forward, we'll obviously be proactive and -- if there's any opportunities. But we're happy with the assets we have now in North America and in Australia for the Marine strategy. And we don't see the need to do any, again, material acquisition in order to exit your -- on that marine strategy.

Operator

Our following question is from Benoit Poirier from Desjardins Capital Markets.



Benoit Poirier - Desjardins Securities Inc., Research Division - VP and Industrials, Transportation, Aerospace, Industrial Products & Special Situation Analyst

Congratulations. First question is on the side-by-side market. Before the Investor Day, you were talking about bringing the market share up from 10% to 20%. Now that you're kind of in the middle, what could we be thinking in terms of a potential market share target? And what would be kind of the time frame you see given the success that you've been experiencing so far?

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

We're very happy with our momentum with the side-by-side business. I mean if you look at the season to date, we're growing high double digit, and we're lapping a very strong season '18 season. We are getting closer to the 20%, but we still have a room to go. We will introduce our model year '20 lineup next week. And we have continued product news coming and, again, filling all the subsegment that there is into that industry. We will give you more color about our long-term plan when we meet you at the Analyst Day later this fall. But for the time being, we're focusing. We just finished the capacity increase in Juárez 2. We were missing some product in Q1. We're hoping to catch up by the end of Q2. But the focus is really to fill up that capacity as fast as possible, and we'll give you more color in October.

Benoit Poirier - Desjardins Securities Inc., Research Division - VP and Industrials, Transportation, Aerospace, Industrial Products & Special Situation Analyst

Okay. That's pretty good color. And when we look at the 3-wheel vehicle market, obviously Ryker, very strong performance so far. Could you talk a little bit about how the F3, the Spyder, is doing and whether it's in line with expectation or not?

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

I would say, at this point, first, very happy with the Ryker. It does everything we were hoping for. It's too early to say that it -- we're repeating the Spark story, but I would say feel good. On the -- in term of RT, F3, definitely the retail was affected by this -- the bad weather in the Snowbelt, but we're quite confident where we are early into the season. What we like about the momentum we have with the Ryker, it bring a lot of new consumer into the dealership. And some are definitely buying the Ryker, but others are looking to F3 -- not so much the RT but to the F3. Then it's too early to give you -- I mean, to conclude anything, but we're quite happy with the start of the Ryker retail.

Benoit Poirier - Desjardins Securities Inc., Research Division - VP and Industrials, Transportation, Aerospace, Industrial Products & Special Situation Analyst

Okay. And for Telwater, could you talk a little bit about your -- the current exposure to Evinrude and also the agreements that Telwater is having with the other engine outboard manufacturers, José? And also, talk a little bit about the progress with the Ghost Project (sic) [Project Ghost]. I understand it's a long-term strategy, but if you have any color, that would be great.

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

Yes. The Telwater, we know Telwater for many years. We've been a supplier with Evinrude. We've been supplier to them for -- since we acquired Evinrude in 2001. Then we know Paul Phelan, the owner, for many years. And Telwater with the brand Quintrex has over 50% of the market in Australia and New Zealand. They have about 180 dealers between -- in those 2 countries. With -- and Evinrude, we have 75 dealers. But the dynamic in those regions is very different than what you have in North America. Telwater is selling both to those dealers. We've been rigging Evinrude engine on their boat at the factory for the last 3, 4 years. But the other OEM don't sell directly to Telwater. They sell to the dealer. Then the dynamic is very, very different than what exists in North America where engine OEMs sell to dealers but also sell to boat builder. And we believe that what happened with the -- with 2 of our competitors in North America cannot happen in Australia and New Zealand. Then we're very happy with -- and again, it's not closed, but we're very happy with the agreement we have with Telwater.

Maybe one last comment. Like Sebastien mentioned, the boat industry is a very large industry, but we're happy because we are focusing for now on aluminum product, where we have know-how. We believe we can bring some synergy between those brands and our know-how. And we believe we have the critical mass to develop a better integrated engine into the boat. Lowrider is on plan -- sorry, the Ghost Project is on plan, and we'll tell you more as we evolve into the next few years.

Operator

Our following question is from Jaime Katz from Morningstar.

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

Just wanted to follow up on a prior question on Ryker. Do you guys have any insight into what the demographics of that buyer looks like relative to the Spyder and maybe how that has changed?

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

The -- again, very early into the season, but the customer right now is about 10 years younger than the customer who was buying an RT and F3. Our target was to attract even younger people, but we're happy so far with the trend. But I will say one thing that is very interesting, is we're attracting a lot more different culture, different nationality around the world with the Ryker because it's very young in age. Our marketing campaign is very upbeat. And we're attracting a lot of people who never had any powersport in their life. Then so far, very happy with the trend. But again, very early to conclude anything at this point.

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

Okay. And then on the Marine segment, the gross margins, at least in my model, look like they were significantly lower than last year. So -- and I know it's a seasonally sort of smaller quarter. But I'm curious how you guys think about where the gross margin goes for that business longer term. Is it closer to a mid-teens pace? Or could you maybe even escalate that gross margin higher than that as you scale?

Sebastien Martel - BRP Inc. - CFO

Yes. The margin this quarter was impacting -- impacted by a lower volume on OE and higher production costs versus a year ago. And obviously, with the boat business, margin profile of these businesses is lower than the -- than, let's say, the engine business. On the long term with the marine strategy, our objective is to bring the Marine business at least at par with the Powersports business. And the strategy behind that is bringing more technology, more innovation to the Marine business, having more integrated packages for which the consumer sees value and is ready to pay for it, and that should bring the margins more in line with what we're seeing in the Powersports side.

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

Excellent. And then lastly, I think the 2 segments that had trailed the industry retail sales on your side were personal watercraft and snowmobiles. Is there anything in particular to call out, either discounting or promotional-wise, that maybe would have impacted our current versus noncurrent inventory, which I know you had mentioned for snowmobile that made the BRP sales slightly slower than the industry sales?

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

To be honest, it's -- for both product lines, it's the noncurrent situation. We ended season '18 with very, very little noncurrent compared to our competition. And we've lost market share all season in that product category. On watercraft, it's the same phenomena. Last year was our first year



of our new 3-seater platform. And we ended the season '18 very -- with no inventory. Some of our competitor had high inventory in that product category. And now we're catching up with supply, but the phenomena is somewhat the same. Now I would be careful to conclude anything. I think the strength of our lineup in those 2 product lines for us is very, very strong. We have very solid market share. We have a good momentum in both product lines, but you have those seasonality effects from time to time. And again, very happy about our snowmobile season, how it ended and how we're positioned for next year, and very happy about our position for season '19 for the watercraft season that is upcoming in North America and Europe.

Operator

(Operator Instructions) Our following question is from Tim Conder from Wells Fargo.

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

Yes. A couple here. So on the sales guidance, I'm anticipating these are rather small numbers, but can you quantify the increase from the recent acquisitions? And then from a competitive perspective in off-road and in snowmobiles, over the last several years, you've seen several, let's just call them, secondary competitors stayed even more in share as their industry appears to be consolidating. What would be, José, your outlook over the next 3 to 5 years for the potential exit of some of those competitors from the off-road and then the snowmobile market?

Sebastien Martel - *BRP Inc. - CFO*

Yes. On the boat company acquisition, we haven't factored in the Telwater acquisition in our guidance, and we'll do that when we meet in August. But on the 2 acquisitions we did last year, Alumacraft and Manitou, both of them would drive about 1.5% to 2% of annual revenue growth for BRP.

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

Tim, this is a very tough question. I mean for -- obviously, for snow and ORV, some of our competitors had a lot of inventory for different reasons in the last 2, 3 years. And they were very aggressive for cleaning up the inventory. That being said, like I said in a previous question, the situation right now in network inventory is healthier than in the last few years. Then I think the promotional environment should get better going forward. And for the rest -- for the second part of your question, I will not comment on what could happen into the industry. I'll let you guess. I'll (inaudible).

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

Okay. Very diplomatic answer, sir. Okay. Lastly, again, I think there's a little confusion in the market on your -- the capacity that you now have available to you in -- when in Mexico. So I think you've stated before, and please correct me if I'm wrong here, that you feel that that's going to be sufficient for you over the next 3 years, maybe even a little bit longer. So there's no plans to immediately fully utilize that in the next year or so. Could you just maybe remind us or correct if any of those assumptions are wrong?

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

Yes. First, let's explain the capacity increase for this year and next year. This year, we shut down the factory for 2 weeks. And on top of it, when we started -- restarted the production, because we didn't want to mess with quality, we started the production at a line rate lower than what we were operating before. But now, after 6 weeks -- after we restarted after 6 weeks, we are back to what are the new capacity level. Then for H1 this year, our additional capacity is about flattish because of that shutdown and that 6-week ramp-up to make sure, again, that we deliver on quality. For H2, we will have full 50% line rate capacity. That means, in average, for this fiscal year, we have a capacity or volume -- a production capacity increase of 25%. In fiscal year '21, next year, there will be an additional 25% compared to this year. Then I hope this explanation clarify a bit more where we stand for.

In term of the planning in the future and obviously for competitive reasons, we won't -- we have plans, but we already just had 50% of side-by-side capacity. We have a great momentum. Our hope is we will need another increase in the near future. But at this point, we're pretty happy with how we executed that capacity increase and how we are well positioned to continue to grow our side-by-side business.

Operator

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

Philippe Deschênes - BRP Inc. - Manager of Treasury & IR

Great. Thank you, Maude. And thanks, everyone, for joining us this morning and for your interest in BRP. We look forward to speaking with you again on August 29 for our second quarter conference call. Thanks again, and have a good day.

Operator

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

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