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DOO.TO - Q3 2019 BRP Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 27, 2019 / 2:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

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

Sebastien Martel *BRP Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Brian Morrison *TD Securities Equity Research - Research Analyst*

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

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

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

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

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

Jean-Francois Lavoie *Desjardins Securities Inc., Research Division - Associate*

Matt Bank *CIBC Capital Markets, Research Division - Associate*

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

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

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the BRP Inc.'s FY '20 Third 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, Maud. Good morning, and welcome to BRP's conference call for the third 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 and 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 & Chairman*

Thank you, Philippe. Good morning, everyone, and thank you for joining us. I am pleased to report that we continued our solid performance trend as we have delivered a record third quarter of strong retail growth and financial results. Based on these solid results and the good visibility we have on the demand for the rest of the year, we are raising the lower end of our guidance, narrowing our normalized EPS range to $3.70 to $3.80, representing a growth of 19% to 23% versus last year.

Now let's go into the highlights of the quarter, starting with financial results on Slide 4. Our revenue reached a record level for third quarter at $1.644 billion representing year-over-year growth of 18%, driven by higher wholesales of Year-Round and Seasonal Products. Our gross profit margin was up 130 basis points over last year's third quarter, and our normalized EBITDA was up 32% to reach $268 million resulting in a normalized earnings per share of $1.51, up 45% over last year.

The highlight of the quarter is the strength of our retail momentum globally. In North America, our powersports product continued to drive strong consumer demand as we've delivered a retail growth of 24%. The breadth of our product portfolio and the strength of our offer are also helping us to grow in international markets, despite rapidly evolving geopolitical environment in certain regions of the world. Latin America was up 23%. In the EMEA, we are performing well, with retail up 12%, while the industry was about flat. For APAC, retail was up 20%, while the industry is up mid-single digits. As you see, retail momentum remains strong in all international markets.

Looking at the North American retail by product line on Slide 6. Again, this quarter, we've delivered solid growth across the powersports product line. Side-by-side and ATV had very strong retail results, up in low 30% and low-teen percentage, respectively. Three-wheeled vehicle ended the season on a strong note, with retail up high 80%. Personal watercraft was low single-digit and snowmobile is off to a good start for the season with Ski-Doo retail up high 20%. We are happy with our powersport retail performance and the momentum we have across our product portfolio.

Some investors are asking about the health of our industry. As you can see on this slide, all our industry are up globally, and we continue to have good momentum in all product lines.

Turning to Slide 7. In September, we held our annual Can-Am and Sea-Doo Club, at which we introduced our new products for the upcoming season. We notably strengthened our utility side-by-side offering with the introduction of the Can-Am Defender Pro, delivering industry-leading payload capacity with its 6-foot cargo box and the introduction of the Can-Am Defender Limited with a cab and HVAC providing more cockpit comfort, which reduced sound level and industry-exclusive auto-climate control. We also introduced our fully redesigned Can-Am Spyder RT addressing the most important requests for improvement by current owners. With over 50,000 current Spyder RT owners, we believe there is pent-up demand for this new vehicle.

The other major product news was the introduction of the new Sea-Doo platform to the recreational segment through the GTI lineup. When the new high-end Sea-Doo platform was introduced 2 years ago, it was highly successful and drove over 8% point of market share in the high-end performance and touring segments. Now we are bringing the same innovation to the recreational segment, the largest in the industry.

We also took the opportunity to share some insight on our electric vehicle exploration as we unveiled 6 electric vehicle concept. Like I have said before, the electrification of our vehicle is part of our long-term sustainable development plan. And when the demand for these product comes, we will be there to seize the opportunity.

Now let's turn to Slide 9 for the Year-Round Products highlights. Revenue were up 29% for the quarter, driven by higher volume of side-by-side sold and the introduction of the Can-Am Ryker. On the retail side, 4 months into season '20, the North American side-by-side industry is up high single digit. Can-Am side-by-side continues to drive strong consumer demand and retail is up low 30% so far this season. We are seeing very good traction with the new product we introduced this summer, notably the Maverick X3 Turbo RR and the Can-Am Defender 6x6. The Can-Am Defender Pro started shipping 2 months ago, and initial feedback is positive, and the Can-Am Defender Limited with cab and HVAC will start shipping in mid-December.

Our side-by-side business is also performing well in international markets, with our retail for the quarter up mid-20% in Latin America, mid-50% in the EMEA and low 40% in Asia Pacific. As you know, we had ambitious goals for our side-by-side business, and I'm very happy to see them coming through.

After 4 months into the season '20, the North American ATV industry is about flat compared to last year. For the same period, Can-Am ATV retail was up low-teen percentage driven by market share gain in both the mid- and high-cc segment. I am pleased with our off-road vehicle performance and confident we can continue our momentum around the world.

Now looking at the 3-wheeled vehicle business. The North American 3-wheeled motorcycle industry ended the 2019 season on October 31, with retail up in the mid-30% range. Our Can-Am 3-wheel vehicle retail sales are up over 100% over the same period, and we ended the season with the #1 market share position in the 3-wheeled category and #5 position in the on-highway motorcycle industry. Our marketing campaign since the Can-Am Ryker launch was generated -- has generated over 2 billion impression and 5 million website visits, which gave us a strong 3-wheel vehicle exposure. The launch of the Ryker attracted 42% new entrants, 30% being women and 70% under the age of 55. Over 20,000 training courses have been completed so far, with a conversion rate to new units to over 20%. Our customization strategy is also paying off with average accessories dollar spend per unit surpassing our target by 30%.

The parallel between the success of Sea-Doo Spark and Can-Am Ryker is clear. Not only have we reinvented the way we design, but also how we market entry-level product. And so far, Ryker is driving similar trends for 3-wheeled vehicle as the Spark did for personal watercraft. Ryker is off to a very good start with 3-wheeled vehicle retail sales having more than doubled in the first year.

Turning to Seasonal Product on Slide 11. Seasonal product revenue were up 13%, primarily driven by favorable product mix for snowmobile and a higher volume of personal watercraft and snowmobiles sold. Looking at retail sales. Despite the challenges facing the marine season this year, the North American personal watercraft industry ended season '19 on September 30 with retail up mid-single-digit. Sea-Doo retail was up low single-digit percentage for the season, slightly lower than the industry. Our loss of market share is related to regional mix. The main highlight for this season are: we continue to gain share with our new Sea-Doo platform in the high-end performance segment. The Sea-Doo Fish Pro had a very good first year and there are plenty of opportunity to further build the market for this product; and the customizability of our new platform is delivering solid results as we saw strong accessories revenue growth this season. For international, it is the beginning of the season in counter-seasonal market, and retail is trending positively with double-digit growth in both Latin America and Asia Pacific.

We are happy with our Sea-Doo business in general and with the continued growing consumer interest for this industry and our solid lineup. We are optimistic about the upcoming season, especially with the recent introduction of the new platform on our GTI models, which compete in the largest segment of the industry. So we are well positioned to continue to grow.

For Snowmobile, early in season '20, the North American industry is up about 30%. Two things are driving this: weather projection, which predict a long and favorable winter; as well as the early snow and cold weather across the snowbelt that has spiked consumer interest. Ski-Doo retail is up mid-20%, slightly lagging the industry as we had a lower proportion of our presold unit registered compared to the competition at this point of the season. With our strong product lineup, our production and shipments on track and early snow coverage in many of the key snowmobile market, we are very positive about the upcoming snowmobile season.

Continuing with our -- with a look at Powersports PAC and OEM Engine on Slide 12. Revenue were up 12% in the quarter, driven by continued solid momentum for our parts and accessories business, especially for side-by-side. Accessories continue to be the key driver of growth for this category, with revenue increasing 18% in the quarter. This is the result of our ability to design extensive lineup of innovative accessories that improve customer experience and that are already at vehicle launch. For example, we already have over 150 accessories available for the Can-Am Defender Pro. This new vehicle represents a sizable opportunity for our accessories business, with its plain compatible 6-foot cargo box that is very customizable. We are pleased with the progress of our PAC business and with the

(technical difficulty)

Of our fleet. We are seeing good traction across all our product lines.

Now looking at the Marine category on Slide 13. We are admittedly disappointed with the season for this segment. Boat retail started late in the spring, and although it began to recover slowly in Q3, a low period for this industry. Our season '19 was not great for Marine, with revenue down 1% due to the lower volume of units sold, partially offset by the additional revenue as a result of the Telwater acquisition. For the OE industry, retail was up low single digits in the quarter; and for Evinrude, retail was down low-teen percentage for the same period. Our boat retail, after a difficult season impacted by unfavorable weather condition, has shown some improvement over the last few months. For the third quarter, Alumacraft retail was about flat compared to last year. Manitou retail was up by about 50%, which was mainly the result of promotional activity. The good news is that dealer orders for season '20 are on target. For our boat brand, we ended the season on a good note.

Despite this difficult season, our Marine strategy is on track, and we have the right elements in place to transition from an engine to a boat company.

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

Sebastien Martel - *BRP Inc. - CFO*

Thank you, José, and good morning, everyone. Our solid momentum continued in the third quarter as we delivered financial results that came in better than expected. The outperformance was primarily driven by higher deliveries of side-by-sides, resulting from the sustained strong retail trends and by continued tight management of expenses. Our revenues for the quarter reached 18% -- grew 18% to reach $1.6 billion, representing a record for third quarter. Our gross profit margin ended at 26.9%, an increase of 130 basis points from last year's third quarter as a favorable impact coming from volume, mix and pricing was partly offset by higher sales programs and production costs and unfavorable foreign exchange rate variations. Our normalized EBITDA was up 32% to $268 million, and our normalized EPS was up 45% to reach $1.51. Our solid results since the beginning of the year, with year-to-date revenue growth of 19%, normalized EBITDA and EPS growth of 23%, coupled with the continued strong demand for our products, are putting us in a good position to deliver our year-end guidance.

Turning to Slide 16. Our quarterly normalized net income was up $34 million compared to last year as it ended the quarter at $137 million. The growth was driven by net favorable impact of $131 million coming from volume, mix, pricing and programs, which was partly offset by higher production and distribution costs and higher depreciation expense for a total negative impact of $41 million. Higher operating expenses were $40 million to support our different projects, such as the launch of new products, continued investment in product R&D and improvement of our IT systems and higher financing costs, normalized tax expense and FX for $16 million.

Turning to Slide 17 for a look at our network inventory position. Our powersports network inventory is up 14% from last year's third quarter, a much slower growth pace than for our retail, which grew 24% in the quarter. The increase in our network inventory continues to be driven by our 2 fastest-growing businesses: side-by-side, for which retail continues to see robust growth as it grew low 30% in the quarter; and 3-wheel primarily driven by Ryker, for which demand continues to be strong as we started shipping model year '20 Can-Am Rykers for the upcoming season. Remember that we only started shipping Rykers in Q4 last year and, therefore, we had no inventory at dealers last year at the same period. Maintaining a healthy network inventory is a key priority of ours, and we continue to diligently manage it to ensure that it grows in line with retail demand.

And finally, turning to Slide 18 for an update on the guidance for the year. The year so far has unfolded generally in line with our expectations, with some upside coming from the sustained demand for our off-road lineup driving better-than-anticipated results for both our vehicle and our PAC businesses, that was offset in part by a difficult season for outboard engines due to unfavorable weather and our weaker market position, which ended up impacting retail sales for the fall season.

Taking this into account, coupled with solid financial results we have delivered so far this year, and the good visibility we have on shipments and expenses for the rest of the year, we are confident in our ability to deliver our year-end guidance with a few adjustments. We are adjusting our guidance to reflect the continued strong momentum we have with SSV and ATV and the impact on the PAC business; the completion of the North American PWC season and the better visibility we have on snowmobile shipments; the weaker-than-expected season for Marine and the sustained strength of the U.S. dollar compared to the Canadian dollar, which has a benefit of about 1% on total company revenues for the year, but does not impact the bottom line, given that we are naturally hedged on an annual basis for that currency. Accounting for these elements, our total company revenue guidance range now calls for a growth of 12% to 14%, and the lower end of our normalized EBITDA guidance range has been increased, and we are now expecting growth of 21.5% to 23%.

As a result, the lower end of our normalized EPS guidance has also been increased, resulting in a range of $3.70 to $3.80, representing a growth of 19% to 23% over last year. The solid momentum we have at the retail level and the strength of our business fundamentals has given us the confidence in our ability to deliver our year-end guidance and continue to grow at a solid pace into next year.

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

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

Thank you, Sebastien. We are delivering our best third quarter ever and our seventh consecutive quarter of growth. These record results are largely due to the strength of our strategy, our manufacturing efficiency and the seamless execution in all our operations. I'm extremely proud of our people, and I would like to thank all BRP employees for their hard work.

Our diversification strategy is paying off. And as you can see on Slide 20, for the last 4 years, we have delivered an impressive 12% CAGR for our powersport retail and 26% for side-by-side. This is a result of our ability to constantly innovate and create a very competitive lineup as well as a strong dealer value proposition which is driving high dealer engagement globally. After a prolonged stress of capacity increase in our manufacturing plan, we are proud to say that these improvements have been successfully completed and are showing excellent efficiency.

As you know, we are nearing the end of our current strategic plan called the Challenge 2020, which will be realized a year earlier than planned. We recently introduced the outline of our upcoming 5-year plan, Mission '25 to many of you last month during our analyst and investor meeting in Florida. There will be more information on this to come as we continue to deploy the various element, but we are confident in our ability to deliver the plan, which calls for an annual growth of 10% for revenues and 15% for EPS.

Finally, as mentioned, our strong third quarter results have allowed us to raise the lower end of our guidance, narrowing our normalized EPS range to $3.70 to $3.80, representing a growth of 19% to 23% versus last year. In conclusion, our efforts are paying off, and we don't intend to ease up. 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 Robin Farley from UBS.

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

I have 2 questions. One is on guidance...

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

Robin, sorry, could you speak louder?

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

Hopefully, you can hear me now. I had a question about your revenue guidance being up about $79 million, but EBITDA guidance, up about $1.5 million, just kind of looking at the midpoint. Is that primarily is the increase in shipments coming from Ryker mostly or something that would be lower margin? Just trying to think about why the corresponding change in EBITDA wouldn't have been a bit higher as well.

Sebastien Martel - *BRP Inc. - CFO*

Obviously, we're seeing good momentum in the Year-Round Product business, and that's a driver of the increase in revenue growth. But one of the elements as well driving the adjustments into the overall guidance is FX, for which the U.S. dollar has been trending higher than when we initially set guidance. And so we're increasing the overall revenue guidance by 1% driven by currency. However, we are naturally hedged on the U.S. dollar, and so a lot of that does not flow, unfortunately, to the bottom line, and that's why we're not adjusting the profitability guidance as much.

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

Okay, great. No, that's helpful. And then other question, just on the timing, obviously, very strong retail and you shipped higher in Year-Round than we had expected. And yet, the full year. So I'm just wondering if you just kind of ship some earlier in Q3 that you had originally thought you might ship in Q4, or if we might see a corresponding -- the upside potentially to Q4 here, similar to what we saw in Q3.

Sebastien Martel - *BRP Inc. - CFO*

Yes, the production is pretty much frozen from now to the end of the year. Obviously, when we saw the strong retail that we're having in Q3, that gave us the opportunity to ship some units that were initially planned for Q4 into Q3. And so we took that opportunity. And so that's what drove the better-than-anticipated results in the third quarter versus what we had initially expected or anticipated.

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

But in other words, you're not necessarily planning to stay with...

Sebastien Martel - *BRP Inc. - CFO*

No, we'll not be increasing. The adjustment we made to guidance is a reflection of the strong Q3 that we had, but we're not necessarily increasing the overall anticipation for this year. As I said, production is pretty much frozen from now to the end of the year for side-by-side.

Operator

Following question is from Gerrick Johnson from BMO Capital Markets.

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

Two questions here. First of all, you talked about sales programs as a headwind to margin. You did increase margin nicely, but it was a headwind. So where you see increased sales programs and why? And then I also want to talk about your own inventory, up 24%, looks like year-over-year on your books with finished goods up 50%. So could you talk about the inventory on your books?

Sebastien Martel - *BRP Inc. - CFO*

Yes. We've been increasing capacity over the last few years, not only on side-by-side but on personal watercraft. And so that obviously allows us to build some of the inventory or some of the products a bit earlier than the previous years for watercraft, when you have counter-seasonal markets, which are pretty big. And so that gave us the opportunity to build that inventory in Q3, put it on the water for shipment in South America and in Asia. And so a lot of the increase in inventory comes from that higher flexibility that we have and better timing for market and also just the growth in side-by-side. Obviously, that's been growing as well. And so as we're increasing capacity and as we're increasing output, that results in higher levels of inventory. But when I look overall in terms of number of days and I look on a full year basis, we are actually improving our number of days of inventory. And so I'm comfortable with the working capital investments we're making.

And on the margin side, I'll let José probably cover the programs, and then we could dive into the margin.

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

If I look at what's going on in the promotional environment like typical at this time of the year for watercraft and snowmobile, the promotional activity is normal. On ATV, it's -- I would categorize it as normal, except for the mid-cc category in noncurrent ATV, where there is quite aggressive program there, and we need to follow.

On the side-by-side, it's a bit unique. And it's quite aggressive on the noncurrent model, which is normal at this time of the year. But what is abnormal this time of the year is some of our competitors are already have programs on the current models. And on our side, we have no program right now on the Maverick X3 and the sport category, and we decided to follow with a 2-year warranty or $300 to $500 program for the customer on the Defender and the Commander. Then this is a bit earlier than typical, but we decided to be more aggressive on the Defender and Commander category to follow some action of the competition.

Operator

Our following question is from Jean-Francois Lavoie from Desjardins Capital Markets.

Jean-Francois Lavoie - *Desjardins Securities Inc., Research Division - Associate*

Congrats for the strong quarter. In the presentation, you mentioned that the strong side-by-side growth was driven by the utility and the sports segment. I was wondering if you could provide additional colors on the penetration you're seeing in the utility market, please.

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

Yes. If I give you some colors on the sport category, the market was up mid-teen percent. Under rec-ute, where we compete with the Commander, it was minus single digit. And on the utility side, the industry was up high -- mid -- high single digits, sorry. But our sales in the utility side is doing well. And I will just give you a sense and many people talk about the ag space, and we categorized 7 states in the U.S., part of the 7 states. Out of those 7 states, in 6 states, we have -- the industry was -- we were growing quite well, except in one state. And our growth for the Defender in the ag state was up by more than 40% when the rest of the United States was up by about 30%. Then the point I want to make is on the utility segment, which is the biggest segment, the industry have grown high single digits, but we outperformed significantly the industry in all United States and particularly in the ag states.

Jean-Francois Lavoie - *Desjardins Securities Inc., Research Division - Associate*

Okay, great. And in those states, I mean in the future, there's probably more growth opportunities to penetrate those markets, right?

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

But for sure, like we've said many times, we never really when -- we started with the Defender, it was a slow ramp up because our dealer were not used to sell side-by-side to farmer, and it's a bit different than the recreational side-by-side. But I would say right now with the product lineup that we have, with the dealer engagement, we have a very, very good momentum in the biggest segment of the industry.

Jean-Francois Lavoie - *Desjardins Securities Inc., Research Division - Associate*

Okay, great. And maybe if we turn over to the Ryker, I mean the strategy is paying off, more than doubling the size of the market this year. But I was wondering if you could provide any color on the demand front and what you are seeing for next season.

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

I mean like we said, the Ryker program will take 2, 3 years. So far, we're very, very happy about the first year. And that's why in my script, I was making the parallel between what we saw for the Spark for watercraft in 2014 and what we see here for the Ryker. But I think what is very interesting is, first, the Ryker didn't capitalize the sales of RT and F3. We had something like -- and I don't remember by heart, about 40% up new hand trend, 20,000 course or training program done with the conversion rate above 20%. And then all of this is a very good indicator. Obviously, our booking for model year '20 is good. And at the end, it will take 2, 3 years to really confirm that the Ryker done what Spark have done for watercraft, but I would say, after 1 year, we're very confident that it will happen.

Operator

Our following question is from Cameron Doerksen from National Bank Financial.

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

Just a question on the snowmobile market. I mean obviously this season is off to a good start and your retail is strong. But as you mentioned, it is a little below I guess the broader industry. And it sounds like some of your competitors had different sales strategy. Can you just talk us through that? And whether you would expect that you're going to make up some ground here as the season progresses?

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

Cameron, we believe that we are the OEM. We sell the most presold units to consumer. Some dealer turn to almost 50% of their orders is presold to consumer and you need to make sure you don't deliver all of them in the same month. Then because we have about 50% of the market and because there is a high ratio of presold unit sold to end consumer, we need to balance the way you ship vehicles to the dealers. And nobody, I think had predicted at the end of October, the market to be up by 30%. That is just a question of timing. And we are very enthusiastic with the snowmobile season. It's been a while since we had a start like this. And we're confident that when all the model will be shipped to the dealers, we will catch up our market share.

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

Okay. No, that's good. And just maybe a couple of questions on a couple of cost line items. Just looking at the selling and marketing line item, it is certainly up quite a bit year-over-year, and it was above what I would have expected. And just maybe you could just explain why that would have been the case? And then maybe the same question on general and administrative. I'm just wondering if these are kind of new run rates that we should expect for those 2 cost line items.

Sebastien Martel - *BRP Inc. - CFO*

Yes, you should expect, in absolute dollars, ballpark these numbers, not in percentage increase, but in absolute numbers. Obviously, we are investing in our growth business. The marketing spend is up as well in the quarter, up just over 20%. Club is a big period of the year. We announce a lot of new product news. And so there's a lot of marketing dollars attached with that. As you might recall, we had a busy Club with a lot of product news to announce on the side-by-side and on the personal watercraft. So that's driving higher marketing spend. Obviously, the R&D element as well. We always said that we will not slow down the pace of innovation and R&D is part of that innovation introduction.

And the other element is the NIM. It's also up almost 20% this year versus a year ago. We've talked about this a few times over some calls. We are investing more money in our IT systems and our RT backbone, and obviously, that comes with dollars, and that's being reflected on the -- most of it is being reflected on the NIM line.

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

Okay. Will that IT spend at some point mitigate?

Sebastien Martel - *BRP Inc. - CFO*

We have that for a few years. At some point, yes, but call it, it's a mid- to long-term investment that we're making.

Operator

Our following question is from Tim Conder from Wells Fargo Securities.

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

Congratulations gentlemen. Just a couple of follow-ups here. José or Seb, whoever wants to take this. Maybe a little more color on the comment about the geographic market share impact in personal watercraft. And then also at the analyst meeting at the end of October, you mentioned about the likelihood that you'll be in the near future expanding capacity again, needing to do that? Just maybe a little bit more color on that also and potential timing?

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

Yes. On this new geographic mix, we -- with Sea-Doo, we always been -- and again this is historical. Because of our snowmobile heritage, we always had a stronger dealer network in the snowbelt and in the east of North America than out West and South. Obviously, Sea-Doo, with 50% market share is doing well, but we have higher market share in the Midwest and in the East than the South. And what happened, I mean we shift quite quickly from fall to winter, and we believe that we're disadvantaged versus some of our competitors, where we are strong, then it's just a question of timing.

We have no doubt that with the new platform that we introduced at Club, which is in the GTI family, which is entry-level product, we have a very, very competitive lineup, and it's a question of timing. Plus, the other thing I should add, I would be careful with the number in Q3 because in the big picture it's not big numbers in units because we are in the tail end of the season. Then this is the -- our take on the geographic mix for watercraft.

On the capacity, like we said at the Investor and Analyst Day in Florida, for sure, if we continue to grow at the pace we're growing on the side-by-side business, at one point, we will reach our capacity limit in Juárez 2, and we are looking at all different options. And if the growth continues, you can expect we'll need to make a decision, I would say, within the next 12 months.

Operator

Our following question is from Brian Morrison from TD Securities.

Brian Morrison - *TD Securities Equity Research - Research Analyst*

A question on the outlook for Q4, specifically on the cost side. Seb, you mentioned higher marketing and IT, but it doesn't sound like it's anything other than norm. I'm just wondering if there's any impediments such as accelerated product investment or commodity costs because guidance looks a little bit conservative, even with the frozen production. And then when we look to fiscal 2021, how should we think about the EBITDA margin cadence? Is there any major changes in input cost impacting improvement?

Sebastien Martel - *BRP Inc. - CFO*

Okay. When -- just looking at Q4, obviously, we are expecting a slower growth rate in revenue, but nonetheless some growth. There is margin improvement, important margin improvement coming in the fourth quarter, as we have a bit more volume, but we also have a very favorable mix. Obviously, the side-by-side business is continuing to grow. We have a lot of new products: the Defender Pro, the Defender Limited with the cab and the HVAC. These are units that will start shipping in the fourth quarter. We also have the new RT that's going to be shipping. And so margins are going to be healthy in the fourth quarter, and that's going to be driving the strong growth in EBITDA that we're planning.

When I look into next year, we are looking at margin improvements for next year. But we'll be giving you the full download of our guidance once we publish our Q4 results. And as you know, our long-term objective is to grow our EPS by 15%. And so that's what we're going to be driving for the next few years.

But when I look at next year, there's a lot of good opportunities that are going to be obviously helping the bottom line: one, the strong momentum we have with side-by-side and ATV; the second season of Ryker and the introduction of the RT; the new Sea-Doo platform that we just launched a few months ago that's going to be shipping into next year. And PAC as well is going to be growing. As our side-by-side business is growing, the accessories business is going to be growing with that. The parts business is going to be growing with the increased fleet. And who knows what the R&D team is going to reserve as a surprise at the Sea-Doo Club in a few months. And so I'm sure we'll have some exciting news there as well.

So when I look into next year, a lot of positive elements are going to be driving the growth. When I look at consensus for next year as well, it's a number that I feel comfortable with that we can deliver, so a lot of good potential.

Brian Morrison - *TD Securities Equity Research - Research Analyst*

That's helpful. Just in terms of realization of initial cost savings from M25. When should we start to see those flow through?

Sebastien Martel - *BRP Inc. - CFO*

Well, obvious -- some of the pillars of M25 are already in place. So in terms of cost reduction on product design, that's a platform that we've had now on for at least 3, 4 years. We're deploying fully on personal watercraft. There's also going to be some opportunities on the side-by-side business as we grow. So that's one of the big elements. And as we're rolling out some of the new IT tools that we have, we will be also leveraging some of the benefits of that to increase operational efficiency.

Brian Morrison - *TD Securities Equity Research - Research Analyst*

Maybe one last question, José, on the Marine segment, ongoing headwinds as anticipated. Now you've digested Telwater. Presumably they don't face the same hurdles. Wondering if it's tracking with expectations. And then in terms of the new projects, such as Ghost, perhaps some insight as to what's been shared with the dealers to date, the reception and how we should think about timing?

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

Yes. First, Telwater is new. It's very new, but it's as planned. No surprise on Telwater. I would say on the North America boat brand, Alumacraft, Alumacraft had a pretty good quarter. And Manitou had a very good quarter. And because Pontoon is a high and expensive product, we put some promotional dollar there to help the dealer to lower the inventory. The flip side, we have good order for season '20 that will start to ship in Q4. But I would say it was not the best season for our first boat business. But that being said, again, like we explained to you at the Investor Day, the mid- to long-term strategy and all the program about the new boat and the new Ghost program and Manitou is on schedule. There are no change there. We're keeping the course.

Operator

Our following 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*

I wanted to ask about the side-by-side market. You've had tremendous success in that channel, taking significant share. I think oversimplifying, it's been about product innovation, but also about profitability. Your dealers make a good amount of money on those units. Have you seen any erosion in the profitability in the channel of your product as you try to expand in that category?

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

For sure, if you play back the history, we -- first, we enter a lot of white space with all our products. And this, combined with our dealer value proposition, we -- this is the winning combination, and that's what we've been outpacing the industry significantly. All the dealer value proposition is also evolving. We always work. Every year, we raise our PMA for the dealers. Also, we make sure that we have the right balance between promotion and between no promotion to make sure that the dealer protect as much as they can their margin because we don't want the BRP dealer competing against a BRP dealer. Then overall, there was evolution between now and when we introduced the program -- the overall program. But I would say some slight variation. But if you took overall, I think we are in the same ballpark than we were a few years ago. And most of the dealer made very -- better margin with our product versus some of our competitors.

Sebastien Martel - *BRP Inc. - CFO*

And we've been -- maybe if I add one point. We've been diligent in adding dealers. One of the key differentiating elements that we have versus other OEMs is the fewer number of dealers and, therefore, less intra-dealer competition. And that's an element that we're tracking very closely to make sure that we're not building out too many dealers, and therefore, increasing dealer competition between themselves.

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

And then I wanted to ask a question about Slide 13. It shows the net impact of the -- or the net improvement in the attachment rate for Evinrude and Alumacraft and Manitou. I imagine there was some offset, and maybe you were dropped from other brands. Just any way to describe the net impact of that?

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

Well, if you remember, when we acquired the company in 2018, those 2 companies in 2018, Yamaha and Mercury stopped supplying engine to Alumacraft and Manitou. It was more disrupting for Alumacraft because those 2 brands were a big portion of our boat sales. For Manitou, Evinrude was already in the 40% range attachment on their Pontoon. Then, Alumacraft was hit harder than Manitou. That being said now after one full season, we know exactly which dealers are engaged for both Alumacraft, Evinrude and Manitou and Evinrude. And now we can -- we believe we can grow the attachment rate from now at a good pace. But the first year, again, was more difficult than what we had anticipated because of the reaction of our 2 competitor in the boat -- in the engine category.

Operator

Our following question is from Matt Bank from CIBC.

Matt Bank - *CIBC Capital Markets, Research Division - Associate*

I just want to clarify the comment that production is frozen. Just in the context of you do have a significant effective capacity increase. So can you just clarify, we thought capacity was up 25% to 50% year-over-year. And then why can't you ship more to meet the stronger-than-expected demand?

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

Yes. As you know, we entered most for ATV, side-by-side, watercraft and the 3-wheel vehicle business, we introduced our new model, let's say, in the summer between June and September. And typically at the introduction of a new model year, you're going to full capacity because you're supplying to the dealer demand. The quarter that is more volatile in terms of supplying to our manufacturing at full capacity is always Q2. Then typically, in our business, we're running Q3, Q4 almost all the time at full of our capacity. Q1, most of the time is running full capacity. And Q2 can be more volatile depending of the year and the retail and all this. Then that's why in the comment of Sebastien -- because of the strong demand we have on our retail, we were -- and the good dealer order backlog that we have, we already were planning Q3 and Q4 to run at full capacity.

Matt Bank - *CIBC Capital Markets, Research Division - Associate*

Okay, understood. And can you share any indicators or your confidence on retail momentum heading into Q4 or in Q4?

Sebastien Martel - *BRP Inc. - CFO*

Well, we -- obviously, we don't -- we look at our retail, we have good visibility. What I can tell you is that we're not seeing any changes in the consumer behavior from what we saw in Q3 and what we saw in the previous quarters of the year. Demand is still there, and the consumer is still walking into the stores to buy goods. So that's a good indication.

Operator

Our following question is from Derek Dley from Canaccord Genuity.

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

Congrats on a strong quarter. Just one for me. Just in terms of the inventory that you've got at the dealers now that you already shipped. Can you just give a comment on the year? Like, is it mostly current year models that you're seeing in the inventory channel at this point?

Sebastien Martel - *BRP Inc. - CFO*

Yes, the inventory is very clean. When I look at what's driving the increase, a bit of personal watercraft inventory increase, but the main drivers are side-by-side and Ryker as we're shipping the new model year. So the inventory is very clean. I mean we have less than 5% of the inventory in the dealer network that is more than 18 months old. So it's very clean inventory and nothing obsolete lying there.

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

So then from a promotional perspective, I mean if the inventory is that clean, you should be pretty light on the promotions going forward or in the near...

Sebastien Martel - *BRP Inc. - CFO*

Well, I'm not expecting a big change versus what we've seen overall in the last, let's say, 12 to 18 months. There is always promotion happening. You want to make sure that the consumers walk into the dealership, and so that's a big driver of that. So I'm not seeing any slowdown or any increase in promotion.

Operator

Our following question is from Jaime Katz from Morningstar.

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

I have a couple of questions just on the Marine segment. Given that the Marine margins have contracted pretty significantly this year, and I know you pointed to some of the promotions on Manitou, should we expect that fourth quarter margins will be negative again this year? And then going forward, if you have a targeted sort of run rate for the margin for that business, I'd be curious to hear what that might be.

Sebastien Martel - *BRP Inc. - CFO*

Yes, the margins will still be tough on the Marine business for the next -- in the next few quarters. Obviously, OEs is more in a challenged position than the boat businesses are and OE is a bigger part of that business. So I'm not seeing any material improvement in margin. But I'll remind you that our marine strategy is a mid- to long-term play. And that's why we've decided to invest in boat companies and become a better integrator of engines than boats within boats. And that improvement in our business will materialize not next year, but in fiscal year '22 and in fiscal year '23. So I'm not expecting any short-term improvements in that business.

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

Of course. And then could you give us an idea of maybe what percentage of full year orders you think you have visibility to for 2020? I know you guys have painted a pretty nice picture of that. The Marine business is tracking in line with sort of what your expectations are, but I don't know -- I can't sort of judge how much visibility you have into that at this point and how much is remaining to play out given that we're only in November?

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

Well, the way it work, we've done 3 dealer meeting, 1 for Evinrude and 2 for -- 1 for Manitou and 1 for Alumacraft in August. And after those dealer meeting, the dealer gave us order, firm orders for delivery til the end of Q1. In parallel they will start to do boat show around Christmas time. And everything for the end of season '20 is like additional order will depend on the boat show sales and also how the spring will evolve. Then that's the cycle that we're planning. And right now, we have firm order til the end of Q1.

Operator

Thank you. 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, Maud, and thanks, everyone, for joining us this morning and for your interest in BRP. We look forward to speaking with you again for our fourth quarter conference call scheduled for March 20. 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.