Brunswick Corporation
First Quarter 2022 Earnings Conference Call
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Presenters
Brent Dahl - Vice President of Investor Relations
David Foulkes - Chief Executive Officer
Ryan Gwillim - Chief Financial Officer

Q&A Participants
Xian Siew - BNP Paribas
James Hardiman - Citigroup
Michael Swartz - Truist Securities
Anna Glaessgen - Jefferies
Kevin Heenan - JP Morgan
Fred Wightman - Wolfe Research
Joe Altobello - Raymond James
Eric Wold - B. Riley
David MacGregor - Longbow Research
Gerrick Johnson - BMO Capital Markets

Operator
Good morning, and welcome to Brunswick Corporation's First Quarter 2022 Earnings Conference Call. All participants will be in a listen-only mode, until the question-and-answer period. Today's meeting will be recorded. If you have any objections, you may disconnect, at this time.

I would now like to introduce Brent Dahl, Vice President, Investor Relations.

Brent Dahl
Good morning and thank you for joining us. With me on the call this morning are Dave Foulkes, Brunswick's CEO, and Ryan Gwillim, CFO.

Before we begin with our prepared remarks, I would like to remind everyone that during this call, our comments will include certain forward-looking statements about future results. Please keep in mind that our actual results could differ, materially, from these expectations. For details on the factors to consider, please refer to our recent SEC filings and today's press release. All of these documents are available on our website at Brunswick.com.

During our presentation, we will be referring to certain non-GAAP financial information. Reconciliations of GAAP to non-GAAP financial measures are provided in the appendix to this presentation and the reconciliation sections of the unaudited consolidated financial statements accompanying today's results.

I will now turn the call over to Dave.

David Foulkes
Thanks, Brent, and good morning, everyone. Our businesses had a strong start to 2022, delivering record first-quarter sales, operating earnings, and EPS. Continued focus on operational efficiency and strengthening our supply chain enabled increased production levels, and our investments in technology, innovation, recurring-revenue businesses and capacity have shaped the enterprise portfolio for further success in any economic environment.

Despite the inflationary backdrop, the pace of retail sales continues to be dominated by the twin supply-side challenges of very low field inventory levels and supply chain disruption.

Global boat field inventory levels were 6% lower at the end of the first quarter, 2022, than at the same time in 2021, and down 12% in the U.S. and are likely exaggerated by a slower start to spring in the Northern U.S. and Canada, which is resulting in delayed deliveries and registrations for many retail-sold boats.

The percentage of our boat production that is already retail-sold continues to be at an all-time high. Early 2022 boat show performance is encouraging, and there is no evidence of wholesale or retail cancellations.

Field inventory of our larger boats in the U.S. is currently at or near zero and, consequently, there continues to be very little advertising or promotional activity. With macro-economic and geopolitical factors driving current financial market dislocation, we took the opportunity to issue long-term debt at favorable interest rates and complete $80 million of share repurchases in the first quarter and are significantly increasing our 2022 annual share repurchase target to $300 million.

Later in the call, Ryan will provide you with further details behind our updated guidance for 2022. Before taking a look at our segment performance for the quarter, I wanted to spend a few minutes talking about the external factors and influences we are monitoring and managing, some on a daily basis.

First, I'd like to address boater sentiment in the face of the macroeconomic pressures and geopolitical issues currently at the forefront of many people's minds. Our internal surveys continue to indicate that intention to boat and to buy a boat remain essentially unchanged versus 2021, and that supply-side challenges are pacing retail sales.

Clearly, our businesses have not been immune to the impacts of the inflationary environment on product cost. We take a long-term view, and our overall strategy has been just to cover our cost of inflation through price increases on a dollar basis.

As you know, around 80% of our boats sell for less than $50,000, and boats can be financed up to 15 years. Additionally, despite recent and forecast rate increases, on a historical basis, interest rates remain low. In terms of boat operating costs, we estimate that for the average Brunswick boater, the rise in fuel prices since early 2021 will increase their seasonal fuel bills by less than $200.

Turning to geopolitical events, the tragic conflict in Ukraine and our cessation of business in Russia, Belarus, Crimea and the disputed territories has had no significant direct financial or supply chain impact to our business.

However, wholesale sales and production growth continues to be constrained, most notably now by the supply impact of the China lockdowns and associated freight and transportation delays, and the Spring boating season is getting off to a slower start than a year ago in Northern U.S. and Canadian markets.

We are monitoring long-range weather forecasts that currently show some improvement in May, which should translate into greater boat usage and increased aftermarket P&A sales in the second quarter.

I'll now provide some highlights on the performance of our segments during the first quarter.

Our propulsion business had strong results versus a historic first quarter 2021, with top-line growth enabled by increased production.

Mercury Marine continues to expand outboard propulsion retail market share, gaining 310 basis points in the last 24 months, including over 1,000 basis points of share gains in engines over 300 horsepower.

Production capacity for high horsepower outboard engines will be significantly increased by the previously announced capacity expansion in the Fond du Lac, Wisconsin facility, which remains on schedule for completion in the fourth quarter of 2022.

Mercury has now delivered V12 600 horsepower Verado engines to more than 50 different OEM customers, since its unveiling just over a year ago.

Our parts and accessories businesses continued their robust performance, collectively delivering their highest ever first quarter revenue, as both aftermarket and OEM channels prepare for the prime boating season.

Our Advanced Systems Group, with the addition of Navico, delivered exceptional top-line growth in the quarter with healthy margins, despite continued supply chain tightness and cost headwinds.

Our boat business posted outstanding top-line growth in the quarter with operating margins slightly below double-digits and increasing, sequentially, for the second consecutive quarter.

Our Aluminum Fishing category had outsized revenue growth and robust operating margins, while our Recreational Fiberglass brands also posted a strong quarter. We are meeting our production plans for the year, despite the headwinds, with global pipeline inventory levels remaining at the very low level at 19 weeks.

Finally, Freedom Boat Club has had an incredibly busy start to the year with substantial growth in the U.S. and Europe, and now has 350 locations and over 48,000 memberships network wide, while generating exceptionally strong synergy sales, across our marine portfolio.

Next, I would like to review the sales performance of our business, by region, on a constant currency basis, excluding acquisitions. As expected, most regions posted substantial sales growth in the quarter versus first quarter 2021, with Canada and Europe delivering strong sales growth in every business unit.

Overall, international sales were up 11% versus the prior year quarter and U.S. sales grew 8%. Sales in Asia Pacific were also strong when compared against the historical level achieved in Q1 2021, when that region saw a 31% increase versus first quarter, 2020.

As a reminder, the capacity initiatives across the enterprise, but especially in the propulsion segment, will allow us to better satisfy the immense international demand and backlog for our products.

As we discussed during our January earnings call, the industry experienced more pronounced supply chain disruptions than anticipated in the second half of 2021 with continued strength at retail, leading to a more significant inventory-constrained retail environment. As expected, this trend continued into the first quarter of 2022.

As mentioned, our indicators suggest the reported industry retail declines are being driven by a lack of product. We view the delayed deliveries to end consumers in northern boating markets as transitory, with deliveries expected to pick up when the weather improves, which will be reflected in future SSI reporting.

U.S. lead generation, dealer sentiment, and other leading indicators all remain very positive, and we are essentially sold out of our 2022 wholesale production slots with some brands being sold out at retail for 2022.

Ryan will provide some additional commentary on this point, during his discussion of the pipeline.

Brunswick's retail performance in the first quarter was broadly consistent with the overall market performance with outperformance in recreational fiberglass products and pontoons.

U.S. outboard engine unit registrations were down 3% in the first quarter for the industry.

On a rolling 12-month retail sales basis, Mercury continues to gain significant market share, capturing more than 400 basis points of share, over the last 12 months, in 200 horsepower and greater categories.

I'll now turn the call over to Ryan for additional comments on our financial performance.

Ryan Gwillim
Thanks, Dave, and good morning, everyone. Brunswick delivered yet another fantastic quarter, with record first quarter sales, operating earnings and EPS. When compared to prior year, first quarter net sales were up 18%, with adjusted operating margins of 15.8%. Operating earnings on an as adjusted basis increased by 10% and adjusted EPS of $2.53 increased 13%.

Sales in each segment benefited from higher prices implemented since the first quarter of 2021 and increased sales volumes, partially offset by supply chain inefficiencies and unfavorable changes in foreign currency exchange rates, while each segment's operating earnings continue to be impacted by increasing inflationary pressures and spending on growth-related initiatives.

Turning to our segments. Our propulsion business delivered yet another quarter of strong top-line growth, with a slight earnings increase versus a historically strong first quarter of 2021. Revenue increased 7% versus the first quarter of 2021, as strong global demand for all product categories continue to be enabled by increased production levels.

Operating margins were lower by 110 basis points, as higher sales and favorable absorption were more than offset by higher manufacturing costs, primarily caused by inflation and continued investments in capacity and product development.

Note, that although we have been taking price in certain markets and product lines, the majority of the propulsion price increases occur from this point forward in the year.

Our parts and accessories businesses saw a 34% increase in sales and a 19% increase in adjusted operating earnings, due in large part to the 2021 acquisitions of Navico, RELiON and SemahTronix.

Excluding the impact from acquisitions, organic P&A revenues grew by 2% against a very tough 2021 comparison, despite sales and earnings being impacted by supply chain constraints leading to increased sales backlogs, together with a slower start to the boating season in northern markets, due to unfavorable weather conditions.

As anticipated, adjusted operating margins of 18.9% were down when compared with the prior year quarter, primarily due to the impact of recent acquisitions and increased input costs.

Our boat segment delivered strong top-line growth and solid earnings increases, despite continued supply chain disruption and cost inflation. Sales were up 18% and adjusted operating earnings were up 6% when compared with the first quarter of 2021, with five of our brands exceeding 10% operating margins for the quarter.

Sales increases in the quarter were led by particular strength in aluminum freshwater, including our pontoon businesses, and our recreational fiberglass brands.

Increased volume and pricing enabled solid operating earnings growth, which was also impacted by higher costs due to manufacturing inefficiencies resulting from supply chain disruptions, and ramp-up costs at Boston Whaler's Flagler facility.

Freedom Boat Club, which is included in Business Acceleration, contributed more than 3% of the boat segment's revenue, during the quarter.

Turning to pipelines, we produced and wholesale sold more boats in the first quarter than we did in the first quarter of 2021, a remarkable achievement given the current supply-constrained environment.

Supply chain challenges, including delays in receiving certain components, continues to result in the deferral of shipping certain nearly completed boats to subsequent quarters. Dealer pipeline inventories decreased from the first quarter of 2021 by about 1,000 units to a historically low 13,600 units.

This translates to just over 19 weeks of inventory on hand measured on a trailing 12-month basis, which is about half of where inventories typically stand at the end of the first quarter.

Drilling deeper, of the 13,600 global pipeline units, only 7,000 of those units are located in the United States, with only approximately 5,000 of these units actually available for sale.

The remainder of the units are already retail sold, most of which are held by dealers in the northern U.S. boating markets, to be delivered to customers in the second quarter, as the weather begins to improve. Inventory levels also differ by brand, with certain fiberglass product, including Boston Whaler, having on average, less than one boat in inventory, per U.S. dealer.

As a result of these dynamics, and despite increased production in 2022, we expect that inventory weeks on hand in 2022 will follow a similar trajectory to that experienced, last year.

Moving to our outlook for the remainder of the year, despite the current headwinds Dave and I have discussed, our Q1 operating outperformance puts us in a position to raise full-year EPS guidance, even after accounting for the $0.25 of additional interest expense related to our first quarter debt issuance.

In addition, our accelerated and additive share repurchase strategy provides incremental benefits for the year. These benefits, when taken together with a slightly improved view of full-year top-line growth, result in us raising our full-year adjusted diluted EPS guidance to between $9.80 and $10.30.

Note, that the M&A completed and announced here in April has been included in this outlook, providing a very small benefit for 2022, with a more meaningful revenue and earnings contribution in 2023, and beyond.

I'll finish my comments this morning by highlighting certain P&L, cash flow and capital strategy assumptions that have changed versus our original full-year 2022 guidance.

As Dave mentioned earlier, the issuance of additional long-term debt in the first quarter has increased our estimate of full-year net interest expense to approximately $95 million. As part of the debt offering, we retired the remaining $57 million of our 2023 term loan which, as of now, likely completes our debt retirement activity for the year.

In February, we also increased our dividend to $1.46, per share. Our decision to increase share repurchase target given the current market dislocation will result in our average diluted shares outstanding for the year to decrease to between 76 million and 76.5 million shares.

As a reminder, we repurchased $80 million of shares in the first quarter and another $10 million thus far in April, and we anticipate second quarter repurchase activity to be no less aggressive than our first quarter cadence.

Additionally, we anticipate slightly greater working capital usage for the year, primarily related to our businesses holding higher levels of inventory to ensure consistent production levels.

Our anticipated earnings impact, due to tariffs, has improved by $5 million, due to certain China 301 exclusions being reinstated in March, but still results in an estimated $60 million headwind, primarily due to the 40 horsepower to 60 horsepower engines we produce in our China facility still being subject to the tariffs.

I will now turn the call back to Dave for concluding remarks.

David Foulkes
Thanks, Ryan. As anticipated, our Business Acceleration team has had a very busy start to 2022. Freedom opened its 350th global location in Denmark, which is the first location in the Nordics, a strong boating region.

Freedom also continued the expansion of its corporate footprint in key markets by acquiring four locations in the Atlanta area and continued to transition the branding of its recently acquired boat club locations, throughout Spain.

Business Acceleration also acquired J&R Marine, a portfolio of marine assets in the southern United States, including the greater Atlanta area, to expand shared access, advance its Boating-as-a-Service eco-system strategy with subscription-based models, and fortify plans to establish a regional marine operating center that will support Freedom Boat Club and Boateka.

Before we close out our comments this morning, I wanted to leave you with a few more updates. On March 7, we launched our second consecutive virtual Investor Day and held a follow-up Q&A session with the investor community. If you haven't done so already, I would encourage you to view these materials, which highlight the company's strategy through 2025. The materials can be found on brunswick.com.

In late March, we published our third annual enterprise-wide Sustainability Report, highlighting the company's industry-leading sustainability achievements, and announced the hiring of Jennifer Koenig, the company's first Chief Sustainability Officer, furthering Brunswick's ongoing commitment to advancing our enterprise environmental, social, and governance strategies.

Navico announced its first major capacity expansion since joining Brunswick in October, 2021. The expansion is expected to create more than 100 additional jobs at its Ensenada, Mexico, facility, and will increase vertical integration and production capacity to deliver the necessary volume growth, in addition to increased supply security to fulfill record demand for Navico's award-winning products.

Mercury continued its string of successful early season saltwater boat shows that included Miami, Dubai, and Palm Beach, at which it captured record share of outboard engines on display, particularly, in high horsepower applications.

Brunswick also continued to receive recognition for innovation by winning seven boating industry top products awards, spanning our businesses and product portfolio. Brenna Preisser was featured on CNBC, highlighting the company's leadership in DEI, and we also received recognition from Forbes as a Best Employer for Diversity for the third consecutive year.

Before I finish, I want to thank all our global employees who, once again, continued to deliver outstanding business performance and advance our Next Wave strategy, despite the very dynamic external environment.

Thank you. We will now open the line for questions.

Operator
Thank you. And ladies and gentlemen, at this time we will be conducting a question-and-answer session. If you would like to ask a question, please press "*", "1" on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press "*", "2" if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

One moment, please, while we pull for questions.

Our first question comes from Xian Siew with BNP Paribas. Please go ahead.

Xian Siew
Hi, guys. Thanks for the question. You mentioned a slower start to the season with maybe poor weather, but maybe can you talk about trends exiting the quarter and into April, like for example, the parts business was only up, I think, 2% on an organic basis. I was curious how that evolves for the quarter, and if you saw any kind of acceleration into April?

David Foulkes
Yeah. Thank you for the question. Obviously, it was up 2% but against the huge comp last year and an earlier spring. So, we're pretty comfortable with where the business is. Certainly, there will be a little bit of phasing, but you need to think about all of this as a phasing issue.

The P&A business and sales profile is people get their boats out for the season, that occurs every year. It's just a question of which week, two weeks forward, two weeks back, whatever it is the spring starts. And then, there's a usage profile and then there's a winterization profile.

So, I would say we're extremely comfortable with the way that P&A is performing, the way it's stocking. It's comping against a huge year, last year, and we are facing a little bit of a later spring. So, I see it as a very positive environment for us.

Xian Siew
Okay, got it. Thanks. And then you talked about how '22 retail is essentially sold out, you're not really seeing any cancellations. But maybe can you help give us some more color on how solid the backlog is and how hard it is for consumers to cancel orders? I think you're taking the pause and you take--you have all the customer information, but maybe some more color there?

And also, within that, if you're taking pricing over the course of the year as costs are going up, are you retroactively taking the price up for boats that have been pre-sold? Thanks.

David Foulkes

Yeah, so, I mean, in terms of cancellations, it depends on the type of boats and a little bit on the individual dealer, even to some extent. If you're pre-ordering a large boat, you can--there's probably a deposit of around 10% that is, potentially, at risk. But the reality is, if you are intending to order sometime in the future, that might not really be a risk.

In terms of smaller boats, the kind of penalty for cancellation is pretty modest. I would say that the--really, I think encouraging thing for us here is we are seeing no sign of anything either at a wholesale level, or a retail level.

Our dealers have one question really which is, can I get more boats? But there is no momentum in the other direction, at all. It's just, I need more boats, please get me more boats. And I believe that it isn't cancellations on a retail level and not associated with anybody wanting to cancel who is unable or something or going to forfeit something for cancellation, I think it's all about people want to get the boat.

In terms of retail pricing, normally, at the moment at least, I think a lot of dealers have allowed themselves some flexibility in their retail contracts to pass through price. Obviously, we don't directly control the retail pricing; that's up to the dealer-it's not up to us how they handle that.

And we've explained before, how we're handling wholesale pricing, which is, we are monitoring inflationary trends as tightly as we possibly can and trying to adjust, appropriately, but on a more frequent basis than we would, historically, have done.

Operator
Thank you. Our next question comes from James Hardiman with Citi. Please go ahead.

James Hardiman
Hey, good morning. So, I wanted to actually dig into that last point about pricing, a little bit. There have been a number of price increases, and maybe just as significantly promo being eliminated. But if I were to look at your three segments, where are we in terms of total sort of realized price versus '19?

And maybe, can you speak to the different levels of pricing power in those respective segments? Obviously, everybody is concerned that we'll see the reintroduction of demand elasticity. Where would we see that first, where would we see it last?

Ryan Gwillim
Yeah, James. Good morning. It's Ryan. I'll take that to start and then Dave can follow up. We obviously have taken price in all three segments. If I look at Propulsion, to date it's been relatively minor versus--I think you asked for 2019-2020, maybe we'd just say pre--kind of pre-COVID, that looks low to mid-single-digits up to this point, maybe mid-single-digits because we're talking a couple of years, which is just slightly over really what they normally do.

We said in the comments that Propulsion, U.S. Outboards, certainly we'll see a little bit more price here at the remainder of the year. So, that number will go up a little bit.

If I move then to kind of the parts and accessories business, this also depends on whether it's aftermarket or the OEM side of the house. Aftermarket has gone up, probably less than the OEM side. Certainly, the aftermarket increase has kind of looked, call it, mid to high single-digit increases to date with again more probably on the horizon with OEM probably looking more than that, call it, low double-digits, or so.

And then, if I look at boats, I mean, this is where we've been pretty clear, I think, on call after call. If you look cumulatively, you're probably somewhere in the mid-teens to about 20%. If you look at what would be kind of two-plus years, a couple of model years, and then we would anticipate a little bit more of price stability, as we move into the model year 2023.

Elasticity is always a good question, and you probably are going to know what I'm going to say, but this is a long-term game for pricing. We are attempting to use price to cover inflation, which we all know is prevalent in the environment. But we also are cognizant that we don't want to out-price our end consumers.

So, we touch just about every part of the boating ecosystem between the engine, the parts in the boat, so we're being relatively prudent across all segments and phasing these pricing--the price and to cover the inflation as it arises, but not taking more than necessary.

David Foulkes
Just one additional comment. We've said for a long time about 80% of our boats costing less than $50,000 and that used to be over 80%, but we checked it just a couple of months ago, and it was 78%.

So, over this whole period, we still have a huge portion of our portfolio aimed squarely at middle-income consumers and still extremely affordable. So, that still gives you a good idea of what the kind of presold pricing looks like. Even though we've certainly been forced to elevate some pricing, we are in this for the long term.

James Hardiman
That's great color. And then just one more from me. The $300 million in projected share repurchases now seems to be a pretty big signal about where your stock is trading relative to what you think intrinsic value. Maybe speak to that and whether or not you might lean into that even further, if the stock continues to be depressed? Thanks.

David Foulkes
Yeah, thanks, James. Yeah, I think, obviously, we're trading at a discount and obviously, the sectors had a significant pullback, and we believe that we are significantly discounted by any measure of intrinsic value. So, this is a good time for us to deploy capital.

We have a very strong balance sheet and are able to deploy capital very flexibly. And we certainly think that this is a great time to be repurchasing shares. And could we lean more into it? Yeah, absolutely, we could lean more into it. We think that that's a good target for now, but we will see how the year develops and whether that continues to be the right value place to put our dollars.

Ryan Gwillim
It's fair to say though it would, James, very likely only go up, not down, if that's what you're asking.

James Hardiman
Perfect. Appreciate the color, guys.

Ryan Gwillim
Thanks.

David Foulkes
Thanks, James.

Operator
Our next question comes from Mike Swartz with Truist. Please go ahead.

Michael Swartz
Hey, guys. Good morning. I just wanted to touch on your retail outlook for the year and maybe as it pertains to your prior outlook of, I think you said, low single-digit growth and understanding that retail and wholesale are, fundamentally, separated for the time being. But if you give us a view of just what some of the supply chain issues that you've seen, how, or I guess, has your retail outlook for the year changed at all?

David Foulkes
Yeah, hi, Michael. I think we discussed this--whether we should do anything, but I think the situation for us at the moment is, it's very early in the year. Our production remains strong. We have some specific kind of phasing issues, if you like, I think, around this time of the season, which is a bit of an inflection point.

So, we simply don't have enough new information to be able to update that call, at the moment. If we see something developing in a different direction, obviously, we'll do that. But we just felt that modifying that in one direction or another was, we just don't have enough information, right now.

Michael Swartz

Okay, fair enough. And then, maybe, just on the--I apologize if I missed this as well, but just on the pro--boat production expectations for the year, I think previously you had called out about 40,000 units, is that--and I know you took guidance up here, so is that still the right number and we should think about maybe the increment as being pricing or something else?

David Foulkes
Yeah, that's still the right number for us. I think the Boat Group and the teams in our individual plants and brands have done a great job in the first quarter of the year. I expect they'll continue to do a great job in the balance of the year. So, yeah, that's a good number.

Michael Swartz
Okay, great. And then, maybe just a final question, just at a very high level, maybe just give us some color or just qualification of maybe how the supply chain looks today, relative to two months ago?

David Foulkes
Yeah, it migrates. I think it's very clear that the area that is, potentially, the most disruptive is the COVID-related lockdowns in China. There are other areas that have generally improved in terms of availability. There is still inflation. Obviously, there are new--some new inflationary pressures associated with events, around the world.

But generally, as COVID has diminished, at least in the, throughout the domestic supply base, we're seeing improved performance, I think there, not uniformly, but generally improved performance.

And at the moment, we are focusing our attention, particularly on engineered components coming out of China, as the biggest potential source of disruption. But as always, so far, we've continued to manage our way through that. It's disruptive, but we find a way and expect to continue to find a way.

Michael Swartz
Okay. Thank you.

Operator
Thank you. Our next question comes from Anna Glaessgen with Jefferies. Please state your question.

Anna Glaessgen
Hi, good morning. Thanks for taking our question. And thanks for giving the color on the expected change in fuel costs for the average boater. Could you maybe give some perspective on what you're assuming in terms of usage, maybe versus historical averages given participation has benefited, over the past two years?

David Foulkes
Yeah, so, hi, Anna. So, yeah, a good question. So, we kind of did the calculation based on our kind of average boats--average boats, along with some data that's really well established from third-party sources.

So, for example, the EPA publishes average boat usage data, every year. They say boats are used about 35 hours in a season. Obviously, there is seasonality here as well, in the northern markets; season is shorter.

So, if you look at our average horsepower, which is in the kind of 140 horsepower range for an outboard, you look at the boat that it's on, the fuel consumption, you multiply that by the hours and the delta in fuel price between earlier this year and earlier last year, which is in the $1.50 range, something like that. You come out with about $160.

And so we--just to round that up a bit, we put it at $200. Obviously, if you have a more powerful boat, if you have more engines on the boat, the delta is going to be higher, but we thought it would be useful to dimension it for the average boat that we make and, also, to leverage really well-established third-party or kind of average usage profiles. That was the calculation.

You will see in other--I know that there was another estimate done to do with wake sports boats. They tend to use more fuel because they use a lot of power and torque to generate that big wake behind them. But for our average boat, remember about two-third of our boats are aluminum fishing boats. the fuel usage is very low.

Just another thing, it's about a quarter of the annual fuel usage of a compact car, so that's another way to think about it.

Anna Glaessgen
Great, thanks. That's really helpful. And then glad to hear the Mercury capacity expansions are still on track for 4Q. As we think about that incremental capacity and higher horsepower, can you give some perspective on the product and mix and channel shift impact to margins, as we see that ramping?

David Foulkes
Yeah. Well, first of all, I can tell you it's all spoken for, already, so which is very exciting. So, that's really good. I think we've said before, it's aimed at the higher horsepower engine ranges, so 175 horsepower and above, and we're adding around 60% capacity in that horsepower, in that set of horsepower nodes from 175 horsepower, upwards.

It is all on track at the moment, and we're very excited about being able to bring those additional customers on board.

Ryan Gwillim
And then also, Anna, from a margin perspective, we've been pretty clear that we have certain large customers that often take a big chunk of the available inventory. The additional capacity will enable us to sell more engines, internationally, to the repower dealer channel and to other OEM customers that maybe aren't even receiving engines, today.

Those channels often are margined up, and so that's--that will enable a little bit of margin expansion, which is what you're seeing, obviously, in the back half of the year, certainly in the fourth quarter then into '23, as you looked at our strategic plan, up to 2025.

Anna Glaessgen
Great. Thanks very much.

Operator
Thank you. Our next question comes from Kevin Heenan with JP Morgan. Please go ahead.

Kevin Heenan
Hey, guys. Thanks for taking my questions. I guess on the boat segment revenue, with the retail side coming in a bit softer year-to-date, your production is on track. I guess, what is driving the increase in your full-year revenue outlook? Is that pricing or more confidence in underlying demand?

Ryan Gwillim
Hey, Kevin. Let's say--and thanks for the questions, actually, it's a good question. Now when we look at--we're sitting in January and we're looking at a whole year of output. There's a lot of uncertainties. And certainly, when we were in January looking at full-year segment numbers, there was even more uncertainty than there is today in terms of inflation, supply chain, and the like.

I think we're just--no fundamental changes in assumption, except that now we are one quarter in, and production is up over last year. And we anticipate that continuing. As Dave said, the boat business has been hit probably the most with inefficient manufacturing, due to supply chain just not getting--it's literally as easy as one or two parts on a boat that need to be finished and completed, before it could be wrapped and sent to a dealer.

The boat business has gotten their share of that. But despite that and in light of it getting like a little better, as Dave mentioned, this is a production up over in the first quarter and we--it seems like we're on pace to be able to do that for the year. So, just--we're three months closer to the end of the year, and we're a little bit more dialed in and what the business can deliver.

Kevin Heenan
Got it. Thanks, that's helpful. And just a follow-up kind of dovetailing on Anna's question on the Propulsion segment. I guess, with the capacity expansions coming on in 4Q, just trying to bridge

the gap between the mid-teens revenue outlook this year with the 8% CAGR you've laid out longer-term. Is there any reason you can't sustain the double-digit growth into next year, as the capacity comes online? Or is there something else to consider in that trajectory? Thanks.

Ryan Gwillim

No. Another good question and Dave can chime in, as well. When you do a long-term projection, and we did four years this year, there are so many puts and takes, not only pricing and production capability, but where those engine goes, what the market performs.

If the question is, could there be outperformance, the answer is, yes, there absolutely could be. But as we look year in and year out, the CAGR is exactly what it is on average, and coming out of this year and looking ahead, it certainly will have the ability with more engines and a better mix potentially to out strip that estimate.

Operator
Thank you. And our next question comes from Fred Wightman with Wolfe Research. Please state your question.

Fred Wightman
Hey, guys. How are you? Could you just give a little bit more detail on what you're seeing out of Europe from a retail perspective, any of the geopolitical situation rubbing off on people's willingness to spend on some of these discretionary products?

David Foulkes
Yeah, thank you for the question, Fred. I think so far, sales are holding up well in Europe, across all of our categories. I think obviously, there is likely to be a differential between some of the countries that are somewhat more geographically removed from the immediate conflict than others. But so far, things are holding up, despite the fact that there continues to be inflationary pressure and, obviously, sentiment issues in Europe.

We--just as in the U.S., we have more demand for our engines, particularly in Europe than we've been able to satisfy. We have a significant backlog that we need to get through and, similarly, on the P&A side, we have a similar backlog of products that we need to get through. So, we're not seeing softness at the moment but, obviously, because of the--what's going on in the region, we've got our antenna up.

Fred Wightman
Makes sense. And then can you just talk about the J&R transaction, and how getting more involved with the dealership channel sort of fits into your longer-term strategy? Is there something that we should sort of expect a little bit more capital allocation to go to going forward, is it a one-off, how should we think about that?

David Foulkes
Yeah, I think--a couple of things to think about. One is that we made two transactions, one was J&R Marine, and then the other with the boat clubs on Lake Lanier. And the Atlanta area is really a very high potential area for Freedom that is--that was not populated with nearly enough clubs.

So, I would think about those two transactions as, first of all, an opportunity for us to get more Freedom clubs in the Atlanta area, significantly more. There's a lot of growth potential.

And then, J&R Marine heads four marinas, only two had boat clubs in them. So, an opportunity to even more emphasize Freedom and build out Freedom, within that acquisition.

One other things we talked about at our Investor Day was our Boating as a Service ecosystem strategy, we sometimes call Build Around the Boater. What you've seen us do with Freedom is, first of all, it's a great business, it’s stand-alone.

The margins are great, the growth is great, but you've seen us now, deliberately, feeding more engines and boats into Freedom, and on the front side, we use more P&A in Freedom. And you've seen us establish the Boateka pre-owned boat sales platform to get more margin on the--as boats exit Boateka. So, there is a tremendous opportunity for synergy around Boateka.

And we have been exploring other ways in which we can add synergistic margin and add growth to that ecosystem. And J&R marine allows us to prove out some of those concepts. We'll be a bit more forthcoming on exactly the specific detail, but we need to build some operational muscles, and we need to do it in the real world to prove out some of those concepts.

But essentially, it's an extension of our Boating as a Service ecosystem strategy, and that's the majority of it. And as we begin to evolve that more, we'll share more on the specific details.

Ryan Gwillim
And maybe on your capital strategy point, Fred, it's a modest play, in line with the kind of small bolt-on deals we've done, year in and year out. It’s kind of embedded in our existing capital strategy for the year. So, that's how you should think of it from a spend perspective.

Operator
Thank you. Our next question comes from Joe Altobello with Raymond James. Please go ahead.

Joe Altobello
Hey. Thanks, guys. Good morning. I guess, first question, I want to say on the retail outlook for you guys and the industry, given where field inventories are, how much is retail coloring your financial forecast for this year and maybe how you're thinking about next year? And, I guess, what I'm trying to ask, if the trends that we saw in Q1 persist where the industry is down 11, is there downside to your guide, or is it almost independent at this point?

David Foulkes
No, not really. At those levels, as we’ve mentioned, our backlogs are very high, were sold for the year on boats. Backlogs and engine and P&A are very high. So, I would say that we are extremely robust to most foreseeable developments. Yeah, it's not really coloring our 2022 thoughts, at all.

And as we get further into the year, obviously, we'll be developing a view on what that looks like for 2023 but, at the moment, we have literally not changed anything that we're doing on capacity expansions or any of the other initiatives that were the part of our overall strategy.

Ryan Gwillim
And, Joe, I'd also note that some of the additional color we gave on the pipeline slide today, I mean, there are 4,000 or so retail sold boats that are still sitting in our dealer--in dealer hands, waiting to be delivered. Those are not in SSI.

So it is fair to say, as it always is at this time of the year, that the true retail is probably even more dislocated from what SSI is seeing. Now that--who knows how that's going to shake out, but as Dave said earlier, if the wholesale is there, there is no doubt that we believe the retail will be there, as well.

Joe Altobello
Okay, very helpful. And just--maybe to just kind of follow up on that. If I look at your Q2 guidance, there seems to be a lack of earnings flow-through versus what we've seen, historically. Are you expecting anything to get worse from a supply chain standpoint? Does that reflect higher interest expense? Why the lack of earnings flow-through, I guess, in this quarter?

Ryan Gwillim
Yeah. Joe, this obviously got a lot of--a little bit more attention this morning than we anticipated. No, there is no change in our view on the second quarter from January. We're going to incur an extra just shy of $0.10 like $0.08 of interest, given the debt that we took out, and the benefit from share repurchases, obviously, will not cover that because that's more back-half loaded, just given the way the math works.

So, really, you're getting more interest than anticipated. And to be fair, it's still the second quarter, there is an uncertain environment, and we've given ourselves a little bit room for flexibility.

But no, you should not--the underlying assumptions of the strength of the market, our ability to deliver and perform have absolutely not changed from January.

Joe Altobello
Okay, great. Thanks, guys.

Operator
Thank you. Our next question comes from Eric Wold with B. Riley. Please state your question.

Eric Wold
Thanks. Good morning. Just kind of follow-ups kind of on the comments around the boats price, $50,000 and below, obviously, majority of what you sell. I guess, going to the pricing strategy to cover cost increases, is that across-the-board kind of evenly with all boat price points? Do you tend to lag somewhat, or could you lag somewhat on the lower end boats to not lockout buyers, or does that strategy not change by price point?

David Foulkes
Well, I think, in the end, what buyers experience is the retail price. So, our price is a component of that, but not the entirety of it. I would say, generally, we are trying to cover our costs, but we are little bit lagging sometimes, I would say, we probably are a little bit lagging in some areas.

Certainly, Propulsion, if you think about Propulsion, it is a much larger portion of the cost of a small boat than it is of a large boat. And there's just--the engine is the highest technology part of an aluminum fishing boat, typically, so--and if you think of what Mercury has been able to do so far, which is really hold pricing at very reasonable levels, as Ryan mentioned earlier, that is obviously more helpful for controlling inflationary costs, overall, on a small boat than it is on a large boat.

On a large boat, there are other components that--so the total built of materials is much beyond the engine.

So, I think by kind of natural means if you like, because of the good control of engine cost and pricing, we are probably controlling costs of smaller, more value orientated boats, more tightly than some of the bigger boats. And certainly, given demand for the bigger boats, there's less immediate thought about any other strategy.

Operator
Thank you. And our next question comes from David MacGregor with Longbow Research. Please go ahead.

David MacGregor
Yes, good morning. Thanks for taking my questions. Just with respect to the Parts and Accessories business, can you say how, just how dilutive the acquisitions were to the margins?

Ryan Gwillim
Hey, Dave.

David Foulkes

These acquisitions we talked on?

David MacGregor
The P&A from last year.

David Knowles
Oh, from last year. Okay.

Ryan Gwillim
Yeah, we--consistent with our guide for the year, David, Navico has quite strong gross margins and operating margins that are slightly dilutive to the segment, although still quite accretive to the overall Brunswick.

I think what you have seen is, even in the first quarter, you saw probably OpEx come in better than anticipated, certainly better than our internal forecast. And Navico is certainly a place where we are rightsizing kind of SG&A to match the rest of the organization.

You'll continue to see that, throughout the year and even into next year. But there is--there are certainly some pockets where we can improve, but that's how we look at it. Navico, RELiON, SemahTronix, collectively, would be still accretive to Brunswick, but slightly dilutive to the overall P&A operating margins.

David MacGregor
Okay, got it. Thanks for that. And then, I guess, just get back to this whole discussion today around 78% of the boats are less than $50,000. I'm not sure if you have sort of access to data through your dealer partners, but any sense of what percentage of sales are based on credit or incorporate credit into the purchase?

David Foulkes
Of the credit transactions that we see, about 50% are bought with credit. But there may be some of the financing that goes on behind the scenes that we're not aware of, but of the ones that we can see, about 50%.

Operator
Thank you. And our next question comes from Gerrick Johnson with BMO Capital Markets. Please go ahead.

Gerrick Johnson
Hey, good morning. Thank you. So, when you talked about the delayed deliveries, retail sold boats in some northern markets, what exactly does that mean? I just want to definitionally because you said it's not in SSI, so they're not registered. So are these just deposits, and really what I'm getting at, are these cancellable?

David Foulkes
No, these are boats that have been bought, but not put in the water. And so, yeah, they're not cancellable, they're fully paid-up boats that, for example, in Minnesota, and to a large extent in Canada, there's still ice on the water. So, they won't register them until they go in the water. They're fully paid-up boats, completely sold, just not registered yet.

Gerrick Johnson
Okay. Okay, got it. Great. And then in terms of your boat business, you talked about aluminum fish--aluminum freshwater and recreational fiberglass outperforming the quarter. Reasons behind that, and should that continue?

David Foulkes
I think the reasons behind it, we have a very strong boat portfolio in that aluminum category. And I think our production has been very solid. So, if you think across our aluminum product lines, Lund is a really premium aluminum freshwater boat, really just almost like the Boston Whaler of the aluminum world, if you like. So, sales of that have been really strong and continue to be.

And I would say that we have also been, particularly, strong in pontoon, which is a part of our aluminum boat group, as well. That is a category with extremely high demand, and our productivity has been very good, despite the backdrop.

So, we have a good product range. We've done a lot of product development in that area, which makes our product very fresh. Our production capability has been sustained very well. So yeah, just a combination of good operating and fresh product performance, I think.

Ryan Gwillim
And then, Gerrick, from a finance side, I'm more--- I'm as interested in their ability to manufacture the product to meet the design specs, and I would say, I'll call out Sea Ray and Bayliner that have both done a fantastic job of not only manufacturing product to--that consumers want, but also manufacturing it at the right cost.

So you've seen good topline growth and good margin expansion from both of those brands, which has resulted in some of the fiberglass goodness that we've discussed.

Gerrick Johnson
Okay, thanks. And maybe if I could ask just one more, you talked about shows like Miami and Palm Beach, but what about some other shows, say, interior shows like Cleveland or in Minneapolis, how are shows like that going?

David Foulkes
Generally good. Our--when I last looked, which is fairly recently, our show sales this year were ahead of our show sales last year, not a huge amount ahead, but a bit ahead. And the reason

why we emphasize the biggest shows, a couple of reasons. One is, because a lot of the regional shows are really dealer shows, and dealers don't have any inventory.

So, sometimes, dealers won't even attend a show because they have nothing to sell. So, you will see a lot of kind of variability from one regional show to another regional show, depending on whether--I mean, dealers, unless they make additional money, they're not going to go to the show.

The biggest shows, like Miami, are much more organized, the OEMs are a much bigger part of the presence of boats there. The boats are not dealer boats, they are our boats. So, they provide a much more consistent picture in this environment than the regional shows do.

We can talk more about regional shows, but you'll just see them more variable, depending on who has got inventory.

Operator
Thank you. And at this time I would like to turn the call back to Dave for some concluding remarks.

David Foulkes
Thank you all very much for joining us and for the great questions. As you've seen, despite the very dynamic external environment, our business continues to perform exceptionally well, certainly from an operating perspective, but we're also making great progress with the strategic initiatives that support our 2025 plan, including the capacity expansions, new product launches and the M&A.

In Q2, we expect to continue to be in this dynamic environment but as you've seen with the portfolio of businesses we have built over several years, the high degree of recurring revenue, the high growth potential, the structurally higher margins that we have, that position us extremely well both for Q2 and the balance of the year.

So, we're very--we remain extremely excited about the year, completely on track with our plans for the year, on track with our plans for 2025, and we're very excited.

Ryan Gwillim
Thank you. Bye.

Operator
Thank you. All parties may now disconnect. Have a great day.