

Brunswick Corporation
Q1 2021 Conference Call
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Presenters

Brent Dahl - VP, IR
Dave Foulkes - CEO
Ryan Gwillim - CFO

Q&A Participants

James Hardiman, Wedbush Securities
Fred Wightman, Wolfe Research
Scott Stember, C.L. King & Associates
Brett Andress, KeyBanc Capital
Mike Swartz, Truist Securities
Joe Altobello, Raymond James
Anna Glaessgen, Jefferies
Eric Wold, B. Riley

Operator

Good morning, and welcome to the Brunswick Corporation's first quarter 2021 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 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 consolidated financial statements accompanying today's results. I will now turn the call over to Dave.

Dave Foulkes

Thanks, Brent, and good morning, everyone. Our business has had a fantastic start to 2021, with a very healthy marine market, strong boating participation, and outstanding operating performance driving historic financial results. Robust retail demand for our products continues to drive low field inventory levels with increased production across all our facilities necessary to

satisfy orders from our OEM partners and dealer network. Our teams have performed exceptionally well in the face of supply and transportation headwinds, tighter labor conditions, and continued impact from the COVID-19 pandemic, and we are excited about our ability to further harness the positive momentum we've generated to propel our growth and industry leadership.

Our Propulsion business continues to deliver outstanding top-line, earnings, and margin growth, outperforming the market by leveraging and expanding the strongest product lineup in the industry. Our parts and accessories businesses delivered strong top-line growth and robust operating margins as a result of increased boating participation, which drove strong aftermarket sales, together with high demand for our full range of OEM systems and services, as boat manufacturers attempt to satisfy retail demand. Our boat business performed well, as anticipated, in the quarter, reaching double-digit adjusted operating margins for the first time in over 20 years. Despite elevated production levels consistent with our plans for the year, the continued surge in retail demand is still driving historically low pipeline inventory levels, with 41% fewer boats in dealer inventory at the end of the first quarter versus the same time last year. Finally, Freedom Boat Club has had an extremely busy start to the year, which I will discuss further in a couple of slides.

We have exceptional momentum as we enter the prime retail season in most markets, and, as you can see from our significant guidance increase, we are confident in our ability to perform for the rest of the year and well beyond. Before we discuss the results for the quarter, I wanted to share with you some updated insights from 2020 concerning our boat buyers and Freedom Boat Club members that reflect very favorable trends for the future of our business. We continue to outperform the industry in attracting new, younger, and more diverse boaters, positioning us for very strong growth in the years to come.

Last year, Brunswick's average boat buyer age was two years younger than the industry average and reached its lowest level in over a decade. Additionally, Brunswick's first-time boat buyers averaged five years younger than our overall boat buyer demographic and three years younger than the industry. Equally encouraging was the fact that the percentage of Brunswick female boat buyers in 2020, while still a minority, equaled the highest percentage on record, and first-time female boat buyers entered at double that rate, which was a notable 700 basis points higher than the industry. In Freedom Boat Club, we saw even more promising trends, with the average Freedom member being almost three years younger than our typical boat buying customer and female Freedom members making up 35% of our member base in 2020 and 2021. These trends are an extremely important validation of our strategy to secure a healthy future for Brunswick and are also favorable for the entire marine industry.

I also wanted to briefly update you on some very important awards and milestones for Brunswick during the first quarter, which are important in positioning Brunswick for investors and employees, and our ability to secure top new talent. I am pleased to announce that, for the second consecutive year, Brunswick has been recognized by Forbes as one of the Best

Employers for Diversity. Those recognized were chosen based on an independent survey of over 50,000 employees working for companies employing at least 1,000 people in their U.S. operations. Diversity and inclusion are cornerstones of our culture and a source of innovation and inspiration for our company. We also published our 2020 sustainability report at the end of March, which reviews the exceptional progress we have achieved against our sustainability goals, including our prioritization of the health and safety of our employees. In 2020, we reported the lowest recordable incident rate in company history, in the face of immense challenges resulting from the COVID-19 pandemic.

And I also wanted to share with you a snapshot of what the return to in-person boat shows looks like. The Palm Beach International Boat Show was recently held for the first time since the Spring of 2019. This was the first major in-person saltwater show of the 2021 season, and the outcomes were very positive. Attendance was up, and our brands outperformed the broader marine industry. Over the course of the four-day show, Sea Ray and Boston Whaler more than doubled the number of boats sold this year versus 2019, and revenues more than tripled, driven by increased demand for the recently launched models. Consumers were also able to see Mercury's V-12 600 horsepower Verado in person for the first time, with many eager to repower their boats with this new, game changing engine.

I'll now provide some first quarter highlights on our segments and the overall marine market. Our Propulsion business continues to gain significant retail market share in outboard engines, especially in higher horsepower categories where we have focused higher levels of investment in recent years. Mercury gained share in each horsepower category over 50 horsepower in the first quarter, with outsized gains in nodes (sp) in excess of 200 horsepower.

As I mentioned earlier, Mercury launched its new 600 horsepower, V-12 Verado engine in February (inaudible) in Florida to much fanfare (sp). Many OEM partners, including Fountain, Scout, Viking and Tiara, and our own Boston Whaler and Sea Ray brands, have already designed boats with this engine in mind and are taking orders. Many models are already sold out for 2021, with twin, triple, or even quad configurations being very popular, with both OEMs and customers. New or enhanced OEM relationships, along with significant investments in new technology, have also helped fuel the continued growth in Mercury's industry-leading controls, rigging and propeller businesses. As Mercury's growth continues to accelerate, we regularly review our capacity requirements to ensure we are able to meet projected demand and fully capitalize on future growth opportunities. In this regard, we anticipate having to pull ahead some additional capacity actions.

Our Parts and Accessories businesses also experienced significant top-line and earnings growth in the quarter as aftermarket sales remain elevated due to strong participation trends and service needs, with increased OEM orders to keep up with production resulting from the accelerated retail demand. Our dealer network reports that their service centers are busier than ever, with the strong participation trends from 2020 continuing into 2021. In addition, favorable weather conditions in many parts of the U.S. are enabling consumers to return to the

water early and in force. This demand drives the need for aftermarket service parts and a healthy distribution network to get dealers the products they need on a same-day or next-day basis.

The Advanced Systems Group, which has a larger OEM component to its business and also serves some non-marine segments, demonstrated significant growth across all its product categories and delivered strong operating margins that were accretive to the overall segment. Our boat segment had an outstanding quarter, with successful execution of its product plan, resulting in strong revenue and earnings growth, together with double-digit operating margins. Given the continued retail demand surge, 95% of our production slots are now sold for the calendar year, with many Whaler, Sea Ray, and other models now sold out at wholesale well into 2022. Pipeline inventory, which Ryan will discuss in more detail in a few slides, remains at historically low levels, and we continue to hire additional workers at most facilities to ramp up production consistent with our stated plan. We remain on track with our plans to reopen and staff the Palm Coast facility and expand our operations at Reynosa and Portugal. However, it remains very unlikely that pipelines will be significantly rebuilt until 2023 at the earliest.

Freedom Boat Club also continues to exceed our growth expectations, now with over 40,000 memberships and 280 locations, which is more than 100 new locations since we acquired Freedom in 2019. Freedom has been expanding both through acquisition and organic growth in 2021. We acquired franchise operations in major boating markets, including Chicago and New York, and opened our first location in the UK. As a reminder, having company operated locations allows us to gain the full economic benefits of the territories and allows us to increase investment to enable faster growth. In addition, company operated locations provide the opportunity to get close to the end boating consumer and allow us to enhance our other offerings, including Boateka and our F and I (sp) businesses. You will hear more from Brenna (sp) about our plans for Freedom and our other Business Acceleration initiatives on our upcoming Investor Day, which I'll discuss at the end of today's presentation.

The outstanding operational and financial performance I have been discussing has not been without some external challenges that our businesses continue to manage and mitigate, sometimes on a daily basis. Our supply chain teams in particular performed exceptionally well. Winter storms and resulting power outages in the Central and Southern United States affected oil-based product production and supply, including our third-party producers of resin and foam (sp), while tight semiconductor supply, raw material shortages, and transportation disruption, and resulting cost increases continue to present challenges to our businesses to varying degrees. However, the global reach of our supply network and our unique scale in the marine industry, together with our purposeful vertical integration, have so far enabled us to mitigate these challenges and keep our production plans on track for 2021. I want to thank our supply teams, as well as our third-party supply partners, for continuing to work together to ensure the manufacturing continuity necessary to satisfy our robust market demand. Finally, labor conditions remain tight in many locations in which we manufacture products, but our talent

acquisition teams have been working hard and successfully to add manufacturing and other talent to our teams as we increase production.

Next, I would like to review the sales performance of our business by region on a constant currency basis. First quarter sales increased in each region, with international sales up 42% and sales in the U.S. up 47%. International growth was very strong across all regions, with continued strength in Europe and Asia-Pacific contributing to growth in propulsion and P&A sales. Canada continued its trend from the back half of 2020 with significant sales growth in all three segments. This table provides more color on the recent performance of the U.S. marine retail market. All boat categories reported retail gains in the first quarter, continuing the momentum from 2020. The main powerboat segments were up 34% in the quarter, with Brunswick's unit retail performance ahead of market growth rates, especially in outboard boat categories. Outboard engine unit registrations were up 21% in the first quarter, with Mercury significantly outperforming the market and taking market share as I discussed earlier.

As we enter the primary selling season in the U.S., lead generation, finance applications, dealer sentiment, and other leading indicators all remain very positive. In addition, similar to our comments on previous calls, at the end of March, our percentage of dealer orders received with a customer name already attached is approximately three times the percentage from the same time last year. All these factors give us high confidence in the continuing strength of the retail market as we move through 2021. I will now turn the call over to Ryan for additional comments on our financial performance.

Ryan Gwillim

Thanks, Dave, and good morning, everyone. Our first quarter results are outstanding. Year-over-year comparisons are not particularly helpful given the significant COVID impact starting in March of last year, but our performance in the quarter stands on its own against any quarter from the last two decades. First quarter net sales were up 48%, while operating earnings on an as adjusted basis increased by 116%. Adjusted operating margins were 17%, and adjusted EPS was \$2.24, each being the highest mark for any quarter for which we have available records. Sales in each segment benefited from strong global demand for marine products, with earnings positively impacted by the increased sales, favorable factory absorption from increased production, and favorable changes in foreign currency exchange rates, partially offset by higher variable compensation costs. Finally, we had free cash flow usage of 23 million in the first quarter as we built inventory ahead of the prime retail selling season, which is very favorable versus free cash flow usages of 144 million in the first quarter of 2020 and 159 million in Q1 of 2019.

Revenue in the Propulsion business increased 47% as each product category experienced strong demand and market share gains. All customer channels showed growth in the quarter as boat manufacturers continued to ramp up production and increase capacity enabled continued elevated sales to the independent OEM, dealer, and international channels. Operating margins

and operating earnings were up significantly in the quarter, benefiting from positive customer mix in addition to the factors positively affecting all our businesses.

In our Parts and Accessories segment, revenues increased 52%, and adjusted operating earnings were up 83% versus first quarter 2020 due to strong sales growth across all product categories. Adjusted operating margins of 21.3% were 350 basis points better than the prior year quarter, with strong sales increases, together with favorable sales mix, driving the robust increase in adjusted operating earnings. Continuing the theme from 2020, this aftermarket-driven, annuity-based business is benefiting from more boaters on the water, which is being augmented by flexible work schedules, allowing for more leisure time, with the OEM component of the business leveraging investments in technology to take advantage of strong demand from boat builders as they increase production.

In our boat segment, sales were up 44%, with 31% adjusted operating leverage resulting in 10.9% margins for the quarter. Each brand had strong operational performances and contributed to the successful results, with Lund and Boston Whaler leading the gains in the premium brands and Bayliner having another strong quarter as a mid-tier value brand. Although it's only one quarter above our stated goal of double-digit margins, this is the third consecutive quarter of margins above 9%, and we believe that we can continue this trend throughout the year and beyond. Operating earnings were also positively impacted by the increased sales and the lower retail discount levels versus 2020. Freedom Boat Club, which Dave discussed earlier, contributed approximately 2% of the segment's revenue at a margin profile that continues to be accretive to the segment.

Our boat production continues to ramp consistent with our plans to produce in excess of 38,000 units during the year. Despite producing approximately 9,400 units in the quarter, which is up 16% from the fourth quarter of 2020, we only added a few hundred units to dealer inventories given the continued robust retail market. Our boat brands ended March with just under 19 weeks of boats on hand, measured on a trailing twelve-month basis, with units in the field lower by 41% versus same time last year. We continue to believe that our current manufacturing footprint will support the production necessary to satisfy the anticipated 2021 retail demand, but we continue to work with our brands to unlock additional near-term capacity through automation, labor, and select capital initiatives, including the capacity actions announced earlier in the year related to our Palm Coast, Reynosa, and Portugal facilities, which will begin providing benefits by the end of the year.

As a result of historically low product pipelines and continued very strong boating participation, including in many northern regions in recent weeks due to the early spring, production levels remain elevated across all our businesses to both satisfy retail demand and to rebuild product pipelines. These factors, together with our strong pipeline of new products and outstanding operational performance, continue to provide enhanced clarity on our ability to drive growth in upcoming periods, resulting in the following guidance for full-year 2021. We anticipate U.S. Marine industry retail unit demand to grow mid to high-single-digit percent versus 2020, net

sales between \$5.4 billion and \$5.6 billion, adjusted operating margin growth between 130 and 170 basis points, operating expenses as a percent of sales to remain lower than 2020, free cash flow in excess of \$425 million, and adjusted diluted EPS in the range of \$7.30 to \$7.60. We're also providing directional guidance regarding the second quarter, where we anticipate revenue growth of approximately 50% over the second quarter of 2020, with adjusted operating leverage in the low-20s percent. As we look to the second half of the year, despite extremely challenging comparisons to 2020, we still believe that we will deliver top-line and earnings growth over the second half of last year.

I will conclude with an update on certain items that will impact our P&L and cash flow for the remainder of 2021, the only significant update relates to the working capital usage for the year. Projected increases in accrued expenses and accounts payable are exceeding anticipated increases in accounts receivable, resulting in a lower working capital build throughout the year. We now estimate a working capital increase of \$80 million to \$100 million for 2021, which, together with the higher anticipated earnings, results in a stronger free cash flow projection of \$425 million. Our capital strategy assumptions, however, have been augmented in places to take advantage of our stronger, early year cash position. We still plan to retire approximately \$100 million of our long-term debt obligations, as we repaid \$9 million in the first quarter and 60 million already in April. We repurchased \$16 million of shares in the quarter and plan to continue our systematic approach throughout the year. We anticipate spending \$250 million to \$270 million on capital expenditures in the year to support and, in some case, accelerate growth initiatives throughout our organization. This slightly increased spending will be directed to new product investments in all of our businesses, cost reduction and automation projects, and select additional capacity initiatives to support demand and future growth, primarily in the Propulsion business.

We are also raising our dividend for the ninth straight year to \$0.335 a share, or a 24% increase, as our strong cash position enables us to raise our dividend earlier in the year than usual, and keep our payout ratio close to our target 20% to 25% range and continue to provide strong returns to our shareholders. Finally, we've had a busy start to the year with M&A activity, primarily in expanding Freedom Boat Club as Dave discussed earlier. Completed deals to-date will have an immaterial impact on 2021 results, but we remain active in several areas including P&A, Freedom, and ACES and intend to close additional deals throughout the year. I will now turn the call back over to Dave to continue our outlook comments.

Dave Foulkes

Thanks, Ryan. As we discussed on our January call, we felt that 2021 was setting up to be an outstanding year for all of our businesses, and the first quarter did not disappoint. The combination of robust consumer demand during the quarter and solid operational execution by our businesses has us squarely on track to deliver against our operating and strategic priorities. Our top priority for the Propulsion segment continues to be satisfying outboard engine demand from new and existing OEM customers and expanding market share, especially in the dealer, saltwater, repower, and international channels. We're continuing to invest heavily in new

product introductions and industry-leading propulsion solutions that we project (sp) will enable top-line and earnings growth far into the future.

Our Parts and Accessories segment remains focused on optimizing its global operating model to leverage its distribution and position of product strength in the areas of advanced battery technology, digital systems, and connected products in support of our ACES strategy. We will continue to focus our M&A activity in this area as we look for opportunities to further build out our technology and systems portfolio. The Boat segment will build on its first quarter successes by continuing to focus on operational excellence, improving operating margins, launching new products, executing capacity expansion plans, and refilling pipelines in a very robust retail environment.

Lastly, we remain keenly focused on accelerating the Company's ACES strategy, building on our connectivity and shared access initiatives, but also in the areas of autonomy, where we recently announced a new partnership with Carnegie Robotics, and in marine electrification, where we plan a portfolio of new products. We will also continue to advance our ESG and DEI strategies across the company, but that's all I'm going to say about our strategy on today's call, because we will cover this in much more depth on our Virtual Investor Day. It's been more than a year since we have provided you with a comprehensive update on the company's strategy, so I welcome you to view Brunswick's Next Wave, virtual investor event on May 10th. As we have done with past investor days, we have gathered our business leaders to provide you with an update to our 2022 strategy that was originally presented in February of 2020 in Miami, as well as to discuss certain longer-term initiatives that will grow and differentiate Brunswick through the next decade.

The pre-recorded content will be available Monday morning May 10th on brunswick.com, and it will be available to view at your leisure all at once or in bite-size chunks by topic. We will also hold a Q&A session for investors to ask questions of our management team on Monday, May 17th at noon Central Daylight Time. All of this information will be made available in a press release early next week. Just a reminder that, while we will not be providing a full financial update during this event, Ryan will be providing an abbreviated update on our 2022 financial targets, which will include further details regarding the substantial increase of our 2022 EPS target to between \$8.25 and \$8.75 per share as announced today. Finally, I want to once again offer heartfelt thanks to our global employee population for all their dedication, effort, and sacrifices during what is still a challenging time for our families and communities. Your hard work has enabled us to seamlessly execute our strategic plan and significantly outpace our initial growth and profit expectations. We will now open the line for questions.

Operator

Thank you. Ladies and gentlemen, we will now be having our question-and-answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may also press star two if you would like to remove your question from the queue. One moment, please, while we

now pull for questions. Our first question comes from James Hardiman with Wedbush Securities. Please proceed with your question.

James Hardiman

Hey. Good morning. So, obviously a great quarter. I guess my first question is how, right? You talked about production increases here in 2021, but it seems like most of that physical expansion is slated to happen later in the year. And so, if I just look at fourth quarter sales where you did about 1.1 billion—you did 1.4 billion this quarter, so north of 20% higher. How are you able to pull that off is sort of question number one.

Dave Foulkes

Hi, James. It's Dave here. Well, I think a number of things really. At the back end of last year, although we had ramped up significantly, we were still kind of in flight with plans to add shifts, plans to advance other manufacturing initiatives. That really begins (sp) to come through across all of our businesses in Q1. So, we were hiring, and we're continue—I think we've now hired 1,000 people in Q1. So, just having those people on board is obviously a huge boost. It's not straightforward to do that in a relatively tight labor market, but our talent (sp) teams have managed to do it. So, we've added those people throughout all of the businesses. Mercury has ramped up production with additional shifts. BBG (sp) has been able to produce more boats than we originally anticipated. So, I think really what you saw in Q4 was still a kind of in-flight situation that has matured nicely into Q1, and we've been able to mitigate through a lot of hard work, some of the headwinds that you've seen experienced across multiple verticals and supply chain transportation and other things. So, those really had a immaterial effect in terms of production disruption to us, which obviously we're incredibly grateful for.

James Hardiman

Really helpful. And then second and last question. The margin expansion has been really encouraging. But I think the million-dollar question for so many investors—and I think we've seen this amongst a number of companies that are—that are doing well right now is how sustainable is this? And so, however you want to take that question, I don't know if you can split it up into buckets between sort of what's unique to the current environment, whether it's promotional benefits, right? It's—at some point, promotions are going to pick up, sort of leverage benefits and then just sustainable margin improvement that you've made. How do we think about sort of not just post-pandemic, but post, I don't know, 2022 margin power here?

Ryan Gwillim

Hey. Good morning, James. It's Ryan. And you'll get a little bit more color on 2022 on the Investor Day, that's coming here on the 10th of May. But we believe that margins are sustainable, and growth is sustainable into '22 and beyond. We are—increased volume is certainly a big good guy (sp) for us right now, and, as we continue to grow across all of our segments, that is helping absorption and some of the other things within our facilities. Keeping fixed costs low throughout the entire footprint is something we've been focused on for the last several years. And as we're growing here on the top-line and growing earnings, we're not

adding a whole lot of fixed cost to the system. And so, I think that will continue. We also have some mix benefits that fluctuate from kind of quarter-to-quarter, first half to second half, and those will always bounce around a little bit. But we're continuing to see favorable sales mix throughout most of our business units. So, there are some potential headwinds like Dave talked about in terms of cost and material inflation and tariffs continue to be a bit of a bad guy. But nothing you're seeing from our results is really a bespoke (sp) or unique factor that is being driven by the pandemic or anything from there. It's really—if you go back to our initial plan that we laid out in February of last year, this is kind of where we thought we'd be. (Inaudible) we didn't take a normal trajectory to get there, but I don't think you ever do in a three-year plan, but we're pretty confident that margins will continue to grow for us.

Dave Foulkes

I would add, James, that every new product that we're introducing, no matter where it is, Mercury, Boat Group, whatever, is being introduced at a higher gross margin. So, all the new products that we've been talking about come in at higher gross margins. And the—we have not backed off at all on the manufacturing efficiency and automation initiatives that are part of our strategy that are progressively lowering costs every year. So, even though we have some of these short-term headwinds around the elevated pricing for transportation and other things, those will mitigate over time and—but what will not mitigate are the fixed cost reductions that we've been putting in place and the increased automation and other efficiency initiatives that we continue to implement just consistently month after month.

James Hardiman

Great color. Dave and Ryan, thank you.

Operator

Thank you. Our next question comes from Fred Wightman with Wolfe Research. Please proceed with your question.

Fred Wightman

Hey, guys. Thanks for taking the question. You alluded to continued retail momentum a few different times on the call. I think, Ryan, you mentioned some strong demand out of Northern states recently due to weather, but could you just put a finer point on what you're seeing at retail as we move through April and you start to lap some of those tougher prior year comparisons?

Dave Foulkes

Yeah. Hi. It's Dave, and Ryan can add. Retail is just very, very strong, and our brands are stronger than retail, whether you look at boats or engines or P&A. So, we're accretive to retail performance, which, as you know, is up by SSI data and other things in the mid-30%, I think, in the first quarter. To some (sp) insight into April, April is very strong, so we are not seeing any pullback in the trends that we've continued to see through there. The season did start earlier than last year for a number of reasons, I think, particularly in the northern markets. Weather is

generally warmer. Ice was off Northern lakes in Canada and the Upper Midwest, and people were just desperate to get their boats in the water. So, the season has really started in a lot of cases in northern markets four to six weeks earlier than last year, which means, obviously, a lot of pull for P&A. Great, great, great for our dealers, but also great for us in terms of accelerating our P&A business and causing people to continue to purchase at record rates on boats and engines and other things. Nobody—no OEM, no dealer wants to get caught without product right now, so it is driving tremendous momentum for us.

Fred Wightman

And maybe just to shift to the wholesale side, you mentioned that 95% of your capacity is sort of earmarked already for this year. Can you give us a sense for what that looks like as we look ahead to '22, just given the fact that you think it's going to be a '23 timeline until we start to make meaningful progress on the dealer inventory side?

Dave Foulkes

Yeah. Well, I think we noted that, for some of our brands, they're already taking—the wholesale slots in 2022 were also sold—a significant number of slots in 2022 are already sold, particularly for the premium brands. We are really, for our premium brands, right now at a very low field inventory levels significantly below the averages that we've quoted. But it was interesting, the Palm Beach Boat Show that happened, the first in-person saltwater boat show, in—about three weeks ago. We noted that our unit sales are up 100% versus 2019. There wasn't a show in 2020. And then our revenues were up 200%. We tripled, essentially—more than tripled our revenues, and that was—those people buying bigger boats. I think we sold, I can't remember five—four or five Whalers in that single show. Obviously, people are prepared to wait for delivery on those products until well into 2022 now.

Ryan Gwillim

And I'll just reiterate the wholesale production plan that we laid out on the January call are very much—we are executing to those plans. And if not—and that's with a lot of great effort by our Boat businesses in light of some of the supply headwinds. So, if you think about it again this year, we believe, we can wholesale and produce 38,000 plus units with—additional units next year and in 2023 to get you into the low 40s, which will definitely, we believe, hopefully close the gap on some of the inventory that we need to fill.

Fred Wightman

Perfect. Thanks, guys.

Operator

Thank you. Our next question comes from Scott Stember with C.L. King & Associates. Please proceed with your question.

Scott Stember

Morning, guys. My questions are really surrounding Freedom Boat Club. Had some big news this quarter with some of the purchases in some of the bigger markets. Just—could you just tell the overall strategy—would you rather own all of these locations throughout the country just for the reasons that you outlined in your prepared remarks, number one? Number two, can you talk about some of the low-hanging fruit with regards to upfitting these newer models in the fleets with your engines and all the other stuff? And just—and also, have you seen any early signs since you've owned them of folks trying and then decided to go and buy, let's say, a Brunswick brand just because they decided that they love the boating lifestyle after they rented the boat? Thank you.

Dave Foulkes

Okay. Well, thank you very much for the question (inaudible). So, the answer is, we are electing to repurchase territories where we think that the potential of the territory is significantly greater than the current number of clubs and members. So, the answer is, we don't want to repurchase every region. A lot of our franchisees are doing a great job maxing out the potential of the territories. But the—if you look at Chicago market potential and New York, Long Island and Manhattan market potential versus the existing number of members and boats, we believe that the order of magnitude higher. And it's very difficult for our franchisees to be able to accelerate growth—acquire capital to be able to accelerate growth as fast as we would like to do that. So, you'll see us doing this more selectively than universally.

In terms of the penetration of the Freedom fleet with Brunswick Boats and Mercury engines, it's going extremely well. I believe that we are now at either on (sp) delivered or ordered 1,500-ish Brunswick boats acquired or being acquired by Freedom, and you remember it was almost nothing in the middle of 2019 when we started that. So, it is a huge kind of leap forward, if you like. The other thing to think about here is kind of margin accretion for us, and we'll talk about this a bit more on Investor Day. But every boat that will be put into Freedom can service 10 to 12 members who pay their monthly membership dues and the boats in the fleet for two or three years. We are now the mechanism via Boateka to resell that boat and capture margin on the resale. So, as we build out Freedom, particularly the company locations, and as we build out the back-end ability to resell and capture margin on the resale, the margin stack for Freedom becomes extremely attractive to us.

Ryan Gwillim

And I just—the only thing I would add, similar to the P&A business, this is a business that has recurring annuity-type earnings and revenue regardless of whether we own or whether we are going through the franchise model. People are staying in the club. They are generating P&A and boat and engine sales. So, we are, as Dave said, a bit agnostic on this overall, because the flywheel, if you would, the annuity-based freedom earnings just continue to grow at an accretive margin rate to the company as a whole.

Dave Foulkes

On the last part of your question about people buying Brunswick brand, yes, we are seeing that. I don't have specific data. I can tell you, I saw a, I think it was an email recently from somebody who joined Freedom, liked the Sea Ray, that they were using our Freedom so much that they bought a Sea Ray. So, I don't want to give you anecdotes right now, but we'll try and build out that information for you.

Scott Stember

Great. That was very helpful. Thank you so much.

Operator

Thank you. Our next question comes from Brett Address with KeyBanc Capital. Please proceed with your question.

Brett Address

Hey. Good morning, guys. So a question on the marine market outlook, up mid- to-high-singles. I don't think the industry has really ever entered a selling season with inventories this low, and retail is obviously a very seasonal business. So, I guess, embedded in that market outlook, do you have any assumptions around being able to—the industry being able to satisfy that demand? Or are you assuming some kind of headwind from low well (sp) inventories?

Dave Foulkes

I think we believe that the unconstrained retail market is double-digits, but we believe—so I believe, yes, that there will be some headwind from supply and that, at the end of this year, our pipelines will be lower. So, yes, we are assuming in that mid-to-high that there is some supply constraints built into that. We don't exactly know (inaudible), because we're not the whole market. But, yes, we think the unconstrained market potential is higher.

Brett Address

Got it. Okay. No, that's very helpful. And then, a question on capital deployment. So, free cash flow guide is up, debt repayment buybacks kept unchanged. Should we interpret that as maybe placing a higher emphasis on larger M&A in the near term? And then, separately, to the extent that you want to share, have you made any changes to the M&A contribution assumptions in that '22 target you gave us today?

Ryan Gwillim

Hey. Good morning, Brett. I figured we'd get that question. So—and I won't make you wait until the 10th. I'll take them in reverse order. There is no change in the assumption to get to the \$8.25 to \$8.75. That anticipates us spending around 100 million this year and next on M&A, and the contribution into that—into that EPS next year is relatively minor, a few pennies. So, that is—that's how the model shakes out. And then, in terms of capital deployment, I don't think it really changes what we're looking at for the year. You saw that we did (sp) take CapEx up a little bit, which I think is really important. There are some programs that we're able to accelerate and bring forward into the year to support our growth. I think that's important. Share repurchases

and debt repayment, I think, will be right on as we've planned. Obviously, share repurchases fluctuates a little bit depending on not only our price but the overall market valuation. But we do believe that being in the market at all times for share repurchases is prudent, and we'll continue to do that. You saw the dividend increase. I think that's really important. That is—that's a pretty big jump that we decided to make earlier in the year. We generally raise dividends in October. But, given the strong cash flow, thought that, that was a good thing to do earlier in the year, and so we're able to flex the balance sheet very quickly if a large M&A deal would be something we're looking at. There's zero problem of us getting funding. I mean, our gross leverage is kind of at 1 times with net below that—at like at the seven—considerably lower, so no problems flexing the balance sheet to do a larger transaction.

Brett Andress

Got it. Thanks, guys.

Operator

Thank you. Our next question comes from Mike Swartz with Truist. Please proceed with your question.

Mike Swartz

Hey, guys. Good morning. I just wanted to touch on guidance and specifically the segment guidance that you provided and updated this morning. You're holding your boat revenue guidance steady versus prior, but your Propulsion, Parts and Accessories are up materially. So, maybe help us understand what's maybe holding back the boat side of it? Or conversely, why maybe you were a bit cautious on that to begin the year?

Ryan Gwillim

Hey. Good morning, Michael. Here, it's actually pretty straightforward. In both—the guidance assumed that we'd be producing full out against our production plan, and that just hasn't changed. So, we set out the year kind of at that 38,000 boat wholesale number, and we're continuing on that trajectory. So, really, I don't think of that as a negative. It's actually a big positive that boats, we still believe, can maximize its production and generate the revenue that we anticipated in light of some of the headwinds that you've heard, both from us and the industry. So, moving to Propulsion and P&A, Propulsion has really benefited from market share gains, and they've just, as Dave said, been able to ramp up production probably a little bit quicker than we anticipated. And mix has been strong, as well. So, we're not only selling to customers overseas and other places where it's a positive mix, but volume is up there, as well. And then for the Parts and Accessories business, it's simply more boat usage at the end of last year really cut—and cuts going into this year. And as boat usage continues to be strong and people get out on the water earlier season here in some of the northern climates, that really moved the needle on that aftermarket business. So, mostly, it's trends that we're seeing in the start of the year, and you can kind of flow through the—what we believe the rest of the year is going to look like.

Dave Foulkes

And, Mike, I'll just add in Propulsion that, although, obviously, we announced the number of new customers or customers where we increased share, that trend is continuing through the first quarter. I think we have another six or so. And then, even though we talked a lot about the V-12, it's only just entering production, and that is obviously a high-margin product for us. So, I think between new customers, the turn of the model year that allows us to increase share (inaudible) and introduce more Propulsion products and also the V-12 coming on board in the back half of the year. There's a lot going on in Propulsion.

Mike Swartz

Okay. Great. And maybe just on the CapEx commentary, as well. It looks like you're picking up your CapEx guidance by about 50 million this year, and it sounds like you're accelerating some of the investments or capacity additions, particularly in the engine business. But I guess the question being is, when will the capacity investments in engine actually start to translate to higher production volumes and getting more product out into the market?

Dave Foulkes

They have already. Obviously, I think we're in a great position. I think we noted earlier that our—even in this elevated market, we're gaining market share across all channels in all regions, and we wouldn't have been able to do that without the capacity that we already put in place. These conquest customers are being served out of that capacity, if you like. We noted earlier that Mercury's U.S. share is now trailing 12 in excess of 45%, and (inaudible) trailing three and trailing six, that's heading north. So, it's heading north faster than we anticipated. And obviously, we want to fully capitalize on all the opportunities that are coming, particularly with exciting new products like the V-12, which is just bringing in, honestly, a lot more interest and potential business than we had originally anticipated.

Mike Swartz

That's it for me. Thank you.

Operator

Thank you. Our next question comes from Joe Altobello with Raymond James. Please proceed with your question.

Joe Altobello

Thanks. Hey, guys. Good morning. So, just staying on the engine side for a second. You guys have been very explicit about the pipeline refill opportunity in boats, but I think less so on the engine side. Are there any ways you can contextualize for us what that opportunity is, at least compared to what it is on the boat side, for example?

Ryan Gwillim

Joe, sorry. We're having a little bit of trouble hearing you. I believe it was—was this a pipeline fill on engines?

Joe Altobello

Exactly. And how it compares to the boat side.

Ryan Gwillim

Yeah. It's a little different. It's—I will tell you that engines that are sitting at our OEM partners and at our dealers are extremely low, just as you would expect, given the strong demand. But we don't think of it as weeks on hand like you do for both just because of the fungible nature of where they are and how they're sold. But we can tell you that our—the capacity that we put in back in '19 and '20 is really helping us ensure that we are maximizing the retail pull-through and trying to get as many engines as we can into our partners' hands. But it's not—I would say it's probably not as dire, because we can—you can manufacture engines a little bit quicker than you can pick up inventory in the Boat segment. There's no model years, for instance, and other things. But still, the inventory in the field for engine still remains relatively thin.

Joe Altobello

Understood. And just maybe a second follow-up in terms of pricing. How are you guys thinking about pricing for model year '22? It doesn't seem like there's much pushback from either dealers or customers from a pricing standpoint. So, could we see a higher than typical bump in ASPs to offset some of the cost pressures that you guys are seeing?

Dave Foulkes

We believe that, in all our businesses, we have the ability to price at least to cover (sp) inflation. And obviously, we're seeing some short-term pressures on commodities and transportation and other things. I think in our engine business, we already price at a premium to our competition. As we think about pricing there, we're continuing to accelerate market share, and a point of market share is very valuable to us, not just, as we've noted, because of the additional engine sales, but because of the 25-year P&A annuity. So, I think that we will continue to use pricing as a lever to cover inflation, and I think the market is just fine with that. But that's our objective at the moment.

Joe Altobello

Okay. Great. Thank you.

Operator

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

Anna Glaessgen

Hi. Good morning. Just one question for me. Thanks for providing some color on the demographic profile of boat buyers in 2020. As we think about lapping (sp) a surge in younger buyers, could you provide some perspective on how you see the average age shaking out in

2021 and beyond? Anecdotally, are dealers continuing to report younger buyers coming to the market, or do you expect somewhat of a reversion to prior levels? Thanks.

Dave Foulkes

Yeah. I think—thank you for the question. Obviously, we're very excited about that change in the demographic profile. It's very exciting for us and for the industry overall. I would tell you that there are some things that we know from our surveys and the fact that we formed online communities, and we'll talk about this a lot more, actually, on Investor Day. So, if you tune in, you'll hear more about this. Some things we do know—we do know that people who bought boats last year, who are new boat buyers, really, really enjoyed their first season on the water. We surveyed them, and, I think 90% rated their season as a—more than 90% rated their season as four plus stars out of five. So, we know that those people who are entering are having a really good time, and we know there's a network effect. I think we also know that some of the kind of COVID-related trends, including flexible working, are going to positively affect demographics. Obviously, people who are in a prime kind of working age, now generally have more flexibility in their ability to bolt into other activities during the week, and we've even seen people working from their boats, which is interesting, because of the additional flexibility. So, we will continue to monitor and update you on the demographic trends, but everything we're seeing so far continues to be favorable towards encouraging that trend.

Ryan Gwillim

And probably one other thought—and kudos to our IT and our digital marketing teams. We are investing in areas that enable us to reach a younger consumer and, frankly, enable them to want to buy our products. You can look online to new websites for Whaler, for Lund, and it's just easier. You can design your product, and I think investing there and finding a way to ensure that the younger consumer doesn't just have to go to a dealership and start their process there, but can start their process in their living room and finish it at the dealer. I think that's really important to continuing to get the younger boaters in.

Dave Foulkes

That's a good point. One of the other things—and I'm advertising for the May 10th, Investor Day, is, you will see some more there about new boats and new boat brands that we are bringing to market specifically to address the younger buyer.

Anna Glaessgen

Great. Thanks.

Operator

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

Eric Wold

Thank you, guys. Good morning. Just a couple of questions. I guess, one on—going back to Freedom Boat Club, less (sp) on the acquisition of existing franchisees or areas. What's the biggest hurdle to getting new locations opening? Are you seeing pressure on finding space in marinas and spot to set up shop with the kind of the increase in boating participation? And how does the kind of lack of inventory and kind of demand overhang play into that, as well, for boat availability?

Dave Foulkes

Yeah. Good question. So, no, we continue to believe that we have—there are multiples of existing slips, if you like, available into which we can expand with Freedom Boat Club locations. So, we're not seeing anything that amounts to a kind of macro level constraint on slip (sp) availability right now. Certainly, boat availability—obviously, we have our own brands that we're selling into Freedom, and this continues to be a somewhat tight situation but one that we can manage, I think. So, yeah. No—we expect to continue to grow Freedom very quickly, and we also—I think you may have seen that we've established a team in Europe now, which will begin to build out Freedom more aggressively in that market, too. So, we have no immediate constraints and a lot of intent to continue to build out that business model very quickly.

Eric Wold

Thank you. And then last question. For Boateka, how much of the growth of that is going to come from the, boats coming offline from Freedom Boat Club versus, I guess, traditional used boats from kind of regular boaters out there, non-Freedom Boat club? And then, is that a business that you could foresee growing inorganically, as well, to move nationwide, or is that going to be purely organic?

Dave Foulkes

Boateka is really kind of core business model, if you like, is taking boats out of not just Freedom but also boats that we sell to some of the shared access partners. We do sell boats into other kind of shared access operations like rentals that we can—have returned and resell through the Boateka system. Certainly, as Freedom expands, Boateka will need more locations, but we're not currently planning M&A around Boateka. We'll continue to build it out organically as we continue to find out more ourselves about the nuances of the Freedom Boat market.

Eric Wold

Perfect. Thank you (sp).

Operator

Thank you. There are no further questions at this time. I would like to turn the call back to Dave for some concluding remarks.

Dave Foulkes

Okay. Thank you. Well, first of all, thank you all very much for joining us. We are very, very excited about the strength of the market but even more excited about our new products, our

market share increases, our operating performance. All of those are secular trends that are very, very favorable for our business that allow us to plan and build into the future. It is wonderful to see the new demographic entering boating and to see us over-indexing on that new demographic. That says we have the right strategy in place, and you'll continue to see more about that. We're very excited about the May 10th Investor Day. A lot of preparation's gone into that, and we'll really be pulling back the curtain on some initiatives that you haven't necessarily seen before and expanding on some that you might be aware of, including a lot more detail on our ACES strategy, our planned portfolio of electric products, and other parts of ACES, including the building out of Freedom and other shared access models (sp). So, please join us for that. It will be a very exciting event and give you a much better picture of what lies ahead in the coming years for Brunswick. Thank you all for joining.

Operator

Ladies and gentlemen, this concludes today's web conference. You may now disconnect your lines at this time. Thank you for your participation and have a great day.