Brunswick Corporation
Q4 2021 Results - Earnings Call
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Presenters
Brent Dahl - Vice President of Investor Relations
Dave Foulkes - Chief Executive Officer
Ryan Gwillim - Chief Financial Officer

Q&A Participants
Brett Andress - KeyBanc
Mike Swartz - Truist Securities
Scott Stember - CL King
Craig Kennison - Baird
Xian Siew - BNP Paribas Exane
Kevin Heenan - JPMorgan
Joe Altobello - Raymond James

Operator
Good morning and welcome to Brunswick Corporation's Fourth Quarter and Full Year 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 of 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 in the reconciliation sections of the unaudited 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 businesses executed extremely well against our operating and strategic priorities in 2021, demonstrating the strength and resilience of our marine-focused portfolio.

We delivered record sales and earnings, and more importantly, set the foundation for growth, across all our businesses in 2022 and for years to come.

Our outstanding operational performance in a challenging environment continues to prove the strength and durability of our portfolio and earnings profile, with robust capital generation, enabling accelerated investments in our core businesses, including Propulsion, Parts and Accessories and Freedom Boat Club, as well as critical ACES, digital and other technology programs, while also delivering strong shareholder returns.

As you can see by our guidance, we anticipate delivering another record year in 2022 with net sales approaching $7 billion and adjusted EPS in the range of $10 a share.

Before discussing our segment results, I wanted to share with you some new consumer insights gained through polling of Brunswick's Ripl online boater community, which includes more than 4,000 new and seasoned boaters.

The intention of this survey was to update our understanding of the feelings and likely behaviors of newer boaters, both in terms of their level of satisfaction with their current boating experience and the anticipated longevity of their boating participation, after the 2021 boating season.

Of boat buyers in their second boating season, 90% of those surveyed rated their boating season as a 4-star or 5-star experience out of 5-stars, which obviously means that the vast majority of boaters are very happy with their current boating experience.

Equally as important, 93% of new boat buyers in 2021 expect to continue to own a boat five years from now, which speaks to the “stickiness” of new boaters and their excitement at the prospect of making boating a permanent part of their lifestyle.

I'll now provide some highlights on the 2021 full year performance of our segments. Our Propulsion business delivered another outstanding year, growing it's top line by 33%, fueled by achieving 108% of its original production plan for the year.

Mercury gained 160 basis points of U.S. retail market share in 2021, with more than 500 basis points of share gains in each horsepower category over 200 horsepower.

We anticipate our previously announced significant additional investment in capacity for higher horsepower outboards will enable increased production for international, commercial, repower and new OEM customers with full effect in the fourth quarter of 2022.

Mercury also delivered V12 600 [horsepower] Verado engines to 47 different OEM customers in 2021 with more to come in 2022.

Parts and Accessories also grew top line by 33% in 2021, with aftermarket channels across all businesses experiencing strong demand from increased boat usage and service needs.

Strong demand from boat builders also elevated sales to OEM customers and rapidly grew our ASG Connect systems integration business, which more than doubled in 2021, adding more than 30 new customers.

Additionally, our Advanced Systems Group enjoyed the first full quarter with Navico, RELiON Battery and SemahTronix in its portfolio, with each contributing to the strong results and Navico outpacing expectations.

Finally, our Boat business delivered a 36% increase in revenues in a very challenging supply chain environment. We still saw 95% production attainment versus the original production plan for the year.

Pipeline inventories remain at historically low levels, with just over 15 weeks on hand at the end of the year, as elevated levels of retail sold product and continued strong demand constrain our ability to build field inventory.

Over the past 12 months, Freedom added 75 new locations and over 10,000 memberships network-wide and now operates a fleet of more than 4,000 boats with an increasing percentage of Brunswick boats and engines.

Freedom was also busy on the M&A front in 2021, executing the acquisition of five franchise operations and their territories in the U.S. as well as the Fanautic Boat Club in Spain, one of Europe's largest boat clubs.

Next, I would like to review the sales performance of our business, by region, on a constant currency basis, excluding acquisitions.

As expected, all regions posted significant sales growth in the year versus 2020, with Canada and Europe delivering strong sales growth in every business unit.

Sales in Asia-Pacific grew slightly, after achieving 40% sales growth in 2020, while Canada rebounded strongly after experiencing elongated shutdowns in 2020, due to the initial stages of pandemic.

Overall, international sales were up 30% versus the prior year, and domestic sales grew 29%.

This table provides more color on the recent performance of the U.S. marine retail market, comparing 2021 to 2020 and 2019.

As we discussed during our third quarter earnings call, the industry experienced more pronounced supply chain disruptions than anticipated as 2021 progressed which, together with stronger fourth quarter retail sales than anticipated, has led to a more significant inventory-constrained retail environment.

The result is a reported 7% decline in main power boat retail unit sales for full year 2021 but still an 8% increase over 2019.

Brunswick's 2021 retail performance was ahead of the overall market, with market share gains in aluminum freshwater and saltwater fishing products.

U.S. outboard engine unit registrations were down 7% in 2021, when compared with 2020, with Mercury significantly outperforming the industry.

In higher horsepower categories, 200-horsepower and above, which represents roughly 30% of the market, Mercury experienced 17% retail unit growth, while the remainder of the industry saw declines.

Additionally, when comparing outboard engine unit registration growth rates from 2019 to 2021, Mercury's unit growth rate is twice as high as the rest of the industry, resulting in significant market share gains we alluded to, earlier in the call.

It's important to note that retail declines are being driven by product availability and are not a result of declining consumer demand. U.S. lead generation, dealer sentiment and other leading indicators, all remain very positive.

For example, all of our 2022 model year and more than 90% of our 2022 calendar year production slots are already sold out, and we continue to see a significant percentage of boats leaving our manufacturing facilities already retail sold.

All these factors give us high confidence in the continuing retail strength, as we enter 2022.

This slide provides some perspective on the impact of inflation on our businesses, together with our ability to take price increases to mitigate the net impact. As we look back on 2021, our pricing actions taken throughout the year slightly exceeded the overall material, labor and freight inflation faced by our businesses.

However, inflation increases in the second half of the year accelerated and our ability to cover the increase in cost was challenging. As a result, each of our business units have implemented certain price increases in the first quarter of 2022, ahead of usual midyear pricing actions that will be implemented concurrent with our model year changeover and historical price increase timing.

The net impact of these actions means that we anticipate price to cover the increased input costs from inflationary pressures for the first quarter, as well as the full year.

However, we will continue to monitor the inflationary environment and adjust pricing, as necessary, to ensure our operating margins are not negatively impacted as the year progresses, while still keeping a keen eye on the overall product price to the end-use consumer, so as not to price out the new boaters that we've worked so hard to gain.

Lastly, we have strong and necessary spending planned on many growth initiatives related to capacity, ACES, sales and marketing and Freedom Boat Club, and we plan to execute against those plans.

However, we remain keenly focused on not adding unnecessary cost into the system and will meter spending where appropriate throughout the year to ensure continued margin growth.

We successfully executed our capital strategy in 2021 with strong cash flow generation, allowing us to meet or exceed our capital objectives.

We ended the year with $368 million of cash and generated $321 million of free cash flow. We deployed $267 million for capital expenditures on exciting new products and capacity projects across our businesses, which will form the bedrock of our future revenue and earnings growth.

We also completed nine acquisitions, totaling $1.2 billion during 2021, that will further grow the recurring revenue base in our Parts and Accessories and Freedom shared access businesses.

In addition, we completed, approximately, $120 million of share repurchases and increased our dividend for the ninth consecutive year.

The retirement of $128 million of debt kept our leverage at 1.8x on a gross basis, even after financing the acquisition of Navico. Our investment-grade credit remains strong with our year-end cash balances, cash flow generation capabilities and total liquidity affording continued flexibility.

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 as we closed out a record 2021. When compared to prior year, fourth quarter net sales were up 23% with adjusted operating margins of 10.9%.

Operating earnings on an as-adjusted basis increased by 7% and adjusted EPS of $1.44 was our highest fourth quarter EPS on record.

Sales and earnings in each segment benefited from increased volume due to continued strong global demand for marine products, market share gains and higher pricing with earnings also impacted by increased input costs and higher spending on growth initiatives.

Our outstanding full year results also speak for themselves, with 2021 net sales up 34%, when compared to 2020 and adjusted operating margins of 15.2%, a 190 basis-point improvement from 2020. This resulted in adjusted EPS for the year of $8.28 and a very robust operating leverage of 21%.

We generated $321 million of free cash flow in the year, which is a very strong result considering the incremental working capital needed to satisfy increased inventory needs, as we elevate production levels, the $85 million increase in capital spending when compared to prior year period and the $40 million of cash used for acquisition costs and planned operating activities of Navico, during our first quarter of ownership.

Despite these elevated levels of investment and higher working capital needs, we have delivered a free cash flow conversion of 98%, since the start of 2020.

Turning to our segments, our Propulsion business delivered yet another quarter of strong top line and earnings growth. Revenue increased 12% versus the fourth quarter of 2020 and was up 49% versus Q4, 2019.

Strong demand for all product categories, together with market share gains, drove higher sales, which continue to be enabled by increased production levels.

Operating margins were lower by 30 basis points in the fourth quarter versus 2020 but were up 250 basis points versus Q4, 2019, as pricing, favorable absorption and benefits from more favorable customer mix were more than offset by higher manufacturing costs, primarily, caused by material inflation.

Our Parts and Accessories businesses leveraged favorable late season weather conditions in many areas, which drove continued robust aftermarket demand and enabled top line and earnings growth in the quarter.

In addition, as Dave mentioned earlier, this segment benefited from Advanced Systems Group's acquisition activity, with Navico in particular driving strong results in the quarter.

Revenues increased 40% and operating earnings increased 9%.

Excluding the impact of acquisitions and on a constant currency basis, organic P&A revenues grew at 4% versus the fourth quarter of 2020 and 31% versus the fourth quarter of 2019.

Adjusted operating margins of 12.2% were down 340 basis points, when compared to the prior year quarter and as expected, were affected by acquisitions and increased input costs.

Full year operating margin growth, excluding the impact of acquisitions, was in line with our previous guidance, with our third-party distribution business delivering a record 10% operating margin for the year.

Our Boat segment delivered strong top line growth and earnings stability despite continued supply chain disruption, cost inflation and labor constraints at times during the quarter.

Sales were up 14% and adjusted operating margins were down 130 basis points when compared to the fourth quarter of 2020. When compared with the fourth quarter of 2019, sales were up 37% and adjusted operating margins were up 60 basis points.

For the year, the Boat business delivered adjusted operating margin of 9.1%, a 310-basis point increase over 2020, with seven of our brands exceeding 10% operating margins for the full year.

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

Increased sales volume and pricing, together with lower retail discount levels, were offset by material inflation, higher cost due to manufacturing inefficiencies and unfavorable changes in sales mix, resulting in slightly lower segment operating earnings for the quarter.

Freedom Boat Club had one of its busiest quarters on record, continuing its acquisition activity and membership growth, while attracting a younger and increasingly diverse customer base.

Freedom Boat Club, which is included in Business Acceleration, contributed more than 3% of the Boat segment's revenue at a margin profile that continues to be accretive to the segment.

Turning to pipelines, we produced 95% of our original boat production plan for 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.

Despite the production headwinds, we still wholesale sold approximately 8,300 boats during the fourth quarter, which was greater than the number of units wholesale sold in the third quarter of 2021 or the fourth quarter of 2020.

Despite slightly stronger retail sales in the quarter, we added approximately 4,000 units to dealer pipelines, resulting in just over 15 weeks of boats on hand measured on a trailing 12-month basis.

However, units available for sale in dealer inventories remain at historically low levels with 20% fewer units versus same time last year and 52% fewer units than at the end of 2019.

We believe that 2022 is going to be another outstanding year for Brunswick. Although we continue navigating certain headwinds, including the effects of COVID-19 and elevated supply chain, labor and freight costs, we remain extremely focused on executing our Next Wave strategy and are confident that we will continue to lead the marine industry in growth and innovation.

Assuming no major pandemic-related business continuity issues and given the clarity on our ability to drive growth in the upcoming year, we're providing the following guidance for 2022.

U.S. marine industry retail unit growth will remain supply constrained but will be up low single digit for the year versus 2021. We anticipate revenue of between $6.7 billion and $7 billion, adjusted operating margin growth of between 20 and 60 basis points with operating margin expansion in each segment, operating expenses as a percent of sales to be up 50 to 80 basis points with elevated spending on ACES and other growth initiatives.

We anticipate adjusted diluted EPS in the range of $9.60 to $10.25 with EPS growth anticipated in each quarter.

And lastly, free cash flow generation to be in excess of $350 million, which is materially impacted by the planned capital spending of more than $375 million for the year.

We're also providing directional guidance regarding the first quarter, where we anticipate revenue growth of approximately 15%, over the first quarter of 2021, with low to mid-single-digit EPS growth.

Moving to our outlook by segment, we believe 2022 is setting up to be a fantastic year for all our businesses.

For our Propulsion segment, we anticipate net sales growth for the year to be in the low double-digit percent range with operating margins slightly up versus 2021, driven by increased market share and new product introductions, partially offset by higher input costs, unfavorable sales mix and increased spending on capacity, products, technology and other strategic priorities.

In our Parts and Accessories segment, we anticipate net sales growth in the high 20s percent or mid- to high-single digits on a comparable basis, by excluding the impact of acquisitions completed in 2021.

We expect margins to grow slightly as acquisition cost synergies are realized and pricing actions to mitigate the impact of higher material costs are also implemented.

Finally, our Boat segment is expected to see top line growth of low double-digit percent, as this business continues to fulfill demand and refill pipelines in a very robust retail environment.

We anticipate operating margins to exceed 10%, as the Boat businesses focus on improving operational performance throughout the year, with disruptions associated with supply chain inefficiencies expected to improve in the latter half of the year.

Additionally, we are anticipating margin accretion from the continued growth of Freedom Boat Club.

I will conclude with an update on certain items that will impact our P&L and cash flow for 2022. We anticipate continuing to use working capital during the first half of the year, as we build inventory ahead of the prime retail season and protect against supply chain disruptions.

This trend should partially reverse in the second half of the year, resulting in a full year working capital usage of between $140 million and $180 million.

Depreciation and amortization are expected to be slightly higher than 2021, reflecting the increased capital spend in recent years and acquisition amortization is expected to be higher as well due, to the M&A activity in 2021.

On taxes and assuming no material changes to the federal tax legislation, we anticipate a federal effective tax rate of approximately 22% with a slightly lower cash tax rate.

We expect to execute a very balanced capital strategy in 2022, leveraging our strong cash position.

We have planned increases in our capital expenditure budget for 2022, resulting in between $375 million and $425 million of CapEx spend for the year, primarily, to complete recently announced capacity expansion projects, as well as fund spending for new product investments and cost reduction automation projects in all of our businesses.

We plan to spend between $100 million and $150 million in share repurchases but have the ability to spend up to $200 million or even more, should market conditions or our share price create opportunities to be more aggressive.

I will note that, given the market correction in January, we have already purchased almost $30 million of shares, this month.

We plan to retire approximately $100 million of our long-term debt obligations with our interest expense estimated to be approximately $70 million for the year.

Lastly and similar to 2021, we'll continue to focus on M&A activity, primarily, in our Parts and Accessories and Business Acceleration business units, including expanding Freedom Boat Club.

Consistent with our past approach, our 2022 guidance does not assume the completion of any transactions, but we fully expect M&A to provide opportunities, throughout the year.

I will now turn the call back over to Dave to continue our outlook comments.

Dave Foulkes
Thanks, Ryan. Very solid operational execution by our businesses in 2021 has allowed us to quickly transition our focus to the operating and strategic priorities we've laid out for 2022.

Our top priority for the Propulsion segment continues to be satisfying outboard engine demand from new and existing OEM customers and expanding market share.

We are continuing to invest, heavily, in new products and industry-leading propulsion solutions that we project will enable top line and earnings growth far into the future. And 2022 and 2023 will again be big years for innovative new Mercury product introductions that we will discuss in more detail at our upcoming Investor Day.

Our accelerated incremental capacity projects remain on track for completion in the second half of 2022. And we believe this will allow us to gain additional customers who have already expressed their desire to be supplied by Mercury.

Our Parts and Accessories segment remains focused on optimizing it's global operating model to leverage its global distribution and position of strength in the areas of advanced battery technology, digital systems and connected products in support of our ACES strategy.

We are keenly focused on integration activities for Navico, RELiON and SemahTronix and are continuing to focus our M&A lens on higher technology, systems and Parts and Accessories businesses as we review additional opportunities to build out this increasingly large, high-margin recurring revenue portion of our business.

The Boat segment will continue to focus on expanding operating margins, launching new products, executing it's capacity expansion plans, increasing its efforts to become more vertically integrated to help mitigate future supply chain issues and refilling pipelines in the very robust retail environment.

Finally, Freedom will continue to expand rapidly through organic means and M&A with its membership now approaching 50,000 members worldwide and with an increasing share of Brunswick products in the Freedom fleet.

Before we close out our comments this morning, I wanted to leave you with a few more updates. We began the new year by participating virtually in CES 2022 to showcase our Next Wave strategy, including our award-winning products and progress with our ACES strategy, and we were delighted that Mercury's innovative new V12 outboard received a CES Innovation Award.

Last week, we announced the launch of a new Joystick Piloting system for pontoon boats powered by single Mercury outboards.

The new system provides the confidence of precise 360 control for docking and other close quarter maneuvers. This innovative new product supports Mercury's strategy of finding ways to cascade advanced technology, introduced initially on more premium products to bring intuitive boating experiences to all boaters.

In early January, we announced that Brunswick entered into a virtual power purchase agreement with Vesper Energy which will offset the majority of the projected electrical power needs of our global operations, through clean solar energy.

This multiyear agreement will deliver an estimated 57 megawatts of renewable energy to the North American power grid and is targeted to be fully operational, by the end of 2023.

In December, we announced that Mercury Marine will open a purpose-built distribution center to meet record demand for P&A products.

The new 512,000 square foot facility will be located in Indianapolis, Indiana, a strategic location that will improve delivery and service to Mercury's global customers, while adding much needed capacity for scale and reduced logistics costs.

Mercury's current distribution facility in Fond du Lac, Wisconsin will be repurposed to support the engine manufacturing capacity expansion plans we discussed earlier. Mercury Marine's Fond du Lac footprint will soon total over 3 million square feet.

We also held a groundbreaking ceremony in early December on a large site expansion to increase boat manufacturing capacity at our Reynosa, Mexico, facility which manufactures Bayliner, Heyday, Sea Ray and Lund fiberglass boats.

This project will increase capacity by approximately 60% and create an additional 260 jobs. Boats manufactured at the Reynosa facility are in the core categories needed for the rapidly expanding Freedom Boat Club fleet.

And in mid-December, we announced the acquisition of the Freedom Boat Club of Rhode Island's franchise operation and territory to complement and create operating synergies with other Freedom acquisitions in the Northeast, earlier in 2021.

2021 was a year in which Brunswick received a record number of awards for our products, services and culture.

These included multiple awards, as one of the best places to work in the states in which we operate and on a national level, as the best place to work for women, for veterans and for diversity. In total, we received six major national awards for our commitments and actions on ESG and DEI.

As I noted earlier, we won a second consecutive Consumer Electronics Show Innovation Award and many additional innovation awards from around the world. We also won many awards for our designs, our new products, our safety and, of course, our great leaders and teams.

In fact, in 2021, we averaged more than one major award per week, and we are on track to meet or exceed that in 2022 with 15 nominations for innovation awards at early season boat shows.

As always, I want to offer heartfelt thanks to our global employee population for their dedication, effort and sacrifices, during what is still a challenging time for many families and communities.

Through their efforts, we remain very confident in our ability to successfully execute our strategic plan, while also ensuring that we prioritize the health and welfare of our employees.

Before we take questions, I'd like to remind everyone that we are hosting our 2022 Investor Day, virtually, on Monday, March 7.

The prerecorded format will be similar to our 2021 Investor Day. And I look forward to reflecting on the many exciting new products we will launch at the upcoming Miami Boat Show in February, which will demonstrate the power of our technology and our business and acquisition synergies and sharing an overall update on Brunswick's Next Wave strategy, including our exciting longer-term growth projections and our vision to deliver annual revenues of $10 billion, by 2025.

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

Operator
Thank you. And at this time, we'll be conducting our 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 the "*" key, followed by the number "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.

Once again, to ask a question, press "*", "1" on your telephone keypad.

Our first question comes from Brett Andress with KeyBanc. Please go ahead.

Brett Andress
Good morning, guys. So basically, all of your existing capacity at Mercury is being used to, I think, fulfill existing customer orders. But is there any way to frame up or put some numbers around the backlog of new or expanded OEM customers that you have, I guess, waiting at this point to be supplied by Mercury?

Dave Foulkes
Yeah, Brett. Good morning and thanks for the question. We recently, of course, added, I think, somewhere in the range of 80 or 90 customers, over the last 18 months or so. And the backlog runs into several tens of customers.

I don't know if I'd be specific about it, but it is a substantial additional group of customers that are waiting to come on board. I think you'll see onboarding rates that will be over a couple of year period, probably similar to the ones that we've recently seen. So yes, we have a significant backlog.

Also, we have just elevated backlogs for existing customers, as well. So, I think that capacity will be very well utilized.

Brett Andress
Got it, okay. And then, it sounds like you're trying to be thoughtful about price and not pricing out new boaters. But can you help us put some numbers on the price increases? I mean, how much price did you end up passing in 2021 in boats? I think my math is like high single digits.

But how much did you pass in engines? And then also, how much do you kind of expect to pass here in 2022?

Dave Foulkes
Yeah, you're right about Boats, something like that in aggregate. In Propulsion, it was significantly lower than that, kind of low to mid-single. So we were able to, I think, do a good job in--particularly in Propulsion there.

The last increase in Propulsion went in, in October of last year. So we probably won't take more pricing on Propulsion, until sometime Q2, when you're more in line with normal schedules. But we will and actually have taken some pricing in our P&A businesses and in some of our Boat businesses right at the beginning of this year.

As you saw from the presentation, inflation, I think we have a good control, generally on inflation, but it certainly was elevated.

So, we took some early price increases in 2021, and I would say that they were generally in the mid-single-digit range. Too early to say, I think, at the moment, what we'll need to do in the midyear. We'll wait and see how the inflationary pressures either build or mitigate, and then we'll take appropriate action.

As you said, we're trying to maintain a very balanced approach, not get ahead of ourselves and not get too far behind either, but the inflationary environment is quite dynamic. So, we are-- and also, you know the mechanics of judging it are--it's relatively complicated. It's-- more kind of stochastic than it is really deterministic.

But if you think of we have thousands of suppliers, even in a single boat, you might have 1,000 suppliers. They want to pass on a price increase, we negotiate it, we might defer it. So, making judgments on what the aggregate impact might be in a month, or a quarter is not completely straightforward.

So, we will be judicious about it. But we clearly intend both in Q1 and for full year 2022 to cover our cost increases with price.

Brett Andress
Got it. Helpful, thank you.

Operator
Thank you. Our next question comes from Mike Swartz with Truist Securities. Please state your question.

Mike Swartz
Hey guys, good morning. I just wanted to touch on the commentary and guidance around OpEx. I think you said your OpEx as a percentage of sales, will be up 50 to 80 basis points on a pretty large revenue increase.

I think it works out to something like $160 million to $190 million, year-over-year. So, maybe of that amount, could you just break out what's kind of base business growth versus what's kind of incremental investment into the business, this year?

Ryan Gwillim
Yeah, good morning, Mike. Ryan here. I'll take that one. So, first of all, a big chunk of it is obviously the addition of Navico.

And so obviously, that's going to inflate the raw number and simply put Navico is a little bit heavier on the OpEx line than the rest of our businesses, which we will obviously work on, as we integrate Navico into the rest of ASG.

The rest of the full year is very heavy on kind of, I think, R&D, think, sales and marketing and increasing our digital footprint. We spent a lot of time and reaching the customers on our digital assets is becoming more and more crucial.

And so, we're spending a little bit more money, there. Where we're not adding a whole lot is kind of your typical SG&A kind of back-office type stuff. That's what we're being very conscious of. After the work we did in '19 and '20 to take cost out of the system, we're pretty hesitant to add it back in.

So, it's really focused on growth. And it's in the areas that you would expect, given all of our strategic objectives.

Dave Foulkes
I think relatively, Ryan, is ex-Navico.

Ryan Gwillim
Yeah, ex-Navico, it's flat as a percentage of sales.

Mike Swartz
Okay. That's helpful. Sorry about the barking dog in the background. And just with the guidance for the Boat--sorry, with the guidance for the Boat business in 2022, I think you said up over 10%. Could you give us a sense just in terms of production volume for the year ahead?

I think you've given that pretty much every quarter. So. how should we be thinking about that?

Ryan Gwillim
Yeah, our story is really the same, which is a really good testament to the Boat Group folks. They've done a fantastic job of keeping their production plans on schedule.

This year, you want to think about production and wholesale of about 40,000 units, which is kind of right in line with what we talked about when we announced the capacity initiatives. And then we think, obviously, retail, if you roll forward, retail from this year, that's also about 40,000 units.

And so, we are anticipating about a 10-ish percent increase in units and then, obviously, ASP and other things on top of that to get to an overall revenue guidance for the Boat segment.

Mike Swartz
Okay, that's very helpful. Thank you.

Operator
Thank you. Our next question comes from Scott Stember with CL King. Please state your question.

Scott Stember
Hi, good morning, guys. And thanks for taking my question.

Dave Foulkes
Good morning.

Ryan Gwillim
Hey, Scott.

Scott Stember
Just looking out, I guess, maybe towards the middle part of next year, let's assume that we have to put through further price increases and in the event that it does start to price people out of the market. Who is the first--who's on the front line, as far as absorbing any of that?

Would that be the dealer group? And then at some point, coming back to OEMs, if necessary?

Dave Foulkes
Yeah, we, I think, first of all, we see no sign of anybody being priced out of the market.

We're certainly very happy with the new consumers that we've gained and also with the share that we're gaining, and we certainly are being judicious about price increases.

I think we have adopted a policy where we generally try and share the burden a bit. We try not to put full price increases through on retail sold product and generally, we haven't.

So, we cannot share that with our channel partners. And of course, with the absence of discounting of any significant level, I think our channel partners can remain very healthy.

So I think that first of all, we see no evidence of anybody exiting and don't anticipate that, at the moment. You could see from our earlier stats around boating participation, it's very strong.

People are very happy. But we will generally share that with the channel, particularly, on retail sold units.

Scott Stember
Got it. And then just on the interest rate narrative that's going around. Your business, obviously, has really not been super impacted when we've seen pretty big movements in rates.

But what are you building into your guidance for next year? And what would you expect any impact to be if the Fed goes along the path that it's telegraphing, right now?

Ryan Gwillim
Yeah, Scott, it's actually very, very immaterial for us. We have very little term debt that's variable. And most of our debt, as you know, is kind of locked into really preferential rates.

So, it is almost a nonfactor. In fact, it may actually be a slight positive, given the cash we have. So, no issues.

From a consumer standpoint, just a reminder, most people, when they finance their product, they finance for 7, 10 or even more years, 15 years.

It looks more like a mortgage than it does a car loan. So even bumps in the prime rate, if you would, really don't start to impact our end consumer too much. You're talking literally $5, $10 a month on a normal ASP product. So all in all, still a pretty productive environment.

Scott Stember
Got it. That's all I have. Thank you.

Ryan Gwillim
Thank you.

Operator
Our next question comes from Craig Kennison with Baird. Please go ahead.

Craig Kennison
Hey, thanks for taking my questions. Many of the channel related questions have been asked. So I wanted, Dave, to ask you about the Navico acquisition and sort of early on, what sort of opportunities you see now that that organization is part of Brunswick?

Dave Foulkes
Yeah, good morning, Craig, and thank you for the question. We're very, very happy with that acquisition. It was such a bulls-eye for us in terms of expanding our portfolio and offering even more integration opportunities for us. Our early experience is very, very positive.

The Navico team is very happy to be part of Brunswick. Early financial performance is very good. And you can--one of the things we talked about, you could--earlier in the slide deck was around our ASG Connect business, which is growing very rapidly.

That's our systems integration business, which added more than 30 customers just in the last year across Marine and RV. But now, all of the systems that come along with Navico, radar, sonar and all the other systems can be part of that integrated solution.

You might have seen that, earlier today, there was a press announcement about Aviara boats that is a big Mercury customer taking Navico's Simrad product as exclusively now for its displays.

So, you can see in our systems integration business, and you can see customers with which we already have a commercial relationship, I think, eager to take on the new product lines from Navico.

We're already well into integration of finding operating synergies, as well. So, I honestly couldn't be happier about that acquisition. It is developing extremely nicely for us on the commercial side and also on the operational side.

Craig Kennison
And then also related to strategy, could you update us on your electrification strategy, especially in the context of the GM decision to enter the market?

Dave Foulkes
Yeah, sure. Our strategy essentially remains as we previously stated. A couple of interesting things, I think.

There are a lot of people who have said that they're entering the market, but the actual participation and units and other things is small. I think some bigger players like GM who've had a history of being in marine, they still sell V8s into tow sports and stuff, but trying to work out how their electrification narrative meshes with that.

Generally, I think companies in the earlier stages of this, some of the automotive OEMs, are a lot more narrative than reality at the moment.

Just on our own electrification strategy, just in 2021, we installed about 1,000 of our generator replacement units in Marine applications and RV.

So, we're building a lot of materiality around the genset replacement side of the business. That's replacing gensets with large capacity lithium-ion batteries.

And at our Investor Day and in fact, at Miami, you'll see something more on the electric propulsion side for us, which will be very exciting, kind of the tip of the spear, if you like, as we begin to enter the electric propulsion business. So, look out for that at Miami and also at our Investor Day.

Craig Kennison
Great. Thank you.

Operator
Thank you. Our next question comes from Xian Siew with BNP Paribas Exane. Please go ahead with your question.

Xian Siew
Hi guys, thanks for the question. I just wanted to ask on dealer inventory levels. You mentioned there're still very lean. It doesn't sound like you're going to make much progress in 2022 to kind of restock that.

So, how are you thinking about the opportunity? Is it through '23? And how do you think about, I guess, what the right level for dealer inventory levels are? I mean, I don't think you need to get back to 2019 levels anywhere you've been operating with pretty lean inventories there, or the dealers have been.

So, how are you thinking about that?

Dave Foulkes
Yeah, so you're right. We do not expect to make significant progress with inventory rebuilds during 2022 on a full year basis. So, we will likely end 2022, may be fractionally up but not really materially up.

One thing also to note is we quote our weeks on hand on a global basis. So, the 15 and a bit weeks on hand is global. Actually, U.S. inventories are more like 12 weeks on hand. So, even leaner.

So, we will be--we think, retailing and wholesaling at roughly the same levels, throughout 2022.

And hopefully, as we add capacity, which as you've seen we're doing, we'll be in a better position to rebuild inventories going into--through 2023 and beyond.

In terms of what's the right level of inventory, it is possible that we will not get back to kind of historical levels. But we are in an unusual environment where nobody has inventory, at the moment.

As soon as there's a possibility to hold inventory, we think that inventories will start to build and there will be a desire to put inventory into dealer stores. One of the things that we mentioned earlier is being smart about what inventory dealers hold.

So, we obviously want them to hold high-running models with high-running options. And we are able to help them with analytics on that now, to help them understand what's selling in the marketplace in terms of models, derivatives, option content, colors, all the things that will make a high-running model.

So, I think what we might do, hopefully, is move some of the inventory more towards high-running models. I do not see a scenario in which inventories will not build, significantly, up into the probably 30 weeks on hand, over time.

Ryan Gwillim
And the other factor there is the ability to satisfy Freedom Boat Club and the sales that they continue to grow. They could take many more Brunswick boats this coming year, if we had the capability to produce them. And so, this capacity that's going in will also enable those sales as well.

Dave Foulkes
I think by 2025, I think Freedom will, on a unit basis, Freedom will be the biggest customer of Brunswick Boats with fleet probably in that 8,000-unit range.

Xian Siew
Got it, that's helpful. And then maybe just another one on retail sales. You mentioned industry expectation for something like low single digit for the year. But I was just wondering if you could help with maybe the cadence, how do you think about first half versus back half?

Are we--can you be flat in the first half? Or are we down, potentially? Or how are you thinking about that? Thanks.

Dave Foulkes
I could tell you that retail demand is very strong, as we enter the market. So, there's no indication of any pullback in raw consumer demand. I think the year will play out, really based on the supply chain to some extent.

I think we feel we're in a solid position, as we go into the year. Obviously, we have challenges. But I think there's a general belief that supply chain may improve more kind of holistically towards the back half, which could mean more growth in the back half. But I think it's too early in the year to say at the moment.

Xian Siew
Okay, thank you.

Operator
Our next question comes from Kevin Heenan with JPMorgan. Please state your question.

Kevin Heenan
Hi, good morning, guys. Thanks for taking my question.

Dave Foulkes
Good morning.

Ryan Gwillim
Hey, good morning.

Kevin Heenan
Morning. Just on the long-term revenue target you shared with us today of about 50--I'm sorry, $10 billion. I think bridging the gap kind of between the $10 billion and your 2022 outlook that we can apply as a CAGR in the low double-digit, low-teen range, I guess. What gives you confidence in sustaining this level of growth multiyear?

And maybe relative to the targets you laid out at the Feb 2020 event, where do you see the largest deltas, by segment?

Dave Foulkes
Yeah, I don't want to take all the wind out of our Investor Day sails, but I think the 2025 target is--the large majority of the growth is organic or through the already completed acquisitions or some programmatic acquisitions in there. But the growth is really across all of our segments.

We are continuing to see this incredible secular Mercury share gain story play out. And the wind is really at our back at the moment, especially, as you see us adding capacity where others are not. We'll be introducing new products at a rate that other people can't match.

On the P&A side, obviously, we've made acquisitions there that we'll see the full benefit of, and we'll continue to grow, organically, through our Integrated Systems business, through the incredible distribution business that we have, too which is performing just extraordinarily well.

And then in our Boat business, we have a lot of great work going on, operationally. We have a very exciting set of portfolios of new products that we'll be launching. But also, obviously, we have this multiyear pipeline inventory rebuild trend.

And then on top of that, Freedom Boat Club being more and more populated by Brunswick Boats. I mean we really--the growth of Freedom Boat Club, and if we can begin to populate it and substantially with our boats, is actually a faster growth rate than the market.

So, we have taken some things that people thought could never be under our control like demand, effective or proxy demand for retail boats and put them, to some extent, inside of our control. Business Acceleration is growing very, very fast.

And I think you'll see a lot of exciting news out of Business Acceleration this year, and we'll preview that at the Investor Day. So, we have trends that, I wouldn't say completely market independent, but they certainly don't rely a lot on the market.

There are really secular trends across all the parts of the business, and we'll explain more at Investor Day.

Kevin Heenan
Great. And just as a brief follow-up. You guys have historically targeted, I think, on the operating leverage line, high teens to low 20s. Is there any material change to that, as you ramp some of these investments?

Ryan Gwillim
There is not.

Kevin Heenan
Thanks very much.

Operator
Thank you. And our next question comes from Joe Altobello with Raymond James. Please state your question.

Joe Altobello
Thanks. Hey guys, good morning.

Dave Foulkes
Good morning.

Joe Altobello
Just with Freedom--if we look at the Freedom ecosystem, I guess, in total, right, including the sale of boats and engines and P&A to the franchisees, how big is that business today? And how big could that be down the road for you?

Dave Foulkes
We quote direct Freedom revenues as a percentage of the Boat segment right now, but the total impact of Freedom with synergies at the moment, is it probably double something like that around front, double that, I would say.

But the growth rate is extraordinary. And you will have seen already, as kind of building out the Freedom ecosystem, including with the Boateka digital pre-owned boat sales platform. We will explain this a lot more at Investor Day, but we really see just such potential in this business.

If you look at the “S”--Freedom is the “S”--the shared access in our ACES strategy. We see overall ACES but certainly Freedom being a--by 2025, a very, very large contributor. Growth rate is very strong.

Synergies, building and really in a nascent stage, to be honest. We're really--we'll tell you at Investor Day what we think, but it will grow very quickly and be very material to our business, by 2025.

Joe Altobello
Okay, understood. And maybe on Mercury, obviously, you guys have done a great job of taking share there in the last couple of years. I guess, there are sort of two schools of thought here.

One is that you've gotten a lot of the low-hanging fruit from a market share perspective, already. But on the flip side, capacity expansion is going to help. So, how should we think about the pace of market share gains at Mercury, going forward?

Dave Foulkes
I think we have previously said that we're in the high 40s in the U.S. But we see no reason why the pace should not be at least as strong, going forward. In fact, when we have--we've been gaining share at a time when we've been kind of almost maxed out of capacity.

So adding that capacity in 2022, along with new products like the 600 is going to really help us. I would say, though, that we should continue to look at Mercury on a global basis. We talk about the high 40s share in the U.S., overall.

But on a segment basis in the U.S., our share in saltwater is still in the kind of mid-30-ish range. So, we have plenty of opportunity there and we have products--new products that suit that market really well.

And then around the world, we have been growing share, as you've seen, I think, 360 basis points over the last few years. So, you can see growth there, but the absolute numbers are still in the probably mid-30s in a lot of the global markets.

So, plenty of room both domestically and what we tend to focus a lot of attention but really internationally, to leverage some of the momentum that we've seen into those other markets. And those customers that we talked about adding earlier, they're not all domestic.

Some of them are international. So, we think that we have lots of room to run with Mercury and no reason to believe that we will see any decline in the share gains that we've recently seen.

Joe Altobello
Thank you.

Operator
That concludes our question-and-answer session for the day. I'll now turn the call back to Dave Foulkes for some concluding remarks. Thank you.

Dave Foulkes
Well, thank you all for joining us and for the great questions. We really appreciate them. Obviously, you've seen, we're looking forward to another fantastic year in 2022, strong top line growth, earnings growth and once again, margin expansion, across all of our segments.

Although we've replaced our planned in-person Miami Investor Day with a virtual event this year, I can assure you, it will be very engaging. I do hope that we may see some of you at the Miami show, though.

We will be launching multiple new products across all of our segments that really demonstrate the power of our technology, our integrated solutions, our synergies. You will see so many things coming together in Miami and, of course, advancing our ACES strategy, including electrification.

So, as I mentioned, in early March, we also have our Investor Day. We'll update you on the Next Wave strategy and some of those secular long-term growth vectors that we just described that are allowing us to target revenues of $10 billion in 2025. Thank you all very much.

Operator
Thank you. That concludes today's conference, and all parties may now disconnect. Have a great day.