

# Brunswick Earnings Conference Call Q1, 2014

April 24, 2014



Helping Active People Live Active Lives

# Brunswick Corporation – Earnings Release

## Forward-Looking Statements

Certain statements in this presentation are forward-looking as defined in the Private Securities Litigation Reform Act of 1995. Such statements are based on current expectations, estimates and projections about Brunswick's business. Forward-looking statements by their nature address matters that are, to different degrees, uncertain and often contain words such as "may", "could", "expect", "intend", "plan", "seek", "estimate", "believe", "predict", "potential" or "continue". These statements are not guarantees of future performance and involve certain risks and uncertainties that may cause actual results to differ materially from expectations as of the date of this presentation. These risks include, but are not limited to: the effect of adverse general economic conditions, including the amount of disposable income available to consumers for discretionary purchases, tight consumer credit markets, and the level of consumer confidence on the demand for marine, fitness, billiards and bowling equipment, products and services; the ability of dealers and customers to secure adequate access to financing and the Company's ability to access capital and credit markets; the ability to maintain strong relationships with dealers, distributors and independent boat builders; the ability to maintain effective distribution and develop alternative distribution channels without disrupting incumbent distribution partners; the ability to successfully manage pipeline inventories and respond to any excess supply of repossessed and aged boats in the market; credit and collections risks, including the potential obligation to repurchase dealer inventory; the risk of losing a key account or a critical supplier; the strength and protection of the Company's brands and other intellectual property; the ability to spread fixed costs while establishing a smaller manufacturing footprint; the ability to successfully complete restructuring efforts in accordance with projected timeframes and costs; the ability to obtain components, parts and raw materials from suppliers in a timely manner and for a reasonable price; the need to meet pension funding obligations; the effect of higher energy and logistics costs, interest rates and fuel prices on the Company's results; competitive pricing pressures, including the impact of inflation and increased competition from Asian competitors; the ability to develop new and innovative products in response to changing retail demands and expectations that are differentiated for the global marketplace at a competitive price and in compliance with applicable laws; the effect of competition from other leisure pursuits on the level of participation in boating, fitness, bowling and billiards activities; the risk of product liability, warranty and other claims in connection with the manufacture and sale of products; the ability to respond to and minimize the negative financial impact of legislative and regulatory developments, including those related to environmental restrictions, climate change, healthcare costs, taxes and employee benefits; the ability to maintain market share, particularly in high-margin products; fluctuations in the Company's stock price due to external factors; the ability to maintain product quality and service standards expected by customers; the ability to increase manufacturing operations and meet production targets within time and budgets allowed; negative currency trends, including shifts in exchange rates; competition from new technologies; the ability to complete environmental remediation efforts and resolve claims and litigation at the cost estimated; the uncertainty and risks of doing business in international locations, including international political instability, civil unrest and other risks associated with operations in emerging markets; the risk of having to record an impairment to the value of goodwill and other assets; the effect that catastrophic events may have on consumer demand and the ability to manufacture products, including hurricanes, floods, earthquakes, and environmental spills; the effect of weather conditions on demand for marine products and retail bowling center revenues; the risk of losing individuals who are key contributors to the organization; and risks associated with the Company's information technology systems, including the continued use of legacy systems and the risk of a failure of or attacks on the Company's information systems, which could result in data security breaches, lost or stolen assets or information, and associated remediation costs.

Additional risk factors are included in the Company's Annual Report on Form 10-K for 2013. Such forward-looking statements speak only as of the date on which they are made and Brunswick does not undertake any obligation to update any forward-looking statements to reflect events or circumstances after the date of this presentation, or for changes made to this document by wire services or Internet service providers.

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## Use of Non-GAAP Financial Information

In this presentation, Brunswick uses certain non-GAAP financial measures, which are numerical measures of a registrant's historical or future financial performance, financial position or cash flows that exclude amounts, or are subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the statements of operations, balance sheets or statements of cash flows of the registrant; or include amounts, or are subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented.

Brunswick has used certain non-GAAP financial measures that are included in this presentation for several years, both in presenting its results to shareholders and the investment community and in its internal evaluation and management of its businesses. Brunswick's management believes that these measures (including those that are non-GAAP financial measures) and the information they provide are useful to investors because they permit investors to view Brunswick's performance using the same tools that Brunswick uses and to better evaluate Brunswick's ongoing business performance. For additional information, please see Brunswick's Current Report on Form 8-K issued on April 24, 2014, which is available at [www.brunswick.com](http://www.brunswick.com).

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## Discontinued Operations

On January 3, 2013, the Company announced its intention to sell its Hatteras and CABO boat businesses. On August 5, 2013, the Company completed that sale. The 2013 results of these businesses are reported as discontinued operations and all figures in this presentation **reflect continuing operations only**, unless otherwise noted.

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## Overview of First Quarter, 2014

- Revenue decreased 3 percent as growth in fitness equipment and outboard boats was more than offset by revenue declines in outboard and sterndrive engines, fiberglass sterndrive/inboard boats and bowling and billiards
- Gross margin of 27.4 percent, an increase of 110 basis points; majority of increase from Fitness and Boat segments
- Operating expenses increased by 2 percent - - down one percent, excluding 2013 gain on sale of real estate; research & development expenses up 8 percent
- Adjusted operating earnings\* decreased by one percent compared to prior year; adjusted operating margins up 20 bps to 9.8 percent
- Net interest expense reduced by \$5.7 million
- Adjusted pretax earnings\* increased by 6 percent
- Diluted EPS, as adjusted\*, decreased by \$0.16 to \$0.60; reflects higher 2014 effective tax rate, as adjusted\* (34.3 percent in 2014 versus 13.6 percent in 2013)

\* Excludes restructuring, exit and impairment charges, debt extinguishment losses and special tax items, as applicable.

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Q1 Net Sales decreased by \$26.1 million, or 3%

Segment (\$'s in millions)	Net Sales		
	Three Months Ended		
	March 29, 2014	March 30, 2013	% Change
Marine Engine	\$ 505.1	\$ 521.8	(3)%
Boat	282.8	289.7	(2)%
Marine eliminations	(73.1)	(67.6)	
Total Marine	714.8	743.9	(4)%
Fitness	175.6	166.2	6 %
Bowling & Billiards	78.8	85.2	(8)%
Total	\$ 969.2	\$ 995.3	(3)%

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Q1 Adjusted Operating Earnings decreased by \$0.8 million

Segment (\$'s in millions)	Operating Earnings - Excluding Charges		
	Three Months Ended		
	March 29, 2014	March 30, 2013	Change
Marine Engine	\$ 61.7	\$ 71.5	\$ (9.8)
Boat	8.4	7.3	1.1
Total Marine	70.1	78.8	(8.7)
Fitness	29.8	24.5	5.3
Bowling & Billiards	12.7	14.9	(2.2)
Pension - non-service costs	(3.7)	(4.9)	1.2
Corp/Other	(14.2)	(17.8)	3.6
Adjusted operating earnings	94.7	95.5	(0.8)
Restructuring charges	0.0	5.6	5.6
GAAP operating earnings	\$ 94.7	\$ 89.9	\$ 4.8
Operating margin - excluding charges	9.8%	9.6%	+20 bps
Operating margin - including charges	9.8%	9.0%	+80 bps

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Q1 Adjusted Pretax Earnings increased by \$4.9 million, or 6%

(\$'s in millions)	Adjusted Pretax Earnings		
	Three Months Ended		
	March 29, 2014	March 30, 2013	Change
Adjusted operating earnings	\$ 94.7	\$ 95.5	\$ (0.8)
Net interest expense	(8.3)	(14.0)	5.7
Other income	1.0	1.0	0.0
<b>Adjusted pretax earnings</b>	<b>87.4</b>	<b>82.5</b>	<b>4.9</b>
Restructuring Charges	0.0	5.6	5.6
Loss on early extinguishment of debt	-	0.1	0.1
GAAP pretax earnings	<u>\$ 87.4</u>	<u>\$ 76.8</u>	<u>\$ 10.6</u>

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Q1 Diluted EPS, as adjusted, decreased by \$0.16

	Earnings Per Share	
	Three Months Ended	
	March 29, 2014	March 30, 2013
Diluted EPS from continuing operations	\$ 0.60	\$ 0.59
Restructuring, exit and impairment charges	0.00	0.05
Loss on early extinguishment of debt	-	0.00
Special tax items	0.00	0.12
Diluted EPS from continuing operations, as adjusted	<u>\$ 0.60</u>	<u>\$ 0.76</u>



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## Marine Engine segment – sales by region



2013 FY revenue by region\*: U.S. 65%, Europe 12%, Asia Pacific 9%, Latin America 7%, Canada 4%, Africa & Middle East 3%

\*Excluding sales to the Boat segment.

Region	Q1 - 2014 % of Sales*	Change vs. Prior Year
United States	64%	(5)%
Europe	15%	(1)%
Rest-of-World	21%	(6)%
Total	100%	(3)%

- U.S. sales reflect a slight increase in parts and accessories, more than offset by lower engine revenues
- European sales increased in parts and accessories and diesel sterndrive/inboard engines, more than offset by lower outboard engine revenues
- Rest-of-World sales increased in diesel sterndrive/inboard engines, more than offset by lower outboard engines and parts and accessories; currency had an unfavorable impact

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## Q1 Outboard and Sterndrive engines



### Outboard

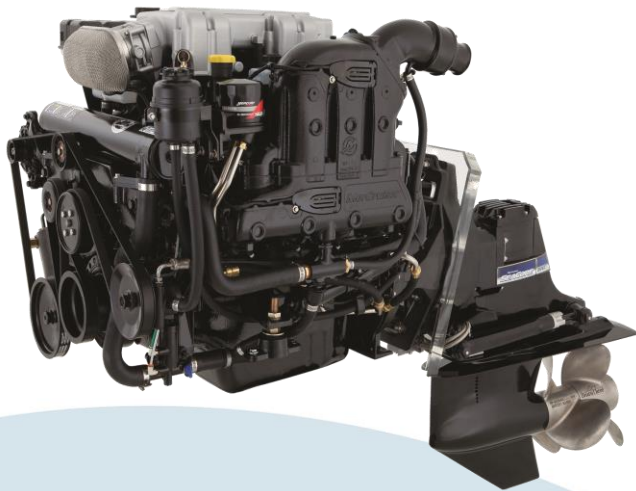
- Q1 wholesale declines in most major markets; full-year outlook of solid growth
- System-wide inventory levels, including backlogs, entered 2014 better aligned with anticipated market demand
- Favorable retail demand environment continues in overall U.S. outboard boat categories

### Sterndrive

- Unfavorable global retail demand trends continue
- Modest diesel engine growth, particularly in international markets, more than offset by decline in sales of gasoline engines

### General

- Weather a negative factor in many North American markets



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## Q1 Marine Engine segment's Parts & Accessories

Boating Accessories



Service Parts



Propellers



Oil & Lubes



Trolling Motors



Controls/Rigging



- Growth in European and U.S markets, offset by declines in Rest-of-World
- Revenue benefited from new product launches and market share gains
- Weather a negative factor in many North American markets



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## Factors affecting Marine Engine segment's Q1 operating earnings



### Key Factors

- Absence of gain on sale of real estate in Q1, 2013
- Lower sales
- Investments in growth initiatives

Q1 operating margin at 12.2%



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## Boat segment – sales by region



2013 FY revenue by region: U.S. 64%,  
Canada 19%, Europe 8%, Latin America 5%,  
Asia Pacific 3%, Africa & Middle East 1%

	Q1 - 2014	Change vs.
Region	% of Sales	Prior Year
United States	65%	(4)%
Europe	11%	38%
Rest-of-World	24%	(11)%
Total	100%	(2)%

- U.S. sales continue to benefit from overall retail growth in outboard boat categories, more than offset by declines in fiberglass sterndrive/inboard boats
- Europe sales growth resulted from improvements in our European outboard brands and smaller fiberglass boats
- Rest-of-World sales decreased due to lower sales in all major markets; currency an unfavorable impact

### General

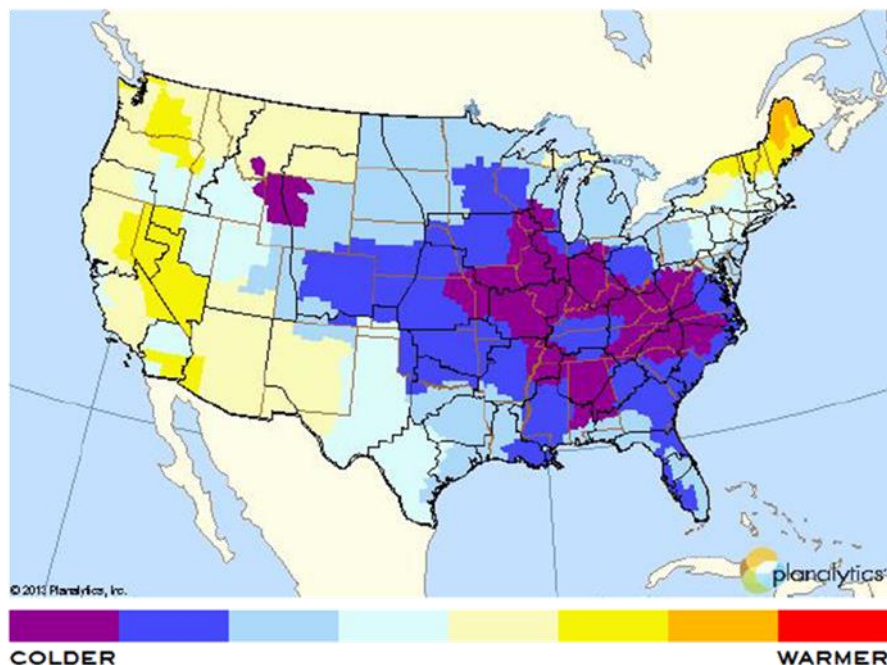
- Weather a negative factor in many North American markets

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Retail sales activity influenced by weather

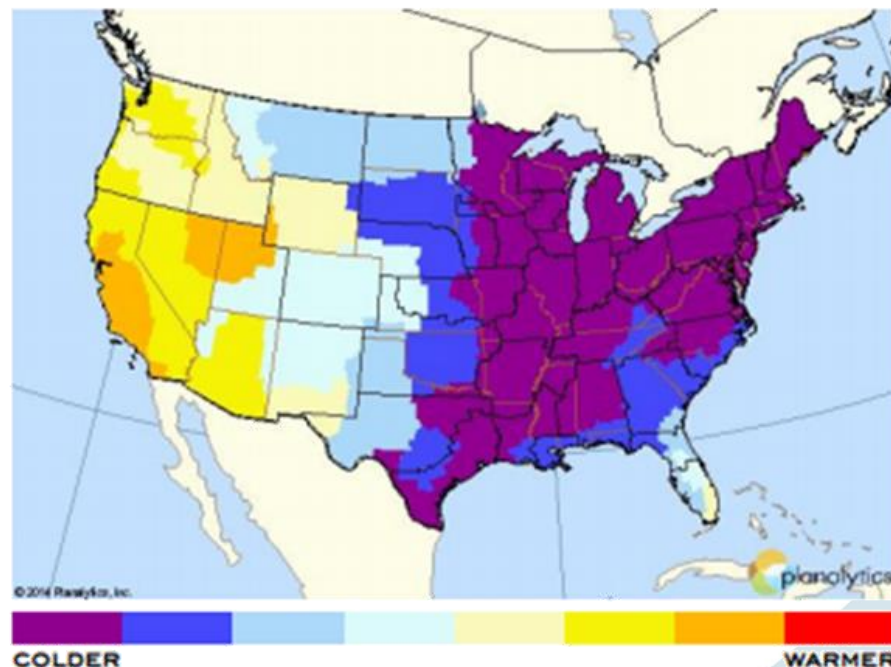
March 2013 vs. Normal

TEMPERATURE



March 2014 vs. Normal

TEMPERATURE



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## U.S. Industry Retail Powerboats - Percentage Change in Units

	2013					2014(a)	
	Q1	Q2	Q3	Q4	FY	Q1	March
Fiberglass - SD/IB	-13%	-11%	-3%	-4%	-9%	-12%	-12%
Fiberglass - OB	+3%	+6%	+18%	+10%	+9%	+5%	+5%
Aluminum >16' - OB	-5%	+8%	+17%	+6%	+8%	-2%	-1%
Total Industry - NMMA*	-6%	+4%	+13%	+6%	+4%	-0%	+1%

Retail demand influenced by weather

Final 2013 U.S. industry retail powerboat shipments of 158,100 units, a 3.5% increase versus 2012

(a) Source: Statistical Surveys, Inc.: 2014 preliminary data is based on 95% of January, 73% of February and 64% of March market reporting; Coast Guard data updated through 3/2014.

\*Total Industry also includes fiberglass and aluminum lengths outside the ranges stated above, as well as ski boats, but excludes jet boats.

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## Review of Brunswick Boat segment metrics

### Wholesale and Retail Metrics

- In the first quarter, Brunswick's global retail unit sales were flat compared to prior year; global wholesale unit shipments decreased by 4 percent

### Pipeline Metrics

- Q1, 2014 ended with 40 weeks of product-on-hand, compared to 40 weeks at the end of Q1, 2013
- Pipelines in units for aluminum and fiberglass outboard products are up compared to last year; fiberglass sterndrive/inboard pipelines are down versus the prior year



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## Factors affecting Boat segment's Q1 operating earnings



### Key Factors

- Cost reduction activities and improved net operating efficiencies
- Lower sales
- Increased investment spending

Q1 operating margin at 3.0%

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## Fitness segment - sales by region



2013 FY revenue by region: U.S. 50%, Europe 23%, Asia Pacific 12%, Latin America 7%, Canada 4%, Africa & Middle East 4%

Region	Q1 - 2014 % of Sales	Change vs. Prior Year
United States	52%	12%
Europe	21%	(1)%
Rest-of-World	27%	(0)%
Total	100%	6%

- Solid growth in sales reflects gains in the U.S. to health clubs, local and federal governments and hospitality customers
- Partially offset by slightly lower sales to international markets; currency an unfavorable impact in Rest-of-World

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## Factors affecting Life Fitness segment's Q1 operating earnings



### Key Factors

- Higher sales
- Higher gross margin - - including favorable warranty expense comparisons, partially offset by absence of favorable insurance settlement
- Increased investment in growth initiatives

Q1 operating margin at 17.0%

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## Bowling & Billiards segment sales and operating earnings



2013 FY revenue by region: U.S. 80%, Europe 10%, Asia Pacific 4%, Canada 4%, Latin America 1%, Africa & Middle East 1%

Region	Q1 - 2014 % of Sales	Change vs. Prior Year
United States	86%	(1)%
Europe	5%	(59)%
Rest-of-World	9%	2%
Total	100%	(8)%

- Q1 sales decreased 8 percent
  - Sales declined in each major business category
  - Weather a negative factor in many regions
  - Excluding European bowling centers divested in 2013, segment revenues declined 3 percent and Europe's sales declined by 32 percent
- Q1 operating earnings decreased by \$2 million
  - Declines in earnings reflect lower sales and operating inefficiencies, including higher utility expense

Q1 operating margin at 16.1%

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## Foreign currency impact\*

### First quarter 2014:

- Slight net unfavorable impact on consolidated sales and a minimal net favorable impact on operating earnings

### Full year 2014:

- Slight net unfavorable impact on consolidated sales and operating earnings

\* Includes the impact of hedging activity.

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## Tax provision

Note: Effective tax rates for 2014 exclude any potential benefit from extension of U.S. R&D tax credit

(\$'s in millions)	Q1	
	2014	2013
Tax provision - GAAP	\$ 30.4	\$ 21.9
Effective tax rate - GAAP	34.8%	28.5%
Tax provision, as adjusted*	\$ 30.0	\$ 11.2
Effective tax rate, as adjusted*	34.3%	13.6%

Estimated full-year 2014: Effective Book Tax Rate, as adjusted, is approximately 34 percent; Effective Cash Tax Rate to approximate low double-digit percent levels.

\*Excludes tax expense of (1) \$0.4 million in 2014 for special tax items and (2) \$11.1 million in 2013 for special tax items and tax benefits for restructuring, exit and impairment charges of \$0.4 million.



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## Cash Flow

(\$'s in millions)	Three Months Ended	
	March 29, 2014	March 30, 2013
Net earnings from continuing operations	\$ 57.0	\$ 54.9
Depreciation and amortization	21.9	21.6
Pension expense, net of funding	3.1	4.0
Gains on sale of property, plant and equipment, net	-	(5.3)
Other long-lived asset impairment charges	-	2.3
Excess tax benefits from share-based compensation	(3.5)	(10.6)
Deferred income taxes	21.0	2.1
Loss on early extinguishment of debt	-	0.1
Changes in certain current assets and current liabilities	(209.7)	(175.9)
Income taxes	3.5	10.8
Other, net	(1.5)	2.2
<b>Net cash used for operating activities of continuing operations</b>	<b>\$ (108.2)</b>	<b>\$ (93.8)</b>

Net cash used for operating activities  
increased by \$14.4 million

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## Free Cash Flow – Continuing Operations

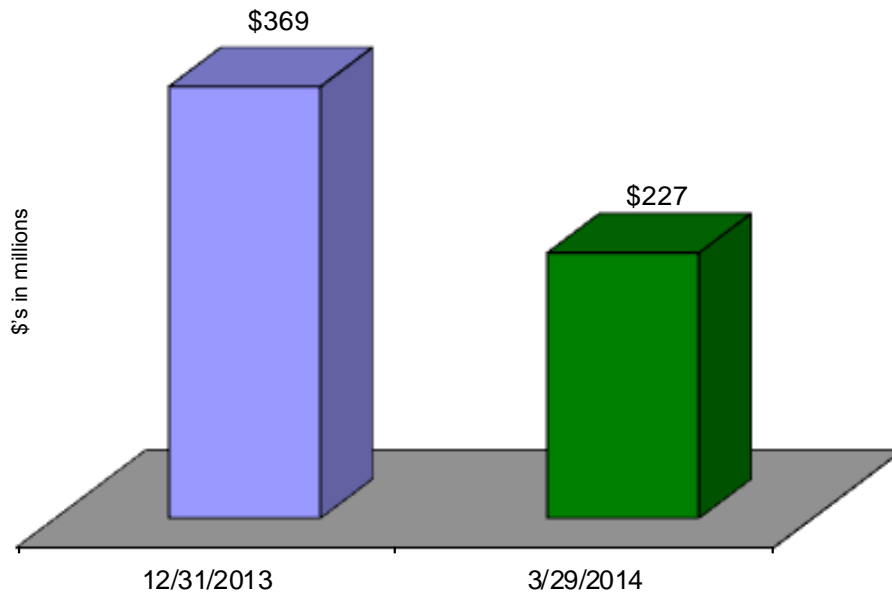
(\$'s in millions)	Three Months Ended	
	March 29, 2014	March 30, 2013
<b>Net cash used for operating activities of continuing operations</b>	\$ (108.2)	\$ (93.8)
Net cash provided by (used for):		
<b>Capital expenditures</b>	<b>(21.9)</b>	<b>(21.2)</b>
Proceeds from sale of property, plant and equipment	0.1	6.1
<b>Total free cash flow</b>	<b>\$ (130.0)</b>	<b>\$ (108.9)</b>

Free cash flow usage higher by \$21.1 million



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## Cash and Marketable Securities



### Factors affecting cash balances

- Seasonal free cash flow - - usage of \$130 million
- Dividends paid of \$9 million

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## 2014 Outlook – P&L

- Depreciation and amortization estimate of approximately \$95 million to \$100 million
- Pension expense of approximately \$15 million, a decrease of \$4 million
- Net interest expense of approximately \$30 million to \$32 million, a decrease of \$10 million to \$12 million
- Effective book tax rate of approximately 34 percent
- Anticipate nominal restructuring, exit and impairment charges
- Diluted shares outstanding of approximately 95 million to 96 million

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## 2014 Outlook – Cash Flow Assumptions

- Pension cash contributions of approximately \$50 million
- Current plan anticipates working capital changes to result in a modest usage of cash
- Capital expenditure levels continue to approximate 4 percent of sales
- Generate positive free cash flow of approximately \$165 million to \$190 million

# Outlook for Brunswick 2014

## 2014 Financial Targets

- Revenue growth at 5 percent to 6 percent
- Solid improvement in gross margin levels
- Operating expenses, as a percent of sales, to be slightly lower than prior year
- Adjusted pretax earnings growth of 24 percent to 30 percent
- EPS, as adjusted, of \$2.40 to \$2.55, a 20 percent to 28 percent growth rate, assuming a 34 percent tax rate applied to 2013 earnings

# Outlook for Brunswick 2014

## Q2 - 2014 Outlook

- Revenue growth consistent with annual target range
- Slight decline in gross margin
- Operating expenses reflect low-teens percent growth; represents a significant portion of annual increase
- Slight increase in adjusted pretax earnings

Full-year results reflect  
strong second-half growth



# 2014 Product Launches

## Marine Segments





# 2014 Product Launches

## Fitness Segment



# Marine Engine Segment

## Continued Revenue and Operating Earnings Growth



### Summary of Growth Strategy

- Drive consistent, profitable growth
  - Product leadership
  - Be the best partner
  - Enhance the winning culture
- Outboard Engines
  - Protect the core from low-cost entrants and grow share in underserved markets
- Sterndrive Engines
  - Stabilize engine platform technology
  - Grow share in gas and diesel applications
- Parts & Accessories (P&A)
  - Achieve growth through global share gain and portfolio expansion
- Adjacencies
  - Leverage competencies to drive growth and diversification

### Financial Targets

- **2014 to 2016 Targets**
  - Revenue CAGR in mid-single digit percent range
  - Operating margins in the 14 percent to 15 percent range
- **2014 Targets**
  - Revenue growth in mid-single digit percent range
  - Solid improvement in operating margins
- **Q2, 2014 Outlook**
  - Lower operating margin compared to Q2, 2013



# Boat Group Segment

## Gain Market Share and Improve Profitability



### Summary of Growth Strategy

- Establishing product leadership through repeated product feature innovation on key consumer values
- Leveraging scale across functions
- Driving product and business cost reductions to reduce consumers' investment to participate in boating
- Deeply understanding consumers' needs and motivations and incorporating those into products and marketing
- Maximizing dealer network through increased coverage, improved sales tools and enhanced consumer engagement activities

### Financial Targets

- **2014 to 2016 Targets**
  - Revenue CAGR in mid-single to high-single digit range
  - Operating margins in the 4 percent to 6 percent range
- **2014 Targets**
  - Revenue growth in high-single digit range
  - Solid improvement in operating margins
- **Q2, 2014 Outlook**
  - Lower operating margin compared to Q2, 2013

# Life Fitness Segment

## Continued Revenue Growth with Strong Margins



### Summary of Growth Strategy

- Aggressively leverage innovation to achieve competitive differentiation
- Develop new products and services complementary to existing portfolio that may extend into new markets
- Leverage brand and distribution to enter product categories with high growth potential
- Continued innovation drives market share in cardio, strength and group training categories

### Financial Targets

- **2014 to 2016 Targets**
  - Revenue CAGR in mid-single to high-single digit range
  - Operating margins in the 14 percent to 16 percent range
- **2014 Targets**
  - Revenue growth in mid-single to high-single digit range
  - Slight decline in operating margins
- **Q2, 2014 Outlook**
  - Lower operating margin compared to Q2, 2013



# Bowling & Billiards Segment

## Revenue Growth and Strong Operating Margins



### Summary of Growth Strategy

- Retail Bowling Centers: Piloting new retail bowling concept (Brunswick's) and repositioning of existing traditional centers
- Bowling Products: Introduce new innovative products and pursue global market opportunities
- Billiards: New product launches in table tennis, shuffleboard and cues

### Financial Targets

- **2014 to 2016 Targets**
  - Revenue CAGR in low-single to mid-single digit range
  - Operating margins in the 10 percent to 11 percent range
- **2014 Targets**
  - Flat revenue growth
  - Solid improvement in operating margin
- **Q2, 2014 Outlook**
  - Performance comparable to 2013

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