## Brunswick Earnings Conference Call Q1, 2015 – July 30, 2015

*Bruce Byots – Vice President, Corporate and Investor Relations*

Good morning, and thank you for joining us. On the call this morning is Dusty McCoy, Brunswick's Chairman and CEO, Mark Schwabero, President and Chief Operating Officer, and Bill Metzger, CFO.

Before we begin with our prepared remarks, I would like to remind everyone that during this call that 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 the 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 are using certain non-GAAP financial information. Reconciliations of GAAP to non-GAAP financial measures are provided in this presentation, as well as in the supplemental information sections of the consolidated financial statements accompanying today's results.

I would also like to remind you that the figures in this presentation reflect continuing operations only, unless otherwise noted.

I would now like to turn the call over to Dusty.

*Dusty McCoy – Chairman and CEO*

Thank you, Bruce and good morning everyone.

We are now about three-quarters through the retail marine selling season, and the U.S. and European markets continue to provide us with a solid platform from which to grow our businesses. The second quarter results were in line with our expectations and represent the fourth consecutive quarter that constant currency growth rates have exceeded 10 percent.

Our recently launched new engines, boats and fitness equipment, continue to generate market share gains. And our 2015 outlook continues to reflect another year of strong earnings growth, free cash flow and investment in our businesses.

Now let me provide you with an overview of our second quarter results. To more accurately reflect the operating and market fundamentals of our operating segments, we will also present net sales on a constant-currency basis, which excludes the impact of changes in exchange rates.

Reported revenue in the quarter increased 6 percent. On a constant currency basis, revenue increased by 11 percent, with each segment reporting a double-digit growth rate.

The strongest growth rates were reported by fiberglass sterndrive/inboard boats, marine parts and accessories, fiberglass outboard boats and outboard engines. This growth also included a solid performance by our Fitness segment.

Our gross margin was flat compared to the prior year.

Operating expenses increased by 4 percent, and were 14.9 percent of sales.

Adjusted operating earnings increased by 9 percent versus prior year, with operating margins of 13.5 percent, up 30 basis points compared to last year, and slightly higher than our quarterly guidance.

As we detailed in our April call, we forecasted Q2 operating margins to be flat compared to 2014 as we faced foreign exchange headwinds, the absence of 2014 favorable warranty adjustments in the Fitness and Boat segments, and continued increases in investments to support our strategic objectives.

In addition, our new product launch successes introduced additional costs and inefficiencies in the first-half, as we opened and expanded plant capacity to meet demand, continued to integrate a significant number of new products into production in each of our segments, and ramped up production as our sales continued to experience significant growth.

Throughout the first-half, the entire organization focused on cost reduction activities to mitigate these headwinds. These activities, combined with certain operating expenses shifting to Q3, enabled us to modestly exceed our 2Q operating margin target.

Continuing down the P&L, adjusted pretax earnings increased by 11 percent, and diluted EPS, as adjusted was $1.05, reflecting a 12 percent increase over the prior year period.

Our second quarter sales performance represents the fourth consecutive quarter of strong growth rates - - reflecting contributions from recent investments in new product launches throughout our organization, as well as solid market demand.

On a constant currency basis, sales in our combined Marine segments increased by 11 percent, while our Fitness segment increased by 10 percent.

From a geographic perspective, consolidated U.S. sales increased by 12 percent.

On a constant currency basis:

- European sales increased by 16 percent.
- Rest-of-World sales increased by 4 percent.
- In summary, combined sales outside the U.S. increased by 9 percent.

In the first half, on a constant currency basis, sales in our combined Marine segments increased by 13 percent, while our Fitness segment increased by 8 percent.

From a geographic perspective, consolidated U.S. sales increased by 14 percent.

On a constant currency basis:

- European sales increased by 16 percent.
- Rest-of-World sales increased by 4 percent.
- In summary, combined sales outside the U.S. increased by 9 percent.

Adjusted operating earnings were $154.2 million for the quarter, an increase of $12.8 million compared to 2014.

Our adjusted operating margin of 13.5 percent reflects a 30 basis point increase compared to the prior year.

For the first six months, adjusted operating earnings were $242.9 million, an increase of $19.6 million compared to 2014.

Our adjusted operating margin of 11.4 percent, is 10 basis points higher than the prior year - - slightly better than the guidance we provided on our previous two earnings calls.

Adjusted pretax earnings increased by $15.2 million, or 11 percent, as we also benefited from lower net interest expense and higher other income.

For the six months, adjusted pretax earnings increased by $25 million, or 12 percent.

Diluted EPS from continuing operations, as adjusted, for the quarter equaled $1.05 per share, an increase of $0.11.

Diluted EPS from continuing operations, as adjusted, for the first-half equaled $1.64 per share. This reflects a 12 percent increase versus the prior year.

Now I will provide our perspective on the marine market.

In the first-half of 2015, the U.S. powerboat industry grew 5.4 percent, based on preliminary data, as once again outboard boats demonstrated the highest growth rates. The second quarter, which on average comprises about 45 percent of the year at retail, reflected a growth rate of approximately 5 percent.

Given our assumption of a continuation of a sub-three percent annual GDP growth rate, we anticipate 2015 U.S. industry growth rates to be comparable with 2014. In fact, the first-half growth rate in 2015 is currently identical to the growth rate in the first six months of 2014.

Next, let me provide some additional color on marine markets outside the United States.

Let's start with Europe, which in 2014 represented 12 percent of our combined marine segment's sales. Overall the retail boat and engine market for Europe in the second quarter was up by a mid-single digit percentage. Regions experiencing solid-to-strong growth included most of Scandinavia, Spain and Portugal, as well as the U.K. and Germany. The French market was flat to slightly down. Eastern Europe (including Finland) suffered declines and the Russian market, which is more important to the Engine segment than the Boat Group, continued to see declines due to the weakening of the Ruble and continued political concerns.

Continued ECB monetary policy should support continued slow growth in retail market demand in Europe. Because most Brunswick Marine product sold in Europe is priced in local currency, the strengthening of the U.S. dollar hasn't affected retail demand. However, the negative effects of translation are lowering margins on product not manufactured in the region. For the full year, we are planning for overall demand in Europe to be modestly up.

In Canada, which in 2014 represented 9 percent of combined marine segment's sales, second quarter retail was down approximately mid-to-high single digit percent, following a difficult first quarter. This was primarily due to the continued strength of the U.S. dollar and the dwindling supply of inventory purchased previously at a weaker U.S. dollar. The remainder of 2015 is expected to be down a greater degree as dealers are now mostly selling product purchased at a stronger U.S. dollar exchange rate. For the full year, we are planning for overall demand in Canada to be down high-single to low-double-digit percent.

In the Asia Pacific region, which accounted for 7 percent of sales, retail markets experienced flat overall demand in the second quarter. Our plan reflects a flat market for 2015 compared to 2014.

Finally, in South America – about 5 percent of 2014 sales, the retail market in the first half continued to be down significantly - approximately 20 percent compared to the same period a year earlier. The weakening Real has severely limited boats being imported into Brazil from the U.S. or Europe. As a result, Brunswick brands manufactured in Brazil have picked up market share, but we are still challenged for sales due to an overall weak retail boat market. For the full year, we are planning for the overall South American market to be down double-digits.

In summary, global market unit demand for the year is expected to increase closer to the lower end of our long-term growth range of 3 to 5 percent.

Now, I'll turn the call over to Mark for a closer look at our segment results.

*Mark Schwabero – President and COO*

Thanks Dusty. I'll start with the Marine Engine segment, where second quarter sales, on a constant currency basis, increased by 11 percent. Overall, acquisitions contributed 5 percent to the segment's year-over-year growth.

From a geographic perspective, sales in the U.S. were up 11 percent, reflecting increases in parts and accessories and outboard engines. Excluding acquisitions, U.S. sales increased approximately 6 percent.

Sales to Mercury's European customers, excluding currency changes, increased by 16 percent, which included a 7 percent benefit from an acquisition completed in 2014. Sales increased in all major product categories, in spite of weakness in Russia.

Rest-of-World sales on a constant currency basis increased by 7 percent, as these regions benefited from gains in outboard engines, as well as parts and accessories. This growth was partially offset by lower sterndrive/inboard sales and market weakness in Brazil.

For the first half, the segment's sales on a constant currency basis, increased by 13 percent. Overall, acquisitions contributed 4 percent to the segment's first half growth.

On a product category basis, the outboard engine business reported solid overall sales growth in the quarter, which included benefits from Mercury's 75, 90 and 115hp FourStrokes introduced in 2014, as well as the new 350 and 400 hp engines launched in Q1, 2015, which fortify our position in targeted growth segments.

These new engines have been well-received by OEMs and consumers, particularly for larger offshore boats, and have led to market share increases within these horsepower categories, including gains in targeted saltwater, re-power and commercial markets.

Our outlook for the U.S. outboard engine business continues to reflect favorable retail demand. Europe and Rest-of-World markets both demonstrated year-over-year growth with the exception of the high volume, small horsepower engine market in certain regions, including Russia, due to the weak retail demand mentioned earlier.

Turning to the sterndrive business, Mercury continues to expand upon its new engine platform, purpose-built specifically for marine use. The new 6.2-litre, V8 300hp and 350hp models were introduced earlier this month. These engines leverage investment from the previously introduced MerCruiser 4.5L V-6 platform for 200hp and 250hp engines. However, sterndrive engine sales continued to be affected by unfavorable global retail demand trends.

Mercury's parts and accessories businesses delivered strong sales growth during the quarter, with gains in most major markets.

Revenue benefited from acquisitions, new product launches and market share gains. This includes product successes such as: Attwood's portable and integrated fuel systems, as well as their new LED and underwater lighting system products; Whale's new and award-winning range of intelligent control pump systems; MotorGuide's new trolling motors; Joystick piloting systems for outboard engines; a refreshed helm suite with new control and features; the award-winning Eco Enertia propeller and Quicksilver branded lubricants for not only marine, but also for motorcycles, ATVs and snowmobiles.

In addition, the continued sales records achieved by our distribution business portfolio, including Land 'N' Sea, Kellogg Marine, Diversified Products, and Bell Recreational Products businesses demonstrate their ability to deliver on superior product availability, on-time delivery and product category expansions.

As a reminder, we completed our third P&A acquisition, BLA early in the second quarter of 2015.

Mercury's operating earnings increased by 8 percent compared to last year's second quarter. Operating margins were at 19.1 percent, 30 basis points higher than the prior year quarter.

The improvement in operating earnings reflected higher sales - - including a favorable product mix benefit from recently launched outboard products and parts and accessories growth.

Partially offsetting these positive factors were the unfavorable effects of foreign exchange and increased investments for long-term growth.

For the six months, operating margins were 16.5 percent, 60 basis points higher than last year.

In our Boat segment, second quarter revenues on a constant currency basis increased by 11 percent, with strong growth in fiberglass sterndrive/inboard boats and solid gains in fiberglass outboard boats, partially offset by declines in aluminum boats.

On a year-to-date basis, our boat brands continue to make progress in gaining share. This occurred not only in the U.S. market, but also in key regions including, Europe, Brazil and Canada. Our share gains reflect the advancements made by our various product development teams – both in terms of lowering the period of time required to introduce new product across our brands and categories, as well as bringing fresh new concepts into the marketplace. This has been demonstrated across our brands and categories including: Boston Whaler's Dauntless family of boats and 320 Vantage; Sea Ray's 19-foot SPX and L Class Yachts, Lund's 1750 Rebel XS and Harris' dual console pontoon. Our plan reflects continued share gains, as we launch new models in the marketplace, including Sea Ray's new 400 Sport Yacht and 280 SLX, which are debuting in the third quarter.

In the U.S., which represented over two-thirds of the segment, sales increased 16 percent.

In the quarter, European sales on a constant currency basis, increased by 9 percent versus the prior year. This performance resulted from the introduction of new products, including larger, higher-priced products by our European manufactured outboard boat brands.

Rest-of-World sales on a constant currency basis, decreased by 1 percent, which reflected the weaker demand in Canada, which was down 6 percent on a constant currency basis, due to conditions described by Dusty earlier in the call.

In the first half, overall Boat revenues on a constant currency basis increased by 13 percent, with strong growth in fiberglass sterndrive/inboard boats and solid gains in fiberglass outboard boats.

In the second quarter, Brunswick's global retail unit sales increased by 5 percent compared to prior year, reflecting our continued market share gains. Global wholesale unit shipments increased by one percent, as declines in aluminum boats were partially offset by gains in fiberglass boats. This increase in wholesale unit shipments compares to the Boat group dollar sales increase of 8 percent, as revenues benefited from a favorable shift in mix.

For the six months, global retail unit sales increased by 7 percent, compared to prior year, while global wholesale unit shipments were up 1 percent, versus an increase in dollar sales of 10 percent.

Regarding our pipelines, dealers ended the quarter with 31 weeks of boats-on-hand measured on a trailing 12-month retail basis, compared to 34 weeks at the end of Q2, 2014.

Unit pipelines for aluminum products are up modestly compared to last year, due to an expanded distribution network and new product introductions. Fiberglass sterndrive/inboard unit pipelines are up slightly versus the prior year, while fiberglass outboard pipelines are down.

Our plan assumes that the wholesale unit growth rate for the full year will approximate retail unit growth rate. For the remainder of the year, we are planning for wholesale unit growth to be a bigger contributor to sales increases than average sales price growth.

In addition, current pipeline levels are appropriate, given our growth expectations in the various boat categories, and we continue to be comfortable with these overall levels.

The Boat segment's second quarter adjusted operating earnings increased 600 hundred thousand dollars, or 3 percent, when compared to prior year.

Operating performance in the quarter included planned manufacturing cost increases associated with new product integrations, capacity expansions and production ramp-up, partially offset by higher sales, including several new product introductions. In addition, foreign exchange had an unfavorable impact on second quarter earnings.

For the six months, operating margins were 4.3 percent, 40 basis points lower when compared to prior year's as adjusted results.

On a constant currency basis, sales at Life Fitness increased by 10 percent for the quarter. Growth resulted from higher sales to U.S. health clubs and hospitality customers, as well as sales gains in international markets, particularly in Europe and certain developing regions.

The segment continued to benefit from new product introductions in all regions, with this quarter representing its eleventh consecutive quarter of year-over-year revenue growth.

Life Fitness continues to develop new products and services that are resulting in market share growth in the commercial cardio and strength categories. Recent examples that have led to their share gains include: Explore Console for the Elevation Series, Powermill Climber, Flexstrider, E-series Cross Trainers and the multi-purpose Synrgy family of training systems.

In the first-half, on a constant currency basis, sales at Life Fitness increased by 8 percent.

Segment operating earnings in the quarter increased $4.2 million or 22 percent, as the favorable impact from higher sales, along with benefits from cost management actions, were partially offset by the impact from foreign exchange. Operating margins were at 13.3 percent, 180 basis points higher than the prior year.

In addition, Life Fitness incurred increased manufacturing costs associated with planned capacity expansion activities and new product integrations.

For the six months, operating margins were 13.6 percent, 50 basis points lower than last year, reflecting the absence of a favorable warranty adjustment in the first quarter of 2014.

Now, I'll turn the call over to Bill for additional comments on the financials, starting with a consolidated perspective on how foreign exchange affected our results.

*Bill Metzger – CFO*

Thanks, Mark.

I would like to start with discussing the impact that foreign currency is having on our sales comparisons. As a reminder, approximately 20 percent of our sales are transacted in a currency other than the U.S. dollar. Our most material exposures include sales in Euros, Canadian Dollars, Brazilian Real and Australian Dollars.

In the second quarter, consolidated sales comparisons were negatively affected by approximately $46 million or 4.3 percent, which was slightly higher than our previous guidance due to further strengthening of the dollar. For the full year, we are estimating a 4 percent impact on year-over-year comparisons.

The impact on operating earnings in the second quarter was approximately $8 million. For the full-year, we are estimating that operating earnings comparisons will be negatively affected by $30 to $35 million, or 8 to 9 percent. This estimate includes the impact of translation on all sales and costs transacted in a currency other than the U.S. dollar, benefits from hedging activities of $11 million, and pricing actions in certain international markets in response to the strengthening U.S. dollar.

Additionally, estimates for the full-year assume that rates remain consistent with current rates for the remainder of the year.

Regarding our tax provision:

Our effective book tax rate, as adjusted, was 34.0 percent for the quarter.

Our effective book tax rate for full-year 2015 guidance is 34 percent, which excludes any benefit from the potential extension of the U.S. R&D tax credit, which would lower the rate by approximately 1.5 percent for the year.

Our estimated effective cash tax rate for 2015 reflects a low teen percent level.

Turning to a review of our cash flow statement. Year-to-date cash provided by continuing operating activities was $108.8 million, an increase of $45.2 million versus the prior year.

As planned, pension contributions were approximately $72 million in the first half of the year, an increase versus the prior year due to the timing of our 2015 pension contributions.

Normal seasonal changes in balances resulted in a use of cash in our primary working capital accounts and totaled approximately $87 million, which is substantially improved from the prior year. The biggest changes occurred in:

- Accounts and notes receivable, which increased by $59 million,
- Accrued expenses decreased by $43 million,
- Accounts payable increased by $20 million, and
- Inventory increased by $7 million.

Year-to-date, our working capital performance has improved versus the prior year due to better inventory management and timing of collections.

We anticipate a seasonal liquidation of working capital over the balance of the year.

Year-to-date free cash flow approximated $37 million, versus $17 million in the prior year, an increase of $20 million.

Capital spending was approximately $65 million, which included investments in new products in all of our businesses, as well as capacity expansion projects.

Our business units continue to remain focused on generating strong free cash flow, which will allow us to continue to fund future investments in growth, including acquisitions, and enhance shareholder returns.

Cash and marketable securities totaled $609 million. The change from year-end 2014 reflects year-to-date free cash flow of $37 million, as well as cash returned to shareholders through share repurchases and dividends of approximately $60 million and $23 million, respectively. In addition, the change reflects net proceeds received from the sale of the Bowling Products business.

Let me conclude with some comments on <u>certain</u> items that will impact our P&L and cash flow for 2015.

Our estimate for depreciation and amortization is approximately $90 million.

We expect pension expense to be approximately $12 million. Any pension related charges associated with the second phase of the lump sum buyouts planned to be completed in Q4, are excluded from our adjusted EPS guidance.

Net interest expense is expected to be about $26 million.

Combined equity earnings and other income are anticipated to be comparable to prior year.

And, we expect our average diluted shares outstanding for the full year to be approximately 94.3 million.  The anticipated reduction in average shares outstanding reflects continued execution of our $200 million share repurchase program initiated in Q4, 2014.  Over the last 3 quarters, we have purchased approximately $80 million of stock, including $40 million in Q2.  To date we have repurchased about 1.6 million shares of stock under the program. We expect to systematically complete the remainder of the current program by the end of 2016.

On the cash flow side, our plan reflects approximately $75 million of cash contributions to our pension plans, which includes an amount that will be used to fund the lump sum benefit buyouts in 2015 - -  almost all of these contributions have been funded in the first half to maximize returns and reduce our pension expense.

Our current plan anticipates working capital changes to result in a modest usage of cash of $10 million to $30 million, and capital expenditures of approximately 4 percent of sales, with a substantial portion directed at growth and profit enhancing projects, including executing against capacity expansion plans in each of our segments.

We plan to generate strong free cash flow for the full-year in the range of $180 million to $200 million, which is an increase versus prior guidance, and reflects improvement in working capital trends.

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

*Dusty McCoy – Chairman and CEO*

Thanks, Bill. Our overall operating plans and assumptions for 2015 remain consistent with those we communicated on our last call. The second quarter produced results within the range of our guidance.

We continue to target 2015 to be another year of strong earnings growth with outstanding free cash flow generation.  Our plan reflects approximately 6 percent to 8 percent sales growth, which includes benefits from the success of our new products, market share gains and the continuation of solid market growth in the U.S. and Europe, and completed acquisitions, partially offset by weakness in certain international marine markets. We have also incorporated our assessment of the impact from changes in foreign exchange reflecting current rates.

For the full year, we anticipate a slight improvement in gross margin levels and solid gains in operating margins. Our earnings growth is expected to be more heavily weighted to the second-half of the year, reflecting improved manufacturing efficiencies and cost reductions, as well as less challenging FX comparisons.

Earnings will benefit from managing costs through initiatives such as Lean Six Sigma, and by implementing programs to improve product costs through supply chain initiatives and manufacturing efficiencies.

As a result of ongoing growth investments, full-year operating expenses will increase, but as a percentage of sales, are expected to be lower than 2014 levels - - approximately 17.0 to 17.2 percent. For the second half of 2015, we expect the increase in overall operating expenses to be more modest than reported in the first half.

As a result, our full-year pretax earnings should continue to demonstrate strong growth of 15 percent to 20 percent. Finally, with half the year behind us, we are maintaining our 2015 EPS guidance, as adjusted, range of $2.75 to $2.85.

An early look at 2015 third quarter indicates continued strong top-line growth - - forecasted in the 6 to 8 percent range and operating earnings to reflect incremental operating leverage in the low-20 percent range. Third quarter leverage reflects a greater rate of growth in operating expense than reported in the first half.

Turning to our segments, the 2015 plan reflects continued revenue and operating earnings growth in our Marine Engine segment.

Specifically, we are planning for revenue growth in the mid-single digit percent range, with a solid improvement in operating margins, despite currency headwinds and the continued negative impact on operating leverage from acquisitions. In addition, we will continue to make significant investments at Mercury.

Our current plan reflects a stable pricing environment for our larger horsepower engine businesses.

Looking at our Boat segment, our plan assumes that we continue to successfully execute our large fiberglass boat strategy, which is a key part of an increasing number of new products that will be shipped into the market.

Our plan also reflects solid growth of outboard boats under 28 feet throughout the year. As a result, increases in average-selling-prices will be at a lower rate of growth versus 2014, with only modest increases planned for the rest of the year.

We are targeting 2015 annual revenue growth in the high-single to low double-digit range, and we expect margins to be up, with year-over-year improvement in the segment's operating margin to be less than achieved in 2014.

In our Fitness segment, our plan is based on continued revenue growth and maintaining strong operating margins. In 2015, we are targeting revenue growth in the mid-single digit range.

We will continue to make significant investments at Life Fitness - - aggressively leveraging innovation to achieve competitive differentiation in its products and services, which should continue to enable market share growth and create business opportunities beyond its core business model.

Earlier this month, we announced the acquisition of SCIFIT, a leading provider of exercise equipment tailored to the needs of active aging seniors, as well as the medical wellness and rehabilitation market.  This market represents one of several areas of growth opportunities for our fitness segment.

We are planning for margins to be flat-to-slightly up at Life Fitness for the full year.

In conclusion, we are well-positioned to continue to successfully execute our growth strategy and increase shareholder value.  The management team and the 12 thousand-plus employees of Brunswick will remain focused on:

- Bringing to market a steady cadence of new product introductions aimed at attracting and capturing sales through consumer-friendly features and capabilities;
- Expanding capacity throughout all of our businesses – engine, boat and fitness -- to meet increasing demand;
- Increasing efficiencies and streamlining costs by continuing to operate our businesses as successfully as possible, and
- Identifying and funding the best opportunities we see for growth, as well as managing and adjusting Brunswick's product portfolio as necessary.

Thank you and now we are happy to take your questions.