

Brunswick Corporation
2021 Investor Day Q&A Follow-up
May 17, 2021, 11:00 AM

Presenters

David Foulkes, Chief Executive Officer
Chris Drees, President, Mercury Marine
Brett Dibkey, President, Advanced Systems Group
Ryan Gwillim, Chief Financial Officer
Brenna Preisser, President, Business Acceleration
Aine Denari, President, Brunswick Boat Group
Brent Dahl, Vice President of Investor Relations

Q&A Participants

Scott Stember – C.L. King & Associates
Fred Wightman - Wolfe Research
Joe Altobello - Raymond James
Craig Kennison - Baird
Anna Glaessgen - Jefferies
Gerrick Johnson - BMO Capital Markets
Shawn Collins - Citigroup
Joseph Spak - RBC Capital Markets
Michael Swartz - Truist Securities

Operator

Good morning, and welcome to Brunswick Corporation's 2021 Investor Day Q&A Follow-up 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 objection, you may disconnect from the conference at this time.

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

Brent Dahl

Hello, and thank you for joining us for today's 2021 Investor Day event Q&A follow-up session. Before we begin the discussion, I would like to remind everyone 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 details on the factors to consider, please refer to our recent SEC filings. All these documents are available on our website at brunswick.com. Additionally, during today's discussion we may refer to certain non-GAAP financial information, and reconciliations of GAAP

to non-GAAP financial measures are provided in previously issued current reports on 8-K, all of which are available at brunswick.com.

I will now turn the call over to our CEO, Dave Foulkes, for some opening comments. Dave.

David Foulkes

Thanks, Brent, and hi, everyone. Welcome to our 2021 Investor Day Q&A event. We hope you enjoyed the Investor Day materials, which we made available a week ago and is still available on brunswick.com. The presenters you saw and heard in the videos are joining me today, including our Division Presidents, Chris Drees, Brenna Preisser, Brett Dibkey, and Aine Denari, and our CFO, Ryan Gwillim.

The presentation materials were an update to the strategy we originally presented in Miami in 2020 and were intended to summarize our work reshaping the company over the past two years with a focus particularly on Brunswick's exciting next wave of growth and opportunity, which is already in flight and delivering exceptional progress. So, we're looking forward to your questions. And with that, operator, if you could please open the line.

Operator

Thank you. At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

One moment, please, while we poll for questions. Our first question comes from Scott Stember with C.L. King & Associates. Thank you. You may begin.

Scott Stember

Hi, guys, and congrats on the strong progress towards your 2022 goals at this stage already.

David Foulkes

Thank you, Scott.

Ryan Gwillim

Thanks, Scott.

Scott Stember

Just a quick question, maybe on the boat side. You guys are already trending towards those low double-digit or double-digit operating margins. And certainly there's been some benefit from a lack of any promotional activity. Just trying to figure out, assuming we get back to a normalized boat market at some point, either later this year or heading into 2022, and the

promotional activity just goes a little bit back to normal, could you just give us some of the levers that could potentially offset any potential increase in promo activity?

David Foulkes

Yes, Scott. So, I think you're right. Certainly, it helps if we have lower promotional costs, but we have a number of other actions that we've taken to secure those operating margins. And, remember, our plan was always to achieve those margins, even before we got the tailwinds of the pandemic. I think you know those included a lot of operating cost actions, particularly SG&A reduction in the boat group, and then really promoting uniform levels of operational excellence across all of our boat plants.

If you remember, we had some plants that were operating in extremely high productivity levels and some that were not quite so productive. But, we've put in place mechanisms now to make sure that all of our plants are operating at the same level. And then, one of the things we emphasized recently was that the products that we've recently launched, like the new Sea Ray 370, are launching with the best gross margins of any products that we've ever put in production.

And that is something that Mercury has pursued for a long time. Essentially, every product that Mercury replaces comes into the market with a better gross margin, and that's what we're now doing on the boat side. So, Aine is pursuing very rigorously all of those actions. Aine, do you have any more comments?

Aine Denari

I think you've hit really the major levers. I think we announced 122 new products over the course of the next two years. Those will all, obviously, be focused on improved gross margin, driving towards consistency, platforming, standardization. And then operational excellence, as we've talked about, is a major focus, through our increased throughput in the facility as well as improved quality. So I think as a combination, with all of those levers, we're feeling pretty good about being able to sustain the double-digit margins in the long term.

Scott Stember

Got it. And last question before I jump back in the queue regarding the announcement of four new electrified boat platforms, I guess from a power plant standpoint, you gave some additional--or initial color, I guess, on the types of boats that would be used. But, could you just give us a little bit more granularity to what you're seeing out there? Would you be the first ones out there doing this--and just some other tidbits to run with?

David Foulkes

Sure. I think the largest market at the moment for electric propulsion is in Europe. And the products there are on the lower horsepower side, but they're a very strong--there's very strong volume opportunity and also profit opportunity there. So, certainly we'll be targeting that

market. There are some boats available in the U.S. in small quantities that are electric. And, in fact, electric propulsion has been present on boats for 100 years in one form or another.

And we will have some products that will offer kind of early adopters the opportunity to try out electrification in some of the larger horsepower segments over time. But I will tell you that there are plenty of opportunities for us to pursue very profitable growth across a number of segments right now that will be applicable, both domestically and particularly in Europe.

Scott Stember

Got it. Thanks, again, guys.

Operator

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

Fred Wightman

Hey, guys. Good afternoon. Thanks for the question. I was hoping on the outlook for the P&A business as electrification becomes a bigger part of the marine industry. There was a quote in the slides about--\$2,000, I think, was the average spend per year for people--for boat buyers or engine buyers. So, could you touch on what that figure might look like as electrification becomes a bigger portion of mix? I mean, I would think you'd miss out on the ability to sell fluids and maybe some parts but maybe some bigger-dollar components that need to be swapped out over time.

David Foulkes

Yeah, I think you're right. Good question. I'll ask Chris and Brett to comment in a moment. But, certainly over time, we'll see something of a transition of some of the P&A product lines, but there is plenty of opportunity for P&A with electrified products, including spare batteries, chargers. And don't forget that these products will be more likely to have things like digital switching onboard, which tend to be good margin products for us and are already in our portfolio.

So, we expect that the profit profile P&A will continue to be extremely strong as we transition a portion of the fleet through to electrification. I would say that we still--there are significant, large portions of our product portfolio for which there is no current battery electric solution. So, we are talking about sub-segments at the moment.

Chris Drees

Just to touch base on what Dave said, when you looked at the slide, there's--a bulk of the products are separate from propulsion, so lighting and seating and everything that goes along with the boat, including electronics. And when we mention spare parts and fluids, there's such a large base of existing Mercury products in the marketplace. In fact, one out of every two

boats powered today is by Mercury. So, that's a long tail for replacement parts that we'll be enjoying.

Brett Dibkey

Yeah, this is Brett. I was just going to add or build on the comment that Dave made. As you think about the migration to more electrification, powered systems, onboard to powerhouse systems and propulsion, as Dave said, you have to think about more broadly beyond just the power storage but into the delivery, charging at the dock, charging on the vessel, alternators. There's just a whole host of additional higher margin products that go along with that migration.

So, generally speaking, I think we end up mixing into a very favorable position from a product and margin perspective.

Fred Wightman

Makes sense. Just to shift gears, some of the slides in the discussion in the ASG segment touched on growing the RV market or the RV participation--just wondering if you could touch on where you see the most opportunity, how much of that is sort of industry growth versus market share, how much of that is sort of adding content per unit versus just sort of taking share from existing OEMs, and sort of what that ultimately means for that 25 percent mix that's RV and specialty today versus the 75 percent that's in the marine sector?

Brett Dibkey

Yeah, this is Brett again. Certainly, we are capitalizing on the industry dynamics here. The industry, like in marine, is experiencing very strong demand at the moment, and we're undoubtedly benefiting from that. But more--we were just kind of touching on it--in RV and the specialty vehicle segments like in marine, there's an increasing shift to more digital and electric experiences onboard.

One of the notable opportunities that has experienced a lot of growth in the last 12 months--and we see this growth curve steepening in the next 18 to 24--is replacement of internal combustion engine generators on RVs in favor of lithium ion batteries--and, again, it's not just the batteries but all the infrastructure to support the delivery of that power onboard. We have relationships in place with two of the largest RV builders in the nation and are seeing really good consumer uptake on migrating from gen sets to electric power onboard. So, that would be a key area of growth focus within the RV business for us.

Ryan Gwillim

And, Fred--this is Ryan. Just a reminder--and people may not be as familiar with RV versus marine--but where we are in the RV market, it's a nexus to what we're already providing in marine. So, we're not stretching our legs too much to go into something in RV that is well beyond what we're already doing in marine, the same applications and the like, so just a bit of clarity as you think about it moving forward.

Fred Wightman

Makes sense. Thanks, guys.

Operator

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

Joe Altobello

Thanks. Hey, guys. Good afternoon. So, you mentioned a new boat brand, Revo, that's launching later this year. Could you give us a little more color on that, which segments it's targeting, price points, and how it's going to be sold, for example?

Aine Denari

Yes, sure, happy to. So, yeah, I think we're very excited about Revo. It's obviously a new brand for us. It's targeted at emerging boating consumers. It's really giving us the opportunity to reach out to make boat ownership more approachable, an easier purchasing process, easier use cases, as well as being very affordable, so definitely aimed at the kind of people who are a little bit younger in their life cycle in the marine industry.

We want to bring them into boating, keep them there over their lives, and as a result, we'll have kind of functionality that is in alignment with that and will be closely aligned with our broader strategy as we go--so first launch in that space coming this year, so stay tuned for that. And that, then, will be the first of several launches under the Revo brand over the course of time.

Joe Altobello

And is it going to be sold through your existing dealer network or online or a combination?

Aine Denari

Yeah. So, obviously our dealers are very important to us and will obviously continue to be so as part of this process. And what we are going to do with this brand is ensure that we are giving the consumers in the space the best consumer experience, so more upfront online education and assistance through the purchase process but still very much leveraging our dealer network.

Joe Altobello

Got it. You also mentioned a major new launch for the Heyday brand. I know it's been growing rapidly, but it's off a fairly small base in the market share. And the tow boat space, as you know, is concentrated among a few players. What does distribution for that brand look like today? And what are your plans to expand its dealer network, since most dealers one or maybe two brands in the segment already?

Aine Denari

Yeah. So, you're correct. It's not a huge brand today, but we feel like this is a great opportunity for us to really grow and disrupt the space. And so, of course, we'll start with our existing dealer base there and then expand accordingly. As we mentioned, we have the first of the major new products launching this year. And so, we're really kind of excited as to what that is going to do for the brand--and position us for even more long-term future growth. So, I think stay tuned, a lot more to come, and expect to see some good solid expansion there.

David Foulkes

I think just something to add, I think, is that a lot of the growth in the wake sports space has been in the more value-oriented brands, so we think Heyday is extremely well-positioned to pick up a lot of market share, especially as we transition to this new product, which looks fantastic and has functionality, which is equivalent to anything on the market--but at a very affordable price. So, we're very excited about the prospects for this new product launch and for the brand.

Joe Altobello

Thank you, guys.

Operator

Our next question comes from Craig Kennison with Baird. Please proceed with your question.

Craig Kennison

Hey, thanks very much. Certainly missed Miami, but this has been a really creative and effective format. I wanted to ask about CZone. That discussion was interesting. What has been the receptivity among your OEM customers to this sort of new mobile app concept?

Brett Dibkey

Yeah, this is Brett again. It's a good question. As I think we shared during the presentation that was released last week, the platform really hasn't launched yet. So, we're launching it. It will be available in the app store to support Boston Whaler and Sea Ray in early June. Our focus at the moment is ensuring a successful launch on those two brands.

And then, we'll begin activating and making available the platform for other OEMs at our IBEX show in the Fall. So today, it's not yet available to other OEMs as we work to get the platform off the ground with Sea Ray and Boston Whaler, but we expect that it will launch late in the Fall and be available for next model year.

David Foulkes

I think, Craig, the design and development of this new platform was really informed a lot by the connected products that we already have in the marketplace. Chris Drees mentioned that Vessel View Mobile, the Mercury-connected product, is the most popular product in the marketplace, I think, with more than 100,000 downloads. And so, we've been gaining experience for some time, understanding what it is that users want out of a connected product.

And then, certainly, our Nautic-On experience--Nautic-On is on our Boston Whaler and Sea Ray product right now. So CZone Mobile is also informed by the experiences that we've had with Nautic-On. And we're very convinced that we are not only building on the success of those product lines but filling gaps or white space in functionality and features that we've identified as we've been kind of rolling out and gaining customer feedback on those products. So, this new product now will be by far the most comprehensive one in the marketplace.

Aine Denari

Yeah, this is Aine. I can just add, thinking on behalf of two of the OEM customers, Sea Ray and Whaler, huge excitement from the dealers as well as the consumers in terms of the functionality that's going to be realized (SP), both in terms of supporting day-to-day boating as well as kind of the service aspects and the manual aspects.

And there's just a ton of interest, both from the dealer base as well as from the consumers that we've interacted with as part of the consumer research. So, I expect as it rolls out across more OEM brands as well and the functionality continues to grow, it's going to be received incredibly positively.

Craig Kennison

Is it too much to say that we're at kind of an inflection point in boat design, where there will be boat builders that have this capability and can bring this unique kind of digital experience to their customers and those that can't? And to what extent is that maybe an inflection point for either your boat brands or for this integrated prop-to-helm kind of system you're building?

David Foulkes

I think we are uniquely positioned, as we've said for some time, to bring a very integrated product and a very seamless on-boat, off-boat experience to our boat customers. It's always been, though, part of our plan that we will make this toolkit available broadly, just in the way we do Mercury and ARC products right now. But, the richness with which the consumer kind of experiences the product is not just the toolkit, it's the content that we include from a functional perspective.

And we expect that our brands will have very rich content, everything from social content to owner's club content to onboarding content to teaching content. That's really about how you use the toolkit as opposed to what toolkit you have. So, we're very excited about being early implementers of the toolkit but also in bringing the richest experience to our customers.

Craig Kennison

And then, lastly, to what extent can you bring this mobile app and retrofit boats that are already in the fleet, so that consumers can have this experience, not being in the boat but being able to access it?

Brett Dibkey

Yeah, I think--as I outlined in the Investor Day presentation, many of the use cases that will be available in the app, and I think address real, meaningful points of consumer friction today, are really not at all dependent on any hardware in the boat. So, it could be a 15-year-old boat, and there will be real, meaningful utility in the new platform.

Now, obviously, along with hardware and connectivity onboard that will be provided by CZone, the experience gets that much richer, so the ability to monitor and control the boat and some of the house (SP) systems remotely takes a significant step forward. For the time being, our focus in this space will be on enabling that type of experience through OEM. I think it's not impossible to think about an after-market solution at some future point, but for the time being, our focus is really squarely on enabling the experience through OEMs and new installs.

Craig Kennison

Great.

David Foulkes

One of the things that's been very successful about Vessel View Mobile, which is the Mercury application, is it is retrofittable all the way back to, I think, boats 15 years old that have our SmartCraft system onboard. So, we have a lot of cases of people retroactively implementing Vessel View Mobile on Mercury-powered boats.

Craig Kennison

Great, thank you.

Operator

Our next question is from Anna Glaessgen with Jefferies. Please proceed with your question.

Anna Glaessgen

Hi. Thanks for taking my questions. First, could you provide some perspective on the complexion of expected Mercury share gains? How much is expected from existing products versus new product intros, particularly where there's a lack of competitive offerings, such as the V12 Verado?

Chris Drees

This is Chris. I could answer that question. I think share gains are certainly accelerating, and it's due to the great product that we've been releasing. Our product lineup is as robust and dynamic as it's ever been. And launching something like the V12 Verado is in a class of its own. So, we look to continue to increase our share, especially in those larger offshore type applications with that engine accordingly. So, we don't see necessarily a limit on how high we could go with that share gain, and if people want the product, we're going to make it available for them.

David Foulkes

That share gain is occurring around the world, not just in the U.S. And as Chris--I think Chris at the Investor Day gave some kind of new insight into where we expect the share to be in the relatively short-term, kind of around the 50 percent level. But, as he mentioned, when people want the best product, they know where to come for it, and people are coming in increasing numbers.

I think it's important to understand as well that even though we've announced a number of OEM conquests and increases in our share of various OEMs, after the announcement, it takes a while for that process to fully flow through to volumes, so you'll see that continuing to happen through this year. And even in the first quarter of this year, I think we added 6 new or expanded customers on top of the 70 that we announced last year, so we're very excited about how fast this is coming to us.

Chris Drees

And within our manufacturing facilities, we'll continue to increase our manufacturing capacity to make sure we have the ability to meet that increasing demand.

Anna Glaessgen

Great, thanks. And then following up on the Revo brand, one of the key advantages of your boat portfolio is having some of the best-known brands. Could you walk through the decision process for why starting a new brand made the most sense for capturing this emerging boater and maybe the difference in the marketing strategy plan behind that?

David Foulkes

Yeah, I'll start off, and the Aine can follow. I think what you'll find when we launch Revo is there are a lot of unique things about the boat, down to its construction. And, because we were targeting a new demographic and bringing to market a product that's significantly different from our other products, we felt that the presence of a very contemporary brand was very important. It also allows our brand development teams to explore new spaces that maybe the existing brands haven't fully explored yet.

I think in the Investor Day presentation, you were able to see at a high level what the position of this brand looks like. It's a little different for the brand, definitely another (SP) demographic, more adventure-oriented. So, we thought, rather than just bring in a new product, this certainly warranted a new brand experience.

Aine Denari

Yeah. No, totally agree. It's a great opportunity to target that new consumer group but, of course, still leveraging all of the strengths that we have. So in terms of our incredible product development teams, our manufacturing and operations experience, obviously our supply chains, this allows us leverage--all of those strengths we have internally--and then target a new

consumer demographic with an all-new brand. So, I think we're pretty excited about what it's going to result in.

Anna Glaessgen

Great, thanks.

Operator

Our next question comes from Gerrick Johnson with BMO Capital Markets. Please proceed with your question.

Gerrick Johnson

All right. Good afternoon. Thank you. I have two questions, first on EV, getting back to that topic, five electric propulsion projects you're working on, some potentially coming to market in 2022--definitely on-trend from a social standpoint. Can you talk about the demand from actual boaters? Can you maybe share with us some of the market research that you've done that indicates that these investments are a good idea?

Chris Drees

Sure, this is Chris. There's already an established market for electric propulsion, predominantly in Europe, though. So, we've done extensive research in Europe and in the States. And it is a viable market for us to get into. These aren't demonstrator models. These are actual production models that we're going to go and be accretive to earnings with. So, we think the market is there and growing, especially where we're targeting. And we have no doubt that it's going to be a profitable segment for us.

David Foulkes

These products are expected to meet the same financial hurdles as any product that we launch. And we have--market data suggests that absolutely that will be the case.

Gerrick Johnson

All right. Similarly, you're not the first out of 600-plus horsepower outboards. Obviously, Seven Marine was there first, and Volvo pulled them out of the market. So, why was it not successful for them, being part of Volvo, and why will it be successful for you?

Chris Drees

I think as we engineered it, we really took a blank sheet of paper, engineered it from the ground up. So, if you look at all the innovation with the transmission, the steerable gear case, the extended service intervals, the reliability, the durability, everything that people are looking for in this type of horsepower node (SP), we're really hitting the market with the right product that's going to succeed in the marketplace. So, even though the horsepower is equivalent, I think the product is radically different from what Seven, and subsequently Volvo, launched.

David Foulkes

The other thing is it comes out of the box completely compatible with all of our control systems. And, if you'll remember, there was an awful lot of effort to try and make that Seven Marine product compatible with anybody else's control. It will be supported by the best service maintenance and integration network in the industry. So, I think--and people--Mercury inspires confidence, both from an engineering perspective and from a service and support perspective.

So, I would say, coming out of the gate here, the demand for the 600 has been absolutely huge and certainly beyond what we originally anticipated. Just a technicality--you might find it interesting--is Seven Marine measured their horsepower at the engine not at the propeller, which is where we always measure. So, although the numbers on the back look the same, the numbers might not be quite so close.

Gerrick Johnson

And for Ryan, related to that, does that give you the opportunity to do some SKUs, maybe get rid of the 225 or 250 or 300, since you don't need two 300s anymore, you just need one 600?

Ryan Gwillim

Yeah. No, there's always going to be applications for those horsepower nodes. In fact, in bass applications, aluminum, fish, that's the primary horsepower for those. So, there will always be a market for that 225, 250 horsepower.

Gerrick Johnson

Great. Thank you.

Operator

Our next question comes from Shawn Collins with Citigroup. Please proceed with your question.

Shawn Collins

Yeah, great. Good afternoon, ladies and gentlemen. I found the presentation to be very informative and comprehensive. It's clear you have a lot of interesting marine growth opportunities. I think Brenna cited the marine services market as a possible opportunity, given it is large and fragmented. I think the TAM there is \$20 billion. Can you talk further about this opportunity? Thanks.

Brenna Preisser

I can. Thanks, Shawn, appreciate the question. I think about a little less than half of that would be a priority for us. As you think about the opportunity in new business models, shared access expansion, financial services, we see that it is a large and highly fragmented market, and we definitely have room to enter and grow through new business models and some of the business models that we have in play today.

Shawn Collins

Got you. That's great. Thanks, Brenna. Maybe just a second follow-up on the P&A segment, and this may be for Chris and Brett. The segment clearly consists of engine P&A, distribution, and the advanced systems group. Could you possibly talk about the margin characteristics of each? I would imagine that the advanced systems group has the highest margins, and maybe that's followed by engine P&A, but I may be incorrect. Any color might be helpful. Thanks.

Ryan Gwillim

Hey, Shawn, it's Ryan. Thanks for the question. We don't generally get into a whole lot of discussion on sub-business operating margins. But I can--directionally speaking, we've been pretty clear with the public that some of the captive products that Mercury makes for their own engines obviously is pretty margin accretive to the overall story. That's primarily after markets and captive in that manner.

As you work your way through or around the wheel as you would at P&A, controls, riggings, propellers also very strong margin profile, and that being a more OEM-heavy component, which looks a little bit more like ASG. ASG is about half in half, and you know the margin profile of kind of the overall business, from the P&A segments about 20 percent, and ASG is kind of right there. That's Power Products, the Power Products transaction from three years ago. That's a business that's accretive to that 20 percent number.

We've been pretty clear about that because it's heavy after market. And then, on the other side, the Atwood business, which, by the way, had a fantastic up and come on the margin front the last couple of years with some really good work by Brett and the team--being a little bit diluted from (SP) 20 percent but not by a whole lot these days.

And then last, you have the distribution business, and that's one to always remember. We have a several hundred million dollar--more than a \$500 million distribution business, and that's pushing through third-party parts. We also leverage that same network to get our highest margin parts through to the network. But, the distribution itself, which also has seen margin growth over the last handful of years, does look like more of a traditional distribution business, as opposed to a product business. So, that's really how P&A shakes up from a sub-business standpoint.

Shawn Collins

Got you, Ryan. That's helpful context. Thank you very much.

Operator

Our next question is from Joseph Spak with RBC Capital Markets. Please proceed with your question.

Joseph Spak

Thank you. Good afternoon, everyone.

David Foulkes

Hey, Joe.

Joseph Spak

I guess to start, it seems like most of your targeted M&A from the cash flows and parts and accessory and the Freedom Boat, I don't think there's any change there. I guess within electrification, do you think you have everything you need there like--or can sort of invest organically to get so? Or is there any M&A required there? Because the way it was laid out, it seems like it's maybe more the former. And then, if that's true, I'm curious like how much like how much investment in electrification is really sort of in the numbers and sort of hitting some of those margin targets for 2022?

David Foulkes

I think--we have very strong presence in various forms of electrification already, particularly in the ASG business with Mastervolt. We think over time there is certainly opportunity for us to expand that portfolio, and we're looking at some shorter term opportunities and then some opportunities that might be more appropriate when the market gets a little larger.

So, I would say that electrification opportunities are definitely part of our funnel right now. We're very well-positioned with the business' capabilities that we already have, but there's certainly opportunity for us to grow our presence in that space.

Joseph Spak

And then, you mentioned Mastervolt and ASG, and I think in the slides there were some targets there for generator replacement, etc. Can you talk about--because one of the things I didn't see addressed were sort of battery or cell supply--like is that cell supply secured because this is clearly a big issue, sort of all things go under growth (SP) electrification. And it seems like there's going to be some shortages there. So, how do you have sort of visibility into some of those targets?

David Foulkes

Well, Mastervolt has been around for a long time with quite a lot of volume. And, as you say, of course the electrification business is growing, but we have very strong supply relationships, which we'll continue to leverage. I actually think that this places us in a better position as a big player in the marketplace to secure that supply versus some of the other smaller players. We have a pretty diversified supply base right now, and we will continue to diversify. Brett, do you want to add anything?

Brett Dibkey

Yeah. No, I was really going to just echo the same point you made. I think over the last several months, we've been able to navigate some of the supply shortages in this space better than most, given our longstanding supply relationships. And obviously, this is where the size of

Brunswick is a real advantage. So, I think we're in a very strong position to navigate some of the short-term supply disruptions. And it has been the case over the last several months.

And maybe, Joe, just from a margin--Joe, you did have a margin question, I think, on your first stem of the question. We have built into the targets that you have seen relatively healthy amounts of investment across-the-board, but inclusive in there is electrification spend. So, you should not see margin degradation on account of any of these projects, certainly not electrification.

David Foulkes

No, that's right.

Joseph Spak

Maybe the last one, Brett. Maybe this one is best for you. Does Brunswick have any views on hydrogen to power boats? I think most of the work done there has sort of been on maybe some of these larger marine vessels. But, do you think that technology has a future for where Brunswick plays?

David Foulkes

We think that, for on-road vehicles, particularly light-duty passenger vehicles, battery electric has clearly made a lot of progress. But, for heavy commercial, on-road, for marine, for aviation, for a number of other verticals, we're going to have to come at this with a portfolio of solutions that include battery electric but also include technologies beyond battery electric.

So, we're certainly actively looking at hydrogen fuel cells, e-fuels, and a whole range of other opportunities to build out the portfolio. I think the expectation is that internal combustion will be a significant portion of our propulsion for the foreseeable future, but we're very active in investigating and being on the front end of any alternatives as they become technically and economically feasible and viable.

Joseph Spak

Thank you very much.

Operator

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

Michael Swartz

Hey. Good afternoon, guys. Just wanted to talk about the news out this morning that the EU is suspending, at least temporarily, the retaliatory tariffs. Maybe remind us how much of an impact that's had on your business over the past several years. And maybe what do you have included for your 2022 targets relative to those tariffs?

Ryan Gwillim

Hey, Michael. It's Ryan. As you know, most of the product that we sell into Europe is manufactured in Europe. That's a business that's actually going quite well for us right now, and volumes are up. It's part of our capacity expansion that we talked about in January. Given FX rates that haven't been very favorable and some of the other moving pieces in the economy, sales of U.S. product into Europe, really over the last five years, has been relatively low, and so the impact is relatively negligible across-the-board.

It's important to note that loose engines are not tariffed as part of it. It's a boat engine package, and so no impact to Mercury. The main tariff impact for us remains the China tariffs, which I know you're extremely well versed on.

Michael Swartz

That's helpful. Thank you, Ryan. And then, maybe with the--I think in the presentation, you called out you're targeting \$100 million in contribution from Freedom by 2024. And I think, if I heard it correctly, you already had--or captured--\$40 million of those synergies. So, maybe talk about the walk to get from \$40 million to \$100 million, and then I think that's coming on growing the boat fleet to 6,500 units. Today, you have about 800 of your own units in there. So, if you could just walk us through how that \$100 million comes about.

Brenna Preisser

Thanks. Well, what the \$100 million does include is, of course, Freedom expansion in the U.S. and our boat and engine synergies. And what's going to power our growth will be adding new locations and definitely continuing to accelerate our share of the fleet within Freedom. What the number does not include in a material way yet is European expansion, which we see as being an important opportunity for us as well as some of the new business centers, such as Boateka that we've outlined and BoatClass.

So, we're pretty confident in the bridge as we look at our pace to scale, the power of our network, the expansion and growth rates that we see with our franchisees, that we'll be able to achieve the \$100 million by 2024.

Michael Swartz

Great, thank you.

Operator

That concludes the question-and-answer session. At this time, we'd like to turn the call back to Dave for some concluding remarks.

David Foulkes

Well, thank you all very much for joining us today and for the excellent questions. We really appreciate it. I'm really pleased you had the opportunity to interact with our team. We're all

very excited about Brunswick's progress and, of course, the future potential of all of our businesses.

In addition to the tremendous operational and commercial performance of our core businesses, as you can see and as we discussed today, we're making great strides with ACES and digital transformation. But, as I did say in my video presentation, we still have a few more things up our sleeve that we hope to be able to share with you over the coming months.

So, bye for now, and have a great day.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.