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MCFT - Q1 2019 MCBC Holdings Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2019 MasterCraft Boat Holdings Earnings Conference Call. (Operator Instructions) As a reminder, today's conference is being recorded for replay purposes.

It is now my pleasure to turn the conference over to your host, Tim Oxley, Chief Financial Officer. Please proceed, sir.

Timothy M. Oxley - *MCBC Holdings, Inc. - VP, CFO, Treasurer & Secretary*

Thank you, operator, and welcome, everyone. Today's call is being webcast live and will also be archived on our website for future listening. Joining me in today's call is Terry McNew, MasterCraft Boat Holdings' President and Chief Executive Officer. Our agenda includes a strategic overview by Terry, followed by my analysis of the financials. Then Terry will discuss our updated expectations for fiscal 2019, followed by the Q&A session.

Before we begin, we'd like to remind participants that the information contained in this call is current only as of today, November 8, 2018. The company assumes no obligation to update any statements, including forward-looking statements. Statements that are not historical facts are forward-looking statements and subject to a safe harbor disclaimer in today's press release.

Additionally, on this conference call, we will discuss non-GAAP measures that include or exclude special or items not indicative of our ongoing operations. For each non-GAAP measure, we also provide the most directly comparable GAAP measure in our fiscal 2019 first quarter earnings release, which includes a reconciliation of these non-GAAP measures to our GAAP results.

Before turning the call over to Terry, I would like to remind listeners that there is a slide deck summarizing our financial results in the Investors section of our website.

With that, I'll turn the call over to Terry.

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Thanks, Tim. I'd also like to thank everyone for joining us this afternoon. Before we dive into our first quarter results, as you likely saw in a separate announcement yesterday, we've changed our corporate name from MCBC Holdings, Inc. to MasterCraft Boat Holdings, Inc., effective immediately. As we've continued to successfully execute our strategy of acquiring premium brands focused on serving the fastest-growing segments of the powerboat industry, we felt the name MCBC do not sufficiently reflect the premium, iconic nature of our flagship brand, MasterCraft, nor our growing diversified portfolio. The new name, MasterCraft Boat Holdings, will continue to represent a powerboat portfolio recognized for innovation, performance, premium quality and strong growth as well as expand our recognition with both institutional and retail investors as a company focused on providing attractive returns to shareholders. The company's ticker symbol on the NASDAQ Exchange will remain MCFT. The names of subsidiaries will not be affected.

Regarding our growing diversified portfolio, on October 1, 2018, we closed on the previously announced acquisition of Crest Marine, LLC. We are very excited about this acquisition as Crest represents a high-quality, premium brand with leading market share in the large pontoon segment, which is the second fastest growing segment in the powerboat industry behind our core performance sport boat segment. With Crest, we also further expanded into the large and growing outboard propulsion category, which we first entered with the acquisition of NauticStar in October 2017. We've already begun the process of integrating Crest into our business, bringing MasterCraft Boat Holdings' strengths in financial management and operational excellence to this well-respected and growing brand. We look forward to working with the Crest team to drive sustainable, profitable growth going forward.

Before we switch over to our review of the company's fiscal first quarter performance, please note that the results reflect MasterCraft and NauticStar only as the Crest acquisition closed after our fiscal first quarter ended. Going forward, our consolidated results will include MasterCraft, NauticStar and Crest.

As you saw from today's press release, during our fiscal first quarter, we continued our track record of delivering record-setting levels of net sales, gross profit, adjusted net income and adjusted EBITDA, driven by continued retail and wholesale demand in our core MasterCraft brand and the inclusion of NauticStar, which just recently celebrated its 1-year anniversary as part of MasterCraft Boat Holdings.

As we previously disclosed at our Analyst Day in early September, our MasterCraft year-to-date fiscal 2019 internal dealer warranty registrations were up significantly compared to the prior year-to-date period. This momentum further increased during the quarter. And for the 3 months ended September 30, 2018, our MasterCraft internal dealer warranty registrations were up more than 30% versus the prior year first quarter. We attribute the strong retail performance and market share growth to our best-in-class product development, expanding dealer network and strong U.S. economic growth that continues to benefit from improving economic indicators. Importantly, we were able to drive this retail growth while maintaining our industry-leading gross margins at MasterCraft, further demonstrating that our stated strategy of focusing on sustainable, profitable market share growth is working.

As we exit the prime boating season, we believe the overall U.S. economy will continue to grow, further benefiting the overall powerboat industry. Further, our retail inventory turns for both MasterCraft and NauticStar are at their strongest levels in years, which sets the stage for continued healthy dealer inventory levels and increased wholesale production for the balance of fiscal 2019.

On the NauticStar side of our business, fiscal 2019 is setting up to be a major investment year for the business as we look to introduce 4 new models during the year. With 3 of these models being completely new, larger models, introducing larger models into the NauticStar lineup allows NauticStar to expand its addressable market in the fastest-growing saltwater outboard fishing segment while benefiting from higher average selling prices and gross margins. Keep in mind that the sales associated with this product development initiative will primarily occur in fiscal 2020, while the cost and the impact on production will affect fiscal 2019. Additionally, we continue to drive improvement across NauticStar's operations with particular focus on safety, quality and margins. In fiscal 2019, we look forward to building on the hard work we put into the integration over the past 12 months while executing on our product development strategy.

Continuing our discussion on product development, we are excited to share more details regarding the new brand start-up we mentioned on our last earnings call. At the Miami International Boat Show in February 2019, MasterCraft Boat Holdings will be unveiling the first model of a new brand name, AVIARA, spelled A-V-I-A-R-A. AVIARA will be a series of large recreational day boats ultimately ranging from 32 to 40 feet. The 32-foot model will be available for consumer delivery starting in July of 2019, with additional models to be introduced in the future. To be very clear, AVIARA is not a performance sport boat nor is it an offshore fishing boat. AVIARA will be positioned as the preeminent brand serving the large recreational day boat segment, combining European styling with American layout and engineering. This combination of modern luxury with progressive styling will establish AVIARA as the new standard for quality, precision and design in the large rec boat day category.

The concept of the AVIARA brand was born from a carefully crafted strategy to fill the white space in the MasterCraft Boat Holdings portfolio with the goal of retaining existing customers and capturing new customers as their boating preferences evolve over time. Given this, AVIARA will be distributed through a new network of dealerships completely separate from our core MasterCraft dealers, with the capability of supporting and selling larger and more complex models of boats. More information on this will be provided at a later time. All our AVIARA models were designed and will be manufactured at our award-winning facility in Vonore, Tennessee, which manufactures all of our MasterCraft boat. AVIARA owners can expect the same level of outstanding quality, reliability and performance that is synonymous with the MasterCraft brand. More information will be posted as it is made available to the AVIARA brand website, which is www.aviaraboats.com. There, you can register for e-mail updates, link to our social media feeds, and be the first to learn about this exciting new brand.

Lastly, from an industry perspective, we have certainly been keeping an eye on the tariff situation as it impacted the powerboat industry. As we discussed on our last earnings call, we believe the tariffs will be temporary, and the continued retail strength we're seeing at MasterCraft in both the U.S. and Australia has helped to mitigate the impact of these tariffs. On a consolidated basis, only 5% to 7% of our annual sales are to countries impacted by these import tariffs. To date, orders from our international dealers remain strong. We will continue to monitor these import tariffs and, where necessary, provide support to our Canadian and European dealers. The estimated financial impact of this dealer support is already captured in our guidance for fiscal 2019. On the cost side, we believe that the price increases that we are seeing from certain suppliers is offset by product price increases. So we do not see any material impact from supply-side tariffs at any of our businesses.

Now I'd like to turn the call back over to Tim to go over our financials.

Timothy M. Oxley - *MCBC Holdings, Inc. - VP, CFO, Treasurer & Secretary*

Thanks, Terry. From a top line perspective, net sales for the first quarter ended September 30, 2018 grows 44% or $28.6 million to $93.6 million compared to $65 million for the year-ago first quarter. The inclusion of NauticStar represented $17.4 million or 26.8% of the overall increase, while MasterCraft grew $11.2 million or 17.2%. The MasterCraft increase was driven by an increase in sales volume, favorable product mix and price increases, partially offset by the increased retail rebate expense, including a timing impact from the new revenue recognition accounting change and higher sales discounts given to mitigate an increase in import tariffs impacting our Canadian and European dealers.

First quarter gross profit increased $5 million or 27.7% to $23.2 million compared to $18.2 million for the prior-year period. MasterCraft contributed $3 million to the increase in gross profit, and the inclusion of NauticStar accounted for $2 million of the increase.

On a consolidated basis, gross margin decreased to 24.8% for the fiscal first quarter compared to 27.9% for the prior-year period. This decrease was primarily due to the dilutive effect from the inclusion of NauticStar. Additionally, the decrease stemmed from higher warranty cost, higher retail sales incentives in part due to the timing impact from the new revenue recognition accounting change, and dealer support for import tariffs, partially offset by growth in MasterCraft unit sales volume, favorable product mix, and price increases.

On the expense front, selling and marketing expense increased $1.6 million or 59.3% to $4.3 million for the first quarter ended September 30, 2018, compared to $2.7 million for the year-earlier period. This increase was mainly due to the timing of MasterCraft's annual dealer meeting and the inclusion of NauticStar.

First quarter general and administrative expense increased by $2.5 million or 55.8% to $6.8 million, compared to $4.3 million for the prior-year period. The increase was mainly due to the inclusion of NauticStar, an investment in headcount to support growth initiatives, acquisition-related costs due to Crest, and new brand start-up costs related to AVIARA.

Turning to the bottom line. First quarter net income totaled $8.5 million versus $7 million for the year-earlier period, driven by the inclusion of NauticStar, higher net sales and reduced tax rates from the enactment of the Tax Cuts and Jobs Act. Adjusted net income of $10.2 million or $0.54 per share on a fully diluted weighted average share count of 18.9 million shares was computed using the company's estimated annual effective tax rate of approximately 22.5%. Recall that for the prior period last year, our effective tax rate was 29%. This compares to adjusted net income of $8.3 million or $0.44 per fully diluted share in the prior-year period.

Adjusted EBITDA was $15 million for the first quarter compared to $13 million in the prior-year period. Adjusted EBITDA margin was 16%, down from 19.9% in the fiscal 2018 first quarter.

Please see the Non-GAAP Measures section of our press release and 10-Q for a reconciliation of adjusted EBITDA, adjusted EBITDA margin and adjusted net income to the most directly comparable financial measures presented in accordance with GAAP.

We are very pleased with our start to fiscal 2019 and look forward to building on this momentum for the remainder of the year.

With that, I'd like to turn the call back over to Terry for outlook.

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Thanks, Tim. Looking ahead to the rest of fiscal 2019 and beyond, we remain steadfast on our strategy of driving sustainable, profitable growth through the development of new and innovative products, strengthening our dealer network, driving margin expansion through operational excellence and capturing additional market share from adjacent boating categories, both organically and through acquisitions.

With the strong retail performance at MasterCraft, healthy dealer inventory levels, continued operational improvement in product development initiatives at NauticStar, the acquisition of Crest and the launch of our new AVIARA brand, we believe we are executing our growth strategy on all fronts. Coupled with the strong economy, we remain well positioned to drive strong growth going forward.

For the full fiscal year ended June 30, 2019, we are increasing our previously provided guidance for MasterCraft and NauticStar given the strong retail performance of our core MasterCraft brand and we are now including Crest. On a fully consolidated basis, we expect net sales percentage growth to be up in the mid- to high 30% range, adjusted EBITDA margins expected to be in the low to mid-17% range. Adjusted EPS percentage growth is expected to be in the low to mid-30% range.

For fiscal Q2 ending in December, net sales percentage growth is expected to be in the mid-40% range, with adjusted EBITDA margins in the low 16% range. Adjusted EPS percentage growth is expected to be in the low to mid-40% range. Recall NauticStar was acquired during our fiscal second quarter last year, and Crest will be included in our fiscal 2019 second quarter results.

Now I'd like to turn it over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Craig Kennison of Baird.

Craig R. Kennison - *Robert W. Baird & Co. Incorporated, Research Division - Director of Research Operations and Senior Research Analyst*

I wanted to ask about AVIARA. It sounds like you have a different distribution strategy in mind. Do you have actual dealers signed up to take this product when it's available?

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Craig, we do. I apologize. I won't get into the detail of that tonight. We'll share more in February, but yes, it is -- we do have dealers signed up to carry AVIARA.

Craig R. Kennison - *Robert W. Baird & Co. Incorporated, Research Division - Director of Research Operations and Senior Research Analyst*

And could you help us frame the total addressable market of that segment into -- maybe frame the competitive landscape and share any sort of ASP data that you might be willing to share?

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Well, again, we've got a very well-defined strategy, Craig. I don't want to get ahead of our marketing launch. So we'll share more about that on our February earnings call. And I know you guys will all be interested in more specifics on a full year basis. Remember, in our prepared remarks, we will not start to book earnings on AVIARA until July of fiscal 2020, so July of calendar year '19. And we'll probably talk more specifics in term of numbers probably as early as our May earnings call. But remember, we're not giving 2020 guidance right now but just prepared. We're very excited about the brand, and we know you guys will be, as we all, when you see it in Miami.

Craig R. Kennison - *Robert W. Baird & Co. Incorporated, Research Division - Director of Research Operations and Senior Research Analyst*

And it's more information than I expected we get today. So thank you for what you have shared with us so far. On the MasterCraft and NauticStar front, could you share with us or quantify retail trends in the quarter and maybe comment on what you've seen in October and November?

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Sure. As we've said in our prepared comments, and when you guys were here at the Analyst Day, retail continues to be very, very strong, especially at MasterCraft. The new models continue to be extremely well received. Just in the last 12 months, we've released the XStar, the XT25, the X24 and the X22, and they are -- just been extremely well received. Demand is up. As we said in our prepared remarks, we believe -- because of the strong retail inventory turns, pipeline dealer inventory turns at both NauticStar and MasterCraft are at the highest level we've seen in years. NauticStar has released 2 of their 4 models just recently in the last 30-plus days, 195 bay boat and the 251 center console. I was at their dealer meeting in Alabama about not quite a month ago, and they run extremely well. The next 2 models, we'll release later in the fiscal year and they're going to be a larger product. And I'm equally confident they're going to be well received. So both companies' retail is good. As we mentioned, NauticStar has a major investment year for them not only in product development but in building the product development department and also changing their production process to be able to produce these products. So we're very pleased. We're in really great shape for the fiscal year.

Timothy M. Oxley - *MCBC Holdings, Inc. - VP, CFO, Treasurer & Secretary*

Craig, this is Tim. I'll add a little more color to the boating season. It seems like it started -- the boating season started a bit late this year but extended longer than we expected. You asked about October, and October was another good retail month for us. So I'm very pleased with this -- the season -- boating season.

Craig R. Kennison - *Robert W. Baird & Co. Incorporated, Research Division - Director of Research Operations and Senior Research Analyst*

And specifically on NauticStar, were your shipments in line with your internal expectations? Overall, you beat our revenue number, but that number was a tick light of our expectations.

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Yes, let me kind of go back over time. As you know, when we purchased them in October, we've communicated there was pent-up demand for NauticStar product within the existing dealer network. We increased count last December by one unit a day, and then we increased it again by one unit a day in January. And over the course of our fiscal third and fourth quarter, we satisfied that existing demand. Then we began to execute the strategies that we've talked about today, an investment product portfolio and laying out the lines in the facility. So we pulled back a little bit in the first quarter. We'll be advancing that somewhat in Q2 and then a bit more in Q3. So they will space up -- they will stage up over each quarter throughout the rest of this fiscal year.

Craig R. Kennison - *Robert W. Baird & Co. Incorporated, Research Division - Director of Research Operations and Senior Research Analyst*

And then just a final question. On the inventory front, it sounds like it's turning well, but are dealers more reluctant to want to carry inventory given the higher cost of financing that inventory?

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Really, no, we haven't had any pushback. In fact, we're looking at turns of -- I'll kind of segregate this. But at MasterCraft, the demand for the new product is -- as I've mentioned, it's off the charts. So we're even considering looking at future quarters. If it continues, we may plug in some production Fridays. As you now, that's our way to meet short-term demand. If that continues, then we may increase the line count. But we don't have any dealers calling, asking us to hold back. And again, turns are as high as they've been in years.

Operator

Our next question comes from Joe Altobello of Raymond James.

Unidentified Analyst

This is actually [Adam Kojak] on for Joe. I was just curious -- given margin looks a little bit light, we're curious if anything has changed in terms of the outlook for the base business, excluding Crest? Or maybe worded another way, how much of this margin degradation would be -- would you guys consider temporary?

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Sure. Keep in mind, MasterCraft, that brand alone has among the highest margins in the world in this category. So as we've said many times before, acquisitions will most likely be dilutive. And NauticStar produces well. We've shared their margin profile. And we -- again, we have investment in them but we believe ultimately, they'll get gross margins in the low 20s. So we're on plan. Crest, it's too early to tell on them right now, but again, they probably have a similar margin profile to NauticStar. So what we see in the margin dilution is primarily related to that now we've got a first quarter of NauticStar compared to last year, where they were not in our first quarter. And [Adam], that's primarily the reason.

Operator

Our next question comes from Dan Charrow of KeyBanc Capital Markets.

Daniel Charrow - *KeyBanc Capital Markets Inc., Research Division - Associate*

It's Dan on for Brett. Just wanted to touch quickly on the revised guide. By our math, it implies that you're expecting some of the consolidated sales growth to decelerate a bit in the back half of the fiscal year. Should we think about that as coming from Crest, maybe more -- less seasonally weighted towards the back half or a bit more conservatism in your outlook for the bulk of the year?

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Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Well, let me break that out by category. We don't anticipate -- I'm a little bit confused on your comment, but we don't anticipate any deceleration from MasterCraft. In fact, there's opportunity to possibly increase that but...

Timothy M. Oxley - *MCBC Holdings, Inc. - VP, CFO, Treasurer & Secretary*

Well, I think for all 3 brands.

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

All 3 brands. I was going to say that NauticStar, as I just mentioned, as we execute the investment strategy, we should see them improve output each quarter a bit. And then Crest, I mean, that's a great product, great demand on that. We're executing manufacturing changes there to get them in synchronous flow and with all of the processes that we've developed at MasterCraft. So I'm not sure I share the comment on that. We expect some increases each quarter.

Timothy M. Oxley - *MCBC Holdings, Inc. - VP, CFO, Treasurer & Secretary*

Yes. So we may have to go back and follow up on what your model is telling you because, as Terry mentioned, we're expecting increases.

Daniel Charrow - *KeyBanc Capital Markets Inc., Research Division - Associate*

Got it, definitely. And regarding some of the Canadian tariffs, can you give us a bit more detail about some of the dealer support and your expectations for any resolution in that market?

Timothy M. Oxley - *MCBC Holdings, Inc. - VP, CFO, Treasurer & Secretary*

Yes, we've been doing -- obviously, we're trying to gather as much intelligence as we can. We're optimistic that this is a temporary situation and it will be resolved, I mean, hopefully, in the first quarter. And we're always a bit conservative as we accrue for the money in our forecast. And so it's going to be temporary and...

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

And it's in our guidance.

Timothy M. Oxley - *MCBC Holdings, Inc. - VP, CFO, Treasurer & Secretary*

Yes.

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Already baked into our guidance. And as we reiterated in our prepared comments, Dan, only 6% to 7% of our combined consolidated sales are to countries that have the import tariffs, Europe or Canada.

Operator

Our next question comes from Tim Conder of Wells Fargo Securities.

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

Gentlemen, just a couple of things here. On the EBITDA guide here, could you just maybe review, Tim, Terry, whoever wants to take it, the lower guide here, just each of the components, I think. And you talked a little bit about warranties, some sales incentives in that but just maybe to go through the color there. And then I guess, on the floor plan financing, again, you're not seeing anything of measure. And it would sound like that if you were, I mean, you'd be giving the support and not the dealer. But again, that doesn't really sound like that's a point where the dealers have too much inventory or need any of that type of support. Is that -- just to clarify that.

Timothy M. Oxley - *MCBC Holdings, Inc. - VP, CFO, Treasurer & Secretary*

Our standard programs for dealers includes assistance with their floor plan cost for a period based on what time of year they buy the boat. I think we have a very competitive program there, and I think that's certainly shielding the dealers from the effect of the flooring cost on their product. And we're not -- like I say -- we said earlier, we're not getting pushback as far as stocking levels.

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Yes. We don't see, Tim -- and said in a slightly different way, we don't see any pressure on both wholesale or retail credit finance at all.

Timothy M. Oxley - *MCBC Holdings, Inc. - VP, CFO, Treasurer & Secretary*

We've also -- as it relates to retail rebates, I think the cadence this year is going to be a bit different than the prior year. And so we're comparing to a quarter ahead, low to no retail rebates, and we've had more in this quarter. So on a quarter-over-quarter comparison, in particular, when you add in the timing associated with this accounting change, it was not -- it was -- it certainly cost us a bit.

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Yes. And then when you look at the tariffs, that support just didn't exist last year, wasn't an issue this year. That probably is a large component of that gross to net difference. Again, we believe it's temporary. It's in our guidance, but those 3 things are the primary drivers.

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

So again, the retail rebate cadence, the tariffs and then the flooring support, those were the 3 drivers of the lower -- on the adjusted EBITDA?

Timothy M. Oxley - *MCBC Holdings, Inc. - VP, CFO, Treasurer & Secretary*

Tariffs, retail rebates, the timing of the retail rebates...

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

And some higher warranty cost.

Timothy M. Oxley - *MCBC Holdings, Inc. - VP, CFO, Treasurer & Secretary*

Yes, and we had some higher warranty cost. As you probably recall, the model year -- 2014 was the first model year that we had a 5-year factory warranty. And we sold a bit more of the claims coming in at the tail end of the warranty life, if you will. And that was the reason we had to book more warranty accrual.

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Yes. I think if you put them in order of impact, Tim, the tariffs are probably the leading impact to the gross -- the net adjusted EBITDA impact, followed by the timing of the revenue recognition and then followed by the increased warranty cost.

Operator

(Operator Instructions) Our next question comes from Michael Swartz of SunTrust.

Michael Arlington Swartz - *SunTrust Robinson Humphrey, Inc., Research Division - Senior Analyst*

A couple -- just a couple of questions on gross margin, not to beat the horse completely dead, but the -- and Tim, I think going back to last quarter, you had called out this timing -- sorry, timing differential on some of the retail rebates. So can you just remind us which quarters this fiscal year will be most impacted? Obviously, the first quarter, but should we also see some of that impact in the second quarter as well?

Timothy M. Oxley - *MCBC Holdings, Inc. - VP, CFO, Treasurer & Secretary*

We will. So the difference in this accounting treatment we have to now accrue for any predicted retail rebates will accrue over the lifetime of however many years the boats out there that we're paying these rebates.

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

And at the time we wholesale.

Timothy M. Oxley - *MCBC Holdings, Inc. - VP, CFO, Treasurer & Secretary*

At the time we wholesale, so similar to the warranty accrual. And so we're comparing that to the kind of normal cadence. The normal cadence kind of follows -- will be mostly back-end loaded for the fourth quarter of our fiscal year. So it's going to show a bit of an improvement there from a timing perspective, and it's going to affect us negatively primarily in quarters 1 and 2.

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Yes. So said slightly different, Mike, we're -- retail programs are booked in the -- generally in the retail season. About 45% to 50% of actual retail happens in Q4 of our fiscal year, and that's where we historically book it. New revenue recognition makes us change that. It's more of a wholesale impact spread evenly over each quarter. So it takes it out of Q4, puts it in Q1, takes it -- and puts it in Q2, where the large...

Timothy M. Oxley - *MCBC Holdings, Inc. - VP, CFO, Treasurer & Secretary*

Q3 has some boat shows. So...

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Yes. Q3 is generally 30%-ish of annual retail. Q4 -- Q1 is, call it, 30%. Q2 is roughly 10%. Q3 is around that 16-ish percent; and then the balance, 45% to 50s in Q4. Now just think about it evenly through all the quarters.

Michael Arlington Swartz - *SunTrust Robinson Humphrey, Inc., Research Division - Senior Analyst*

Okay, that's really helpful. And then just on NauticStar, I know you called out that there were some -- or there will be some increased investment cost as you bring out some new boats or larger boats, I guess, over the next year or so. I guess as I look at it in the quarter, gross margins were around 11% or 12%, as you've called it out. And I think when you acquired it, it was more high teens. So I'm just trying to get a sense of how much of that was maybe seasonality, onetime-type items or just some of those elevated cost related to product development.

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Yes, it's kind of a combination. So Michael, when we purchased them, their gross margins were in the high -- mid- to high teens, call it, 17% range. But their production was impacted. As we're making this plan, as we make the changes to the production facility, as we pivot, move out of smaller models and start bringing new models in, it impacted -- planned their output, and then that will impact a little bit in Q2 but not as much, and they'll start to make the change, an increase in Q3 and an increase further in Q4. So that's really the function of deleveraging in Q1 and somewhat in Q2. We'll start picking up that cadence and run rate in Q3, and it will accelerate in Q4. As we mentioned in our -- on our prepared statement, those costs -- not only for product development, but the impact to output deleverages. So you don't get that fixed cost absorption, and the product development is certainly a cost, but that's more into the G&A.

Timothy M. Oxley - *MCBC Holdings, Inc. - VP, CFO, Treasurer & Secretary*

It doesn't change our view -- long-term view that their margin should get into the 20s.

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Yes. And it really -- this '19 investment sets us up for a very strong 2020.

Michael Arlington Swartz - *SunTrust Robinson Humphrey, Inc., Research Division - Senior Analyst*

And then -- and just with some of the larger boats you bring out, have you said what lengths you're going to with that brand?

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

NauticStar has historically been like an 18- to 28-foot product, with about 70% of their volume, generally 24 feet, below, still an important part of the portfolio. But the larger saltwater fish, center consoles are really where the growth is in the overall market. We've laid out the facility and are continuing to lay the facility out with new processes and changes in ventilation and so forth, but they will have the capacity to someday build up to 39 feet. Now the 2 models that we'll release in the second half of the year -- I don't want to get out in the market launch. They won't be that large, but they will be larger than 28 feet.

Timothy M. Oxley - *MCBC Holdings, Inc. - VP, CFO, Treasurer & Secretary*

And Fort Lauderdale was just concluded. They sold a number of 28 feet.

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

28, yes.

Timothy M. Oxley - *MCBC Holdings, Inc. - VP, CFO, Treasurer & Secretary*

And that's where they really saw strong demand in that show.

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Yes, but there will be some that are larger than 28 that will be released in the second half of the fiscal year.

Operator

Ladies and gentlemen, this concludes today's question-and-answer session. I would like to turn the call back over to Terry McNew, CEO, for any closing comments.

Terry D. McNew - *MCBC Holdings, Inc. - President, CEO & Director*

Thank you, operator. Once again, thanks to everyone for joining us this evening and across our organization. We continue to be well positioned for fiscal 2019 and beyond. We look forward to updating you on our progress and second quarter results in February. Thanks again.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program, and you may all disconnect. Everyone, have a great day.