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MCFT - Q3 2017 MCBC Holdings Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the MasterCraft Q3 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call may be recorded.

I would now like to introduce your host for today's conference, Tim Oxley, Chief Financial Officer. Please go ahead.

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

Thank you, operator, and welcome, everyone. Today's call is being webcast live and also will be archived on our website for future listening.

Joining me on today's call is Terry McNew, MasterCraft's President and Chief Executive Officer. Our agenda includes a strategic overview by Terry, followed by my analysis of financials. Then Terry will discuss our strategies for growth and expectations for fiscal 2017, 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, May 11, 2017. 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 the 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 will also provide the most directly comparable GAAP measure. Our fiscal 2017 third quarter earnings release includes a reconciliation of these non-GAAP measures to our GAAP results for the third quarter.

Before turning the call over to Terry, I'd 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.



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

Thanks, Tim. I'd like to thank everyone for joining us today. As you saw from today's press release, we were pleased to see strong growth and retail demand during the quarter. Market reception for our recently released XT20 and XT21 has been strong, and this series continues to set new industry standards and premium features in towboat performance.

For the quarter and year-to-date, we delivered gains in net sales, reduced dealer pipeline inventory as well as continued to improve on our already outstanding working capital management.

Our winter sales program, concluded at the end of the quarter, exceeded our expectations due to several factors. For the first time, we established nationally advertised pricing on selected models, which drove traffic to our dealerships. Additional dealer training, enhanced tracking of sales leads improved the dealers' close ratio significantly. Finally, retail rebates also contributed to the success of retail demand during the quarter, supported in large part by our national advertising and dealer training program. Strong retail demand improved our dealer pipeline inventory, setting the stage for a strong 2018 fiscal year.

During the quarter, we were recognized again for our leadership in the towboat category at the Miami International Boat Show, garnering our sixth innovation award in 7 years. The company was recognized by the National Marine Manufacturers Association and Boating Writers International for its groundbreaking DockStar Handling System, an exclusive option available on select 2017 MasterCraft boat.

The recently patented DockStar Handling System greatly improves the ability of boat drivers to confidently drive and reverse and more easily navigate tight docks and crowded marinas. We're thrilled to receive yet another innovation award from the NMMA, recognizing that MasterCraft products are some of the most innovative in our industry. Our award-winning technologies are why many boat owners choose MasterCraft, and the DockStar Handling System is a notable example of how our engineering can benefit consumers. DockStar not only simplified navigating tight spaces like docks and marinas, it also improved the slow-speed handling of MasterCraft boats.

Additionally, during the quarter, we settled our patent dispute with Malibu Boats and are pleased to have this dispute behind us and look forward to building on MasterCraft's legacy of award-winning products. While we felt strongly about our position in this dispute, we know there is significant cost and uncertainty associated with the judicial process, and as a result, we view this settlement as a positive outcome for the company.

Turning back to our operational and financial performance. We delivered solid performance, and we're optimistic about prospects for our fiscal 2017 fourth quarter. Equally important, we continue to deliver best-in-class working capital management. Superior working capital management affords opportunities to enhance shareholder return in a variety of ways and is a hallmark of a well-managed company.

Looking ahead, we remain committed to our 5-prong growth strategy: developing new and innovative product; further penetrating the entry-level and mid-line segment of the performance sport boat category; capturing share from adjacent boating categories; strengthening our dealer network; and driving margin expansion through continuous operational excellence. This combined commitment to operational excellence and innovation, teamed with our strong, diverse product portfolio, position MasterCraft well for fiscal 2017 and beyond.

Lastly, I'd like to welcome Patrick Battle to our Board of Directors. Mr. Battle brings significant experience in sales and marketing that will be an asset to MasterCraft.

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

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

Thanks, Terry. From a top line perspective, net sales for the third quarter rose \$1.5 million or 2.6% to \$58.5 million from \$57 million for the prior year period. The increase reflects a rise in unit sales volume of 40 units or 5.7% and favorable pricing and product mix, partially offset by the discounts associated with exceptionally high retail demand in connection with our winter sales program.



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Gross profit for the third quarter decreased \$0.9 million or 5.8% to \$14.9 million versus \$15.8 million in the prior year period. Gross margin decreased to 25.5% from 27.8% for the prior year period. The decrease has resulted from discounts associated with exceptionally high retail demand in connection with our winter sales program, partially offset by price increases and sales of higher-content option packages.

On the expense front, selling and marketing expense increased \$0.5 million or 21.2% to \$2.7 million for the third quarter compared to the year-earlier quarter, primarily due to the timing of product launch and promotional activities. General and administrative expense totaled \$7.9 million versus \$6.1 million from the prior year period. This increase resulted mainly from an increase of \$3.9 million for legal and advisory fees related to our litigation of Malibu Boats, which includes a \$2.5 million charge to settle a Malibu patent case, partially offset by \$1.1 million reduction in stock-based compensation costs.

Turning to the bottom line, fiscal third quarter net income totaled \$2.2 million versus \$4.9 million in the year-earlier quarter. Adjusted net income was \$5.3 million or \$0.28 per share on a pro forma fully diluted weighted average share count of 18.7 million shares. This compares with adjusted net income of \$5.8 million or \$0.31 per share in the prior year period.

EBITDA was \$5.1 million compared to \$8.4 million in the prior year period, primarily due to increased litigation costs and retail rebates. Adjusted EBITDA margin declined 130 basis points to 16.4% from 17.7% in the prior year period, stemming from rebates associated with exceptionally high retail demand in connection with our winter sales program. Adjusted EBITDA was \$9.6 million, a 4.8% decrease from \$10.1 million in the prior year period.

See non-GAAP measures below 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.

I'd also like to remind people that in December 2016, we completed 2 secondary offerings for a total of 2,995,000 shares of common stock held by affiliates of Wayzata Investment Partners. No shares were sold by the company in either offering, and the company did not receive any proceeds from the sale of any of the shares. Wayzata Investment Partners now has divested themselves of all outstanding shares of common stock and they no longer hold any board seats.

For a complete review of our 9-month results, see today's press release.

With that, I'd like to echo Terry's comments and reiterate that we are pleased with our performance. I'll be happy to answer any year-to-date questions during the Q&A.

I will now turn it back to Terry for our outlook.

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

Thanks, Tim. MasterCraft has delivered a solid 9-month performance, and we're optimistic about the future. Across the organization, we remain committed to our 5-prong growth strategy I outlined earlier.

For the fiscal year ending June 30, 2017, we are reiterating our forecast for net sales growth in the low to mid-single digits and continued growth in adjusted EBITDA margin with a forecast approaching 19%. Net sales growth will continue -- will result in continued growth in net income, EBITDA and adjusted net income, despite increased interest expense due to the refinancing completed in the fourth quarter of fiscal 2016.

More specifically, for the fourth quarter, we expect net sales will be up in the 5% to 8% range, with increases in gross margin of about 200 basis points and increases in adjusted EBITDA margin in excess of 100 basis points compared to the prior year period. Adjusted earnings per share will be up in the low double-digit range also compared to the prior year period.

In conclusion, the fourth quarter will largely make up for the third quarter in spite of the additional royalties. Our plan is operating very efficiently, and with the spike in demand for our product, we are bullish on fiscal 2018.

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At this time, I'd like to turn it over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Jimmy Baker from B. Riley & Co.

Jimmy Baker - *B. Riley & Co., LLC, Research Division - MD and Associate Director of Research*

So first, a couple of questions just on the quarter itself. So it sounds like your retail was up quite a bit in the quarter. I realize it's small from a seasonal perspective, but I was hoping you could quantify that domestically and globally. And then the guidance that you gave for fiscal Q4, a bit -- well, actually, quite a bit stronger than what we thought. So did you actually end up adding a production day or days to the schedule in Q4 to catch more of this demand?

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

That's correct. We added a couple of production Fridays to catch up with the demand, most of which will manifest itself for fiscal 2018. As you probably know, dealers don't want to have boats that are going to be, in essence, obsolete with the new upcoming models, but we had such strong demand that we did add a couple of Fridays to our schedule in the fourth quarter. I would also like to point out that when we say retail was up, it was up 111% for the quarter. That's extraordinary because that's the strongest March quarter we've had in the company's history and far exceeded what we were expecting. We forecasted on a per-unit basis -- retail rebates that were consistent with our first quarter retail rebates. And because we had national advertising, we had dealer training, we drove a lot of our traffic into the dealerships. That's the reason retail was up as long as it was, and so, we're very excited about that.

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

And Jimmy, our boat show results were up 26% over the year prior.

Jimmy Baker - *B. Riley & Co., LLC, Research Division - MD and Associate Director of Research*

Okay, that's great. Wow -- the -- did you say 100? I just want to make sure I had that right, 111% globally, that was?

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

111% globally year-over-year. Keep in mind this was a North American promotion.

Jimmy Baker - *B. Riley & Co., LLC, Research Division - MD and Associate Director of Research*

Sure, okay. And then just a couple of points of clarification on the promos. So the winter sales event I believe was exclusive to NXT and ProStar, each of which, at least I thought, were dilutive to ASPs. So can you just help us understand how that event drove the sales strength? But I think in the press release you still commented that mix was positive.



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

Right. Jimmy, we have been working for a few years now to overcome the perception that MasterCraft boats are expensive. And so, the national advertised pricing was driven and focused, as you mentioned, on the NXT20, the NXT22 and the ProStar to bring the awareness of affordability of MasterCraft. In conjunction, we've been working very hard for about 18 months now with a group of dealers to improve retail performance, and that seems to have taken traction right at the same time. Tim likes to describe it as a perfect storm. So we had their training really starting to take root in terms of lead management, retail performance traction. Their conversion rate for that group of dealers, in particular, was up over -- slightly over 20%. So the national advertised pricing was designed to bring awareness in the affordability of the MasterCraft to drive people, floor traffic, not only into the boat shows, but into the dealers, in general. Their ability to capture those in conversion and close on them at a higher rate just happened to time themselves perfectly, but it wasn't just those 3 boats. Once the customers came in, dealers reported to us, and we could see they were selling other products off of that. So the retail incentives were helpful and meaningful, but on a per-unit basis, as Tim mentioned, similar to what we've done in the first quarter, where we got the extra traction and where we had internally budgeted and thought we might get a 25% increase, and we got a 111% increase due to the other factors I just outlined.

Jimmy Baker - *B. Riley & Co., LLC, Research Division - MD and Associate Director of Research*

Okay, understood. And then just help me understand as we -- how that marries up with the spring sales program. So unless I missed something, I think everything that was included -- the models that were included in the winter sales event or -- continued into the spring program. So I'm just trying to, I guess, understand why, not only are you not assuming this margin pressure continues, you're assuming large gross margin gain, 200 basis points, in Q4 to reach the full-year guide.

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

Right. So the success of the winter campaign with those 3 models, in conjunction with discussions with our dealers, encouraged us to widen that net. So the spring campaign now includes 7 models, 7 models under \$100,000. They're priced -- and again, that's a retail-based program, so still very good margins for the dealers. They'll be able to get people in, and our dealers are always successful. Our strategy is to -- we have very effective and interesting options that they can sell. So their margins are still very healthy. Of course, what we report to you guys is on a wholesale basis. So our ability to operate continues to be very, very successful at the manufacturing facility. We're continuing to drive margins, improve material margins, be very efficient with our labor as well.

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

Also keep in mind, Jimmy, that because some of the retail rebates I had earmarked for Q4, we spent in Q3. And now, I don't have to spend them in Q4. So that's one of the reasons that you see a margin improvement in Q4.

Jimmy Baker - *B. Riley & Co., LLC, Research Division - MD and Associate Director of Research*

Okay, understood. Just lastly, and I'll pass it off. I realize you're not providing fiscal '18 guidance here, but you have made a few references to setting the stage for a strong year next year. So maybe, could you just frame that in the context of, let's say, your long-term growth target? Is it fair to say a strong year would be towards the high end of that mid- to high single-digit long-term growth rate?

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

No, Jimmy, because of the success of the retail, our dealer inventory at the end of March was as high as it's been in the 5 years that I've been here.



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

The turns.

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

The turns -- inventory turns are extremely healthy. Hence, why we added a couple of production Fridays in Q4, but we still feel there's still very strong retail demand. We will not get into the specific guidance until our September call, but we are very, very pleased with our worldwide dealer inventory, and that gives us comfort and the ability to feel very strong about 2018 at this point. However, May and June are still important. We still have to get through that. May and June make up 30% to 35% of annual retail. So we don't see any macroeconomic events that -- or issues that give us concern, but we all know that, that is very critical, and we're keeping our eye on that.

Operator

Our next question comes from the line of Joe Altobello from Raymond James.

Joseph Nicholas Altobello - *Raymond James & Associates, Inc., Research Division - MD and Senior Analyst*

So first question, I guess, I was curious if you could quantify the impact that the rebates had and the discounts had on the gross margin in the quarter. Just trying to figure out what the base business did versus the winter selling program.

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

Sure. What we do when we look at our financial results every month is we strip out the effect of the discounts. So we look at materials, labor, overhead, warranties or percentage of growth sales to strip out all that effect. All those metrics were moving favorably, and so the gross margin miss was due to the discounts.

Joseph Nicholas Altobello - *Raymond James & Associates, Inc., Research Division - MD and Senior Analyst*

Okay, that's helpful. And then secondly, on the retail number, you guys just quoted up 111% in the third quarter. The industry data seems to indicate that there was a bit of a slowdown in the March quarter. So I'm trying to reconcile your statement today with some of the data that's out there, curious how we can do that.

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

One of the things that occurred -- because we had a program in that the dealers use to close deals, and I suspect some of the retail registrations that occurred late in March have not been reflected in the industry data. In fact, some of it may get pushed over into April. Or it could just be when we go from 25 states reporting to all states reporting that we're going to see that the industry data is up significantly.

Joseph Nicholas Altobello - *Raymond James & Associates, Inc., Research Division - MD and Senior Analyst*

Okay, great. Just one last one, if I could. I'm trying to get a sense of the magnitude of Malibu royalty. Would you expect to see continued margin expansion next year with that royalty?

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

While we're not providing guidance for next year, we do -- because of our operational focus, we do expect to be able to overcome that and see margin expansion next year as well.

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

And I want to add on that, Joe, that we don't feel that -- and I've been saying this since the beginning of the litigation that we didn't feel, even in a worst-case scenario, that it would be material to our business. We still take that position. We feel like our ability to continue to drive margin improvement. This settlement, as Tim said, we will not get into specifics about it, but we don't feel it's material to our business, and we'll be able to continue to drive margins going forward.

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

It's also worth noting that we've included that in our guidance for fiscal Q4 as well.

Operator

Our next question comes from the line of Craig Kennison from Baird.

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

Obviously, very strong retail led to some inventory reduction. Are you able to quantify that any further beyond what you've said, Terry?

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

In terms of inventory turns, which we look at, we -- it varies. Turns, we watch that closely by quarter. I would suggest that -- I don't want to get into the specifics, but I can tell you it is up significantly from where we were a year ago and where we historically are at the end of Q3 on any given year. I think -- keep in mind that our inventory at the end of the second quarter reflected flat inventory turns year-over-year, and now, that it's improved to significantly better than that, again, on year-on-year basis.

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

Yes. And do you think there's a chance you ran into some out-of-stock situations, whereby your retail might have been better? Or retailers had just deferred some demand that would suggest you might close those deals in the fourth quarter?

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

We're -- what's been reported from the dealers is that demand continues to be good, and I don't think we're going to have stock-out situations. We are looking at the inventory on a global basis, and we will certainly help dealers pick up boats from adjacent territories. And if they ran out of particular models, we've done that in the past, to get the maximum efficiencies from our pipeline.

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

And then, with respect to the promotion, do you feel like you've kind of hit on something, a price point or a certain dynamic with your consumers, such that you want to continue this promotion on a go-forward basis every year kind of on a seasonal basis as well?



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

Yes, Craig, and I think -- and I alluded to it earlier, but I'll reiterate it. I think the thing we hit on is with a couple of things. I think the national advertised pricing brought such awareness of the affordability of MasterCrafts. We have been working with our dealers to do this for a couple of years, but by doing national advertised pricing, and we did that in agreement with them months beforehand, we executed it beginning January 1. We had story after story of -- from dealers at boat shows, where consumers had put a down payment on a competitive product, walked by our booth, saw our [POP.] So it's very important to understand this was very holistic approach. We had signage. We required dealers to have it, where they saw, "Oh my gosh, you guys are -- I can afford it." They went back, got their deposit back and bought a MasterCraft. That's why we are expanding the program to 7 models for our spring program. In addition to that, the training that we have been doing with our top dealers for 18 months, what we saw, we track this with data, is that we were getting more -- better lead management, overall. By that, I mean, more floor traffic, we were getting better lead information, and when we dissected that, we were clearly talking to people that were either new to boating -- I'd like to characterize those are probably people that had bought a used boat or were thinking about buying a used boat as their first foray into boating. We were certainly getting people that were already boaters that had -- were not in our brand. The number of leads were up. The number of leads that we captured with these dealers, in particular, at boat shows, were up about 70. And then when we looked at the type of leads, believe it or not, less than 1/3 were current MasterCraft owners. So we were casting a wider net, driving more people into the dealerships, into the boat shows, but more importantly, we were driving new people, significant number of new people, in the MasterCraft brand. So I think, to answer your question, yes, we'll continue that strategy.

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

Great. And then last question, just going back to the very strong retail metric you reported for the quarter. I know you also like to think longer term, whether it's calendar year-to-date or your fiscal year-to-date. Can you give us a sense for what retail looks like globally in terms of year-to-date kind of metric?

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

On a fiscal year-to-date basis through April, actually, we're up 35% retail.

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

Globally.

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

Globally.

Operator

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

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

Gentlemen, just wanted to follow-up on a couple of more items. Any geographic color that you can give us on the strong retail? It sounds like, again, it was led by the U.S., but any geographic color there? And then, just any color you can give us on Canada and Europe, the 2 other major areas for your international sales?



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

Sure, Tim. It's Terry. When we look at the United States, Texas continues to grow in terms of the largest marine trade area in the United States, now 2x larger than the second largest state, which is California. This is all SSI data. We've said to you for over a year now, we've had a specific strategy to grow market share in Texas. That continues to work. We're going to continue to execute that. We still have a long runway in Texas, but we are gaining market share. In California, we've had dealer strategy there. We've seen wider return, of course, but we've had a strategy in Northern California to add more points of distribution. That is also a dealer within the retail performance group that -- in fact, that dealer had the most success out of that group than any other dealer, so far, calendar year-to-date. And we're starting to really take root in Northern California. We have additional dealer strategies in the rest of the California that we'll continue to execute from this point going forward. Michigan's the third largest state. We've always been very, very successful there. We have about 50% market share. And throughout the rest of the United States, we're really well represented and we're getting good traction. In terms of international, Tim, why don't you get that.

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

Yes, yes. It's really been a pleasant surprise for us in Canada. Also, we're up strong double digits. Likewise, Australia's been a pleasant surprise for us. So both those international markets have had a bit of a rebound this year. As far as the rest of the world, Europe comes to mind, first. It's flat to down a bit. I think they still have consumer confidence issues there. And South America has issues as well, and they're going to be flat to down a bit as well.

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

I'd like to add a little -- just one little comment, Tim, as it relates to Europe. Our largest dealer outside North America is in England. They definitely saw an impact with Brexit, specifically as it related to the currency with the pound sterling. That seems to be normalizing, and we expect they're going to -- they're probably bottoming out right now.

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

Okay, okay, very helpful, gentlemen. You touched on California. So it sounds like you're getting somewhat the hole that was created by the dealer leaving the market there and that. How do you feel about where you as far as getting that fully sort of adjusted? And the same thing with the -- I think you had one of your key dealers in Michigan was taking over the dealer loss territory in Florida that you had, just maybe an update on those 2 specifics?

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

Sure, Action Watersports, it's -- Jerry Brouwer is our second largest dealer in the world. It had a 3-point distribution in Michigan. It's now taking (inaudible) [abandoned] market for us. We're very excited about that. He's got a great new location, and so we feel very confident -- he's a superior operator that will continue -- will just gain and continue to gain a foothold in Florida and do very well. Northern California, I want to point out, the dealer that's having success there is a long-time dealer of ours. It's just added more points of distribution. You mentioned a hole in Central California, we have filled that. That's a dealer that's off to a very strong start. We're very pleased there, and we'll continue to execute additional dealers and points of distribution throughout the state.

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

Yes, if I might add, one thing reason we've mentioned this is a transition year, as bullish as we are about how Action Watersports are doing in Florida, they're really -- that haven't got their full facility open yet. And so we expect to get major traction there in fiscal '18 and we're holding our ground, fiscal '17 there.



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

Okay, okay. And then just maybe to come back to an earlier question. So you still see, at this point, I guess, your long-term goals of that mid- to high single-digit revenue growth, 19% to 21% EBITDA, and then EPS in that mid- to -- mid-single digits to low double digits, still -- that framework's still intact? And then maybe, again, pushing up on the revenue and the EPS side a little bit in fiscal '18, even though -- again, I know it's early and you haven't given formal guidance yet.

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

Everybody wants to trick us and to give a guidance on fiscal '18. You're not alone there, Tim, but we reiterate our long-term guidance. And as we said, we're very bullish on fiscal '18.

Operator

Our next question comes from the line of Laura Engel from Stonegate Capital.

Laura Shelmire Engel - Stonegate Capital Markets, Inc., Research Division - Senior Research Analyst

One thing I missed -- a lot of them have been asked, but I wonder, just based on history, if we do we see these rise in interest rates, what concern that causes you in the short term as far as setting your top line.

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

Sure. We've got -- we're very lightly levered as we look at our long-term debt. Our net debt is down below 1 turn of adjusted EBITDA, so we're very lightly levered there. And after that, frankly, we've got edge from a dealer perspective. The dealers, we provide floor plan assistance, so there's another exposure area, and there is plenty of availability there. We have a good working relationships with the floor plan companies, so we're not concerned about that. As far as other area where there's interest exposure is on the retail financing side, since only about half of our consumers finance their boats, we're a little less exposed there because we're selling to consumers that have average income of more than \$250,000 a year, more than \$1 million in net worth. They're not as prone to cut and run when the interest rates go up a little bit.

Operator

Our next question comes from the line of Rommel Dionisio from Wunderlich Securities.

Rommel T. Dionisio - Wunderlich Securities Inc., Research Division - SVP

Just a question on the supply chain. I see you guys have done a great job with this over the years. But as we're looking at the strong retail sales or the value-priced boats. Looked like unit volumes could be going up. Could you give us an update in terms of where you are in terms of your throughput capacity, your ability to handle increased volumes, especially of these lower-priced boats? It sounds like unit volumes could be going up. And what capital investments might it require near term to get up to higher-capacity levels?

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

Rommel, this is Terry. We've mentioned this before, but Tim and I are kind of bricks and mortar averse. We have plenty of capacity to handle the demand that we're talking about. Currently, we're at about 65% capacity utilization, and that is a scheme of 1 shift, 4 days a week. That would



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garner us about 4,000 units a year on a wholesale basis. To drive above that, we would just simply add a second shift -- a small second shift to lamination because that drives the cycle time of the overall process. We could do a light second shift and drive output up to about 5,000 units annually. So we've got a long runway before we ever have to do any additional capital investment. We're generally pretty CapEx light. Our cash conversion rate's over 80%. And the guidance we've been giving everybody is about \$3.5 million to \$5 million on an annual basis of capital expenditures, most of that being associated with the tooling related to the 3 new model releases we have every year.

Operator

Our next question comes the line of Mike Swartz from SunTrust.

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

I apologize if I missed this. I think that you said, excluding the rebates and the rebate activity in the first quarter, gross margin was, I guess, up year-over-year. Did you also say what retail demand -- I think you talked about retail demand being up 111%. Maybe what that would have been without the rebates, is there a way of looking at that?

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

Absolutely there's no way of looking at that. Because, keep in mind, we had similar rebates on a per-model basis versus Q1. For instance, Q1 was up 25% at retail, and we had similar rebates on a model-by-model basis. It was the national advertising combined with the dealer training. So all that was sort of the perfect storm that drove that retail volume. But then frankly, there's no way I would forecast retail to be up 111%, but I'm very pleased that the pipeline has shown that improvement.

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

Okay. And what -- I guess, what were the level of rebates, maybe just broadly speaking, that you were pushing through in the third quarter?

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

Yes, we're looking at, on a per-model basis, kind of 4.5% to 6%.

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

Average transaction price.

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

Correct. We don't have a model (inaudible), which is similar to first quarter. So they were helpful and meaningful, but they were not huge. Again, I think we have an update that show the national advertised pricing, in conjunction with the retail performance training with those top dealers, those were the 2 variables that didn't exist in Q1. And as I mentioned earlier on the call to someone -- I don't remember who I was talking to, but we show that the number of leads were up and the conversion rate was up over 20% for those dealers. So we really feel like that was kind of the secret sauce to the success.



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

Okay, and then just final question for me. I think in prior calls, you've alluded to some curtailment issues some of your dealers have had. Could you maybe update us on what you're seeing? Has that improved any as we've gotten to the spring?

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

Yes, it's improved. I think that -- keep in mind that Wells Fargo has a curtailment moratorium during winter months, and so it's really a seasonal issue. But because of the improvement in the pipeline, we think that's going to have -- very much have a mitigating effect on that issue.

Operator

At this time, I'm not showing any further questions. I would like to turn the call back over to Terry McNew, President and Chief Executive Officer.

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

Thank you, operator.

Once again, thank you to everyone for joining us. We believe that our success has positioned us well for fiscal 2017 and beyond.

We look forward to updating you on our progress and fourth quarter results in September. Thanks again.

Operator

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

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