



BRUNSWICK CORPORATION

2006 Conference Call
July 12, 2006

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Presenter: Kathryn J. Chieger, Vice President, Corporate and Investor Relations

Good morning, and thank you for joining us. Today, Dusty McCoy, Brunswick's Chairman and CEO, will be talking about our earnings expectations for the second quarter and the rest of the year, as well as the status of the proposed sale of Brunswick New Technologies and our share repurchase program. Also joining us on the call is Pete Leemputte, our CFO.

Before we begin our remarks, let me remind everyone that during this call, our comments will include certain forward-looking statements about our future results. Keep in mind that our actual results could differ materially from expectations as of today. For the details on the factors to consider, take a look at our 10-K for 2005, our 10-Q for the March quarter and our press release issued this morning. All of these documents are available upon request or by going to our Web site at brunswick.com.

We appreciate your taking time to participate in this call, especially as we are in the midst of the busy earnings reporting season. So, we will limit our call to 45 minutes.

Now I'd like to turn the call over to Dusty.



Presenter: Dusty McCoy, Chairman and Chief Executive Officer

Thank you for joining us this morning. Today, we are going to cover five areas relating to our business:

- Our preliminary estimates of second quarter results; and
- Our outlook for the remainder of the year. We will also share with you our view of what is happening in the marketplace and how it is impacting our business;
- Brunswick New Technologies' results, which are now reported as discontinued operations, and update our progress toward the disposition of BNT;
- The status of our share repurchase program, and our plans for the future; and,
- Our thinking about our portfolio.

Q2 Financial Results

- Our final second quarter results will be announced on Thursday, July 27. But let me highlight a couple of the key items, based on a preliminary view of the results.
- We expect second quarter sales from continuing operations to come in around \$1.55 billion, up about 1 percent versus last year. Excluding acquisitions, organic sales actually fell by about 4 percent.
- EPS for the quarter is expected to fall in the range of \$0.93 to \$0.94 per diluted share (excluding about \$.06 per share in tax benefits we will also report in the second quarter). These results are right in the middle of the \$0.90 to \$0.97 per share guidance we provided last quarter. This compares with the \$1.12 we posted from continuing operations in the second quarter of 2005.

Now let's move to our full-year guidance.

- As we enter the second half of the year, the current marine retail season will draw to a close, and wholesale shipments – and thus our financial results – will be driven by the collective sentiment of our dealers and our third-party boat customers concerning retail demand for the 2007 model year, which began on July 1, as well as the health of our pipeline inventories. I'll provide some details on our view of the marketplace in a minute, but the bottom line is that during the second quarter we saw retail demand decline by nearly double digits. As a result, we have engine and boat pipelines that are now heavier than we believe are healthy given where we are in the boat-selling season. We also see no reason to anticipate any meaningful easing of the increase in raw material and component costs we are incurring across our business.
- As a result, we are now projecting that our 2006 earnings from continuing operations will fall in the range of \$2.40 to \$2.55 per share, excluding special tax items either already realized or expected for the year.
- That compares with the \$3.13 per share we reported in 2005 from continuing operations, excluding special tax benefits and the gain on the sale of MarineMax stock.



Let's spend a minute walking through our view of what the drivers are for the current marine market conditions and our performance for the remainder of the year.

- When we last spoke, we had indicated that our expectations for the marine market in 2006 were for flat to low single-digit declines in unit volumes at retail. As we have entered the key months of the season, the market has been down considerably ... approaching double-digit declines in each of the last three months. So, we are seeing much greater weakness than we had expected earlier.
- The retail drop-off has been most pronounced in the aluminum and fiberglass runabout segments. Any bright spots we did see were due more to promotional efforts to reduce inventories, rather than from underlying retail demand, and, therefore, not sustainable in our view. Sport yacht and yacht sales at retail held up comparatively well with 2005.
- The weakness has been fairly broad-based across the U.S., with the greatest weakness in the Northeast and Upper Midwest. Although generalizations are dangerous, our view is that the Northeast weakness was deepened by the horrible weather those folks have endured, and the Upper Midwest continues to be plagued by the uncertainty surrounding the auto industry.
- The real issue presented by the lower retail demand throughout the second quarter, which represents 40 to 45 percent of our annual unit sales, is the resulting increase in marine pipelines. As a result, we will be taking action to ensure our pipelines return to appropriate levels. Pipeline management is much like losing weight, eat less, exercise more, or both. Pipeline management requires producing less, selling more at retail, or both. As we enter the off-season, we can't rely solely on retail demand to rebalance the pipeline, so further production cuts are planned in the second half of 2006.
- So, at the end of the model year on June 30, when pipelines are typically at their seasonal low, we're estimating that boat pipeline inventories will be at 25 weeks of supply, up from 23 weeks a year ago. For engines, we are at 22 weeks of supply compared with 20 weeks a year ago.
- While the overall figure for boats – on average – is reasonable, we saw an increase of 5 weeks for our fiberglass brands, which was partially offset by a 2-week decline in aluminum boats compared with the end of the second quarter a year ago.
- Therefore, our second half results will reflect an unfavorable mix factor because profitability for fiberglass products exceeds that of aluminum.
- Furthermore, without disclosing too much competitive data, within certain high-volume and high-margin sterndrive fiberglass segments, our pipelines have increased even more significantly. Correcting the fiberglass boat and sterndrive engine pipelines over the 2007 model year (July 1 through June 30 next year) will have a disproportionate impact on margins.



- You may recall that we started to see some weakness in the aluminum boat market last year, and we brought down production of aluminum boats and outboard engines as a result to help balance dealer pipelines. That's obviously paid off with relatively healthy aluminum boat and outboard inventories, even in a weakening market.
- Looking forward, we will bring production down for our fiberglass brands and sterndrive engines beyond the levels we anticipated last quarter, to achieve the same healthy level of inventories. Lower wholesale shipments and fixed cost absorption from lower production will be adversely impacting our financials in the second half of the year.
- The full answer to the question of what's driving the weakness in the marine market will continue to unfold with time. And from the recent spate of company-specific announcements and the generally weak numbers concerning overall consumer retail demand across the U.S. from several sectors, the marine industry is not alone in experiencing weakness. Having said this, our businesses are unique, as distinguished from many other consumer retail businesses, in that while desired by many consumers, our products aren't absolute necessities for anyone. As a result, the decision to acquire our products is both a financial and emotional decision. Buyers of our products must not only be financially able to complete the purchase, but they must also feel comfortable in making the purchase, and any discomfort, whether real or perceived, concerning one's future financial position (including employment, returns on investments, disposable income, savings rate and so on) delays the purchase decision. Quite simply, with costs increasing for most items consumers need, increasing interest rates, world events, and employment concerns in some sectors, our customers are delaying their purchase decisions.
- While we wish the economy and retail demand were different, the situation gives us a chance to reflect on the strategy we have been following for the past five years. Our strategy has been to expand and position our portfolio and operate our company to relieve the severity of EPS swings as we move through the cycles inherent in our marine business.
- Over the past five years, we have filled in the "white spaces" in our boat product line, built a nationwide boat parts and accessories sourcing and distribution business, expanded sales in international markets, become a more global manufacturer, and continued to invest in our non-marine businesses. I'll talk more about the importance of the contributions from our non-marine businesses to our overall financial performance in a minute. But, we believe the diversification of our product mix and business portfolio is a key factor in mitigating the volatility of our earnings. Our estimated results for 2006 clearly demonstrate that our strategy is working.



The Divestiture of BNT

- On the topic of BNT, results for those key business units up for sale are now classified as discontinued operations.
- We will report a loss of about \$0.12 per share in the second quarter for BNT.
- A significant contributor to the loss is an effort to reduce our own inventories, as well as those held by our distributors, in advance of new portable car navigation product launches over the remainder of the year. Competition remains fierce, but we continue to hold an important position in the European marketplace.
- Part of our effort here is to help focus the business to better deliver specific products on schedule to the marketplace. We have found that BNT has been stretched across a multitude of initiatives in its product development and supply chain organizations, and product launches have suffered on occasion as a result. We also are cutting some of the overhead in the business to ensure profitability moving forward. Although we will likely see some costs from these efforts come through in the third quarter, we expect a return to significant profitability in the fourth quarter.
- The sales effort for BNT, run by Merrill Lynch, our financial advisor, remains on track.
- The net book value for the discontinued operations was around \$134 million at the end of June.

Share Repurchase and Cash

- During the second quarter, our share repurchase program continued at a very healthy pace. We bought a total of 1.5 million shares for about \$56 million.
- Over the last 12 months we've invested approximately \$193 million to purchase about 5.1 million shares, or over 5 percent of our outstanding shares at the time the program began.
- As of the end of the quarter, we had about \$444 million remaining under the \$500 million authorization approved by our Board back in April.
- As we said in our last call, our authorization is meant to cover repurchases over a several-year period, not an upfront, one-time buy.
- We still intend to use the proceeds from the sale of BNT toward the stock buyback program, so that piece will be a bit more "front-end" loaded once our visibility of cash proceeds from a deal improves. For obvious reasons, we will not be discussing expected proceeds. But for those of you attempting to value a transaction, keep in mind the recent financial performance of these operations.
- So, you will see us continuing to buy in this market, and we will be as aggressive as our cash position and prudent financial planning will allow.



Now let's spend a minute speaking about our portfolio of businesses and in particular, fitness and bowling and billiards

- Our fitness and bowling and billiards operations continue to perform well despite the current economic uncertainty affecting our marine businesses. Operating performance for these two segments, absent some one-time factors like gains on the sale of bowling centers last year, is expected to remain steady in 2006.
- Let me assure you that we take our responsibility to create shareholder value for the long term very seriously, and we have looked – and will continue to look – at our portfolio of businesses to unlock value.
- We take a disciplined approach here, looking at the “strategic headroom” in each business, our own opportunities to grow profitability, and how others might value the business. The decision made by our Board to sell BNT is a sound example that we will pursue divestitures, if they make sense.
- But compared with BNT, our fitness and bowling and billiards businesses have the premier brands and hold market-leading shares in their industries. They are businesses we know how to manage, and we believe we have identified additional opportunities to improve performance over the long term. The question, and it always comes down to a matter of judgment, is whether or not we could realize more value for our shareholders by keeping these operations in the Brunswick portfolio, or divesting them. At this time, and after a thorough review, our conclusion is that they are a valuable part of the family and should remain an important component of our business portfolio.
- In the case of our non-marine businesses, the divestiture rationale we often hear is that these businesses could trade at a higher multiple if separated from Brunswick. “Why penalize these two businesses with a cyclical marine multiple?” As a purely mathematical calculation, that could be true at this point in the marine cycle. But if history is a guide, multiples expand at some point in a marine downturn in anticipation of the eventual upswing. So on a longer-term basis, we don't believe that logic will hold.
- Moreover, as I mentioned earlier, the contribution from these businesses, particularly in a marine downturn is extremely important. In 2005, a relatively strong year for the marine industry, Fitness and Bowling & Billiards contributed about 20 percent to consolidated operating earnings. But history tells us that these businesses help reduce our earnings volatility in a cyclical downturn, accounting for as much as a third of our overall profit base in the period from 2001 through 2003. So Brunswick without Fitness and Bowling & Billiards would see even greater earnings volatility. While we cannot anticipate the impact of higher volatility on a stand-alone marine business with any certainty, a theoretical approach would warn that higher volatility should lead to multiple compression. So we are cautious in looking at potential multiple changes when making portfolio decisions.



- As I said earlier, when we look at our Fitness and Bowling businesses, both have a leading market position in their respective industries, have strong independent management teams, are operating quite well, and have strategic headroom that can allow for future value creation.
- For now, our focus is on completing the divestiture of BNT and executing against the strategic initiatives we have underway in all our business units.

Closing Remarks

- In closing, we cannot control the timing of marine downturns, but we are responsible for managing through them. We do that with the utmost confidence.
- More importantly, however, is our commitment to continue changing our business and our ability to produce respectable, or even great, earnings in all economic conditions. We are well on our way. In 2006 our earnings will be more than two and a half times greater than the last significant downturn, which occurred in 2001.
- We are a different company today than then. We have products and brands across the entire recreational marine segment; our parts and accessories businesses, which are less impacted by downturns than other parts of our businesses, have almost tripled in size since 2001; our sales of marine product outside the United States are now 25 percent of our total sales; we now manufacture significant numbers of engines and boats outside the United States in low-cost manufacturing countries; we now source raw materials and components from the global marketplace; we now have a significant business supplying floor plan financing to our dealers and extended warranties to our consumers; the quality of our product improves every day due to focused quality efforts; the strength of our dealer network is improving; we have a remarkable stream of new product coming to the marketplace in the near term; our pipelines are weeks lower now than in the comparable period of 2001; and we have a clear and executable strategy. As much as we have changed since the last downturn, the changes we have implemented are small compared to the changes coming.
- And, most importantly, our 28,000 employees are leading the change. Their achievements are remarkable, and they are taking our company and this industry forward.