

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MCFT - Q3 2016 MCBC Holdings Inc Earnings Call

EVENT DATE/TIME: MAY 05, 2016 / 9:00PM GMT



CORPORATE PARTICIPANTS

Tim Oxley *MCBC Holdings, Inc. - CFO*

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

CONFERENCE CALL PARTICIPANTS

Jimmy Baker *B. Riley & Co. - Analyst*

Craig Kennison *Robert W. Baird and Co. - Analyst*

Marc Torrente *Wells Fargo Securities - Analyst*

Mike Swartz *SunTrust - Analyst*

Rommel Dionisio *Wunderlich Security - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the MasterCraft Q3 2016 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct the question-and-answer session and instructions will follow at that time. (Operator Instruction) As a reminder, this conference is being recorded.

I would now like to introduce your host for today's conference, Mr. Tim Oxley, MasterCraft's Chief Financial Officer. You may begin.

Tim Oxley - MCBC Holdings, Inc. - CFO

Thank you, operator, and welcome, everyone. Today's call is being webcast live and also will be archived in our Web site for future use. Joining me on today's call is Terry McNew, MasterCraft's President and Chief Executive Officer. Our agenda includes the strategic overview by Terry followed by my analysis of the financials. Then Terry will outline our strategies for growth and expectations for fiscal 2016 prior to 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 5, 2016. The company assumes no obligation to update any statements including forward-looking statements. Statements that are not historical facts or forward-looking statements are 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 non-recurring items. These non-GAAP measures, we also provide the most directly comparable GAAP measure. Our fiscal 2016 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 would like to remind listeners that there is a slide deck summarizing our financial results on the Investor section of our Web site.

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

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

Thanks, Tim. I'd like to thank everyone for joining us today. As you saw from today's press release, we continue to deliver strong top and bottom line increases in unit volume growth. These gains are driven by continued demand for our performance sport boats across all models; in particular, we saw strength in our X23, X26, and NXT22 orders.



For the quarter, MasterCraft-only net sales, which excluded the terminated Hydra-Sports manufacturing contract, increased \$5.9 million or 11.6% versus the prior year. The gain was primarily due to a rise in MasterCraft unit volume. Additionally, our relentless focus on operational excellence and continuous improvement yielded notable gains and gross margins and adjusted EBITDA.

Looking at the broader picture, demand from MasterCraft boats domestically remains solid and we expect that to continue for the remainder of our fiscal year. Like most marine manufacturers, we saw international headwinds particularly in Canada. And while these partially offset U.S. results, we continue to deliver domestic sales increases. Moreover, demand for our boats remains solid, and we expect to drive sustainable and profitable market share gains.

Positive feedback on the new X26 continues to pour in from both dealers and consumers alike. Since its release, MasterCraft has sold 160% more X26 boats than the prior year model it replaced. Again, all X26 production slots are fully allocated for the remainder of the model year.

We will continue to build momentum from our recent product launches by continuing the cadence of three new product introductions manually. We firmly believe that our 2016 product lineup is the deepest in the company's history. The consumers will respond positively. The bottom line is that we're well positioned for the future and looking forward to achieving further success as fiscal 2016 comes to a close.

On the operation side of our business, we continue to focus on driving sustainable margin improvement through the company's robust value added/value engineering program and commitment to operational excellence. A key factor has been our successful employee empowerment program, an ongoing company-wide initiative that encourages factory line workers to suggest enhancements to the production process. More than 13,000 employee-generated improvements were implemented over the course of the last fiscal year alone, and this year, the company's on pace for another outstanding of employee suggestions.

In addition to being named a 2015 IndustryWeek Best Plant in North America recipient, the only boat manufacturer to receive that honor, we continue to set new benchmarks for operational excellence and establish best practices in manufacturing. This commitment can be seen in our overall boat quality and in our strong margin improvement, validating the operational excellence strategy that is embraced throughout the (technical difficulty).

During the quarter, our board of directors authorized the share repurchase program using a portion of our growing cash balance. The board indicated that it believes that the strength of our free cash flow, growth prospects, and long-term strategy are not reflected in our current stock price. Under the program, up to \$15 million of our common stock may be repurchased from time to time in open market purchases, accelerated share repurchase transactions, or privately negotiated transactions, in each case, subject to market conditions and other factors. The stock repurchase program is authorized till the end of fiscal 2017. During the third quarter, approximately 366,000 shares were repurchased for a total cost of \$4.2 million.

I will conclude my comment by reiterating that our commitments to operational excellence and innovation, teamed with our strong, diverse product portfolio, positioned MasterCraft well for continued growth. Now, I'd like to turn the call back over to Tim to go over our financials.

Tim Oxley - MCBC Holdings, Inc. - CFO

Thanks, Terry. From the top line perspective, net sales for the three months ended March 27, 2016, were \$57 million, up \$2.7 million or 5.1% compared to \$54.3 million for the year earlier three months. As Terry mentioned, MasterCraft-only net sales for the quarter, excluding Hydra-Sports, increased \$5.9 million or 11.6% versus the prior year. The net sales gain was primarily due to a rise in MasterCraft unit volume of 49 units or 7.5%. Net sales for MasterCraft unit grew by 3.8% chiefly stemming from greater adoption of higher-end option packages, demand for new models, in particular, the X23, X26 and NXT22, as well as price increases.

Gross profit for the fiscal third quarter increased \$2.9 million or 22.9% to \$15.8 million compared to \$12.9 million a year earlier. Gross margin rose to 27.8% for the fiscal 2016 third quarter from 23.7% from the prior year period. The 410 basis point increase primarily stemmed from cost reductions delivered by a culture focused on eliminating waster, sales of higher end option packages, lower warranty cost, and new innovative features. In addition, we replaced or discontinued Hydra-Sports volume with higher-margin MasterCraft volume.

On the expense front, selling and marketing expense was relatively flat at \$2.2 million for the three-month period. General and administrative expense totaled \$6.1 million versus \$9.5 million for the fiscal 2015 three-month period. This decrease resulted mainly from the elimination of transaction cost occurred in the year earlier quarter related to the company's recapitalization activities. This was partially offset by increase in stock-based compensation cost and higher cost associated with being a public company.

Turning to the bottom line, we're pleased to report net income for the fiscal 2016 third quarter of \$4.9 million, up from \$0.1 million from the year earlier quarter. Fiscal 2016 third quarter adjusted EBITDA was \$10.1 million, up 35.3% from \$7.5 million for the year earlier period.

On adjusted basis, fiscal 2016 third quarter adjusted net income increased 84.8% to \$5.8 million or \$0.31 a share on a pro forma, fully diluted weighted average share count of 18.6 million shares. This compares with \$3.2 million or \$0.17 a share a year earlier. See the non-GAAP measure section of our press release for reconciliation of adjusted EBITDA, adjusted net income to net income.

We ended the quarter with \$21.6 million cash, up significantly from \$15.6 million last quarter and \$1.2 million at fiscal 2015 year end. Keep in mind, this cash balance is after \$4.2 million used for share repurchases Terry referenced earlier.

In the interest of time, I won't discuss the details of our fiscal nine months results this afternoon, but I will echo Terry's comments and reiterate that we are very pleased with our performance and look forward to the rest of the year. I'll be happy to answer any year-to-date questions during the Q&A.

I will now turn the call back over to Terry for strategy [analysis].

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

Thanks, Tim. To date, MasterCraft has delivered a solid fiscal 2016, and we expect to continue to draw a strong organic growth in our fourth quarter. Across the organization, we remain committed to our five-prong growth strategy -- developing new and innovative products in core markets, further penetrating the entry level segment of the performance sport boat category, capturing share from adjacent boat categories, strengthening our dealer network, and driving margin expansion through continuous operational excellence.

For the fiscal year ending June 30, 2016, we reiterate our expectations for MasterCraft sales and unit volume growth compared to fiscal 2015 sales and unit volume, excluding Hydra-Sports, in a high single to low double digit range. Gross margin and adjusted EBITDA margin are both expected to increase at least 200 basis points from fiscal year 2015 with contributions from higher net sales and continued operating efficiency gains offsetting the absorption of public company cost following the company's July 2015 IPO. Adjusted net income is expected to grow faster than adjusted EBITDA while GAAP net income was impacted primarily in the first half of the year by charges related to changes in the fair value of the company's common stock warrants as well as stock compensation expense related primarily to restricted stock and options granted prior to and in connection with the IPO.

To conclude, we're encouraged by our third quarter performance and committed to growing the company going forward. We thank you for your interest and confidence in MasterCraft. And our team is working hard everyday to justify your confidence and enhance value for our shareholders.

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) And our first question from the line of Jimmy Baker with B. Riley and Company. Your line is now open.



Jimmy Baker - *B. Riley & Co. - Analyst*

Hi. Good afternoon, Terry. Congratulations on the quarter. First, just hoping you could break down the key drivers of key drivers of gross margin strength that you saw in the quarter. And then, Terry, I suspect you've seen this but yesterday, one of your competitors lowered their gross margin outlook in part due to some unplanned international discounting. Could you just talk about it if that's impacted you or how you're battling in terms of the promotional environment. And then I suppose maybe big picture, just talk about how you're approaching the balancing act of margins versus market share?

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

Yes, I'll take the first part and then -- or the last part, first, and then hand it back over to Tim. We notice and as I mentioned in my comments, prepared comments, there have been headwinds internationally. We've seen that for a while now. We kind of characterize it at the U.S., Canada, the rest of the world. The rest of the world has been battling this now for a couple years. We saw it early on in Canada. And what Tim and I decided to do, we felt like demand was going to be fairly inelastic. So, we work immediately at the beginning of the model year with our Canadian dealers to take their commitments down. As you know, we don't have direct translation risk. We invoice in U.S. dollars, but our risk is in unit volume.

So, in partnership with them, but also our belief that additional discounting beyond our normal level of FX support, would probably not be valuable in return. So, we took the volume down per the commitments with the Canadian dealers and also the rest of world, but primarily with Canada early in the year. So, that's been baked into our guidance in our forecast throughout the year.

Tim Oxley - *MCBC Holdings, Inc. - CFO*

That's correct. In regard to the improvement in our gross profit margin, the buckets include material and we talked about the value-added value engineering, elimination of waste, higher margin options obviously producing higher gross profit margin MasterCrafts. There's another bucket. We actually saw a decline in warrant expense for the quarter. So, we talked earlier about kind of what's driving those buckets, but that's kind of in the high level; what's behind 410-basis-point improvement.

Jimmy Baker - *B. Riley & Co. - Analyst*

Okay. Very helpful. Then just thinking about the June quarter here, any, I guess any color on how retailers is trending for you thus far? And then on the wholesale level, can you just speak to, I guess, your expectations for continued ASP growth? And then going back to the gross margin front, I mean you're up about 390 basis points year-to-date, I know your June quarter can be a little bit weaker from a margin perspective but maybe just help us better frame your expected range there to close the year.

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

Yes. As you know, Jimmy, 45% to 50% of annual retail happened in the last quarter, April 1 to June 30, with much of it taking place in May, late May and June. For the last several years, it's not unusual to see the weather break late. We were just talking to some dealers a few weeks ago just kind of reminiscing about last year well into June. We were all wringing our hands a little bit, kind of wondering if retail was really going to break and it did, and of course we had a very strong year. So, we're starting to the weather break in places. It's still a little early. It's kind of choppy. I think we got a little bit of false start in March with some good weather. Dealer started delivering some early product. April was a little bit quiet.

So, to answer the question specifically, I think it's a little early to tell. What we do know is inventories are good. We've got fresh new product with the proper inventory build to meet the demand. We're priced fairly. Our four-year base boat CAGR is under 3%.



As you know, we won a third of the category in Innovation Awards in the last three years. So, our philosophy is we get paid, and the base boat price covers economics, the labor and material. Where we get paid is innovation, and it's in the unique compelling executable packages that consumers value. And that's where we really generate our margin.

So, we're all -- we're in good position. We don't hear anything negative from the dealer network. And in fact, when we look at inventories, we kind of segregate it around the world, turns in Canada and the rest of the world are actually higher. So, aggregate inventory in those areas is actually less than it was, less this year than it was last year. We're about flat in the U.S. year-over-year in inventory levels. The U.S. demand has been strong enough to compensate for the weakness international.

We do have intentional inventory build of our new NXT 22, our X26, our new NXT Global Edition. And I kind of characterize the X23 as somewhat still new at this time last year. It's only been in the market for five months. It is a high runner for us. We picked some share nicely in the 23 foot category. So, we continued the inventory build this year. X those units, the rest of the inventory of remaining models in our portfolio is actually down year-over-year. So, the higher channel inventories for those newer models appear reasonable given the incremental nature of the new models.

Tim Oxley - *MCBC Holdings, Inc. - CFO*

I would add it certainly what we were planning, and that's where we want to see more inventories in our new models.

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

Correct.

Tim Oxley - *MCBC Holdings, Inc. - CFO*

In regard to the margin expectation for Q4, I would reiterate our guidance we provided previously that -- let's talk about adjusted EBITDA margin. The adjusted EBITDA margin for the year should land between \$18 million and \$18.5 million, which means the Q4 will be less than it was. I think it should be slightly less than was in Q3 or how will that math work out. But that's kind of traditional for us because we have some retail rebates that's tied to the retail activity. And that obviously as Terry alluded to 45% to 50% retail activity occurs in Q4, and so that's the reason we see Q4's margin cut down from the rest of the year looks like.

Jimmy Baker - *B. Riley & Co. - Analyst*

Okay, very helpful. I'll get back in the queue. Thanks, guys.

Operator

And our next comes from the line of Craig Kennison with Baird. Your line is now open

Craig Kennison - *Robert W. Baird and Co. - Analyst*

Good afternoon. Thanks for taking my questions. First question has to do with retail. Could you give us a feel for geographic trends in the United States especially in weather-affected regions where the last year we've had drought conditions?



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

Yes. Good afternoon, Craig. Thanks joining the call. We're saying consistent strength in all of our regions in the U.S. As we've mentioned on the last call, we're very bullish still on Texas and California. As you know, we've said it before, we're below national average market share in both of those states and they represent number one and number three [BTAs] in U.S.; Texas being number one.

We've got water return obviously in Texas last year. It continues to be good, healthy this year. The water's returned especially in Northern California; the snowpack is good. But one other element why we're bullish just beyond weather, we've added, as we mentioned previously, additional point of distribution in the Dallas-Fort Worth Area. And in Northern California, our existing dealer in NorCal went from three points of distribution last year including one as sub-dealer to seven points of distribution; simultaneously restructured its overhead, so it's actually less on a per month basis. So, we have more points of distribution. They are located and they did that strategically working with us as we analyze points of retail sales for the entire category not just MasterCraft. And it's set up experience centers on or near water in [seven points].

So, in addition to that, that dealer went from essentially three to seven, so we're up four points, and we added a dealer in Central California. So, overall in the state, we've added five points of distribution over the year. Add water to that, the right products, right inventory levels, we're very bullish on California.

And we continue our strategy of not saturating a market with dealers, but if we have a dealer that's doing a great job for us now and we can get them to expand geographically, in particular, if they do it in a cost-efficient manner like what we did in Northern California, that's the strategy that we think is going to be effective and perhaps we would employ other parts of the country.

And one point, in addition to that, Craig, our dealer that's always been strong is Coeur d'Alene, Idaho. This model you're taking over the Portland market for us and also Phoenix. So, very well capitalized, great operator, very strong, good cash flow. We're well positioned for model year '17 in that area. And then also our Utah dealer has added a couple points of distribution as well, in Provo and also on Lake Powell.

Jimmy Baker - *B. Riley & Co. - Analyst*

Terrific. That's helpful. And then just shifting to the patent litigation issues, are there any update on your dispute with the competitor?

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

There is, Craig. The initial lawsuit that was filed summer last year, we internally referenced that as the 873 patent in referencing the patent number, now this patent number. That's kind of in the process of just exchanging requests for documentation right now and nothing material to report on. However, during the quarter, we were served with a second lawsuit for Malibu. We call it the 161 patent, again, referencing the patent number. They were assigned by USPTO.

This second infringement lawsuit has really further claimed, significantly more claims than the 873. So, we are just in the initial process of evaluating that and gathering documentation for that separate lawsuit. So beyond that, there's been no other material action.

Tim Oxley - *MCBC Holdings, Inc. - CFO*

Our attorney continues to express confidence that we're going to prevail. So it will cost us to spend a bit more money. We're going to spend probably between a million, \$2.5 million this year. Next year --

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

Fiscal year '16.

Tim Oxley - *MCBC Holdings, Inc. - CFO*

This fiscal year '16, fiscal year '17, probably it got to be between \$2 million and \$2.2 million. I think we would bake in our guidance when we provide that for fiscal year '17. But this additional patent, Malibu has granted for them to file an additional lawsuit. And like I said it doesn't change our opinion that we're going to prevail.

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

The driver behind the cost, Craig, is the second lawsuit, the 161, has significantly more claims. And so it's our responsibility to address each one of those claims. So the mechanics about gathering paperwork, investigating and understanding and responding is just simply responding to more claims.

Craig Kennison - *Robert W. Baird and Co. - Analyst*

Are you in a position yet to give us any highlights of the claim?

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

No, it's a little early right now. The two companies are just exchanging requests for documentation. So we're not in a position to really report much else to tell then. There are probably will be further updates at our next call in September.

Craig Kennison - *Robert W. Baird and Co. - Analyst*

Sounds good. Thank you.

Operator

And our next question comes from the line of Tim Conder with Wells Fargo. Your line is now open.

Marc Torrente - *Wells Fargo Securities - Analyst*

Good afternoon. This is actually Marc Torrente on for Tim. Just a few questions here. Are you seeing any improvement in Canada or internationally given some better currency stabilization as of late? And then could you also give some, I guess, more color on market share trends between the premium entry level segments? And then, what was the mix of NXT during the quarter?

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

Okay, let me start. I'll respond to your first question about Canada. It feels like Canada might be near or at a bottom. We say that because when you look at the exchange rate, which I know you do, they've improved over the last 90 days. And Tim can go into that in a bit more detail.

Tim Oxley - *MCBC Holdings, Inc. - CFO*

About 10% in 90 days.



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

Right. We're almost back to levels of last June. It's split a little bit earlier in the week, a little over a cent but essentially it's improved. And in recent conversations with our Western Canadian dealers, they feel like the sentiment, the consumer confidence is stabilized there. I'm not suggesting there's going to be hockey stick recovery but it feels like people are kind of come into grips. The Eastern Canada has been a bit better during the last year because they are more export related or bigger volume dealers are certainly in Western Canada. So with the slight improvement or recent improvement in oil, we're seeing some stabilization there and the currency as well, of course the election of the new prime minister. All three of those things feel like Canada is getting some improvement.

As far as market share, what we do follow, Marc, is the SSI data. We tend to like to look at -- and think the most accurate view of that is all states reporting. So, the rolling 12 takes out the noise of these quarter by quarter. I know there's been conversations and reports on the first quarter or calendar year-to-date, our third, fiscal year third quarter, to relatively small quarter for retail sales that makes up about 15% of annual sales. So although it's up 22% on an annual basis, that's just a hair over 3%; so interesting but not terribly meaningful.

So we're looking back at December SSI data all states reporting, 50 states, rolling 12 by brand specific. MasterCraft had leading market share of 21.7%. So we're continuing to improve, again, according, along the lines of our strategy and our mantra of sustainable, profitable market share. So that 21.7 on a rolling 12 basis is actually a 1.1% improvement rolling 12. So, we're good there get.

We don't -- Marc, we really don't look at NXT versus the rest of our lineup for this specific reason. The NXT is not a sub-brand. We think of it like a BMW 3 series, if you will. The NXT still has the same material selection that is engine and vinyl, resins and gel coats, the rest of our models in our portfolio have. It enjoys the same warranty terms. It is designed to meet our brand pillars of performance. So it has the same performance as any other MasterCraft. It is performing as we expected. It's a -- we do know its market share improvement that is taking share from value brands within the performance sport boat category, but the thesis of that model is not just that. We felt that it would also pull owners, previous owners from the adjacent categories specifically sterndrive which it has. We thought also with a relatively low levels of used boat inventories that these two models, our NXT20 and 22, and now the Global Edition outboard would be attractive and alternatives for new to boaters that would generally get into boating via a used boat.

But when you look at all the attributes of the NXTs, other terms, they have the newest technology and they have very attractive price. What we're seeing and this is validated by not only our dealers, discussions with dealers, but B. Riley conducted a survey recently of 25% of our North American dealers and found that 33% of NXT buyers are from sterndrive, 43% are new to boating. So, this is exactly what we had targeted and developed when we created the charter for these programs. So, we're very pleased with that.

So it's interesting. I mean it's a MasterCraft, it's every bit of MasterCraft in material selection, in performance, in warranty terms, loaded with new innovation, but it's priced in a way that it competes with adjacent category. It competes with those value brands within our category that have [purer] material selection, not as good warranty terms, for example, and then it seems to be very attractive to people that are wanting to get into boating.

Tim Oxley - *MCBC Holdings, Inc. - CFO*

Terry, I might add in regard to what we call the rest of the world outside North America, we're starting to see a little more activity. I heard a report today, five sales in Australia last week, which is very, very encouraging. And so, anytime we see improvements in our position as it relates to, for foreign currency, we're seeing an improvement in the sales prospects. Sometimes there's a bit of a lag, but again, once again, we're not expecting a hockey stick for the rest the world but we expect some growth.

Marc Torrente - *Wells Fargo Securities - Analyst*

Okay, great, thank you.



Operator

(Operator Instructions) And our next question comes from the line of Mike Swartz with SunTrust. Your line is now open.

Mike Swartz - SunTrust - Analyst

Hey, guys, I know you haven't specifically given an outlook for U.S. retail for calendar '16. But your competitor yesterday said that they were expecting kind of mid to high single digit growth. And I think that caught some folks off guard just with regard to what we've all seen in the first couple of months of this year. So maybe you can give us your take on how you're thinking about the category this year and then relative to your growth expectations, both for the fourth quarter and full fiscal year; and then maybe kind of segueing in the fiscal year '17, maybe how you're think about putting it all together?

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

Sure, sure Mike. During my prepared comments, I made reference to our belief that the fourth quarter and then on a full year 2016 fiscal year, we still believe we will see on a full-year basis high single to low double-digit in revenue unit growth again as a company worldwide. We think it's a little too early to try to give guidance on the calendar year, which would imply the first half of fiscal year '17 because of the retail activity so much of it; up to 50% takes place in the fourth quarter.

We kind of joke about, when we talk to dealers, they can never tell you if they have too much or too little inventory at the beginning of April. They can tell you exactly how much they have come June 30. And because things change so rapidly with the weather in, i.e., retail sales, we think it's just a little premature to give guidance on '17 right now. And I know, Tim, as you build '17's budget, you kind of have some different sensitivities but again it can't get trued up until [retail's] --

Tim Oxley - MCBC Holdings, Inc. - CFO

It might be a helpful point of reference when we looked and did a deeper dive on the SSI data. As of the last quarter, it was all states reporting, we found that while the category was up about 10%, when you remove the MasterCraft effect from the category, the category was up 7% or so?

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

Yes.

Tim Oxley - MCBC Holdings, Inc. - CFO

So we hope that trend is going to continue. Well, I echo your comments, Terry. I'm just reluctant to give guidance on calendar year '16 yet.

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

Yes, for second half especially.

Tim Oxley - MCBC Holdings, Inc. - CFO

Right.



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

Yes.

Mike Swartz - *SunTrust - Analyst*

Okay, that's fair. Second question just on the -- I think, Terry, in your closing remarks prior to Q&A, you had mentioned further penetration of entry-level, maybe you can flush out a little bit what you're referring to there, are you thinking about another model in that fleet? I think in the past you've said that two was enough, but has something changed?

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

No, actually what I was referring to and this kind of dovetails into a little bit about what Marc was talking about. The NXT22 and the NXT Global Edition, this is going to be its first full selling season. So the NXT Global Edition released to our manufacturing process in January. NXT22 really started chipping the dealers around July 1 of last year, so kind of on the dark side of moon, if you will, on retail.

Those models, NXTs in particular, any entry level, I would suggest is more of a sunshine boat. They generally sell. It's an impulse buy. It's warm. People want to -- want to get out of that, so you want to get into boating and out of the -- out of the winter.

So we feel like we got those products or they're there. There are -- there are sufficient inventory. They are on the right locations and we are as Tim mentioned, we're already starting to get calls and see activity on the NXT22 in particular. NXT20 has already started to penetrate it, and this kind of how it dovetails to Marc's comments.

We really don't look at the NXT and say "Well from a price and from a content standpoint, it really effective at -- of competing at the entry level portion of the performance sport boat category." All new boats in general is what we track and what we know is every year new boats really penetrate and help your market share. So the X23 has been a big driver. We're up a couple of hundred units year over year in the 22, 23 foot category.

We expect penetration with the NXT22 and I guess my comments in particular really feel like those shared owners are going to come mostly from those value brands at the entry level portion of the performance sport boat category, but we're also getting volumes from those adjacent categories that don't necessarily show up. They do in volume, but we do not plan on doing any more NXT models beyond the three, primarily the NXT20 and NXT22. The Global Edition, keep in mind, is an outboard primarily focused, during our focus groups a few years ago, for the [Med], a little bit in South America, Australia in particular.

We do not advocate surfing behind, it's an outboard. We don't advocate stern drive or outboard, surfing behind those systems. It's not a big runner. Excuse me. We think maybe 50 to 100 units annually, we'll be very pleased. It's a very low cost product development because it's derivative of the NXT20 outboard or inboard.

Tim Oxley - *MCBC Holdings, Inc. - CFO*

Yes, the only thing I would add, Terry, is one reason we don't track the NXT is that's a separate category is because the gross profit margin falls right in the range with the rest of our models and so therefore it's not dilutive.

I'll remind you guys that this 410 basis point improvement in gross profit margin, that's with NXT volumes and the 25% range --

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

Of wholesale buys. And we mentioned that at the IPO, we've intentionally because three out of the last four model releases have been NXT in particular was not going to be dilutive to our gross margins, it has not been. It's really getting a portion of the -- of the category we never played



in before because we couldn't deliver a MasterCraft, the MasterCraft quality with the margins we wanted before that with this new team the last four years, we are -- we think the most efficient, effective product development in the boating industry.

A couple of things, as you looked at gross margins to Tim's point, our market share is growing so we don't bifurcate it by entry or core because the NXT has all the attributes. It is a MasterCraft. It enjoys gross margins with the rest of our product and excuse me guys, it is -- it is not dilutive and it's as you can see 25% of our wholesale volume, so it's contributing in a very meaningful way, the same as all of our MasterCraft models do.

Mike Swartz - SunTrust - Analyst

Thanks. And then just a segue, maybe the last question on gross margin, I mean you're giving guidance of up -- over 200 basis points. This year, your -- three quarters you're up, right around 400 basis points, so why not take that expectation up or am I missing something in how you're defining the growth year over year, you're taking Hydra out of that.

Tim Oxley - MCBC Holdings, Inc. - CFO

Well as I mentioned earlier, the fourth quarter of our fiscal year is traditionally a bit lower in margin and consequently just EBITDA margin due to retail rebates tie to the retail activity that naturally occurs in Q4.

Mike Swartz - SunTrust - Analyst

Right. But on a -- on a year over year basis that wouldn't have any impact, right, because it's seasonal?

Tim Oxley - MCBC Holdings, Inc. - CFO

That's correct. Yes on the -- on the -- if we look at our entire fiscal year, as I mentioned, we're going to be between \$18 million and \$18.5 million adjusted EBITDA margin. And yes, I'm trying to make sure I'm answering your question, Mike.

Mike Swartz - SunTrust - Analyst

Yes, no, [that sounds fine]. I'm just trying to figure out just if you're -- how much of a [de-sell] you're implying in the fourth quarter understanding it's still going to grow year over year.

Tim Oxley - MCBC Holdings, Inc. - CFO

That's correct.

Mike Swartz - SunTrust - Analyst

Okay. Okay. That's fair. Thank you.

Tim Oxley - MCBC Holdings, Inc. - CFO

It's not going to be that significant, Mike.



Operator

And our next question comes from the line of Rommel Dionisio with Wunderlich Security. Your line is now open.

Rommel Dionisio - Wunderlich Security - Analyst

Yes, thank you. Good afternoon. As Mike [clearly] pointed out, you guys have obviously demonstrated a significant gross margin expansion and this is 400 basis points these last few quarters, a lot of operational efficiencies there going back several quarters. You had a management departure in the last couple of months, I just wondered if you could just sort of publicly address the potential concern for investors that might in some way derail some of the operational initiatives that you guys have put in place. Obviously, you're continuing to grow very quickly, implementing additional initiatives with regards to productivity and product quality, so I wonder if you guys could just address that -- address that issue, please.

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

Sure. Sure, Rommel. Thanks for joining us this afternoon.

One of the things that we do is we have a very deep bench. Succession planning for nearly 30 years keeps me up at night, so we intentionally have a form of succession planning process in MasterCraft.

Larry Janosek was part of that. He was a named successor over two years ago for Shane. We are very thrilled to have Shane and fortunate in his almost five years at MasterCraft, but what few people realize is that Larry is actually the driver behind our winning the IndustryWeek Best Plants North America Award.

Larry was our director of manufacturing. He has 14 years in automotive, 18 years in leadership. He's been with MasterCraft a little over four years. He really led the relationships and development of our Quality Supplier Program. He is over sourcing and manufacturing. A very qualified individual and he leads -- has been leading the lean development within MasterCraft for the last two plus years, so a very smooth transition.

Shane left on really good terms. He just had a good opportunity for him. He just turned 40. He and his wife just had their third child a few weeks ago, a beautiful baby girl and he left Visteon in the automotive world as he was Director of Continuous Improvement. Traveled a lot. He has two older children, a 10- and a 12-year old and he came here for several reasons, but one was to kind of get off the treadmill. So as we turned as a public company and he and [Kelly] were expecting their third child, a bit of a surprise, but a welcome addition. He just had a great opportunity to join Hydra-Sports Custom. They are located here in the same industrial park. He has a good relationship with Elias De La Torre III, the owner of Hydra-Sports as Shane led the -- he was liaison between the two companies, so it's good for him. But from a succession standpoint, any risk to continuous improvement, I would suggest we're equal to or actually better.

In addition to that, we replaced Larry behind him as he was promoted to Vice President of Operations for MasterCraft. Todd Stooksbury, Todd is a plant manager -- a former plant manager at Sea Ray. He reported in to me when I was Executive Vice President of the Brunswick Recreational Boat Group. He is also a Lean Six Sigma Black Belt like I am. He and I actually went through the University of Tennessee for a couple of years. To get that certification, he has done every -- led every functional aspect and department in the boat building arena. He's been in the industry for over 15 years, so a very nice add and a continuation of building a deep bench.

Tim Oxley - MCBC Holdings, Inc. - CFO

I would add to that Terry is one reason we focus on processes and in particular the ISO certification forces you to document those processes, so again it makes it much less personal [pronoun] dependent. Obviously, we enjoyed Shane's leadership and look forward to Larry's leadership as well, but having these processes in place and focus on that, reduces your risks when someone leaves.

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

Yes, and I'll add one little tiny bit to that Rommel. Last week, we had our Semi-annual Dealer Advisory Council Meeting here in Knoxville. We had about nine dealers in attendance. Every one of them separately came to me to say they love Larry's bedside manner and relationship. So from a dealer standpoint, it's been well received also.

Rommel Dionisio - *Wunderlich Security - Analyst*

Great. Thanks very much. I really appreciate the color. Thanks.

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

Thank you.

Operator

And I'm showing no further questions at this time. I would now like to turn the call back over to Mr. Terry McNew, Chief Executive Officer, for closing remarks.

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

Thank you, operator. We once again thank you for joining us. We delivered another quarter of strong performance and we believe that we are positioned well for the future. 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.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.