

BRUNSWICK CORP  
Form 10-Q  
May 01, 2019  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q  
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the quarterly period ended March 30, 2019

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-01043

\_\_\_\_\_  
Brunswick Corporation

\_\_\_\_\_  
(Exact name of registrant as specified in its charter)

Delaware

36-0848180

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

26125 N. Riverwoods Blvd., Suite 500, Mettawa, Illinois 60045-3420

\_\_\_\_\_  
(Address of principal executive offices, including zip code)

(847) 735-4700

\_\_\_\_\_  
(Registrant's telephone number, including area code)

N/A

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common stock, par value \$0.75 per share	BC	
6.500% Senior Notes due 2048	BC-A	New York Stock Exchange
6.625% Senior Notes due 2049	BC-B	
6.375% Senior Notes due 2049	BC-C	

The number of shares of Common Stock (\$0.75 par value) of the registrant outstanding as of April 29, 2019 was 87,076,644.

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BRUNSWICK CORPORATION  
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March 30, 2019

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## PART I - FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

## BRUNSWICK CORPORATION

Condensed Consolidated Statements of Comprehensive Income  
(unaudited)

(in millions, except per share data)	Three Months Ended	
	March 30, 2019	March 31, 2018
Net sales	\$1,275.9	\$1,211.4
Cost of sales	938.4	901.4
Selling, general and administrative expense	189.6	163.5
Research and development expense	35.0	37.6
Restructuring, exit, integration and impairment charges	141.5	3.8
Operating earnings (loss)	(28.6	) 105.1
Equity earnings	1.9	1.0
Other expense, net	(1.6	) (0.0 )
Earnings (loss) before interest and income taxes	(28.3	) 106.1
Interest expense	(19.8	) (6.7 )
Interest income	0.4	0.7
Earnings (loss) before income taxes	(47.7	) 100.1
Income tax provision (benefit)	(11.4	) 27.2
Net earnings (loss)	\$(36.3	) \$72.9
Earnings (loss) per common share:		
Basic	\$(0.42	) \$0.83
Diluted	\$(0.42	) \$0.82
Weighted average shares used for computation of:		
Basic earnings (loss) per common share	87.5	88.1
Diluted earnings (loss) per common share	87.5	88.8
Comprehensive income (loss)	\$(35.3	) \$83.9

The Notes to Condensed Consolidated Financial Statements are an integral part of these consolidated statements.

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Condensed Consolidated Balance Sheets  
(unaudited)

(in millions)	March 30, 2019	December 31, 2018	March 31, 2018
Assets			
Current assets			
Cash and cash equivalents, at cost, which approximates fair value	\$ 161.5	\$ 294.4	\$ 284.0
Restricted cash	9.1	9.0	9.4
Short-term investments in marketable securities	0.8	0.8	0.8
Total cash and short-term investments in marketable securities	171.4	304.2	294.2
Accounts and notes receivable, less allowances of \$10.0, \$11.3 and \$9.4	683.7	550.7	623.6
Inventories			
Finished goods	650.2	614.2	562.0
Work-in-process	112.1	106.1	133.1
Raw materials	228.8	223.4	208.0
Net inventories	991.1	943.7	903.1
Prepaid expenses and other	91.6	81.6	41.8
Current assets	1,937.8	1,880.2	1,862.7
Property			
Land	24.0	24.0	25.2
Buildings and improvements	477.6	469.7	420.1
Equipment	1,145.5	1,128.9	1,038.6
Total land, buildings and improvements and equipment	1,647.1	1,622.6	1,483.9
Accumulated depreciation	(967.7 )	(952.4 )	(910.6 )
Net land, buildings and improvements and equipment	679.4	670.2	573.3
Unamortized product tooling costs	131.8	135.1	149.4
Net property	811.2	805.3	722.7
Other assets			
Goodwill	634.1	767.1	428.3
Other intangibles, net	636.7	646.4	148.0
Operating lease assets	99.2	—	—
Deferred income tax asset	109.4	96.1	171.0
Equity investments	38.5	34.6	29.5
Other long-term assets	62.9	56.0	42.4
Other assets	1,580.8	1,600.2	819.2
Total assets	\$4,329.8	\$ 4,285.7	\$3,404.6

The Notes to Condensed Consolidated Financial Statements are an integral part of these consolidated statements.

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BRUNSWICK CORPORATION  
Condensed Consolidated Balance Sheets  
(unaudited)

(in millions)	March 30, 2019	December 31, 2018	March 31, 2018
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt and current maturities of long-term debt	\$40.9	\$ 41.3	\$5.1
Accounts payable	473.3	527.8	431.0
Accrued expenses	691.5	687.4	640.3
Current liabilities	1,205.7	1,256.5	1,076.4
Long-term liabilities			
Debt	1,245.6	1,179.5	428.9
Operating lease liabilities	83.8	—	—
Postretirement benefits	70.0	71.6	218.9
Other	197.8	195.5	199.6
Long-term liabilities	1,597.2	1,446.6	847.4
Shareholders' equity			
Common stock; authorized: 200,000,000 shares, \$0.75 par value; issued: 102,538,000 shares; outstanding: 87,063,000, 86,757,000 and 87,277,000 shares	76.9	76.9	76.9
Additional paid-in capital	359.9	371.1	357.4
Retained earnings	2,081.1	2,135.7	1,994.4
Treasury stock, at cost: 15,475,000, 15,781,000 and 15,261,000 shares	(628.9 )	(638.0 )	(599.1 )
Accumulated other comprehensive loss	(362.1 )	(363.1 )	(348.8 )
Shareholders' equity	1,526.9	1,582.6	1,480.8
Total liabilities and shareholders' equity	\$4,329.8	\$ 4,285.7	\$3,404.6

The Notes to Condensed Consolidated Financial Statements are an integral part of these consolidated statements.

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## BRUNSWICK CORPORATION

Condensed Consolidated Statements of Cash Flows  
(unaudited)

(in millions)	Three Months Ended	
	March 30, 2019	March 31, 2018
Cash flows from operating activities		
Net earnings (loss)	\$(36.3 )	\$ 72.9
Depreciation and amortization	39.8	27.8
Stock compensation expense	3.3	1.9
Pension expense, net of funding	0.3	0.9
Asset impairment charges	138.7	—
Deferred income taxes	(3.4 )	20.0
Changes in certain current assets and current liabilities	(211.2 )	(224.2 )
Long-term extended warranty contracts and other deferred revenue	1.2	2.6
Fitness business separation costs	7.8	—
Cash paid for Fitness business separation costs	(1.5 )	—
Income taxes	(16.2 )	32.5
Other, net	(1.9 )	(1.5 )
Net cash used for operating activities	(79.4 )	(67.1 )
Cash flows from investing activities		
Capital expenditures	(88.1 )	(37.1 )
Investments	(3.8 )	(4.8 )
Proceeds from the sale of property, plant and equipment	—	0.1
Other, net	—	(0.2 )
Net cash used for investing activities	(91.9 )	(42.0 )
Cash flows from financing activities		
Proceeds from issuances of short-term debt	215.0	—
Payments of short-term debt	(215.0 )	—
Net proceeds from issuances of long-term debt	222.0	—
Payments of long-term debt including current maturities	(159.0 )	(0.1 )
Common stock repurchases	—	(35.0 )
Cash dividends paid	(18.3 )	(16.6 )
Proceeds from share-based compensation activity	0.5	1.0
Tax withholding associated with shares issued for share-based compensation	(6.8 )	(9.3 )
Other, net	(0.2 )	—
Net cash provided by (used for) financing activities	38.2	(60.0 )
Effect of exchange rate changes	0.3	4.3
Net decrease in Cash and cash equivalents and Restricted cash	(132.8 )	(164.8 )
Cash and cash equivalents and Restricted cash at beginning of period	303.4	458.2
Cash and cash equivalents and Restricted cash at end of period	170.6	293.4
Less: Restricted cash	9.1	9.4
Cash and cash equivalents at end of period	\$ 161.5	\$ 284.0

The Notes to Condensed Consolidated Financial Statements are an integral part of these consolidated statements.



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Brunswick Corporation  
Condensed Consolidated Statements of Shareholders' Equity  
(unaudited)

(in millions, except per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2018	\$ 76.9	\$ 371.1	\$2,135.7	\$(638.0)	\$ (363.1 )	\$1,582.6
Net loss	—	—	(36.3 )	—	—	(36.3 )
Other comprehensive income	—	—	—	—	1.0	1.0
Dividends (\$0.21 per common share)	—	—	(18.3 )	—	—	(18.3 )
Compensation plans and other	—	(11.2 )	—	9.1	—	(2.1 )
Balance at March 30, 2019	\$ 76.9	\$ 359.9	\$2,081.1	\$(628.9)	\$ (362.1 )	\$1,526.9

(in millions, except per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2017	\$ 76.9	\$ 374.4	\$1,966.8	\$(575.4)	\$ (359.8 )	\$1,482.9
Net earnings	—	—	72.9	—	—	72.9
Other comprehensive income	—	—	—	—	11.0	11.0
Dividends (\$0.19 per common share)	—	—	(16.6 )	—	—	(16.6 )
Compensation plans and other	—	(17.0 )	—	11.3	—	(5.7 )
Common stock repurchases	—	—	—	(35.0 )	—	(35.0 )
ASU No. 2014-09 adoption	—	—	(28.7 )	—	—	(28.7 )
Balance at March 31, 2018	\$ 76.9	\$ 357.4	\$1,994.4	\$(599.1)	\$ (348.8 )	\$1,480.8

The Notes to Condensed Consolidated Financial Statements are an integral part of these condensed consolidated statements.

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BRUNSWICK CORPORATION

Notes to Condensed Consolidated Financial Statements  
(unaudited)

Note 1 – Significant Accounting Policies

Interim Financial Statements. The unaudited interim condensed consolidated financial statements of Brunswick Corporation (Brunswick or the Company) have been prepared pursuant to Securities and Exchange Commission (SEC) rules and regulations. Therefore, certain information and disclosures normally included in financial statements and related notes prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted.

These financial statements should be read in conjunction with, and have been prepared in conformity with, the accounting principles reflected in the consolidated financial statements and related notes included in Brunswick's 2018 Annual Report on Form 10-K for the year ended December 31, 2018 (the 2018 Form 10-K). These results include, in management's opinion, all normal and recurring adjustments necessary to present fairly Brunswick's financial position, results of operations and cash flows. Due to the seasonality of Brunswick's businesses, the interim results are not necessarily indicative of the results that may be expected for the remainder of the year.

The Company maintains its financial records on the basis of a fiscal year ending on December 31, with the fiscal quarters spanning approximately thirteen weeks. The first quarter ends on the Saturday closest to the end of the first thirteen-week period. The second and third quarters are thirteen weeks in duration and the fourth quarter is the remainder of the year. The first quarter of fiscal year 2019 ended on March 30, 2019 and the first quarter of fiscal year 2018 ended on March 31, 2018.

On March 1, 2018, the Company's Board of Directors authorized proceeding with separating its Fitness business from the Company portfolio. While the Company continues to maintain its preparedness for a spin-off of the Fitness business, there has been a strong level of buyer interest in the sales process. Should the separation take the form of a sale, the Company anticipates a sale would be announced in the second quarter of 2019.

Recently Adopted Accounting Standards

Recognition of Leases: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases, (new leasing standard), which amended the Accounting Standards Codification (ASC) to require lessees to recognize assets and liabilities on the balance sheet for all leases with terms greater than twelve months. On January 1, 2019, the Company adopted the new leasing standard and all related amendments. The Company elected the optional transition method provided by the FASB in ASU 2018-11, Leases (Topic 842): Targeted Improvements, and as a result, has not restated its condensed consolidated financial statements for prior periods presented. The Company has elected the practical expedients upon transition to retain the lease classification and initial direct costs for any leases that existed prior to adoption. The Company has also not reassessed whether any contracts entered into prior to adoption are leases.

The standard did not have a material impact on the Company's Condensed Consolidated Statements of Comprehensive Income. The cumulative effect of the changes made to the Company's Consolidated Balance Sheet as of January 1, 2019 for the adoption of the new leasing standard was as follows:

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(unaudited)

(in millions)	Balance as of December 31, 2018	Adjustments Due to ASC 842	Balance as of January 1, 2019
Assets			
Operating lease assets	\$	—\$ 101.2	\$ 101.2
Current liabilities			
Accrued expenses	687.4	19.3	706.7
Long-term liabilities			
Other	195.5	(3.4 )	192.1
Operating lease liabilities	—	85.3	85.3

The Company determines if an arrangement is a lease at lease inception. Operating lease right-of-use (ROU) assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of the Company's lease contracts do not include an implicit rate, the Company uses its incremental borrowing rate based on information available at commencement date in determining the present value of future payments. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. The operating lease ROU asset also includes any initial direct costs and lease payments made prior to lease commencement, and excludes lease incentives incurred.

The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Operating lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The Company has certain lease agreements that contain both lease and non-lease components, which it has elected to account for as a single lease component for all asset classes.

**Measurement of Goodwill Impairment:** In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment. The standard simplifies the subsequent measurement of goodwill by eliminating step two from the goodwill impairment test. Instead, goodwill impairment is measured as the difference between the fair value and the carrying value of the reporting unit. The standard also clarifies the treatment of the income tax effect of tax-deductible goodwill when measuring goodwill impairment loss. The Company early adopted this amendment on January 1, 2019.

**Tax Effects in Other Comprehensive Income:** In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (AOCI), which requires certain new disclosures and permits companies to reclassify the disproportionate income tax effects of the Tax Cuts and Jobs Act of 2017 on items within AOCI to retained earnings. The Company currently records its stranded tax effects in AOCI using the portfolio approach. Upon adoption, the Company elected not to reclassify stranded tax effects in AOCI to retained earnings and there was no impact on its consolidated financial statements.

**Hedge Accounting:** In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities, to simplify the application of hedge accounting and to better align an entity's risk management activities with the financial reporting of hedging relationships. The Company adopted this ASC amendment and it did

not have a material impact on its consolidated financial statements.

Note 2 – Revenue Recognition

The following table presents the Company's revenue into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors:

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(unaudited)

	Three Months Ended March 30, 2019			
	Marine Engine	Boat	Fitness	Total
<b>Geographic Markets</b>				
United States	\$524.2	\$273.9	\$115.1	\$913.2
Europe	119.2	36.7	45.4	201.3
Asia-Pacific	56.1	5.4	35.7	97.2
Canada	31.3	50.0	6.4	87.7
Rest-of-World	35.2	7.3	22.6	65.1
Marine eliminations	(88.6 )	—	—	(88.6 )
Total	\$677.4	\$373.3	\$225.2	\$1,275.9
<b>Major Product Lines</b>				
Propulsion	\$400.0	\$—	\$—	\$400.0
Parts & Accessories	366.0	—	—	366.0
Aluminum Freshwater Boats	—	166.2	—	166.2
Recreational Fiberglass Boats	—	115.0	—	115.0
Saltwater Fishing Boats	—	90.2	—	90.2
Commercial Cardio Fitness Equipment	—	—	121.5	121.5
Commercial Strength Fitness Equipment	—	—	84.8	84.8
Consumer Fitness Equipment	—	—	18.9	18.9
Other	—	1.9	—	1.9
Marine eliminations	(88.6 )	—	—	(88.6 )
Total	\$677.4	\$373.3	\$225.2	\$1,275.9

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(unaudited)

	Three Months Ended March 31, 2018			
	Marine Engine	Boat	Fitness	Total
<b>Geographic Markets</b>				
United States	\$476.5	\$274.7	\$121.6	\$872.8
Europe	97.8	43.1	53.4	194.3
Asia-Pacific	50.4	7.0	42.1	99.5
Canada	28.9	46.8	7.1	82.8
Rest-of-World	33.5	4.9	20.2	58.6
Marine eliminations	(96.6 )	—	—	(96.6 )
Total	\$590.5	\$376.5	\$244.4	\$1,211.4
<b>Major Product Lines</b>				
Propulsion	\$379.0	\$—	\$—	\$379.0
Parts & Accessories	308.1	—	—	308.1
Aluminum Freshwater Boats	—	161.6	—	161.6
Recreational Fiberglass Boats	—	127.7	—	127.7
Saltwater Fishing Boats	—	85.7	—	85.7
Commercial Cardio Fitness Equipment	—	—	132.3	132.3
Commercial Strength Fitness Equipment	—	—	90.9	90.9
Consumer Fitness Equipment	—	—	21.2	21.2
Other	—	1.5	—	1.5
Marine eliminations	(96.6 )	—	—	(96.6 )
Total	\$590.5	\$376.5	\$244.4	\$1,211.4

As of January 1, 2019, \$178.7 million of contract liabilities associated with extended warranties, customer deposits, and product rebates were reported in Accrued expenses and Other Long-term liabilities and \$28.2 million of this amount was recognized as revenue during the three months ended March 30, 2019. As of March 30, 2019, total contract liabilities were \$187.7 million. The total amount of the transaction price allocated to unsatisfied performance obligations as of March 30, 2019 was \$163.1 million for contracts greater than one year, which includes both extended warranties and product rebates. The Company expects to recognize approximately \$45.3 million of this amount in 2019, \$57.7 million in 2020, and \$60.1 million thereafter.

## Note 3 – Restructuring, Exit, Integration and Impairment Activities

As discussed in Note 9 – Goodwill and Other Intangibles, in the first quarter of 2019 the Company determined that the carrying value of its Fitness reporting unit was in excess of its fair value. As a result, the Company recorded a goodwill impairment charge of \$137.2 million within the Fitness segment.

In the first quarter of 2019, the Company recorded restructuring charges within the Boat segment related to consolidating its commercial and government products operations in order to rationalize its product line to better align with customer demand.

In the first quarter of 2019, the Company recorded charges within Corporate for headcount reductions aimed at streamlining the cost structure.

In the first quarter of 2019 and 2018, the Company implemented headcount reductions in the Fitness segment aimed at improving general operating efficiencies.

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(unaudited)

The Company recorded restructuring, exit, integration and impairment charges in the Condensed Consolidated Statements of Comprehensive Income as a result of the activities described above. The following table is a summary of the expense associated with the restructuring, exit, integration and impairment activities for the three months ended March 30, 2019 and March 31, 2018, as discussed above:

(in millions)	March 30, 2019			Total	March 31, 2018		
	Fitness	Boat	Corporate		Fitness	Boat	Total
Restructuring and exit activities:							
Employee termination and other benefits	\$1.1	\$0.4	\$ 1.2	\$2.7	\$0.8	\$2.0	\$2.8
Current asset write-downs (gains on disposal)	—	0.2	—	0.2	(0.4 )	—	(0.4 )
Professional fees	—	—	—	—	—	0.6	0.6
Other	—	0.1	—	0.1	—	—	—
Asset disposition and impairment actions:							
Goodwill impairment	137.2	—	—	137.2	—	—	—
Definite-lived and other asset impairments	—	1.3	—	1.3	—	—	—
Integration activities:							
Employee termination and other benefits	—	—	—	—	0.0	—	0.0
Professional fees	—	—	—	—	0.7	—	0.7
Other	—	—	—	—	0.1	—	0.1
Total restructuring, exit, integration and impairment charges	\$138.3	\$2.0	\$ 1.2	\$141.5	\$1.2	\$2.6	\$3.8
Total cash payments for restructuring, exit, integration and impairment charges <sup>(A)</sup>	\$0.7	\$5.0	\$ 0.2	\$5.9	\$2.0	\$0.2	\$2.5
Accrued charges at end of the period <sup>(B)</sup>	\$4.0	\$10.8	\$ 2.0	\$16.8	\$4.4	\$3.4	\$8.0

(A) Total cash payments for the three months ended March 31, 2018 also include \$0.3 million of payments for Corporate restructuring, exit, integration and impairment charges. Cash payments may include payments related to prior period charges.

(B) Restructuring, exit, integration and impairment charges accrued as of March 31, 2018 also include \$0.2 million of Corporate charges. The accrued charges as of March 30, 2019 are expected to be paid during 2019 and 2020.

## Note 4 – Acquisitions

## 2018 Acquisitions

On August 9, 2018, the Company completed its acquisition of the Global Marine & Mobile business of Power Products Holdings, LLC (Power Products) for \$909.6 million in cash, on a cash-free, debt-free basis. Brunswick used proceeds from a combination of 364-day, three-year and five-year term loans (Term Loans) totaling \$800.0 million as described in the 2018 Form 10-K along with cash on hand to fund this acquisition.

Power Products is a leading provider of electrical products to marine and other recreational and specialty vehicle markets. The acquisition advances Brunswick's leadership by adding integrated electrical systems solutions to the marine market and an array of other mobile, specialty vehicle and industrial applications. Power Products is managed as part of the Marine Engine segment.



The purchase price allocation for the assets acquired and liabilities assumed is preliminary and subject to change within the allowed measurement period as the Company finalizes its fair value estimates. The following table is a summary of the assets acquired, liabilities assumed and net cash consideration paid for the Power Products acquisition during 2018:

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(unaudited)

(in millions)	Fair Value	Useful Life
Accounts and notes receivable	\$ 38.3	
Inventory	64.3	
Goodwill <sup>(A)</sup> <sup>(B)</sup>	348.6	
Trade names	111.0	Indefinite
Customer relationships	430.0	15 years
Property and equipment	10.6	
Other assets	5.6	
Total assets acquired	1,008.4	
Accounts payable <sup>(B)</sup>	24.3	
Accrued expenses <sup>(B)</sup>	19.8	
Deferred tax liabilities	54.7	
Total liabilities assumed	98.8	
Net cash consideration paid	\$ 909.6	

(A) The goodwill recorded for the acquisition of Power Products is partially deductible for tax purposes.

(B) Includes \$4.4 million of purchase accounting adjustments in the first quarter of 2019 related to contingency reserves.

## Pro Forma Financial Information (Unaudited)

The pro forma information has been prepared as if the Power Products acquisition and the related debt financing had occurred on January 1, 2018. These pro forma results are based on estimates and assumptions which the Company believes to be reasonable. They are not the results that would have been realized had the acquisition actually occurred on January 1, 2018 and are not necessarily indicative of Brunswick's consolidated net earnings in future periods. The pro forma results include adjustments primarily related to interest expense on the Term Loans and amortization of intangible assets.

(in millions)	Three Months Ended	
	March 30, 2019	March 31, 2018
Pro forma Net sales	\$ 1,275.9	\$ 1,272.7
Pro forma Operating earnings (loss)	(28.6)	93.8
Pro forma Net earnings (loss)	(34.9)	59.2

The pro forma results reflect an effective income tax rate of 23.9 percent and 22.5 percent for the three months ended March 30, 2019 and March 31, 2018, respectively.

## Note 5 – Financial Instruments

The Company operates globally with manufacturing and sales facilities around the world. Due to the Company's global operations, the Company engages in activities involving both financial and market risks. The Company utilizes normal operating and financing activities, along with derivative financial instruments, to minimize these risks. See Note 15 in the Notes to Consolidated Financial Statements in the 2018 Form 10-K for further details regarding the Company's financial instruments and hedging policies.

Foreign Currency Derivatives. Forward exchange contracts outstanding at March 30, 2019, December 31, 2018 and March 31, 2018 had notional contract values of \$493.8 million, \$424.1 million and \$436.0 million, respectively. There were no option contracts outstanding at March 30, 2019. Option contracts outstanding at December 31, 2018 and March 31, 2018 had notional contract values of \$27.2 million and \$18.0 million, respectively. The forward contracts outstanding at March 30, 2019 mature through 2020 and mainly relate to the Euro, Japanese yen, Canadian dollar and Australian dollar. As of March 30, 2019, the Company estimates

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(unaudited)

that during the next 12 months, it will reclassify approximately \$6.8 million of net gains (based on current rates) from Accumulated other comprehensive loss to Cost of sales.

**Interest Rate Derivatives.** The Company enters into fixed-to-floating interest rate swaps to convert a portion of the Company's long-term debt from fixed to floating rate debt. As of March 30, 2019, December 31, 2018 and March 31, 2018, the outstanding swaps had notional contract values of \$200.0 million, of which \$150.0 million corresponds to the Company's 4.625 percent Senior notes due 2021 and \$50.0 million corresponds to the Company's 7.375 percent Debentures due 2023. These instruments have been designated as fair value hedges, with the fair value recorded in long-term debt.

As of March 30, 2019, December 31, 2018 and March 31, 2018, the Company had \$2.4 million, \$2.5 million and \$3.2 million, respectively, of net deferred losses associated with all settled forward-starting interest rate swaps, which were designated as cash flow hedges with gains and losses included in Accumulated other comprehensive loss. As of March 30, 2019, the Company estimates that during the next 12 months, it will reclassify approximately \$0.6 million of net losses resulting from settled forward-starting interest rate swaps from Accumulated other comprehensive loss to Interest expense.

As of March 30, 2019, December 31, 2018 and March 31, 2018, the fair values of the Company's derivative instruments were:

(in millions)

Instrument	Derivative Assets		Derivative Liabilities		
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	
		Mar 30, 2019	Mar 31, 2018	Mar 30, 2019	Mar 31, 2018
Derivatives Designated as Cash Flow Hedges					