

How Bombardier Recreational Products is making a killing selling off-road vehicles to Americans

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Fifteen years ago, Bombardier spun off its classic business of making Ski-Doos and Sea-Doos into a new company called Bombardier Recreational Products (BRP). After a rocky start, the offspring is now roaring ahead and winning over lucrative new markets for its burgeoning line of off-road vehicles

Every spring, Muddy Bottoms all-terrain vehicle and recreation park in Sarepta, Louisiana, is home to a four-day gathering called the Redneck Revival and here, folks wear that label with pride: “Imma redneck. This is what we do!”

To an outsider, it looks like a bunch of people in chest waders and Muck Boots driving their big-tired, off-road four-wheelers into the mud on purpose to see if they’ll get stuck. But to the hundreds of power-sports fanatics who pay as much as \$665 (U.S.) to camp out and mix with other devotees, it is an antidote to the complex trappings of modern life—a few hours distilled to simple fun. Just you and your kids or some close buddies, engines revving, and some very wet dirt.

“It’s a good way to, I don’t know, blow off steam,” says Ola, Arkansas, native Jaqueline Thomas, 18, with a grin. “Go mudding.”

This is bog-and-ball-cap country. There’s lots of camouflage clothing, goatees and easy smiles. Signs urging responsible driving line the mosquito-infested trails, but they feel like suggestions more than orders. In a nod to the thousands of dollars these drivers spend on their pastime, many front windshields sport decals with messages like “Lotta debt” and “It’s just money.”

“I love to ride,” says Lawrence Gilbert, a general manager with Southern Tire Mart in Texarkana, Texas. “It’s good to get out and just play in the mud, you know? I’m in my 50s. I don’t know why I’m doing it, but I really love it.”

As drivers speed from one trail to the next or over to a friend’s campsite, the good-ol’-boy camaraderie is unmistakable. Still, the stars are not the people but the machines. Many of the most popular vehicles this weekend — clay-caked super-sized utility terrain vehicles (UTV) with roll cages, known as side-by-sides — are made by a \$5-billion Quebec company famed for its snowmobiles: Bombardier Recreational Products, or BRP Inc.

Cut loose from plane and train maker Bombardier Inc. in 2003, BRP has forged a path of its own under CEO José Boisjoli. The Valcourt, Quebec, company struggled for much of

its first decade. But today, the maker of SkiDoo, Sea-Doo and other off-road motor vehicles is flying high, thanks to the growing popularity of side-by-sides, a bit of luck and shrewd decision making by Boisjoli, who seems to have a natural understanding of what his customers want, whether they be in the U.S. south or Siberia.

That's hardly a surprise. He's one of them. The bespectacled country boy had his first Can-Am brand BRP dirt bike at age 12 and grew up with off-road vehicles. An engineer by training, he met his best friend while riding BRP products, and escapes onto the trails and open road at every opportunity.

Boisjoli is also on a financial roll. Over the past five years, he has increased annual sales by 40% to \$4.5 billion and EBITDA by 46% to \$559 million, with no acquisitions. He wants to add another \$1.5-billion in sales by 2020. Since 2016, BRP's share price has soared by 175%, dramatically outpacing the S&P/TSX Composite's 12% gain. And BRP introduced a small dividend last summer.

BRP's advance has been a godsend for the company's founders and part owners, the Bombardier-Beaudoin family, who have struggled with the shaky performance of their two other major investments. Giant Bombardier has rebounded after a near collapse, but it remains a turnaround story. As for the family's new McInnis Cement plant in the Gaspé, investor-partner Caisse de dépôt et placement du Québec seized control of the project in 2016 after massive cost overruns.

Since going public in May 2013, BRP's share price has gained 121%, while Bombardier's has declined by 9.6%. Its \$5.1-billion market cap is now roughly 60% of Bombardier's. If BRP was once the orphaned kid with an uncertain future under the watchful eye of the family, with Boisjoli, it has found its feet. Or rather, the gas pedal.

As Boisjoli admits, BRP is not in the necessity business. True, some customers need snowmobiles and UTVs for work. But the company and its rivals mostly make toys for grown-ups — luxury items that are among the first things purchased when enthusiasts land a new job and the first things sold when their finances go sour. This is an industry that hinges on people buying the expendable.

Yet expendable doesn't mean inconsequential. Both BRP and its chief North American competitor, Polaris Industries, which was born in Roseau, Minnesota, but now has its headquarters farther south in Medina, are tied to the small towns where they grew up. Workers there have rejected unions, and their fates are wrapped up in the success or failure of BRP and Polaris.

The stakes cut even further: across continents and social classes. As historian Paul Josephson puts it in his 2007 book, *Motorized Obsessions*, so many offroad vehicles are currently being produced — millions a year — that “the mass production of vehicles has turned recreation into something large-scale and industrial, extending from factory to backyards and garages, from trailers and hitches to parks and trails, from distributors and gas stations to clubs and lobbying organizations for manufacturers, environmentalists and others.”

The search for recreational nirvana, in other words, has become big global business with big ramifications — for workers, investors, the environment and public health. “Americans love anything that is motorized,” says Josephson. “They think it’s a sign of power.”

Boisjoli attributes the popularity of off-road motorsports more to a need for freedom from the daily grind, a kind of mental uncluttering. “I always say that we’re selling therapy,” he quips. “When you’re riding, you think of nothing else. You’re cleaning out your brain.”

The history of BRP dates to 1937 and the backwoods of Quebec, when Joseph-Armand Bombardier won his first patent for a tracked vehicle used for travelling on snow. His aim at the time was purely pragmatic: to invent a motorized vehicle that would replace horse-drawn sleds and end rural wintertime isolation.

Constructed in a garage in Valcourt, his first commercially produced machines carried seven passengers and were used by doctors, priests, police and postmen, and to carry kids to school. Later, the company would make customized equipment for forestry operations and public works.

It wasn’t until 1959 that utility shifted to recreation. That year, Bombardier rolled out its first two-passenger Ski-Doo snowmobile for the masses in its classic yellow colour. Featuring an allrubber endless track, wooden skis and an air-cooled four-stroke engine, the sled boasted a maximum speed of 40 kilometres per hour. Today’s fastest production models can do 160 or more.

Snowmobile production has remained in Valcourt. The town of about 1,800 in Quebec’s Eastern Townships is synonymous with Bombardier, and Ski-Doo in particular. Several streets are named after members of the family. On a recent spring day, flannel-clad retirees swapped snowmobile stories over lunch and coffee at Cantine Chez Mario. Even the toddlers at the town’s Crayons de couleur child care centre wore brightly coloured Ski-Doo snowsuits.

“The Montreal Canadiens are a religion. Ski-Doo in Valcourt is a religion,” says Pierre Pichette, a longtime BRP executive who recently retired.

So deep is the attachment to BRP that when rumours began swirling in 2003 that then Bombardier CEO Paul Tellier was preparing to sell the unit to help pull the transport maker out of a dive, locals were shocked. Even Bombardier heirs began asking their elders whether they were going to let their heritage go.

The family couldn’t and didn’t. In the last message written to his children before his death in 1964, Joseph-Armand had urged them to retain control of the company “as long as humanly possible.”

The family honoured that request in 2003, making a bid for BRP together with Boston private equity firm Bain in an auction.

The two partners won, and together with the Caisse de dépôt et placement du Québec, they still hold about 60% of BRP's equity. Their six-for-one multiple-voting shares give them roughly 90% of the decisionmaking power.

BRP then began a series of gutsy moves that would boost sales and its reputation as an industry innovator. Among the first was a new snowmobile design called Rev that pushed the seating position of the driver forward by 30 centimetres, which increased the feeling of control. Half of the engineers thought it would bankrupt the company, but it proved successful.

Behind the scenes, the owners challenged management, Boisjoli says. Bain urged the CEO to use more consultants to solve strategic problems. He wasn't fully convinced at first, but when outside experts helped the company reverse the losses in its ATV segment, he hired advisers for the outboard motor business too.

The 2008 financial crisis hit BRP hard. The global economy plunged into recession, the company's nearly \$3-billion annual revenue fell by 40% and its profit tanked. "It was a bloodbath," Boisjoli says. BRP slashed all costs except research and development, obtaining \$80 million in loans from the Quebec government to fund work on new designs and help pay down other debt.

When the dust settled three years later, the North American power-sports industry as a whole had seen its unit sales drop by half. In its fiscal year ended in January, 2011, BRP pinched out a meagre \$35 million profit on \$2.1 billion in sales. It went public in 2013, floating about 10% of the company to investors hungry to buy into a leading manufacturer riding a U.S. market recovery.

Which brings us back to Boisjoli. As BRP was getting lashed in 2014 by things it could not control — like the collapse of the Russian ruble, which severely dented its snowmobile sales — the soft-spoken executive started planting the seeds for a hard push toward increased revenue and profit. This included shifting more production to the company's three plants in Mexico.

Boisjoli also went all in on side-by-sides, a product category that had taken off after Yamaha introduced the Rhino in 2004.

The Japanese manufacturer had transformed the slow and boring utility vehicle into something quick and sporty. Boisjoli thought BRP could do even better.

Joseph-Armand Bombardier would be pleasantly surprised at the size of BRP today. It has become one of Canada's premier consumer product companies. Total employees: more than 10,000. Market: more than 100 countries. Portfolio: six product lines, from Ski-Doos to Evinrude outboard engines.

But the founder might also struggle to understand the changing relationship between its customers, their machines and the natural environment. Today, dockside drinks in cottage country can easily turn into a discussion over whether Sea-Doos and other

highpitched noise emitters should be banned from the lake. Likewise, conservation groups argue that parts of North America's backcountry can't handle motorized traffic even when people drive responsibly and stick to approved trails.

As Josephson puts it: How did an industry that set out to build vehicles to meet utilitarian needs and help people enjoy the natural world become one that sells superfluous machines that overwhelm nature? "I have a concern that when you take a motorized approach to recreation, it cheapens the experience and makes it less fulfilling for everyone," he says.

Over little more than a decade, sales momentum in the off-road industry has swung dramatically toward vehicles offering a more collective experience. Lone or double-rider ATV sales are in decline. Side-bysides, which can seat as many as six people, are on the rise. The new thrill-craft models are increasingly carlike and cost much more than the older versions, juicing up companies' profits.

Polaris was out of the gate early with side-by-sides in 1998, producing models like the RZR and General. BRP, selling under its off-road Can-Am brand, entered the game in 2010 with its Commander and is now enjoying success with its Defender and Maverick models. Side-by-sides account for almost half of BRP's revenue growth from fiscal 2010 to 2018.

As prices have climbed toward luxury automobile territory — BRP and Polaris both sell models topping \$35,000 — so too have their capability and popularity. Today, there are organized events for off-road dune bashing, mudding and rock crawling, in addition to more standard trail riding. Polaris estimates that half a million people worldwide bought a side-by-side last year, roughly the same number of Ram pickups Fiat Chrysler sold in the United States.

Those buyers want comfort. "I got too old to ride [an ATV]," says Redneck Revival attendee Oliver Phillips. "It'll wear you out."

They also want singularity. Customization is huge. "It's not keeping up with the Joneses. It's outdoing the Joneses," says Johnny Weeks, a major BRP dealer in Houston. "If your buddy puts a 30-inch tire on, you want a 36-inch tire. If your buddy puts a roof on his side-by-side that's got six speakers, you want to put in a subwoofer and six speakers."

Boisjoli has carefully courted U.S. dealers like Weeks since the last recession by making them an attractive offer for year-round product supply and profit sharing that they can't refuse. BRP had a good dealer network in the North American snowbelt and in coastal areas, where Sea-Doos were popular. But it had little to sell in many southern U.S. states. Boisjoli waited to woo dealers in the U.S. southwest until the company introduced its Defender side-by-side in 2015. At a sales meeting that fall, he signed 150 dealers on the spot.

He also pledged that BRP would introduce one new side-by-side model every six months until 2020. First came the 2016 Can-Am Defender utility-recreation model, followed by a six-seat Defender Max package and the Maverick X3, a 172-horsepower beast that BRP calls the alpha off-road vehicle. Today, the company has six models and more than 40 different packages — key offerings in its push to double its market share and become the industry's No. 2 manufacturer of side-by-sides.

To quickly bring new models to market, BRP borrowed an idea from German automakers. A few years ago, Volkswagen Group introduced a manufacturing system called modular matrix, which basically uses a standardized set of parts to build a variety of cars. One kit — the MQB platform for VW's transverse frontengine autos, for example — can be used to build dozens of cars with identical components, like axles and drivetrains. The system lets VW design cars for specific markets without beginning from scratch, and it substantially cuts the manufacturing time.

Boisjoli spent two days in Europe in 2010 trying to understand the system and another two years after that to figure out how to implement it at BRP. Today, every power-steering mechanism on a BRP ATV, side-by-side or Spyder three-wheel roadster is the same. So are lots of other parts.

“We're not geniuses,” Boisjoli says. “We've just adapted what successful European car companies have done to the powersports industry. The beauty is, I'm convinced we're the only ones doing it.”

Boisjoli is widely credited for BRP's rise. Company insiders say he has a deep sense of pride and responsibility to protect the legacy of Joseph-Armand Bombardier and warn that you shouldn't be fooled by his calm demeanour. Behind it lies an ultra-competitive and aggressive CEO determined to prove that a smalltown company can be a world leader.

To be sure, luck has also played a role in BRP's ascent. As the company pushes hard in side-by-sides, archrival Polaris remains mired in a reputational mess, following the recall of thousands of its off-road vehicles. The latest one came in April, when Polaris recalled 107,000 RZR models because of manufacturing defects that could lead to fires and burns. That month, the U.S. Consumer Product Safety Commission slapped the company with a \$27-million (U.S.) fine for failing to alert regulators immediately about the defects, which began cropping up as early as 2013. Meanwhile, Japaneseowned competitors have been steadily losing market share to BRP and other North American companies, especially in ATVs and side-by-sides.

Polaris has taken major steps to improve product safety and design, and it will likely quickly make up lost ground. “We play to win,” Polaris CEO Scott Wine told analysts. “We're not a company that takes losing lightly.”

Trouble at Polaris's factory in Roseau, Minnesota, doesn't mean cheers and beers in Valcourt. They've been through adversity there too. It's just that right now, distress seems like a distant memory.

Truth is, the mood at BRP headquarters these days is downright upbeat, and with good reason. The average side-by-side customer is a 45- to 50-year-old male with \$100,000 in annual income. And he keeps buying.

"People still feel pretty flush with cash. I don't think there is any impending doom for the consumer," says Jaime Katz, a Morningstar Research analyst. She's impressed with BRP but doesn't believe it will meet its ambitious growth targets, because it is selling into a slow-growth industry that will eventually hit a wall. "At some point there will be a recession, and these businesses struggle in recessionary periods. That's just how they are."

Boisjoli insists BRP is better equipped to weather a crash than it was in the last recession. The company offers a bigger lineup of products that are of better quality than ever before, at wider price points and in more countries. It is doing more low-cost manufacturing. It also has more flexible bank agreements. That's true, says Katz, but so does the competition.

Bain is another source of strength. Big private equity firms often don't have a lot of patience, but Bain has stuck with BRP. The firm is selling its stake slowly over time, and it still owns about 27% of the company. "To me, that's encouraging," says Nicolas Chevalier, a portfolio manager with Pembroke Management Ltd., which holds BRP shares. "They probably see a higher stock price at some point."

New products are the key to keeping the party going. BRP's share price probably won't leap much higher until the company comes up with another killer product category to fuel demand when side-by-side sales peak.

The next leg of growth could come from BRP's own architects of novelty, its in-house design team. A group of mostly men in their 30s and 40s, from various corners of the world, they often win design awards like Red Dot.

Keeping the team intact and healthy is a high priority. "We measure the mood index of all staff members every second week," says Denys Lapointe, BRP's senior vice-president of design and innovation. "They won't produce if they're overstressed and they can't sleep at night."

Boisjoli has also assembled a small M&A team to scout for partnership and acquisition opportunities, and says he could spend \$500 million or more on a deal. He's very tight-lipped about the direction the company could take, saying the only limitation is that new vehicles must be motorized — be that a traditional combustion engine, electric or hybrid. "Don't expect BRP to launch a line of sailboats. That's not who we are," he says.

Back at Muddy Bottoms, families are packed around the drag strip to watch the monster truck race, swapping stories of conquering the muck and of vehicle parts broken and fixed. Here, there are no debates about the future, only moments anchored in the present and tales shared with other gearheads — moments given meaning by motors and metal.

“Nothing compares to the power of these,” says Mason Watkins, a pawnshop manager, praising his Can-Am Maverick X3 side-by-side. “I started out with a small Yamaha, a Kodiak [owned by friends]. And then eventually I got a job and got my own stuff. It’s my hobby. It’s what I like doing.”

Four innovation coups from BRP

- 1) Ski-Doo: Bombardier introduced the first recreational snowmobile in 1959 and then shook the industry in 2003 by shifting the driver’s position on its Rev model forward.
- 2) Sea-Doo: When the personal watercraft market bottomed in 2010, BRP jump-started sales with the Spark, a compact plastic model priced at just \$4,999 (U.S.).
- 3) Spyder : Critics mocked the three-wheel trike as a motorbike for the geriatric set when it was introduced in 2007. But its best days may still lie ahead. A low-cost new model priced under \$10,000 (U.S.) might do for the Spyder what it did for the Sea-Doo.
- 4) Can-Am side-by-side: Bigger and more comfortable than lone or double-rider ATVs, side-by-side vehicles have made up almost half of BRP’s revenue growth over the past eight years.

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