BRP Inc. Moves to Drive U.S. Sales Higher

Description

BRP Inc. (TSX:DOO), the Quebec-based manufacturer of Sea-Doo watercraft, Ski-Doo snowmobiles, Can-Am ATV, and side-by-side (SSV) vehicles, announced November 16 that it's setting up its North American headquarters in Plano, Texas.

Don't worry; it's not abandoning its Quebec roots.

It's just setting up a beachhead in the U.S. to get closer to its largest customer — as of the end of July 52% of its revenue is from Americans, it gets another 32% internationally, and just 16% is from here in Canada — and perhaps hedge its bets should NAFTA negotiations end badly.

"We are transforming our business model to get closer and better connected to our largest market," said Sandy Scullion, BRP's senior vice-president and general manager, Global Retail and Services. "BRP and its brands are performing very well in the market right now and we're eager to build on this important growth catalyst."

Valcourt, Quebec, will remain the company's global headquarters.

Why Texas?

The market for SSVs in Texas is huge.

It's the number one state in terms of SSV units sold in the U.S., double those of the second-largest state by sales. Its Can-Am Defender SSV is experiencing three-fold year-over-year retail revenue growth; Texas is a big reason for Can-Am SSVs taking market share in the high-performance end of the industry.

As a result of strong sales of its newly launched Can-Am Maverick X3 — BRP says it's the most powerful factory-built SSV on the market — its U.S. revenues increased by 27% in Q2 2017 to $515.1 million and, in the process, pushed its revenue south of the border as a percentage of its overall revenue beyond the 50% mark.

Texas gives direct access to the ninth-biggest economy in the world, ahead of Canada and Russia, in a market that's absolutely crazy about BRP's products.

BRP's year-round products, which includes both SSVs and ATVs, are the company's biggest revenue generators. In the first six months of the year, year-round revenues were $830 million, or 42% of its overall revenue, up 100 basis points from the same period a year ago.

With a plan to introduce a new SSV every six months until 2020, having its North American headquarters in Texas sees like a no-brainer to me.

What does it mean for DOO stock?

Higher revenues accompanied by higher margins equals greater profits, which is the key to higher share prices.

Its SSV revenue is growing at double digits, producing higher margins and greater profits, which will ultimately deliver higher shares prices.

I’ve recommended DOO stock on two occasions over the past year — first in April and then in September — and each time the stock went higher.

Up 63% year to date through November 21, I expect DOO to be up for a third year in a row in 2018.

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