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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to BRP Inc.'s Fiscal Year 2017 Third Quarter Results Conference Call.

I would now like to turn the meeting over to Mr. Philippe Deschenes. Please go ahead, Mr. Deschenes.

Philippe Deschene, Head of Investor Relations

Thank you. Good morning and welcome to BRP's Third Quarter Conference Call for Fiscal 2017. Joining me on the call this morning are José Boisjoli, President and Chief Executive Officer, and Sébastien Martel, Chief Financial Officer.

Before we move to the prepared remarks, I would like to remind everyone that certain forward-looking statements will be made during the call that are subject to a number of risks and uncertainties. I invite you to read BRP's MD&A for a listing of these.

Also during the call, reference will be made to supporting slides and you can find the presentation on our website at www.brp.com under the Investor Relations section.

So, with that, I'll turn the call over to José.

José Boisjoli, President and Chief Executive Officer

Thank you, Philippe. Good morning, everyone, and thank you for joining us. Once again this year, we had set high objectives for the back half of the year and the third quarter was an important first step to get us there, and we delivered in a big way. We managed to deliver financial results above our plan. We've launched production and quickly delivered to our dealers two new product platforms, the Can-Am Maverick X3 and the 4 Generation of Ski-Doo snowmobile. We made good progress in our dealer network optimization network and we gained market share in a competitive and difficult environment. All of this while we continued to work relentlessly on projects that will allow us to deliver our long-term objectives.

We also continued managing our Capex carefully, reducing our expected depreciation expense for the year, and we have completed our NCIB program which lowered our share count. Both of these elements allow us to increase our normalized EPS guidance by $0.04.

All in all, the third quarter was key in the achievement of our plans for the year, and with our strong results, we feel we are in a good position heading into the fourth quarter.

Now, let's look at the financial highlights on the third quarter on Slide 4.

Our revenue grew 7 percent to reach $1.08 billion. The increase was primarily driven by our growing side-by-side business, notably the contribution of our new products, the Can-Am Defender and Maverick X3. The quarterly normalized EBITDA came in above expectation at $197 million, as the timing of a few elements was favourable into the quarter. Sébastien will come back on this in a few minutes. Our normalized diluted earnings per share is up 50 percent over last year's third quarter, reaching $0.93 per share.

At the retail level, we had another solid quarter, as our powersports lineup, excluding snowmobiles, was up 10 percent, compared to an industry that we estimate was down low single-digit. The strong performance was driven by a solid end-of-season for personal watercraft, continuing market share gain for ATV, and very good momentum for our side-by-side business.

For snowmobile, as we mentioned before, this year's shipments were delayed compared to last year, due to a later of start of production which resulted in the lower retail into the quarter. I will give you more detail on this in a few minutes.

The key highlight of the quarter was our ability to quickly start the production of our newly introduced platforms, the Can-Am Maverick X3 and the new 4 Generation of Ski-Doo. Remember that we launched the Maverick X3 at our Can-Am and Sea-Doo Club in August. We started the production a few weeks later and the first units reached our customers in the second half of September. As for Ski-Doo, production for the new platform started at the end of September, without any issue, and people are already riding on them up north and into the mountains. Both of these products received exceptional reviews from the media and the customers. The future looks promising and we are really excited to see the coming seasons unfold.

Now, going into the review by product category with the year-round product highlights, on Slide 6, revenues were up 48 percent for the quarter, mainly driven by higher volume and favourable product mix of side-by-side, due to the introduction of the Can-Am Defender and Maverick X3.

Growing our off-road business is at the forefront of our strategy and we are seeing our efforts paying off. For ATV, the industry remained difficult, and for the first four months of the season the North American industry retail was down high single-digits. Despite the difficult industry trend, Can-Am ATV continued to perform well, with retail up low single-digits. We have a very good momentum with our ATV business, as we have now been outpacing the industry for the last five quarters and we currently hold the third market share position in the industry season-to-date. Can-Am ATV is seeing the same solid trend in international markets.

Turning to side-by-side, the North American industry retail is up low single-digits season-to-date, driven by the continued solid momentum of the Can-Am Defender and the very good reception of the Can-Am Maverick X3. Our side-by-side retail was up over 20 percent for the first four months of the season. We are pleased with our progress with the Defender, as retail continued to grow every month, demonstrating that the Can-Am brand is gaining traction within the utility side-by-side market. On the Maverick X3 front, while it has only been on the market for the second half of the quarter, the sell-through has been excellent. We also introduced a new key side-by-side model in the quarter, the Can-Am Defender HD5. The HD5 offers the same tough, capable and clever features of the Defender platform with a mid-size engine. This package offers exceptional value and improves our offering at the lower end of the price spectrum in the utility side-by-side segment. The Defender HD5 will start shipping in January.

Now, looking at Spyder. The North American motorcycle 2016 season just closed at the end of October down low single-digits. For the season, retail motorcycles with a price higher than $18,000 declined high single-digits. As we mentioned previously, it was a difficult season for Spyder. The industry trends were not favourable. We also decided to hold back on sales programs to better maintain long term the value of the unit, and last year's introduction of the Spyder F3-T did not generate the expected results. With all of this, Spyder closed the season with retail down high-teens percentage. We are disappointed with the season and we are taking steps to turn the situation around.

For the Spyder business to reach its full potential, we'll need to increase our focus on the business and use a different approach with our dealers and our customers. This is why we have hired Josée Perreault, who will fill our newly created position of Senior Vice President, Spyder business. Josée, with her strong experience in the international wholesale and retail business within the consumer goods industry, is a great addition our Management Team.

To conclude, on our year-round products, I want to say that, overall, I'm very pleased with our results.

With that, let's turn to seasonal products on Slide 7. Seasonal products revenue were down 12 percent for the quarter, ending at $470 million, primarily due to lower volume of snowmobiles, partially offset by a higher volume and favourable product mix of personal watercraft.

Looking at retail, the North American personal watercraft ended the season on September 30 with retail up high single-digits. Sea-Doo had another strong season, with retail also up high single-digits, growing its market share for the sixth consecutive season and achieving a record market share position. The growth was driven by both the Sea-Doo Spark and the traditional personal watercraft. The worldwide demand also continued to be strong, with double-digit retail growth for Western Europe and Asia-Pacific into the quarter.

Now, turning to snowmobiles, here's some explanation on retail. At the end of October, the North American industry retail was down over 30 percent season-to-date. Ski-Doo retail was down about 50 percent over the same period. The decline is driven by the limited availability of our new Ski-Doo REV Gen4 due to later start of production this year, compared to last year. As you may know, every year we presell to customers snowmobiles during the spring season and those presold sleds are usually the first to be shipped to the dealer and then the first to be retailed to the customer in October and November. This year, a good portion of those presold snowmobiles were the newly introduced snowmobile platform, for which mass production only started in October. As we continued shipping those units through November, our retail has improved and is now down in the mid-30's percent season-to-date, right in line with our internal forecast. Therefore, it is just a question of shipment timing. Everything is going according to plan, as we expect to have everything shipped and at the dealers before Christmas.

All in all, our seasonal product business continued to perform very well.

Now, looking propulsion systems, on Slide 8, revenues for propulsion systems were down 4 percent, primarily driven by lower volume of aircraft engines sold to OEMs. Now, four months into the new season, the North American outboard engines industry is up mid-single digits. For the same period, Evinrude retail was up low single-digits. The E-TEC G2 lineup continued to perform well and we started deliveries of the new 150 to 200 horsepower range E-TEC G2 engine during the quarter.

Turning to parts, accessories and clothing, our revenues were up 5 percent into the quarter, driven by higher volume of side-by-side accessories sold following the introduction of the Defender and the Maverick X3. Despite a 5 percent increase over last year, our pack sales were lower than planned, mainly due to the fact that dealers still have stock of maintenance items in inventory, like oil, belts and ski runners, due to a shorter riding season for snowmobiles last year.

With that, I will turn the call over to Sébastien and will return for closing remarks.

Sébastien Martel, Chief Financial Officer

Thank you, José, and good morning, everyone. This morning, we reported revenues of $1.08 billion for the third quarter of fiscal year '17, an increase of 7 percent from last year's third quarter. The growth was primarily driven by higher wholesale of year-round products, partly offset by lower wholesale in seasonal products.

We generated $307 million of gross profit, resulting in a gross profit margin of 28.4 percent, a 400-basis-point increase from last year, due to favourable product mix for both SSV and PWC, general price increases, and favourable foreign exchange rate variation.

Operating income came in at $163 million, or 15.1 percent of revenues, primarily driven by higher gross profit.

As José mentioned, normalized EBITDA came in above our expectation at $197 million, or 18.2 percent of revenue.

The higher than anticipated results were driven by a few elements that were favourable in the quarter. Expenses came in lower than planned, as we continued to exercise tight management of costs and were able to defer some expenses into the fourth quarter. With the good retail experience in the last few quarters, we replenished some dealer inventory, mostly for ATV and PWC, in Q3 with units that were initially planned for early Q4.

As you see, most of the incremental lift we realized this quarter versus our plan is a question of timing between the last two quarters of the year. This resulted in normalized diluted earnings per share of $0.93, a 50 percent increase over last year.

We generated $129 million of free cash flow in the quarter and completed our NCIB program by repurchasing 900,000 shares in the quarter for a total of 3.4 million shares repurchased for the year.

Now, Slide 11, for revenues by product categories and geography, 35 percent of our sales came from year-round products, with our year-over-year growth of 48 percent driven by side-by-side business, 39 percent of our sales came from seasonal products, 9 percent from propulsion systems, 17 from parts, accessories and clothing. International revenues were about flat compared to last year, as higher wholesale of off-road vehicles was offset by lower deliveries of snowmobiles. For Canada, revenues were down 10 percent, as higher wholesale of SSVs and Spyders was more than offset by a lower volume of snowmobiles sold and lower wholesale of ATVs. Finally, revenues from the U.S. were up 21 percent, driven by higher year-round product shipments and higher volume and favourable mix of PWC, which were partly offset by lower shipments of snowmobiles.

As a reminder, remember that due to the introduction of the new snowmobile platform, snowmobile shipments are expected to be heavier in the fourth quarter and this drove a decline in snowmobile volume in the third quarter for all regions.

Turning to Slide 12 for a look at the normalized net income bridge, our normalized net income increased by $31 million, compared to last year's third quarter, benefiting the normalized net income for: volume and mix for $28 million, pricing and sales programs for $12 million, production costs for $4 million, and foreign exchange variation for $19 million. These elements were partly offset by higher operating expenses for $12 million, driven by higher investments in R&D and admin, and higher income tax expense and financing costs, for a net negative impact of $21 million.

On to Slide 13, for the North American powersports dealer inventory, our network inventory level was up 7 percent from last year's third quarter. The increase was primarily driven by the introduction of the Can-Am Defender and Maverick X3, with strong demand from dealers, and the continuing ramp-up of shipments to new dealers we added over the last few years. The increase was partly offset by lower inventory for Can-Am Commander and Can-Am Maverick side-by-side. Given the new product introduction and our expanding dealer network, we are very comfortable with our network inventory level.

Finally, Slide 14, for an update on the guidance for fiscal '17. As José mentioned earlier, now, with three quarters behind us and after achieving a solid third quarter result, we are in a good position heading into the fourth quarter. So, with only a few weeks to go until year end, we are making a few changes to the guidance. The excellent reception of our new side-by-side model and the strong end-of-season for PWC are allowing us to review upwards our revenue guidance for year-round and seasonal products. Power Pack is still suffering from the short snowmobile riding season last winter, dealer replenishment orders continue to come in lower than expected, and coupled with the impact of the disappointing Spyder season, we are adjusting our revenue guidance downward for that product category. Accounting for these changes, total revenues are now expected to be up 5 to 9 percent.

On the profitability side, while we are increasing our total revenue guidance, we are also reducing our forecast for the pack business, which is our most profitable product category, so the net impact on normalized EBITDA is neutral and our guidance remains up 7 to 10 percent.

Finally, as we are approaching year end, we have better visibility on different elements of the business, allowing me to adjust our tax rate and depreciation expense items. As a result, normalized net income is now expected to grow between 5 percent and 11 percent, and normalized EPS guidance has been increased by $0.04 and is now $1.86 to $1.96.

With this, I'll turn the call back to José.

José Boisjoli, President and Chief Executive Officer

Thank you, Sébastien. The third quarter was a very successful one. Our sales in the U.S. grew by 20 percent over the same quarter last year. Our margin grew by a strong 400 basis points. We continued expanding our distribution network worldwide, as planned. We've launched several new products, for which the market reacted very positively and helped us gain market share, and we brought two new senior executives to our Management Team, whom I'm sure will contribute to make BRP even more successful.

In closing, as the U.S. new Administration is put in place, we are following closely the business-related orientation that the new government will take come January 20. We are confident that our diversification strategy on product, manufacturing side and global markets will allow us to maintain our industry leadership position and our profitable growth in the U.S., as well as in the rest of the world.

I am very proud that we are able to continue to grow despite operating in an aggressive industry and an overall difficult environment. This would not be possible without our employees and I want to thank all of them for their commitment and loyalty.

On that, I will turn the call over to the Operator for questions.

QUESTION AND ANSWER SESSION

Operator

Thank you. Please press star, one at this time if you have a question. There will be a brief pause while the participants register for questions. Thank you for your patience.

The first question is from Steve Arthur with RBC Capital Markets. Please go ahead.

Steve Arthur, RBC Capital Markets

Yes, thank you. Just a couple of quick follow-up questions. First, on the lower pack sales, and I do hear you on the snowmobile and Spyder implications, but has that been enough to offset the new products that have been launched which seem to have a full complement of accessories, or more broadly, maybe if you can comment on the uptick of accessories with the new products, the X3 Defender, the new snowmobile platforms?

José Boisjoli, President and Chief Executive Officer

Good morning, Steve. I would say that the addition of X3 is compensated by some reduction on the Spyder. The difficulty on pack is we don't have much visibility on the stock that the dealers have, it's very difficult to predict, and the orders of maintenance items, like I said, oil, belt, runners, were lower than planned in August, September. Those items, typically, the dealers replenish early in the fall. The orders were quite low compared to our planning. Then, because of that situation and the difficult visibility, that's why we decided to reduce our guidance for year end.

Steve Arthur, RBC Capital Markets

I understand. Secondly, just on the Spyder business, it looks renewed focus in a specific business unit. Is it too early or are you able to comment yet on any changes in the go-to-market strategy there that you might be looking at?

José Boisjoli, President and Chief Executive Officer

It's too early. Josée Perreault took over about six weeks ago. She's been on the job. She's been touring dealers and making a better assessment of the situation, and we should come out with a plan early in 2017.

Steve Arthur, RBC Capital Markets

Okay, that's fair, and the final point—you mentioned, José, earlier that you're making good progress on dealer optimization. I'm just wondering if you can elaborate on that a little bit more. Is that a new way of looking at new dealers or more efficiency from the existing dealer base?

José Boisjoli, President and Chief Executive Officer

As you know, we have a target this year to add 45 to 55 new dealers. We are on track on this plan. But, obviously, like we've said, I think 18 months ago, the focus is a lot on making the existing dealer more performant, and to be honest, it's going quite well. Obviously, the retail momentum that we have, the profitability that our dealers do with our product, is helping the situation, but we're trying to get traction and get more space in each of our multi-line dealers, and the plan is going quite well.

Steve Arthur, RBC Capital Markets

Okay, thank you for the colour.

José Boisjoli, President and Chief Executive Officer

Thank you.

Operator

Thank you. The next question is from Derek Dley with Canaccord Genuity. Please go ahead.

Derek Dley, Canaccord Genuity

Yes, can you guys just give us a bit of an update on how the PerforMAX dealer program is going? It sounds like there's some good momentum there, but any additional colour would be great.

Sébastien Martel, Chief Financial Officer

Well, as you know, Derek, we shared the overall dealer network plan with investors in September. Bernard presented the strategy and how we are addressing especially the multi-brand dealers in the U.S, and PerforMAX was a big part of that equation with the back-end incentives that dealers can earn. Obviously, if you look at the retail performance this quarter, excluding snowmobile, up 10 percent. PerforMAX played a big factor in making sure that the dealers are focusing more and more on the BRP business.

Derek Dley, Canaccord Genuity

Okay, great. On your international—sales were flat during the quarter—can you just give us a breakdown of regionally where you saw some strength and weakness?

Sébastien Martel, Chief Financial Officer

Yes, Asia-Pacific is strong. You're in a counter-season market there and the watercraft business is doing very good there, and the side-by-side business, as well, is doing excellent there, so we saw good momentum there. Where revenues were down versus a year ago is more Scandinavia, Russia, and part of it is because of the production of snowmobile timing versus a year, so less units of snowmobiles were shipped to those markets.

Derek Dley, Canaccord Genuity

Okay, and then in Canada, are you still seeing some weakness in Alberta or is that starting to come back?

José Boisjoli, President and Chief Executive Officer

Last year, the West was down by about 30 percent. Now, it's improving. I would say it's probably around 15 percent, and it's getting better, but the West is still weaker than the East, but improving.

Derek Dley, Canaccord Genuity

Okay. Okay, thank you very much.

Operator

Thank you. The next question is from Jamie Katz of Morningstar. Please go ahead.

Jamie Katz, Morningstar

Thanks. Good morning and thanks for taking my questions. My first question is on year-round, which the shipments were pretty strong this quarter, and it sounded it was mostly like from entering some of the white space areas that you hadn't previously been operating in, so I'm curious how some of the demand for the legacy products were, as well, in the quarter. It would appear that you guys are taking share. Do you think that's from other North American competitors or from international competitors?

José Boisjoli, President and Chief Executive Officer

Good morning. As you know, the Maverick X3, the reception is very good, and it's clear that the Maverick X3 will obsolete the older platform Maverick Turbo, and this was planned. The Defender, as we said before, is cannibalizing the Commander. We see a customer who used to buy (inaudible) that now are buying the utility side-by-side. But, at the end of the day, all that was planned and we are basically on the cannibalization estimation we had done, but the net of all of this is very positive overall.

Jamie Katz, Morningstar

Okay. Then, I think you had mentioned some expenses being deferred from the third quarter to the fourth quarter. Can you elaborate on that?

Sébastien Martel, Chief Financial Officer

Yes. We had planned some marketing expenses in the quarter for the ramp-up of side-by-side. It's a big season in the fall. Some of the expenses were transferred to being invested more in November, December. So, that's basically a question of timing.

Jamie Katz, Morningstar

Okay. Then, lastly, I'm curious what you guys are sort of thinking for just the general economic outlook for both North America and Canada, together and separate, if you have any economic thoughts on what you're expecting in the year ahead.

Sébastien Martel, Chief Financial Officer

Yes, well, obviously, I think the big dark cloud above our heads is everything related to NAFTA and the new President-Elect in the United States has made several comments. We've received a lot of questions from investors on that topic. Today, we do not necessarily want to speculate what the outcome of future NAFTA agreements will be, because, one, I don't know, and I don't think anyone knows, what the outcome will be. However, one thing is for sure, when we look at the whole campaign, well, President-Elect Trump's message was focusing on growth, focusing on infrastructure and also focusing on keeping jobs in the U.S., and the way we look at that is that is very, very positive for the powersport industry. Obviously, like all OEMs, especially the automotive ones with global operations, we're monitoring this situation closely and we'll learn more as time evolves, but for us, today, we see it as business as usual, until there's more clarity as to what, if any, changes will be happening to the NAFTA agreements.

In terms of overall economic outlook for Canada, positive. I think we've lapped issues that we've had out West, and in Eastern Canada the outlook, as well, is good, so we're optimistic for next year.

Jamie Katz, Morningstar

Thank you.

Operator

Thank you. The next question is from Tim Conder with Wells Fargo Securities. Please go ahead.

Tim Conder, Wells Fargo Securities

Thank you. Just a couple here. I wanted to follow up on the first question that was asked regarding Spyder and looking at any potential changes to that business. I wanted to ask it related to Evinrude. Any colour there? Then, on your dealer adds, you're seeing that that's progressing, you're very pleased with that, if you could—any additional colour that you would have given competitor challenges in ORV, if that has made it easier, or if you're getting into dealerships that you thought you might not, being added to multi-line dealers?

José Boisjoli, President and Chief Executive Officer

Good morning. First, for sure, the momentum that we have right now, particularly with the mid-cc ATV and with the Defender, and now the Maverick X3, dealers are quite optimistic about BRP and regaining share in the dealerships. You know that one of our objectives was to gain more space in the south/southwest, and so far the strategy is working quite well, and I would say the Maverick X3 has accelerated the pace in certain areas, and overall, we're quite happy with that.

On the Johnson Evinrude, the Evinrude situation, since the introduction of the G2, we have been able to find about 160 dealers, more than 14 new boat builders, the G2 is getting traction. I would like to remind you that the new G2 horsepower range, from 150 to 200, started deliveries in Q3 and is just starting to ramp up, but overall, we're quite optimistic about the G2 momentum into the industry, and this industry is going well. Things are going according to plan, I would say, for the Evinrude business.

Tim Conder, Wells Fargo Securities

Okay. So, just to clarify on the dealer adds, you're very pleased, getting it in the core areas. Has it been easier given some of the challenges that have been faced by some competitors in the industry?

José Boisjoli, President and Chief Executive Officer

I would say, for sure, what happened with one of our competitors in the sports side-by-side category is giving us opportunities. Our booking for the Maverick X3 was very good and we've tried to take advantage of this, but for me, this is short-term things. What is more important is we have opportunity to get faster into dealers that are multi-line, and if they are successful retailing our product, I think we will be there for the long term. For us, we're trying to benefit of the situation as much as we can, but overall, it's very positive.

Tim Conder, Wells Fargo Securities

Okay. Then, lastly, gentlemen, just maybe a little more colour related to the U.S. election and everything, a little colour on the commentary, and I guess on retail trends that you saw right before, say the month before, and then since the election in the U.S.

Sébastien Martel, Chief Financial Officer

Tim, I can't say that we saw a difference in terms of retail trends. Don't forget that we were bringing a lot of new products to the market, so I think that is what influenced more the retail than the outcome of the election, the Maverick X3. Last year, we didn't have the Defender for Q3, which we had, and in November, as well. So, all of that great product that we've been introducing in the last few years, I think is the main catalyst for driving retail.

As well, as we've talked when we met in September in Mexico, all the efforts that we've put over the last few years on focusing on the dealers, we've opened up a lot of new dealers. We've also presented a model where the dealers have the primary market areas and we're focused on making sure that the dealers are profitable. All of that is paying off and it's what's driving the retail success that we've seen.

Tim Conder, Wells Fargo Securities

Okay, great. Thank you, gentlemen.

Operator

Thank you. The next question is from Martin Landry with GMP Securities. Please go ahead.

Martin Landry, GMP Securities

Good morning. The first question is, with regards to the acceleration of shipments into the quarter versus Q4, can you talk about what product lines and what products were shipped a little earlier, and what was the reason behind that?

Sébastien Martel, Chief Financial Officer

Yes, if I look at the impact versus what we had planned, the two main items are the lower expenses, that probably comes in the range of about $20 million, and in terms of early shipments, the two product lines that we shipped a bit earlier were in PWC and has an impact of about $5 million for the quarter. What drove that, as you've seen in our numbers, we have good retail in ATV, and we've also had a great season in PWC, the industry was up, and we were up 10 percent, and obviously dealer inventory levels are low and therefore they've asked for a bit more inventory earlier, and that's what we've done.

Martin Landry, GMP Securities

Okay, thank you, that's helpful. Then, just on the Maverick X3, you're obviously seeing some very good sell-through. I'm just wondering are you able to satisfy the demand currently. Do you have any capacity constraint issues on the X3?

José Boisjoli, President and Chief Executive Officer

Good morning, Martin. Let's say that the ramp-up, we're trying to accelerate the ramp-up as much as we can, but right now we are not able to meet 100 percent the demand, but we are ramping up as fast as we can, but the season, the peak of the season is pending in a few weeks. We're doing our best, but we were a bit behind the demand in October and November. We will catch up December and January.

Martin Landry, GMP Securities

Okay. So, how long is the backlog right now for customers to get an X3?

José Boisjoli, President and Chief Executive Officer

I spoke to many dealers who—we're delivering, obviously, everything we can every day, but if you talk to a few dealers—and, again, that's my information date of November, but every dealer in the south/southwest has typically a few units sold. When the unit arrives, delivered to the customer right away. We try to ask the dealer to hold one unit on the floor, but you don't have much inventory out there.

Martin Landry, GMP Securities

Okay, that's helpful. Then, just lastly, we're just about to start the snowmobile season. What do you see in terms of snow coverage and what do you see in terms of traffic at dealers and momentum at dealers for the upcoming snowmobile season?

José Boisjoli, President and Chief Executive Officer

Yes, snow coverage is definitely better than last year, no doubt about that. I'm sitting here in Vancouver and it's white outside and it's better than last year, but overall, customers up north, in North America and in the mountains, are already riding. It's not great conditions yet, but at least they can try their machine. Traffic is good at the minute the snow hit the ground. At this time of the year, in December, you always have good traffic in the store. We believe that North America is positioned for a good season, normal season, I would say. In Scandinavia and Russia, the same thing. The snow started normal, I would say, compared to the previous year, better than last year obviously, and normal. Everything is positioned to be a good season, but we're too early to conclude on this.

Martin Landry, GMP Securities

Okay. Thank you very much.

José Boisjoli, President and Chief Executive Officer

Thank you.

Operator

Thank you. The next question is from Craig Kennison with Baird. Please go ahead.

Craig Kennison, Robert W. Baird & Company

Good morning and thank you for taking my questions. I'm curious about the agricultural market. I think BRP, generally, has been under-indexed there because it didn't have quite the products they needed, but with Defender, clearly you do. How are dealers reacting to that and what are your overall comments on the ag market?

José Boisjoli, President and Chief Executive Officer

Well, if I give some colour on the ag market, or the ORV business, and if I include ATV—give you the ATV statistic right now, in Q3, ATV in the U.S. was down high single-digit, and into the ag states, the six states that we consider ag, it was something like 15 percent down. There is definitely some lag. That being said, for us, it's a white space for us. The Defender is gaining traction every month. I think, the farmer is a new customer for us, but our dealers are getting better to talk to them and product has a good momentum right now, good reputation, in terms of performance, and overall we feel good, but there is definitely some sales decline in those states versus the non-ag or all-patch state.

Craig Kennison, Robert W. Baird & Company

Thank you. Then, with respect to NAFTA, and I appreciate your comments that you've got a highly diversified manufacturing footprint, but could you talk about the NAFTA trade agreement elements that you benefit from today? To the extent that were to change, what would you be most concerned about losing?

Sébastien Martel, Chief Financial Officer

Obviously, there was a lot of talk trade between the U.S. and Mexico, and as you know, we have three plants in Mexico. We've been in Mexico since early 2001, we were extremely successful with our operations there, and we've got a solid workforce, as well. However, I can appreciate that you guys probably want a bit of colour as to the level of trade that we're doing between Mexico and the U.S., so let me try to help you out a bit and give you a few numbers.

When we look at BRP's trading volume between Mexico and the U.S., there's about a little over a billion dollars of goods transacting between the two countries, so from Mexico to the U.S., and that's in the form of personal watercraft, ATVs and side-by-side. Obviously, there could be many scenarios with many variables and a lot of moving parts.

Some trade experts have discussed about the U.S. pulling out of NAFTA. Well, what would that mean for us in terms of Mexico and the U.S.?

The first thing is the six-month notice that would have to be given, so we'd have to six months to look at various scenarios, but after six months what would happen is Mexico would fall under what we refer to as a most favoured nation clarification status. The tariffs that would be charged between the two countries would be, depending on the product line, between 1.4 and 2.9 percent per transaction. So, overall, when you look at the annual impact on a billion dollars of transactions, it would be in the range of, let's say, $20 million to $25 million a year, in terms of impact.

Obviously, if that were to happen, well, the whole value chain would have to be addressed and the increased costs would either be passed down to—some of it could be passed down to those buyers, some if it passed through pricing increase, and also doing what we do when we have inflation, is addressing it through cost structure improvements and improving operations.

So, that's the scenarios that we're looking at.

Should we expect changes to NAFTA? Well, the Canadian and Mexican governments have also indicated that they were willing to sit down with the U.S. government and renegotiate the agreement. After 25 years, they feel it was normal.

So, for us, until there's more clarity, it's business as usual. Obviously, $20 million to $25 million is something which is important, but not too material for us, something we could manage. We prefer not spending that money, obviously, on tariffs, but we do not feel, and I don't feel, that the objective of the U.S. government is to hurt the industry. As I said, they want to create growth in the U.S., maintain jobs in the U.S., invest in infrastructure, and for me, all of that is positive for the powersport industry.

Craig Kennison, Robert W. Baird & Company

Just a final point of clarification. Is that $1 billion figure a retail or wholesale metric?

Sébastien Martel, Chief Financial Officer

It's a wholesale metric.

Craig Kennison, Robert W. Baird & Company

Great. Thanks for that explanation.

Operator

Thank you. The next question is from Benoit Poirier with Desjardins Capital Markets. Please go ahead.

Benoit Poirier, Desjardins Capital Markets

Hey, good morning, gentlemen. Just to come back on the previous question, Sébastien, looking at the potential impact of $20 million $25 million, would it be a fair statement to say that probably you would consider keeping your operation in Mexico, rather than moving those locations elsewhere?

Sèbastien Martel, Chief Financial Officer

Obviously, at that level, yes, the benefits of being in Mexico with access to skilled labour force, obviously there's a cost advantage there, but also having access to the supply base in Mexico is very beneficial to us. When I look at this, it's almost the cost of inflation, $20 million to $25 million a year, and, again, it's something that we address regularly and it's part of managing our business. So, yes, on that scenario, we'd obviously remain in Mexico.

Benoit Poirier, Desjardins Capital Markets

Okay, perfect. Now, when we look at your dealer inventory level, it was up 7 percent versus last year, so good colour there. I'm just wondering what we should potentially expect in Q4 in comparison to a year ago and on a sequential basis, given the impact with the Maverick X3 and also the Defender.

Sébastien Martel, Chief Financial Officer

Yes, when I look at a few weeks down the road—obviously, snow season is a big factor in where we're going to end in inventory, but assuming a normal snow season and achieving the retail objectives that we have, I would expect the network inventory to be up high single-digits, mostly coming from the ramp-up of the Maverick X3 and also the Defender. Last year, we had started shipments of Defender, but we were in just the pre-production ramp-up. Now, we've just launched the new Defender HD5, and so we'll be shipping those units to dealers December, January. These are the two factors that are going to be driving increased inventory, and also probably a bit more of ATVs ahead of the spring season retail that is going to be starting.

Benoit Poirier, Desjardins Capital Markets

Okay, perfect. Just on the snowmobile front, why did it take so long to ramp up? Was there any delay in terms of production schedule on the new platform?

José Boisjoli, President and Chief Executive Officer

No, the production schedule was right in line with what we had planned, but I would like to remind you that the Ski-Doo REV Gen4 was a brand new snowmobile with a brand new engine, and the production was—we had a small production batch in September, but the mass production started in October. That was planned. What happened, Benoit, is last year, with the bad snow, the orders came out a bit different than what we planned. We had a lot more orders for the new snowmobile, the REV Gen4, novelty into the industry, less on the current product line, and because we were stuck with production date that we could not advance, we're delivering later. We communicated all of this to the consumer and the dealers. We are on plan, but it's a question of timing. Those situations happen from time to time when you introduce a brand new platform and you don't want to risk any—don't want a risk on the production, quality and the warrantee and all this.

Benoit Poirier, Desjardins Capital Markets

Okay, perfect. When we look at your free cash flow, obviously pretty strong end of quarter, you've been able to deliver the balance sheet, and your share buyback now is done for the year, so I'm just wondering if you could provide more colour about the cash deployment opportunities, because on the debt side you've got some pretty attractive interest rates, so I'm just wondering what's your thinking right now in terms of deployment opportunities?

Sébastien Martel, Chief Financial Officer

Yes, well, we've deployed about $230 million of cash this year on—I'll call it on cap structure, as you mentioned, the NCIB for about $75 million, and we also reimbursed about $150 million, or about CAD$130 million of debt in Q2, so part of that cash gen that we will be generating this year is—obviously, our objective is to continue to focus on growth, the organic part of it, so the products that you know, but as we've highlighted when we met in Mexico in September, we have a team in place looking at various alternatives to grow the business outside of what we traditionally do, through M&A, so obviously keeping a bit of dry powder for that will be key.

Benoit Poirier, Desjardins Capital Markets

Okay, and, Sébastien, any colour on the timing, when we could potentially see those alternatives?

Sébastien Martel, Chief Financial Officer

No. Obviously, we're not in a rush to do something. We'll do something if it's right. So, we're waiting for the right opportunity before making a move.

Benoit Poirier, Desjardins Capital Markets

Okay, perfect, and last one for me. It's probably a little bit early, but looking at fiscal '18, any things we should consider when assessing the outlook, either in terms of expense, in terms of industry growth rate, any colour for fiscal '18?

Sébastien Martel, Desjardins Capital Markets

Well, obviously, as customary, we'll be providing full fiscal year '18 guidance when we talk in March. Obviously, we're optimistic for next year, with the strong retail momentum that we have, the good momentum with the dealers in all of the markets, the great products we have, so we're optimistic for next year, and that's as much colour I can give you this morning, Benoit, unfortunately.

Benoit Poirier, Desjardins Capital Markets

Okay, perfect. Thank you very much for the time.

Sébastien Martel, Desjardins Capital Markets

Bye-bye.

Operator

Thank you. The next question is from Cameron Doerksen with National Bank Financial. Please go ahead.

Cameron Doerksen, National Bank Financial

Yes, thanks. Good morning. Just a question on sales programs. That was a tailwind for you in the third quarter. I'm just wondering if you can talk about what you're seeing so far in the fourth quarter on sales incentive programs, and from what you're seeing out there in the industry, generally, has anything kind of changed from what we've seen in the last couple of quarters?

José Boisjoli, President and Chief Executive Officer

Good morning. Watercraft, we had less programs, overall, this season. As you know, we are only in two major OEMs in that industry and it was a good season. It was less costly on watercraft overall and that was till the end of the season. Right now, on ATV, promotion is higher in the mid-cc category, where we compete with the (inaudible) family, and is driven by some of our competitors who have a lot of inventory. ATV is more competitive.

In term of side-by-side, there is a lot of new product hitting the market from all OEMS, and some—not all, but some of our competition are very, very aggressive with programs because they want to clear inventory. So, I would say it's too early to say. It's a normal start of the year with some programs, but I would consider it normal.

Then, overall, good on watercraft and snowmobile, and off-road, more competitive than last year.

Cameron Doerksen, National Bank Financial

Okay, and just maybe a modeling question, just on the depreciation expense. You've taken down you're your estimate for the full year is. I'm just wondering what's driving that and how the trend might continue into next fiscal year on depreciation.

Sébastien Martel, Chief Financial Officer

Yes, two things, Cameron, driving that. First, the timing of the Capex, we've pushed out a bit of the Capex to later in the year versus initially planned. The other one is the nature of the Capex. Obviously, with the strong demand we've had for a few product lines, we've shifted Capex priorities from, I'd say, the shorter term Capex to more longer term Capex, which are depreciated over longer lives, and that impacts a bit the depreciation costs that we've hit this year.

In terms of the trend, well, obviously, we've seen our trend in terms of Capex investments over the last two years in the range of $200 million. Our depreciation expense is lower than that. So, the depreciation expense will creep up next year, naturally.

Cameron Doerksen, National Bank Financial

Okay, perfect. That's all I had. Thanks very much.

Operator

Thank you. There are no further questions registered at this time, gentlemen.

Philippe Deschene, Head of Investor Relations

Great, thank you, and thanks, everyone, for joining us this morning and for your interest in BRP. We look forward to speaking with you again in March for our year-end conference call. Thanks again, everyone, and have a good day.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time. We thank you for your participation.
