



Polaris Inc. (PII)

Updated October 25th, 2022, by Nathan Parsh

Key Metrics

Current Price:	\$94	5 Year CAGR Estimate:	16.5%	Market Cap:	\$5.6 B
Fair Value Price:	\$153	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	11/30/22
% Fair Value:	61%	5 Year Valuation Multiple Estimate:	10.2%	Dividend Payment Date¹:	12/15/22
Dividend Yield:	2.7%	5 Year Price Target	\$186	Years Of Dividend Growth:	26
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating	Buy

Overview & Current Events

Founded in 1954 and headquartered in Medina, Minnesota, Polaris designs, engineers, and manufactures snowmobiles, all-terrain vehicles (ATVs) and motorcycles. In addition, related accessories and replacement parts are sold with these vehicles through dealers located throughout the U.S. The company operates under 30+ brands including Polaris, Ranger, RZR, Sportsman, Indian Motorcycle, Slingshot and Transamerican Auto Parts. The global powersports maker, serving over 100 countries, generated \$8.2 billion in sales in 2021 and has a nearly \$6 billion market capitalization.

On October 25th, 2022, Polaris released Q3 results for the period ending September 30th, 2022. Revenue increased 19.4% to \$2.34 billion, beating estimates by \$140 million. Adjusted earnings-per-share of \$3.25 compared favorably to \$2.85 in the prior year and was \$0.47 above expectations.

Marine, Off-Road, and On-Road segments grew 42%, 33%, and 30%, respectively. All segments benefited from higher prices and stable to improved demand. Also contributing to results were the easing of supply chain constraints as certain components saw increased availability during the quarter. Gross margin expanded 26 basis points to 23.9%.

Polaris also provided revised guidance for 2022. For this year, the company now expects revenue to grow 15% to 16%, compared to 13% to 16% and 12% to 15%, previously. Adjusted earnings-per-share is still expected to be in a range of \$10.10 to \$10.30.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$4.40	\$5.40	\$6.65	\$6.75	\$3.48	\$4.85	\$6.56	\$6.32	\$7.74	\$9.13	\$10.20	\$12.41
DPS	\$1.48	\$1.68	\$1.92	\$2.12	\$2.20	\$2.32	\$2.40	\$2.44	\$2.48	\$2.52	\$2.56	\$3.68
Shares²	69	66	66	65	63	63	61	62	63	63	60	58

From 2008 through 2018, Polaris was able to grow earnings-per-share by an average compound rate of 14% per annum. However, after growing tremendously from the last recession through 2015, growth fell off dramatically in 2016 as the company dealt with recalls and restoring confidence in the brand. Polaris has managed to improve its brand image, and earnings have once again improved, with 2020 and 2021 being standout years amidst the pandemic.

Over the long-term Polaris can generate growth via the ongoing replacement need for ATVs, snowmobiles and similar vehicles, continued growth in international markets, bolt-on acquisitions, and margin expansion. This thesis was put on pause in the first half of 2020, but it appears that the company is very much back on track. Polaris does face formidable competitors like Harley-Davidson and Honda, and the company's offerings are big ticket discretionary items that are subject to the whims of a healthy economy. That being said, recent results and guidance have been encouraging.

We are using \$10.20 in earnings-per-share – the midpoint of management's 2022 guidance – to go along with a 4% intermediate term growth rate assumption. We have been impressed by the resilient nature of the business, although we are cautious on forecasting too much growth over the intermediate term.

¹ Estimate dividend dates.

² In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.0	19.8	21.1	19.7	24.6	19.8	16.6	14.3	11.4	14.0	9.2	15.0
Avg. Yld.	2.0%	1.6%	1.4%	1.6%	2.6%	2.4%	2.2%	2.7%	2.8%	2.0%	2.7%	2.0%

Polaris' stock has declined \$17, or 15.3%, since our July 27th, 2022 update. Shares of Polaris have had two distinct periods of valuation. From 2002 through 2011, shares traded hands with an average earnings multiple under 15 times earnings. Then, from 2012 through 2018, shares traded with an average multiple of nearly 20 times earnings. We believe 15 times earnings is reasonable, taking into consideration the cyclical nature of the company. With shares presently trading at 9.2 times estimated earnings, this implies a meaningful valuation tailwind. Reaching our target multiple by 2027 would add 10.2% to annual returns over the period.

The dividend also deserves a special comment, having been increased for 26 consecutive years. Moreover, with a reasonable dividend payout ratio and the potential for growth, this payment could play an important role in shareholder returns over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

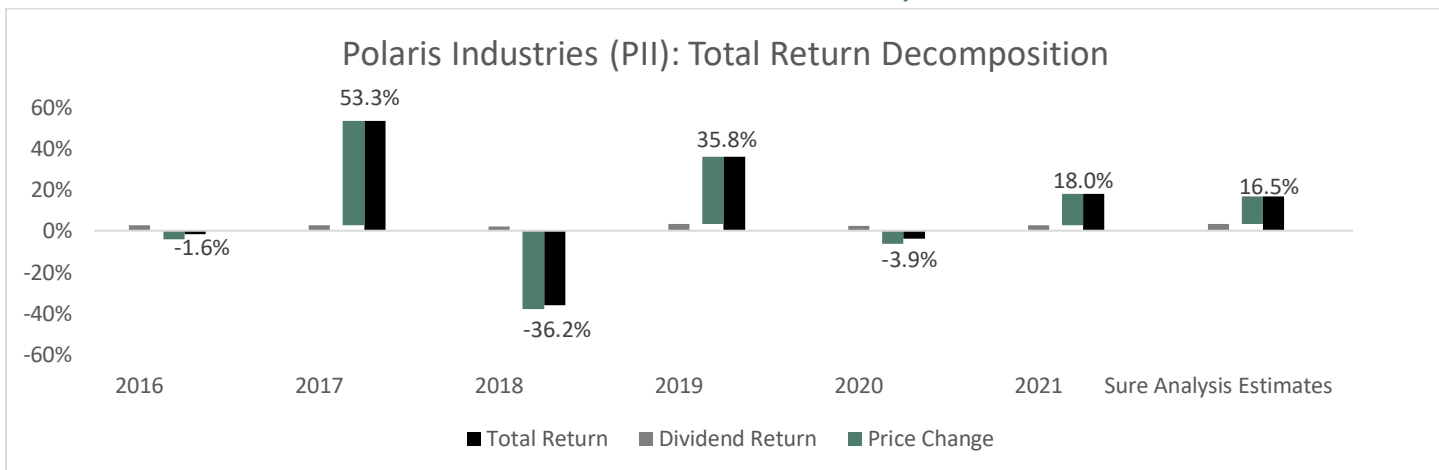
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	34%	31%	29%	31%	63%	48%	37%	39%	32%	28%	25%	30%

Polaris enjoys a competitive advantage through its brand names, low-cost production, and long history in its various industries, allowing the company to be the leader in ATVs and number two in snowmobiles and domestic motorcycles. The company does face several notable challenges: formidable competitors in the form of the Harley-Davidson's and Honda's of the world, a big-ticket sales item that depends on the economy, a product that is dependent on weather (snowmobiles) and company specific issues to deal with, such as recalls in the last few years. The COVID-19 pandemic had been a challenge in Q1 and Q2 of 2020; however, recent results have been very encouraging.

Final Thoughts & Recommendation

Polaris has proven to be a solid company, growing its dividend and earnings nicely, that fulfills a specialized niche vehicle market. The company does face challenges in the way of strong competitors and selling a big-ticket discretionary item. Total return potential comes in at 16.5% per annum, up from 12.7% previously. Our projection stems from 4% earnings growth, a 2.7% dividend yield, and the potential for a low double-digit valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3,210	3,777	4,480	4,719	4,517	5,428	6,079	6,783	7,028	8,198
Gross Profit	925	1,121	1,319	1,339	1,106	1,325	1,501	1,649	1,710	1,943
Gross Margin	28.8%	29.7%	29.4%	28.4%	24.5%	24.4%	24.7%	24.3%	24.3%	23.7%
SG&A Exp.	353	450	518	526	649	803	842	953	904	951
D&A Exp.	71	92	128	152	168	191	211	235	261	237
Operating Profit	478	578	715	716	350	360	487	484	592	709
Operating Margin	14.9%	15.3%	16.0%	15.2%	7.8%	6.6%	8.0%	7.1%	8.4%	8.6%
Net Profit	312	377	454	455	213	172	335	324	125	494
Net Margin	9.7%	10.0%	10.1%	9.6%	4.7%	3.2%	5.5%	4.8%	1.8%	6.0%
Free Cash Flow	313	241	324	191	380	401	252	404	805	(5)
Income Tax	168	193	245	230	100	146	94	84	17	131

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,489	1,685	2,075	2,386	3,100	3,090	4,125	4,431	4,633	5,048
Cash & Equivalents	417	92	138	155	127	138	161	157	635	509
Accounts Receivable	120	186	205	151	175	200	197	190	257	241
Inventories	345	418	566	710	747	784	970	1,121	1,178	1,645
Goodwill & Int. Ass.	107	230	224	236	793	781	1,518	1,490	1,084	1,038
Total Liabilities	798	1,150	1,214	1,404	2,233	2,158	3,258	3,322	3,488	3,822
Accounts Payable	169	238	343	300	274	317	346	450	782	797
Long-Term Debt	100	281	203	442	1,124	895	1,946	1,679	1,436	1,789
Shareholder's Equity	691	536	861	981	867	932	867	1,108	1,145	1,224
LTD/E Ratio	0.14	0.52	0.24	0.45	1.30	0.96	2.25	1.52	1.25	1.46

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	23.0%	23.8%	24.1%	20.4%	7.8%	5.6%	9.3%	7.6%	2.8%	10.2%
Return on Equity	52.5%	61.5%	65.0%	49.4%	23.0%	19.2%	37.3%	32.8%	11.1%	41.7%
ROIC	44.9%	47.0%	48.3%	36.6%	12.5%	9.0%	14.5%	11.6%	4.7%	17.7%
Shares Out.	69	66	66	65	63	63	61	62	63	63
Revenue/Share	45.21	53.54	65.66	69.93	69.32	84.58	95.13	108.87	112.27	130.75
FCF/Share	4.41	3.41	4.75	2.83	5.84	6.25	3.94	6.48	12.85	(0.07)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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