



Polaris Inc. (PII)

Updated January 25th, 2022, by Eli Inkrot

Key Metrics

Current Price:	\$108	5 Year CAGR Estimate:	13.5%	Market Cap:	\$7 B
Fair Value Price:	\$154	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	02/26/22
% Fair Value:	70%	5 Year Valuation Multiple Estimate:	7.4%	Dividend Payment Date¹:	03/15/22
Dividend Yield:	2.3%	5 Year Price Target	\$187	Years Of Dividend Growth:	26
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	1.6%

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 \$7 billion market capitalization.

On January 25th, 2022, Polaris released Q4 and full year 2021 results for the period ending December 31st, 2021. For the quarter sales increased 0.7% to \$2.17 billion. Gains of 2%, 23% and 12% in the Motorcycles, Global Adjacent Markets, and Boats segments were nearly offset by a -2% decline in Off-Road Vehicle / Snowmobiles and a -2% decline in the Aftermarket segment. Net income equaled \$86.8 million or \$1.40 per share. On an adjusted basis, earnings-per-share equaled \$2.16 compared to \$3.34 in Q4 2020.

For the year Polaris generated sales of \$8.198 billion, a 16.7% year-over-year increase, and ahead of prior guidance. Adjusted net income equaled \$9.13, ahead of prior guidance, compared to \$7.74 in 2020.

Polaris also provided a 2022 outlook. For this year the company anticipates \$9.215 billion to \$9.455 billion in sales and adjusted earnings-per-share of \$10.10 to \$10.40. We have initiated our forecast accordingly.

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	\$10.25	\$12.47
DPS	\$1.48	\$1.68	\$1.92	\$2.12	\$2.20	\$2.32	\$2.40	\$2.44	\$2.48	\$2.52	\$2.52	\$3.62
Shares²	69	66	66	65	63	63	61	62	63	63	62	60

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 \$10.25 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

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	10.5	15.0
Avg. Yld.	2.0%	1.6%	1.4%	1.6%	2.6%	2.4%	2.2%	2.7%	2.8%	2.0%	2.3%	1.9%

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 near 11 times estimated earnings, this implies a valuation tailwind.

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

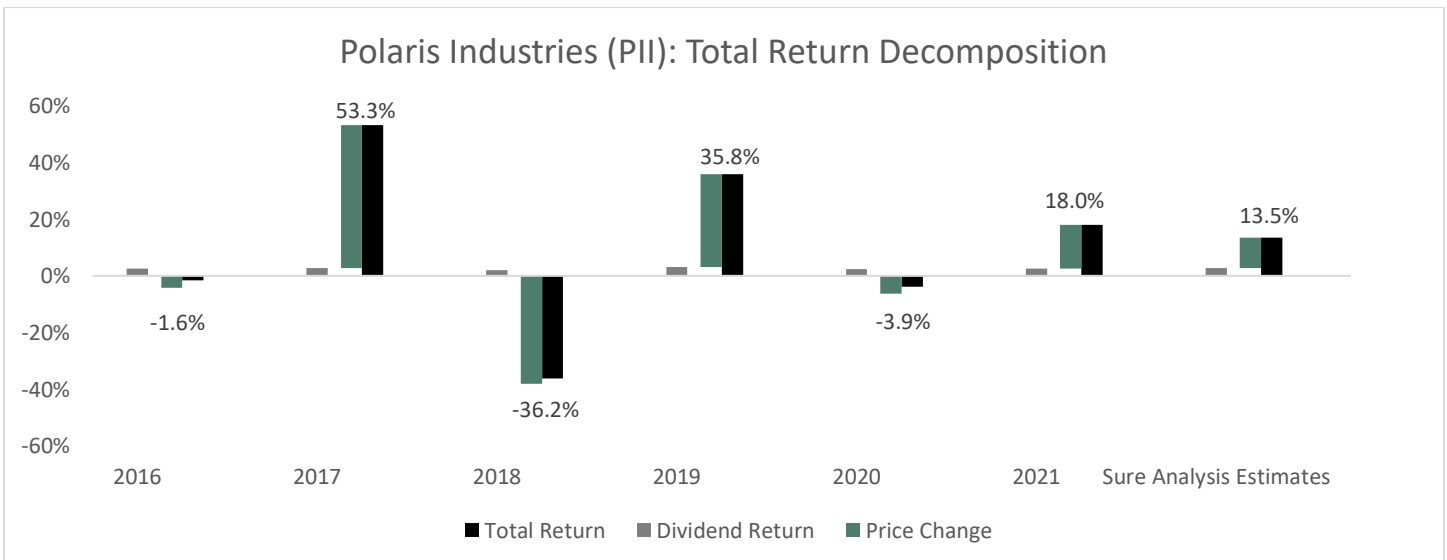
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	34%	31%	29%	31%	63%	48%	37%	39%	32%	28%	25%	29%

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

Shares are down -11% in the last year. 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 13.5% per annum, stemming from 4% growth, a 2.3% dividend yield, and the potential for a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2,657	3,210	3,777	4,480	4,719	4,517	5,428	6,079	6,783	7,028
Gross Profit	741	925	1,121	1,319	1,339	1,106	1,325	1,501	1,649	1,710
Gross Margin	27.9%	28.8%	29.7%	29.4%	28.4%	24.5%	24.4%	24.7%	24.3%	24.3%
SG&A Exp.	309	353	450	518	526	649	803	842	953	904
D&A Exp.	66	71	92	128	152	168	191	211	235	261
Operating Profit	350	478	578	715	716	350	360	487	484	592
Operating Margin	13.2%	14.9%	15.3%	16.0%	15.2%	7.8%	6.6%	8.0%	7.1%	8.4%
Net Profit	228	312	377	454	455	213	172	335	324	125
Net Margin	8.6%	9.7%	10.0%	10.1%	9.6%	4.7%	3.2%	5.5%	4.8%	1.8%
Free Cash Flow	218	313	241	324	191	380	401	252	404	805
Income Tax	119	168	193	245	230	100	146	94	84	17

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,228	1,489	1,685	2,075	2,386	3,100	3,090	4,125	4,431	4,633
Cash & Equivalents	325	417	92	138	155	127	138	161	157	635
Accounts Receivable	115	120	186	205	151	175	200	197	190	257
Inventories	298	345	418	566	710	747	784	970	1,121	1,178
Goodwill & Int. Ass.	78	107	230	224	236	793	781	1,518	1,490	1,084
Total Liabilities	728	798	1,150	1,214	1,404	2,233	2,158	3,258	3,322	3,488
Accounts Payable	147	169	238	343	300	274	317	346	450	782
Long-Term Debt	100	100	281	203	442	1,124	895	1,946	1,679	1,436
Shareholder's Equity	500	691	536	861	981	867	932	867	1,108	1,145
D/E Ratio	0.20	0.14	0.52	0.24	0.45	1.30	0.96	2.25	1.52	1.25

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	19.9%	23.0%	23.8%	24.1%	20.4%	7.8%	5.6%	9.3%	7.6%	19.9%
Return on Equity	52.3%	52.5%	61.5%	65.0%	49.4%	23.0%	19.2%	37.3%	32.8%	52.3%
ROIC	38.9%	44.9%	47.0%	48.3%	36.6%	12.5%	9.0%	14.5%	11.6%	38.9%
Shares Out.	68	69	66	66	65	63	63	61	62	63
Revenue/Share	37.39	45.21	53.54	65.66	69.93	69.32	84.58	95.05	108.88	37.39
FCF/Share	3.07	4.41	3.41	4.75	2.83	5.84	6.25	3.94	6.48	3.07

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

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