



Polaris Inc. (PII)

Updated July 27th, 2023, by Nathan Parsh

Key Metrics

Current Price:	\$137	5 Year CAGR Estimate:	8.7%	Market Cap:	\$7.8 B
Fair Value Price:	\$158	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	08/31/23
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.8%	Dividend Payment Date¹:	09/15/23
Dividend Yield:	1.9%	5 Year Price Target	\$192	Years Of Dividend Growth:	28
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating	Hold

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 \$8.6 billion in sales in 2022 and has a nearly \$8 billion market capitalization.

On February 2nd, 2023, Polaris raised its quarterly dividend 1.6% to \$0.65.

On July 25th, 2023, Polaris announced Q2 results for the period ending June 30th, 2023. For the quarter, revenue grew 7% to \$2.22 billion, which was \$70 million more than expected. Adjusted earnings-per-share of \$2.42 matched the prior year's result, but was \$0.19 above estimates.

For the quarter, Marine sales fell 18% while Off-Road and On-Road segments grew 9% and 21%, respectively. Marine sales were impacted by weaker demand and unfavorable product mix. Off-Road and On-Road both benefited from higher volumes and strength in parts, garments, and accessories. Gross margin contracted 22 basis points to 22.8%.

Polaris updated guidance for 2023. For the year, the company now expects revenue to be up 3% to 6%, up from prior guidance of flat to up 5%. Adjusted earnings-per-share are projected to be down 2% to up three percent, compared to prior guidance of down 3% to up 3%. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$5.40	\$6.65	\$6.75	\$3.48	\$4.85	\$6.56	\$6.32	\$7.74	\$9.13	\$10.40	\$10.50	\$12.77
DPS	\$1.68	\$1.92	\$2.12	\$2.20	\$2.32	\$2.40	\$2.44	\$2.48	\$2.52	\$2.56	\$2.60	\$3.73
Shares²	66	66	65	63	63	61	62	63	63	59	58	56

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.

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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We are using \$10.50 in earnings-per-share – the midpoint of management’s updated 2023 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.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	19.8	21.1	19.7	24.6	19.8	16.6	14.3	11.4	14.0	9.7	13.0	15.0
Avg. Yld.	1.6%	1.4%	1.6%	2.6%	2.4%	2.2%	2.7%	2.8%	2.0%	2.5%	1.9%	1.9%

Polaris’ stock has increased \$30, or 28%, since our April 26th, 2023 update. Shares of Polaris have had two distinct periods of valuation. From 2002 through 2011, shares traded hands with an average earnings multiple under 13 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 just 13 times estimated earnings, this implies a valuation tailwind. Reaching our target multiple by 2028 would add 2.8% to annual returns over the period.

The dividend also deserves a special comment, having been increased for 28 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

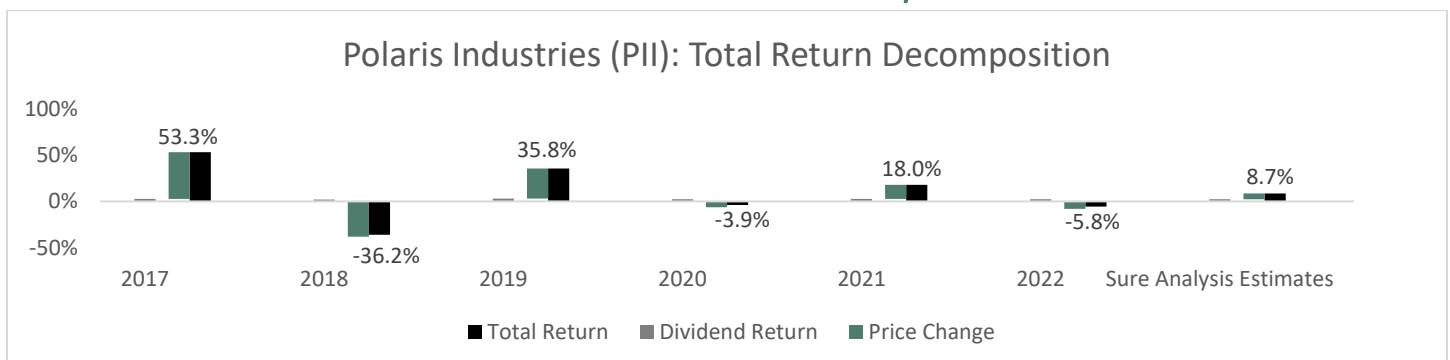
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	31%	29%	31%	63%	48%	37%	39%	32%	28%	25%	25%	29%

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

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 8.7% per annum, down from 14.0% previously. Our projection stems from 4% earnings growth, a 1.9% dividend yield, and a low single-digit valuation tailwind. Shares now earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	3,777	4,480	4,719	4,517	5,428	6,079	6,783	7,028	8,198	8,589
Gross Profit	1,121	1,319	1,339	1,106	1,325	1,501	1,649	1,710	1,943	1,960
Gross Margin	29.7%	29.4%	28.4%	24.5%	24.4%	24.7%	24.3%	24.3%	23.7%	22.8%
SG&A Exp.	450	518	526	649	803	842	953	904	951	837
D&A Exp.	92	128	152	168	191	211	235	261	237	233
Operating Profit	578	715	716	350	360	487	484	592	709	805
Operating Margin	15.3%	16.0%	15.2%	7.8%	6.6%	8.0%	7.1%	8.4%	8.6%	9.4%
Net Profit	377	454	455	213	172	335	324	125	494	447
Net Margin	10.0%	10.1%	9.6%	4.7%	3.2%	5.5%	4.8%	1.8%	6.0%	5.2%
Free Cash Flow	241	324	191	380	401	252	404	805	(5)	202
Income Tax	193	245	230	100	146	94	84	17	131	158

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,685	2,075	2,386	3,100	3,090	4,125	4,431	4,633	5,048	5,218
Cash & Equivalents	92	138	155	127	138	161	157	635	509	325
Accounts Receivable	186	205	151	175	200	197	190	257	241	343
Inventories	418	566	710	747	784	970	1,121	1,178	1,645	1,896
Goodwill & Int. Ass.	230	224	236	793	781	1,518	1,490	1,084	1,038	911
Total Liabilities	1,150	1,214	1,404	2,233	2,158	3,258	3,322	3,488	3,822	4,116
Accounts Payable	238	343	300	274	317	346	450	782	797	848
Long-Term Debt	281	203	442	1,124	895	1,946	1,679	1,436	1,789	2,048
Shareholder's Equity	536	861	981	867	932	867	1,108	1,145	1,224	1,099
LTD/E Ratio	0.52	0.24	0.45	1.30	0.96	2.25	1.52	1.25	1.46	1.86

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	23.8%	24.1%	20.4%	7.8%	5.6%	9.3%	7.6%	2.8%	10.2%	8.7%
Return on Equity	61.5%	65.0%	49.4%	23.0%	19.2%	37.3%	32.8%	11.1%	41.7%	38.5%
ROIC	47.0%	48.3%	36.6%	12.5%	9.0%	14.5%	11.6%	4.7%	17.7%	14.5%
Shares Out.	66	66	65	63	63	61	62	63	63	59
Revenue/Share	53.54	65.66	69.93	69.32	84.58	95.13	108.87	112.27	130.75	142.91
FCF/Share	3.41	4.75	2.83	5.84	6.25	3.94	6.48	12.85	(0.07)	3.36

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

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