



# Polaris Inc. (PII)

Updated October 26<sup>th</sup>, 2023, by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$85	<b>5 Year CAGR Estimate:</b>	18.0%	<b>Market Cap:</b>	\$4.8 B
<b>Fair Value Price:</b>	\$147	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	11/30/23
<b>% Fair Value:</b>	58%	<b>5 Year Valuation Multiple Estimate:</b>	11.5%	<b>Dividend Payment Date<sup>1</sup>:</b>	12/15/23
<b>Dividend Yield:</b>	3.1%	<b>5 Year Price Target</b>	\$178	<b>Years Of Dividend Growth:</b>	28
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating</b>	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 \$8.6 billion in sales in 2022 and has a nearly \$5 billion market capitalization.

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

On October 24<sup>th</sup>, 2023, Polaris reported Q3 results for the period ending September 30<sup>th</sup>, 2023. For the quarter, revenue decreased 3.8% to \$2.25 billion, which was \$20 million less than expected. Adjusted earnings-per-share of \$2.71 compared unfavorably to \$3.25 in the prior year and was \$0.02 less than anticipated.

For the quarter, Marine sales declined 48%, On-Road fell 19%, and Off-Road, the largest component of the company, improved 6%. Sales for Marine and On-Road were lower due to a decrease in volumes. Off-Road benefited from strength in snowmobile demand and gains in Parts, Garments, and Accessories. Gross margin contracted 127 basis points to 22.6%.

Polaris updated guidance for 2023. For the year, the company now expects revenue to be up 3% to 5% compared to prior guidance of up 3% to 6% and flat to up 5%. Adjusted earnings-per-share are now projected to be down 4% to down 8% compared to prior guidance of down 2% to up 3% and 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
<b>EPS</b>	\$5.40	\$6.65	\$6.75	\$3.48	\$4.85	\$6.56	\$6.32	\$7.74	\$9.13	\$10.40	<b>\$9.78</b>	<b>\$11.90</b>
<b>DPS</b>	\$1.68	\$1.92	\$2.12	\$2.20	\$2.32	\$2.40	\$2.44	\$2.48	\$2.52	\$2.56	<b>\$2.60</b>	<b>\$3.73</b>
<b>Shares<sup>2</sup></b>	66	66	65	63	63	61	62	63	63	59	<b>58</b>	<b>56</b>

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.

<sup>1</sup> Estimate dividend dates.

<sup>2</sup> In millions.

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We are using \$9.78 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	8.7	15.0
Avg. Yld.	1.6%	1.4%	1.6%	2.6%	2.4%	2.2%	2.7%	2.8%	2.0%	2.5%	3.1%	2.1%

Polaris’ stock has declined \$52, or 38%, since our July 27<sup>th</sup>, 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 cyclicity of the company. With shares presently trading at less than 9 times estimated earnings, this implies a sizeable valuation tailwind. Reaching our target multiple by 2028 would add 11.5% 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. The yield is also well above the stock’s average of 2.2% since 2013.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

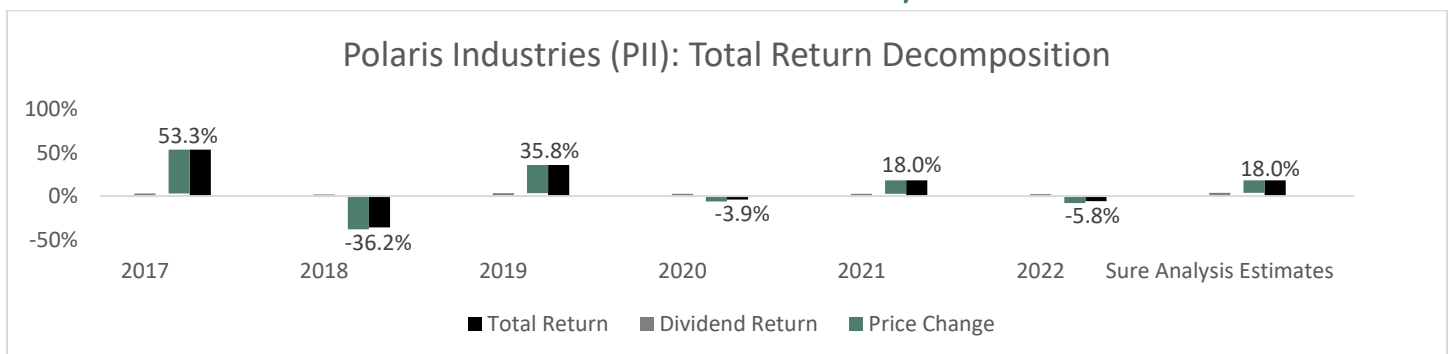
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	31%	29%	31%	63%	48%	37%	39%	32%	28%	25%	27%	31%

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.

## 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. The stock has declined considerably since our last report, but this led to a very attractive valuation in our view. Total return potential comes in at 18.0% per annum, up from 8.7% previously. Our projection stems from 4% earnings growth, a 3.1% dividend yield, and a double-digit valuation tailwind. Shares now earn a buy rating due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	1,685	2,075	2,386	3,100	3,090	4,125	4,431	4,633	5,048	5,218
<b>Cash &amp; Equivalents</b>	92	138	155	127	138	161	157	635	509	325
<b>Accounts Receivable</b>	186	205	151	175	200	197	190	257	241	343
<b>Inventories</b>	418	566	710	747	784	970	1,121	1,178	1,645	1,896
<b>Goodwill &amp; Int. Ass.</b>	230	224	236	793	781	1,518	1,490	1,084	1,038	911
<b>Total Liabilities</b>	1,150	1,214	1,404	2,233	2,158	3,258	3,322	3,488	3,822	4,116
<b>Accounts Payable</b>	238	343	300	274	317	346	450	782	797	848
<b>Long-Term Debt</b>	281	203	442	1,124	895	1,946	1,679	1,436	1,789	2,048
<b>Shareholder's Equity</b>	536	861	981	867	932	867	1,108	1,145	1,224	1,099
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	23.8%	24.1%	20.4%	7.8%	5.6%	9.3%	7.6%	2.8%	10.2%	8.7%
<b>Return on Equity</b>	61.5%	65.0%	49.4%	23.0%	19.2%	37.3%	32.8%	11.1%	41.7%	38.5%
<b>ROIC</b>	47.0%	48.3%	36.6%	12.5%	9.0%	14.5%	11.6%	4.7%	17.7%	14.5%
<b>Shares Out.</b>	66	66	65	63	63	61	62	63	63	59
<b>Revenue/Share</b>	53.54	65.66	69.93	69.32	84.58	95.13	108.87	112.27	130.75	142.91
<b>FCF/Share</b>	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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