



Polaris Inc. (PII)

Updated October 24th, 2024, by Nathan Parsh

Key Metrics

Current Price:	\$70	5 Year CAGR Estimate:	9.4%	Market Cap:	\$3.9 B
Fair Value Price:	\$78	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	11/29/24
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.2%	Dividend Payment Date¹:	12/16/24
Dividend Yield:	3.8%	5 Year Price Target	\$95	Years Of Dividend Growth:	29
Dividend Risk Score:	B	Retirement Suitability Score:	A	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 \$8.9 billion in sales in 2023 and has a \$3.9 billion market capitalization.

On February 1st, 2024, Polaris raised its quarterly dividend 1.5% to \$0.66.

On October 22nd, 2024, Polaris reported third quarter results for the period ending September 30th, 2024. For the quarter, revenue decreased 23.6% to \$1.72 billion, which missed estimates by \$50 million. Adjusted earnings-per-share of \$0.73 compared very unfavorably to \$2.72 in the prior year and was \$0.18 less than expected.

For the quarter, Marine sales were down 36%, On-Road fell 13%, and Off-Road, the largest component of the company, declined 24%. Decreases in all three businesses were mostly due to lower volumes. Off-Road was negatively impacted by higher promotional spend and product mix. On-Road and Marine both suffered from weaker product mix. Gross margin contracted 204 basis points to 20.6%.

Polaris provided updated guidance for 2024 as well, with the company now expecting revenue to be down ~20%, compared to a decline of 17% to 20% and a decrease of 5% to 7% previously. Adjusted earnings-per-share to be lower by 65% versus 2023, compared to a prior outlook of down 56% to 62% and lower by 10% to 15% previously. The new midpoint for earnings-per-share is \$3.21, but we project that Polaris has earnings power of \$6.00.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$6.65	\$6.75	\$3.48	\$4.85	\$6.56	\$6.32	\$7.74	\$9.13	\$10.40	\$9.16	\$3.21	\$7.30
DPS	\$1.92	\$2.12	\$2.20	\$2.32	\$2.40	\$2.44	\$2.48	\$2.52	\$2.56	\$2.60	\$2.64	\$3.21
Shares²	66	65	63	63	61	62	63	63	59	57	57	57

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.

¹ Estimate dividend dates.

² In millions.

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We are using \$6.00 in earnings-per-share 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.1	19.7	24.6	19.8	16.6	14.3	11.4	14.0	9.7	11.0	11.7	13.0
Avg. Yld.	1.4%	1.6%	2.6%	2.4%	2.2%	2.7%	2.8%	2.0%	2.5%	2.7%	3.8%	3.4%

Polaris' stock has declined \$5, or 6.7%, since our July 24th, 2024 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. The average P/E drops 13 when looking at the last five years. As such, we have lowered our target P/E to 13 from 15, which takes into consideration the cyclicity of the company and the stock's medium-term valuation. With shares presently trading at 11.7 estimated earnings power, this implies a valuation tailwind. Reaching our target multiple by 2029 would add 2.2% to annual returns over the period.

The dividend also deserves a special comment, having been increased for 29 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 current yield of 3.8% is also well above the stock's average of 2.2% since 2013.

Safety, Quality, Competitive Advantage, & Recession Resiliency

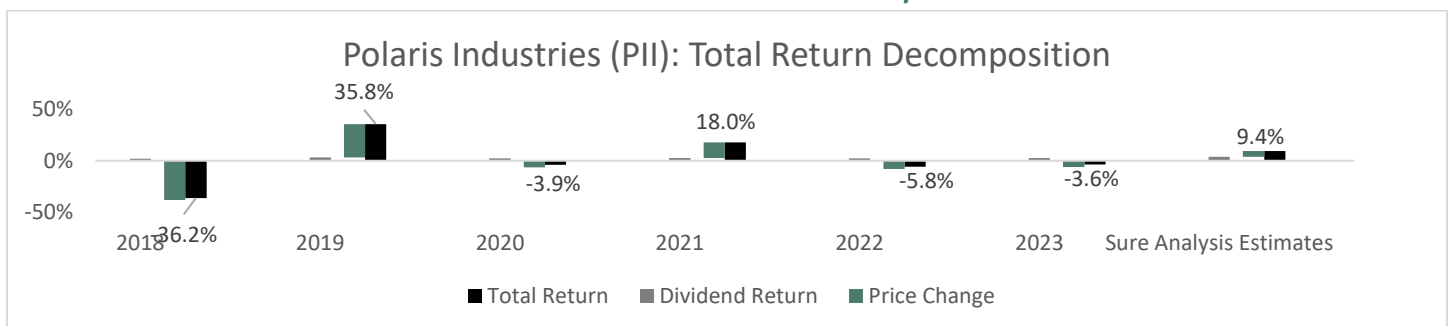
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	29%	31%	63%	48%	37%	39%	32%	28%	25%	27%	44%	44%

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. Recent quarterly results were considerably weaker than expected and management once again lowered its guidance for the year. Total return potential comes in at 9.4% per annum, up from 7.9% previously. Our projection stems from 4% earnings growth, a 3.8% dividend yield, and a small contribution from multiple expansion. Shares continue to earn a hold rating due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4,480	4,719	4,517	5,428	6,079	6,783	7,028	7,439	8,589	8,934
Gross Profit	1,319	1,339	1,106	1,325	1,501	1,649	1,710	1,751	1,960	1,960
Gross Margin	29.4%	28.4%	24.5%	24.4%	24.7%	24.3%	24.3%	23.5%	22.8%	21.9%
SG&A Exp.	518	526	649	803	842	953	904	764	837	965
D&A Exp.	128	152	168	191	211	235	261	216	233	259
Operating Profit	715	716	350	360	487	484	592	712	805	701
Operating Margin	16.0%	15.2%	7.8%	6.6%	8.0%	7.1%	8.4%	9.6%	9.4%	7.8%
Net Profit	454	455	213	172	335	324	125	494	447	503
Net Margin	10.1%	9.6%	4.7%	3.2%	5.5%	4.8%	1.8%	6.6%	5.2%	5.6%
Free Cash Flow	324	191	380	401	252	404	805	11	202	513
Income Tax	245	230	100	146	94	84	17	132	158	118

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,075	2,386	3,100	3,090	4,125	4,431	4,633	5,048	5,218	5,516
Cash & Equivalents	138	155	127	138	161	157	635	502	325	368
Accounts Receivable	205	151	175	200	197	190	257	228	343	306
Inventories	566	710	747	784	970	1,121	1,178	1,511	1,896	1,811
Goodwill & Int. Ass.	224	236	793	781	1,518	1,490	1,084	935	911	906
Total Liabilities	1,214	1,404	2,233	2,158	3,258	3,322	3,488	3,822	4,116	4,096
Accounts Payable	343	300	274	317	346	450	782	776	848	713
Long-Term Debt	203	442	1,124	895	1,946	1,679	1,436	1,789	2,048	1,908
Shareholder's Equity	861	981	867	932	867	1,108	1,145	1,224	1,099	1,418
LTD/E Ratio	0.24	0.45	1.30	0.96	2.25	1.52	1.25	1.46	1.86	1.35

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	24.1%	20.4%	7.8%	5.6%	9.3%	7.6%	2.8%	10.2%	8.7%	9.4%
Return on Equity	65.0%	49.4%	23.0%	19.2%	37.3%	32.8%	11.1%	41.7%	38.5%	39.9%
ROIC	48.3%	36.6%	12.5%	9.0%	14.5%	11.6%	4.7%	17.7%	14.5%	15.5%
Shares Out.	66	65	63	63	61	62	63	63	59	57
Revenue/Share	65.66	69.93	69.32	84.58	95.13	108.87	112.27	118.65	142.91	154.84
FCF/Share	4.75	2.83	5.84	6.25	3.94	6.48	12.85	0.17	3.36	8.89

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

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