BRP, Inc. (DOO-CA)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

<table>
<thead>
<tr>
<th>Price (C$) (5/27/20):</th>
<th>50.71</th>
</tr>
</thead>
<tbody>
<tr>
<td>52WK H-L (C$) :</td>
<td>75 - 19</td>
</tr>
<tr>
<td>Market Cap (mil):</td>
<td>4,460</td>
</tr>
<tr>
<td>Shares Out (mil):</td>
<td>88.0</td>
</tr>
<tr>
<td>Float (mil):</td>
<td>40.1</td>
</tr>
<tr>
<td>Avg. Daily Vol (mil):</td>
<td>0.49</td>
</tr>
<tr>
<td>Dividend (C$) :</td>
<td>0.00</td>
</tr>
<tr>
<td>Yield (%):</td>
<td>0.0</td>
</tr>
<tr>
<td>Rating:</td>
<td>Outperform</td>
</tr>
<tr>
<td>Price Target (C$) :</td>
<td>56</td>
</tr>
<tr>
<td>L-Term Rev. Gr Rate Est:</td>
<td>182.4%</td>
</tr>
<tr>
<td>L-Term EPS Gr Rate Est:</td>
<td>NM</td>
</tr>
<tr>
<td>Debt/Cap:</td>
<td>Total</td>
</tr>
<tr>
<td>ROE:</td>
<td>13.2x</td>
</tr>
<tr>
<td>Suitability:</td>
<td>FY P/E</td>
</tr>
<tr>
<td>FY Jan</td>
<td>2020A</td>
</tr>
<tr>
<td></td>
<td>2021E</td>
</tr>
<tr>
<td></td>
<td>2022E</td>
</tr>
<tr>
<td>2020A</td>
<td>0.54A</td>
</tr>
<tr>
<td>2021E</td>
<td>0.71A</td>
</tr>
<tr>
<td>2022E</td>
<td>1.11A</td>
</tr>
</tbody>
</table>

EPS (Net): Estimates represent normalized basic EPS and are denominated in Canadian Dollars.

<table>
<thead>
<tr>
<th>Headquartered</th>
<th>IPO/Founded</th>
<th>Jan</th>
<th>2020A</th>
<th>2021E</th>
<th>2022E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valcourt, Québéc</td>
<td>2013/2003</td>
<td>Revenue (Mil)</td>
<td>6,052.7</td>
<td>4,857.5</td>
<td>5,433.6</td>
</tr>
<tr>
<td>% Growth</td>
<td>15.4%</td>
<td>(19.7)%</td>
<td>11.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Margin</td>
<td>9.1%</td>
<td>9.8%</td>
<td>10.3%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Company Description

BRP designs, manufactures, and markets a diversified portfolio of powersports vehicles, boats, and propulsion systems under a number of leading brands, including Ski-Doo, Sea-Doo, Can-Am, Alumacraft, Evinrude, and Rotax. The company is the leader in the snowmobile and PWC markets and maintains a significant position in the ATV, SSV, roadster, and outboard engine markets. BRP derived 46% of revenue from Year-Round Products (ATVs, SSVs, and 3WVs), 32% from Seasonal Products (snowmobiles and PWCs), 13% from Powersports PAC and OEM Engines, and 9% from Marine. The company sells products in over 100 countries primarily through a network of over 4,000 independent dealers and distributors.

Revenue Profile

BRP Revenue Mix - F2020

Source: Company data, Baird research
Competition

Quick Summary
BRP reported solid results (all things considered), including surprising retail strength. North American powersports retail finished +4% despite steep declines in late March/early April. So far in May, global demand is up 35% as consumers favor outdoor activities over crowded spaces. Separately, BRP made a tough call to exit outboard marine engine production (boosting ROI). Net, with demand accelerating and returns improving, BRP appears well-positioned as outdoor stocks surge.

Investment Thesis
Price target. Our C$56 price target represents ~17x our forward EPS estimate (near 8x normalized EBITDA), above the five-year average (~14x) as interest in outdoor recreation grows in the wake of the pandemic.

Headquartered in Valcourt, Quebec, BRP is a global leader in powersports with particular strength on snow and water – and an opportunity to expand on road and on dirt. Building on fresh product innovation, strong dealers, well-respected brands (BRP, Can-Am, Sea-Doo, Ski-Doo, Spyder, Evinrude, and Rotax), and a more competitive cost structure (Mexico) BRP is expanding its dealer footprint and taking a larger share of dealer showrooms. We expect affluent consumers to spend more as monetary policy rekindles discretionary spending, benefiting BRP. Investment highlights include:

- Innovative culture, healthy dealers, well-respected brands, and loyal customers
- Filling-out dirt products (primarily recreation and utility side-by-side vehicles – SSVs)
- Optimizing dealer network
- Expanding outside North America
- Emerging marine strategy
- Reducing cost structure through Mexican expansion and global sourcing

Risks & Caveats
BRP is a leading player in the increasingly competitive powersports market. As new players enter the market – and existing players expand their product offerings – numerous powersports OEMs have become increasingly promotional (pressures margins) to gain greater share of end-consumer demand. Moreover, increasing competition necessitates that BRP maintain a high level of research and development expenditure, to ensure that BRP products compare favorably to those of competitors. Key risk factors include:

- Increasingly competitive null market (requires large R&D budget)
- Economic sensitivity – exposure to discretionary income, consumer confidence patterns, and the availability of consumer credit
- Availability of credit (wholesale credit, retail credit – all tiers)
- Exposure to the rural economy (ag prices, land prices, etc.)
- Dealer inventory levels (destocking and restocking cycles)
- Financial leverage
- Currency exposure
- BRP reports financial results in Canadian Dollars (CAD) and its shares trade in CAD on the Toronto Stock Exchange
- Regulatory issues, including (but not limited to) land use and vehicle standards
- Low trading volume, limited liquidity
- Weather (e.g., snowfall)
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