Polaris Industries Inc. (PII)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

<table>
<thead>
<tr>
<th>Price ($) (5/28/20):</th>
<th>88.83</th>
</tr>
</thead>
<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>104 - 37</td>
</tr>
<tr>
<td>Market Cap (mil):</td>
<td>5,499</td>
</tr>
<tr>
<td>Shares Out (mil):</td>
<td>61.9</td>
</tr>
<tr>
<td>Float (mil):</td>
<td>57.2</td>
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<tr>
<td>Dividend ($) :</td>
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<tr>
<td>Yield (%):</td>
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<td>Rating:</td>
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<tr>
<td>Suitability:</td>
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</tr>
<tr>
<td>Price Target ($) :</td>
<td>95</td>
</tr>
<tr>
<td>L-Term Rev. Gr Rate Est:</td>
<td>8%</td>
</tr>
<tr>
<td>L-Term EPS Gr Rate Est:</td>
<td>11%</td>
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<tr>
<td>Debt/Cap:</td>
<td>68.4%</td>
</tr>
<tr>
<td>ROE:</td>
<td>30.2%</td>
</tr>
<tr>
<td>FY Dec</td>
<td>Q1: 0.22A</td>
</tr>
<tr>
<td></td>
<td>Q2: 0.46E</td>
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<tr>
<td></td>
<td>Q3: 0.90E</td>
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**Company Description**

Polaris Industries is a leading designer and manufacturer of powersport vehicles including ATVs, side-by-sides, snowmobiles, motorcycles, and pontoons. The company has the No. 1 share of the off-road vehicle market (ORVs), which includes ATVs and side-by-sides, is a significant player in the snowmobile market, and has a large opportunity in the motorcycle market. In 2018, Polaris entered the marine space through its acquisition of Boat Holdings. The company distributes its products through a network of independent dealers in North America and internationally.

**Revenue Profile**

**Polaris 2019 Revenue Mix by Segment**

Source: Company data, Baird research

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## Quick Summary

After a strong start to the year, retail collapsed as the coronavirus spread. Demand improved in April and revenue is tracking ahead of our post-outbreak model, but we continue to expect tough times ahead. Management is executing its recession playbook and working to protect dealers and preserve liquidity. As parts of the economy reopen, we are more optimistic Polaris can weather the storm, but we advise caution.

### Competition

<table>
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<th>Product Category</th>
<th>Retail Sales (000s of units)</th>
<th>Market Share</th>
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| **ATV**<sup>1</sup> | ![ATV Graph] | Polaris 38%  
Honda 29%  
BRP 15%  
Yamaha 14%  
Arctic Cat 6%  
Kawasaki 2% |
| **Side-by-Side**<sup>2</sup> | ![Side-by-Side Graph] | Polaris 41%  
BRP 17%  
John Deere 11%  
Kubota 8%  
Honda 9%  
Arctic Cat 6%  
Kawasaki 4% |
| **Snowmobile**<sup>3</sup> | ![Snowmobile Graph] | BRP 45%  
Polars 32%  
Arctic Cat 15%  
Yamaha 4% |
| **Motorcycle**<sup>4</sup> | ![Motorcycle Graph] | Harley 46%  
Honda 11%  
Yamaha 11%  
Kawasaki 7%  
Suzuki 4%  
Indian 3%  
Ducati 3% |

Sources: Company data/presentations, Motorcycle Industry Council, Powersports Business, ISMA, Baird Research Estimates

Note: Market shares based on available data including unit may represent an approximation based on a combination of sources

<sup>1</sup>Worldwide core ATV market  
<sup>2</sup>All segments, North America  
<sup>3</sup>Worldwide, 4 US On-Highway Market  
<sup>4</sup>US Market
Polaris Industries Inc.
May 29, 2020

Investment Thesis

Price target. Our $95 price target is based on 18x our forward EPS estimate one year from now, above the five-year average (16x) as investors look through the impact of COVID-19. Over the last five years, shares of Polaris have traded from 10-23x NTM EPS, averaging 16x.

Polaris is the global leader in powersports led by a deep and talented management team. The company has sustainable advantages embedded in product development, supply chain management, and distribution – often supported by lean concepts to drive faster throughput, lower costs, better share, and higher returns. Polaris has particular strength in dirt (Ranger, RZR, and Sportsman) and snow – and a growing franchise on road (Indian, Slingshot). Polaris also is building brands (Klim, Kolpin) to capitalize on the parts, accessories, and apparel opportunities created by its substantial install base. Beyond Powersports, Polaris is building capabilities to serve the commercial, military, Jeep and truck aftermarket, and small vehicle markets with brands including Brutus, TAP, Axiam Mega, Groupil, and GEM. Investment highlights include:

- Deep and talented management team that “makes growth happen”
- Market leader in powersports with plans to expand beyond powersports
- Sustainable competitive advantages built around product innovation and lean concepts

Growth drivers include:

- Transamerican Auto Parts – expanding presence in the aftermarket accessory space
- Indian Motorcycle – taking on Harley-Davidson
- Slingshot – creating a new Roadster niche
- Commercial – rethink distribution strategy to drive better sales of Brutus
- Small vehicles – develop scale by acquiring niche small vehicle brands
- Military – leverage CEO background and lower-cost products to win new business
- PG&A – leverage large install base, lean concepts and incremental distribution
- International – grow non-U.S. revenue to over one-third of business
- Armada strategy – creating niche products (e.g., ACE) to take share of dealer showrooms
- Global operations – building world-class cost structure (U.S., Mexico, Poland, India – and eventually China)
- Inventory management (MVP, RFM)

Risks & Caveats

Polaris is the leading player in an increasingly competitive powersports market. A battle for dealer showroom space creates pressure to discount product, affecting margin. Even if Polaris wins the battle, it may struggle to grow if its dealer base does not invest in expansion. Meanwhile, Polaris is taking on successful incumbents (e.g., Harley-Davidson, John Deere, Kubota, Honda) that have scale advantages. We see broad risk in economic cycles, credit cycles, and inventory cycles. Key risk factors include:

- Increasingly competitive powersports market (can require more R&D and promotional spending)
- Economic sensitivity – exposure to discretionary income, consumer confidence patterns, and the availability of consumer credit
- Exposure to the rural economy (ag prices, oil prices, land prices, etc.)
- Availability of credit (wholesale credit, retail credit – all tiers)
- Dealer inventory levels (destocking and restocking cycles)
- Dealer capacity (Polaris needs dealers to invest in larger showrooms)
- Execution risk related to diversification strategies (commercial, military, small vehicle, etc.)
- Product recalls
- Currency exposure
- Weather (e.g., snowfall)
- Free trade agreements
Appendix - Important Disclosures and Analyst Certification

Approved on 29 May 2020 08:38EDT/ Published on 29 May 2020 08:43EDT.

1 Robert W. Baird & Co. Incorporated makes a market in the securities of PII.

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Baird

May 29, 2020

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