



Polaris Industries Inc. Initiating Coverage

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POLARIS®

POLARIS
RANGER

POLARIS
RZR

POLARIS
SPORTSMAN

POLARIS
ACE

POLARIS
SNOWMOBILES

POLARIS
ENGINEERING PARTS
ACCESSORIES & SERVICE

GOUPIL
INDUSTRIE

VICTORY
MOTORCYCLES

Indian
MOTORCYCLE

SLINGSHOT

GEM

AIXAM

MEGA

Klīm



Agenda

- Short Thesis
- Company Overview
- Industry Overview
- Drivers and Risks
- Valuation
- Recommendation
- Appendices

* All figures shown in \$USD millions except share price or otherwise noted

Short Thesis

Product Recalls

Recent string of ORV recalls hurt brand image and market share



Unsustainable Growth Strategy

Organic growth has been flat year over year

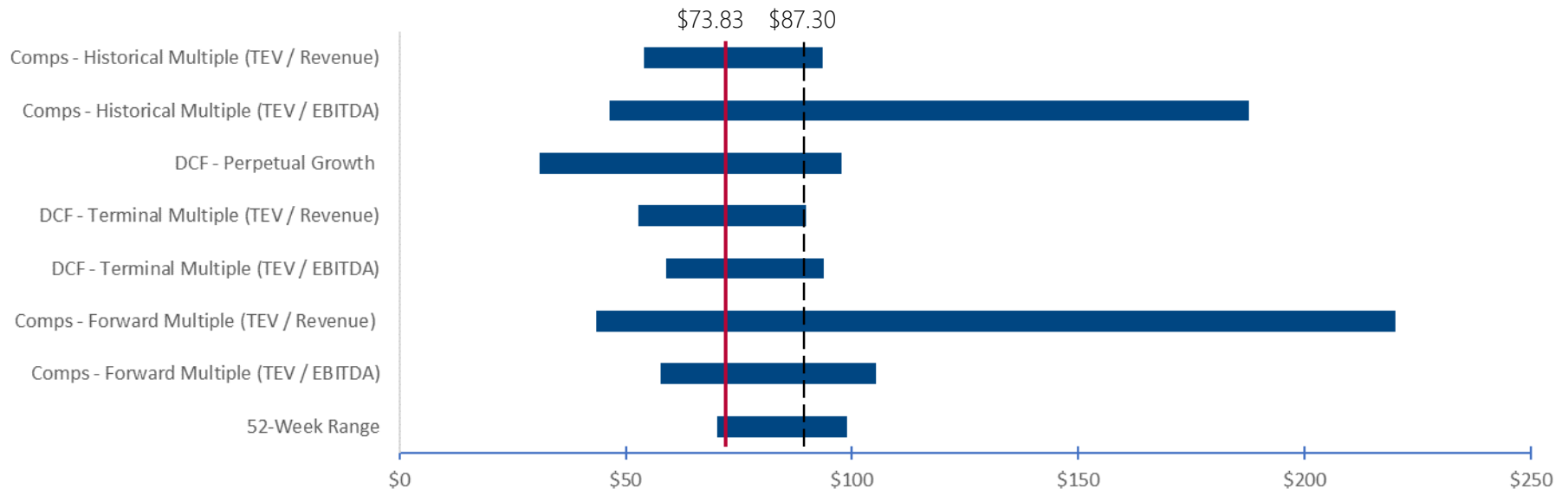


Weak Growth Prospects

Weakness in core power sports, motorcycle and commodity sectors



Recommendation



Short at a one year target price of \$73.83

Company Overview



Business Model

Design:

5 research and development centers



Engineer:

Specialized facilities for engineering performance



Manufacture:

19 manufacturing facilities globally



Distribute:

Extensive network of over 3500 dealerships



Financial Metrics

LTM Metrics

Revenue	4,766
EBITDA	528.9
Net Income	163
Basic EPS	2.59
Diluted EPS	2.52

Capitalization

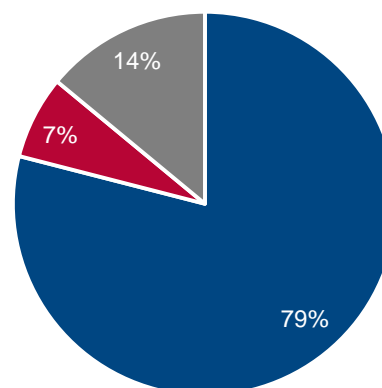
Share Price	\$87.30
Shares O/S	63.0
Market Cap	\$5,499
Net Debt	\$1,040
Enterprise Value	\$6,539

LTM Valuation

EV/EBITDA	12.5x	EV/EBIT	18.8x
EV/Revenue	1.4x	P/E	34.6x

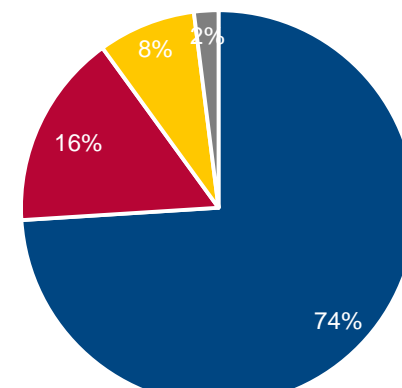
Revenue Distribution

Geography



- USA
- Canada
- Other

Product



- ORV/Snow mobiles
- Motorcycles
- Global Adjacent Markets
- Other

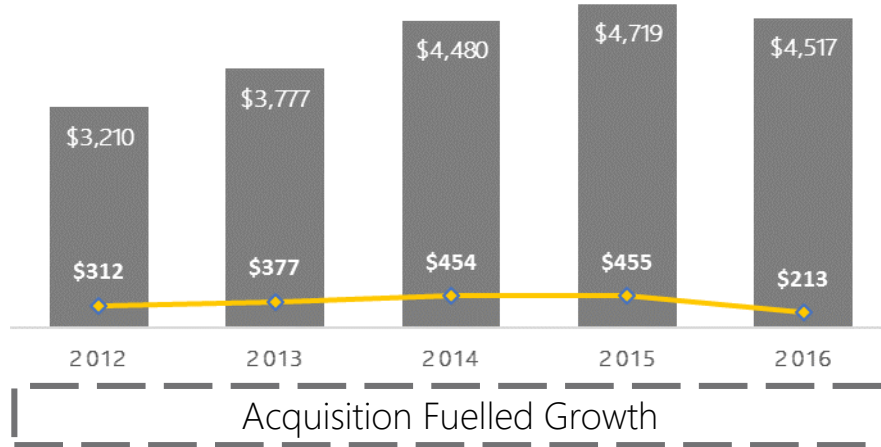
Share price info as of July 7, 2017

LTM as of April 27, 2017

Declining Performance

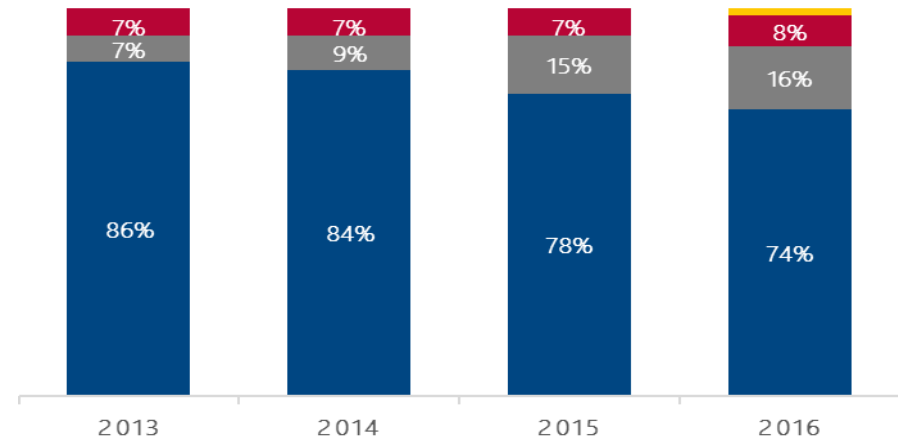
Financial Performance

■ Revenue ■ Net Income



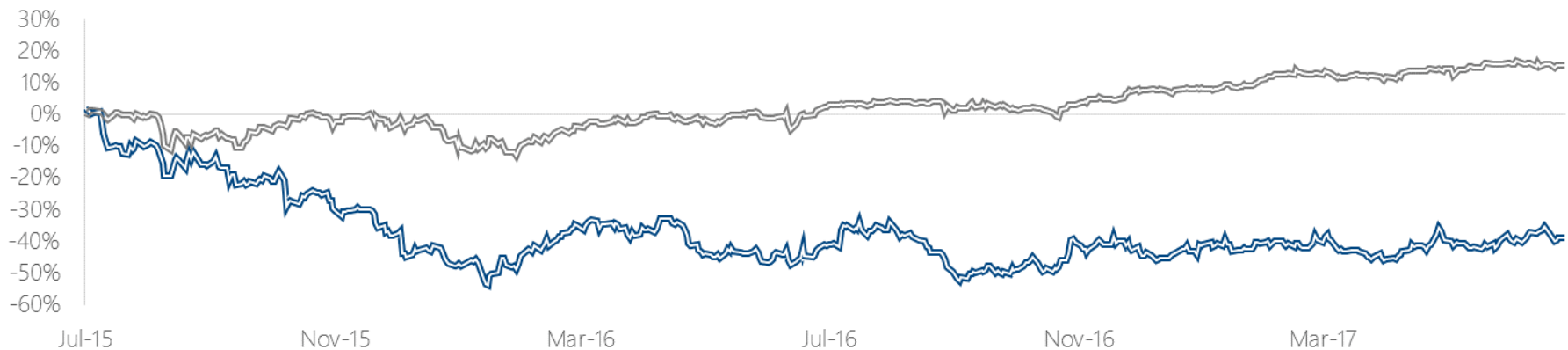
Revenue Breakdown

■ ORV/Snowmobile ■ Motorcycles ■ Global Adjacent Markets ■ Other



Polaris vs. S&P 500

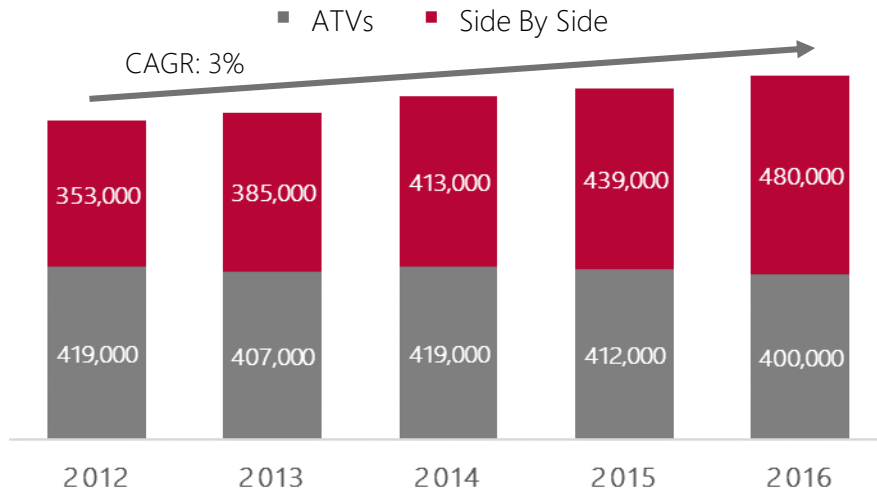
— Polaris — S&P 500



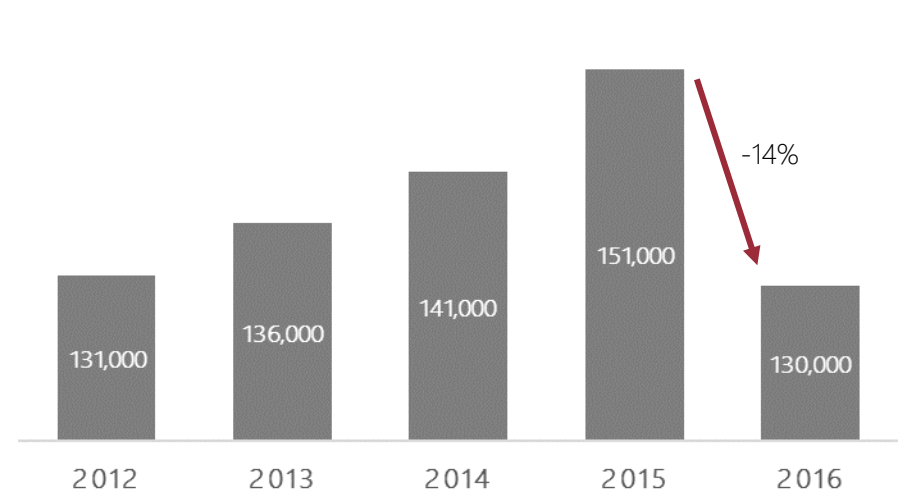
Industry Overview



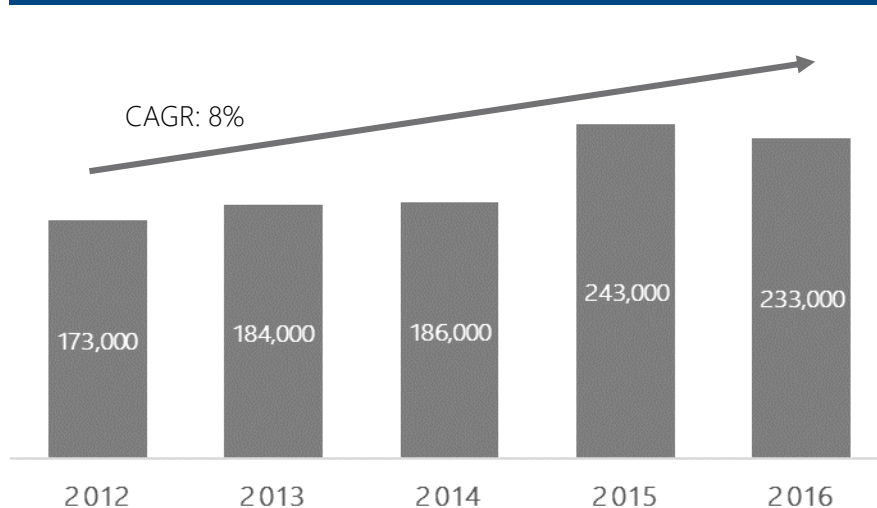
Off-Road Vehicles - Worldwide Unit Sales



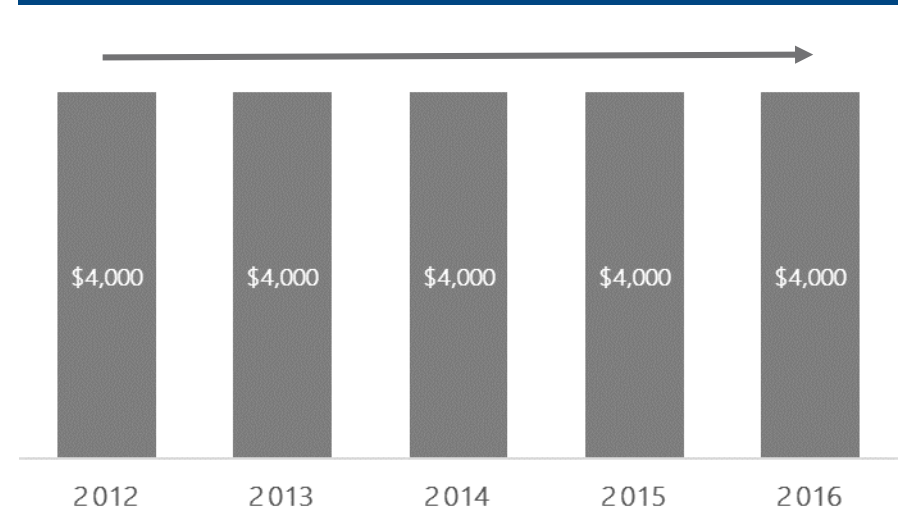
Snowmobiles – Worldwide Unit Sales



Motorcycles – North America Unit Sales



Work and Transportation – Target Market



Land Vehicle Trends



Declining demand from the oil & gas and agriculture sector



Increased input costs of raw materials



Climate changes driving down snowmobile demand



Higher disposable income and lower unemployment

Competitive Landscape

The logo for Brunswick, featuring a stylized blue and white wave design.The logo for Honda, featuring the brand name in a bold, red, sans-serif font.

Other Factors

Higher interest rates

Foreign exchange risk

Pressure on outsourcing manufacturing

Increased competition

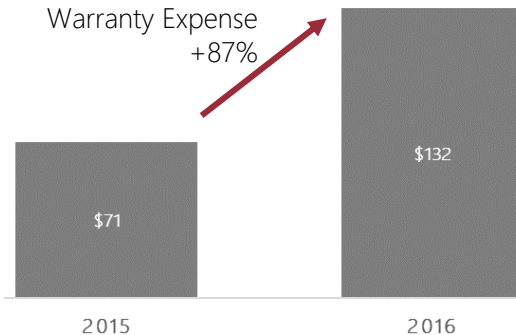
Weak retail environment

Shifts in consumer preference (Millennials)

Product Recalls

Financial Impact:

- Warranty
- Manufacturing
- Reserves
- Lost Revenue

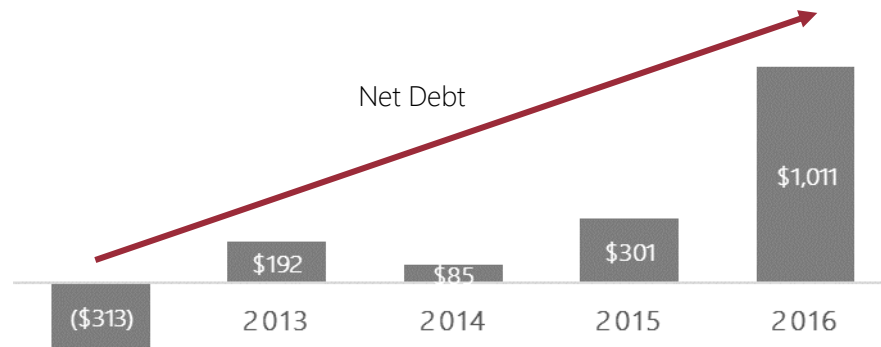


Over 100,000 vehicles recalled YTD 2017

Damages brand image and results in loss of market share

Significant downwards pressure on bottom line

Unsustainable Growth Strategy



Flat organic growth and unsustainable acquisition fuelled growth

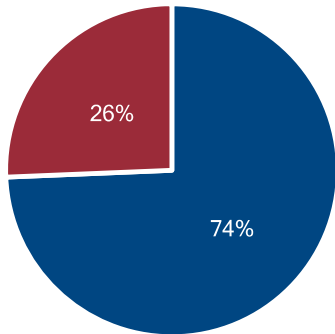
Weak Growth Prospects

(# vehicle units)	POLARIS	INDUSTRY
Off-Road Vehicles	↓ mid-single digits %	↓ mid-single digits %*
Side-by-Sides ATVs	↓ low-single digits % ↓ low-double digits %	
Motorcycles (900cc & above)	↓ mid-single digits %	↓ mid-single digits %
Snowmobiles (season-end Mar'17)	↓ low-double digits %	↓ mid-single digits %

Driven by low commodity prices and increased competition for consumer discretionary dollars

Investment Risks

R&D Leading to Product Line/Segment Expansion



ORV/Snowmobile sales
comprise 74% of
revenue

Favourable Macroeconomic Factors

Effective US interest rate



[UPDATE]

Potential International Expansion



North America comprises 86% of revenue

Realized Synergies with Acquisitions

Vertical and horizontal integration across industry

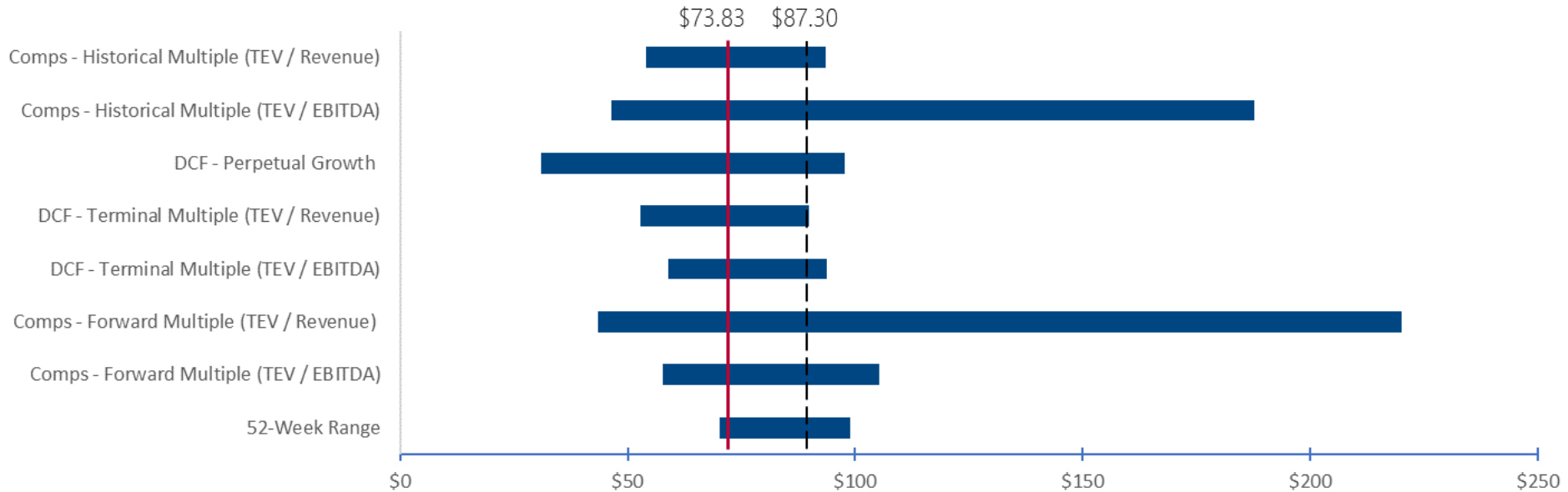


Wider distribution network and customer base



Value unlocked through realized synergies

Valuation Overview

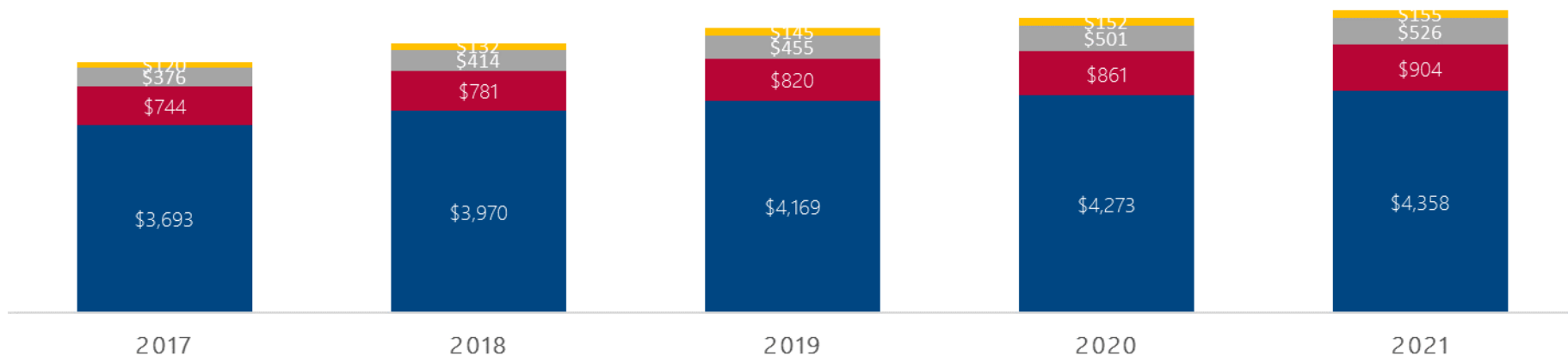


Discounted cash flows and comparable valuations

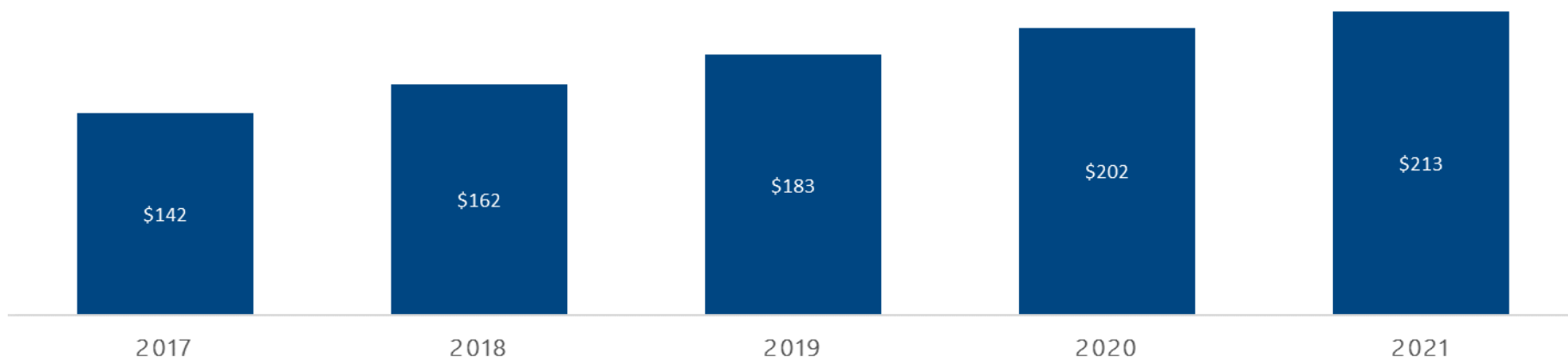
- Based on analysis, Polaris projects an implied share price of \$73.83
- Offers upside of 15.4% to the current share price of \$87.30

Projected Revenue Growth

■ ORV/Snow mobiles ■ Motorcycles ■ Global Adjacent Markets ■ Other



Projected Free Cash Flows (US\$000's)



Comparable Companies



Company Name	Share Price	Market Cap	Enterprise Value	EV/Sales		EV/EBITDA		P/E	
				LTM	NTM	LTM	NTM	LTM	NTM
Brunswick Corporation	\$62.04	\$5,541	\$5,708	1.2x	1.2x	9.6x	8.6x	20.6x	14.9x
Harley-Davidson, Inc.	\$51.99	\$9,029	\$15,516	2.7x	2.9x	13.1x	12.1x	14.8x	13.3x
Malibu Boats, Inc.	\$27.64	\$497	\$522	1.9x	1.3x	10.6x	7.7x	22.1x	15.3x
BRP Inc.	\$30.46	\$3,408	\$3,957	1.2x	1.2x	10.0x	9.2x	34.7x	17.3x
MCBC Holdings, Inc.	\$19.48	\$363	\$396	1.8x	1.6x	10.1x	8.5x	20.1x	13.7x
Thor Industries, Inc.	\$102.65	\$5,398	\$5,504	0.8x	0.7x	9.2x	8.1x	16.0x	14.0x
Winnebago Industries, Inc.	\$34.10	\$1,077	\$1,340	1.0x	0.8x	11.6x	8.5x	17.0x	12.9x
Yamaha Motor Co., Ltd.	\$25.84	\$9,026	\$11,541	0.9x	0.8x	8.4x	7.4x	13.9x	12.1x
Min				0.8x	0.7x	8.4x	7.4x	13.9x	12.1x
25th Percentile				1.0x	0.8x	9.5x	8.0x	15.7x	13.2x
Median				1.2x	1.2x	10.1x	8.5x	18.6x	13.9x
75th Percentile				1.8x	1.4x	10.9x	8.7x	21.0x	15.0x
Max				2.7x	2.9x	13.1x	12.1x	34.7x	17.3x
Mean				1.4x	1.3x	10.3x	8.7x	19.9x	14.2x
Polaris Industries Inc.	\$88.93	\$5,602	\$6,642	1.4x	1.3x	12.7x	10.5x	35.3x	19.9x
Implied Valuation				\$76.80	\$77.42	\$67.80	\$69.26	\$47.52	\$61.82

Data as of July 12, 2017, NTM data from CapitalIQ

Implied valuation using median multiple

Product
Recalls

Weak
Growth
Prospects

Valuation

Recommendation: Sell

Current Price: \$87.30

Target Price: \$73.83

Target Upside: 15.4%

Appendix

- Key Assumptions – DCF
- Sensitivity Analysis - DCF
- Acquisition History
- Recall History
- Manufacturing Facilities

Key Assumptions - DCF

WACC

Cost of Equity

Risk-free rate	2.86%
Beta	0.92
EMRP	5.81%
Cost of equity	8.20%

Cost of Debt

Interest	16,319,000
Long-term debt	1,124,372,000
Pre-tax cost of debt	1.45%
Tax rate	33.0%
After-tax cost of debt	0.97%

Weighting

Equity	83.2%
Debt	16.8%
WACC	7.0%

Terminal Growth (US\$000's)

Method 1: Exit Multiple (EV/EBITDA)

Terminal Value	5,032,425
Exit Multiple (EV/EBITDA)	12.0x
Enterprise Value	5,762,710
Net Debt	997,047
Equity Value	4,765,663
Shares Outstanding	62,990
Price per Share	\$75.66

Method 2: Perpetual Growth

Terminal Value	3,383,911
Long-term Growth Rate	2.5%
Enterprise Value	4,114,196
Net Debt	997,047
Equity Value	3,117,149
Shares Outstanding	62,990
Price per Share	\$49.49

Method 3: Exit Multiple (EV/Sales)

Terminal Value	5,348,955
Exit Multiple (EV/Sales)	0.9x
Enterprise Value	6,079,240
Net Debt	997,047
Equity Value	5,082,193
Shares Outstanding	62,990
Price per Share	\$80.68

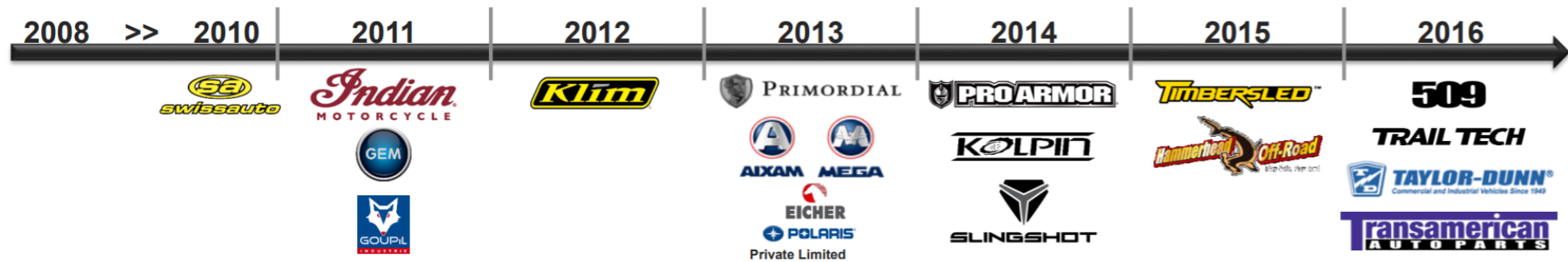
Sensitivity Analysis - DCF

		WACC				
		6.0%	6.5%	7.0%	7.5%	8.0%
EV/EBITDA	10.0x	\$ 65.88	\$ 64.09	\$ 62.34	\$ 60.64	\$ 58.99
	11.0x	\$ 72.86	\$ 70.90	\$ 69.00	\$ 67.15	\$ 65.35
	12.0x	\$ 79.84	\$ 77.72	\$ 75.66	\$ 73.65	\$ 71.70
	13.0x	\$ 86.82	\$ 84.53	\$ 82.32	\$ 80.16	\$ 78.06
	14.0x	\$ 93.79	\$ 91.35	\$ 88.97	\$ 86.66	\$ 84.41

		WACC				
		6.0%	6.5%	7.0%	7.5%	8.0%
GrowthRate	1.5%	\$ 52.41	\$ 45.41	\$ 39.69	\$ 34.93	\$ 30.91
	2.0%	\$ 59.47	\$ 50.93	\$ 44.10	\$ 38.52	\$ 33.87
	2.5%	\$ 68.56	\$ 57.83	\$ 49.49	\$ 42.82	\$ 37.37
	3.0%	\$ 80.69	\$ 66.70	\$ 56.23	\$ 48.08	\$ 41.58
	3.5%	\$ 97.71	\$ 78.55	\$ 64.90	\$ 54.67	\$ 46.72

		WACC				
		6.0%	6.5%	7.0%	7.5%	8.0%
EV/Sales	0.7x	\$ 62.15	\$ 61.98	\$ 61.81	\$ 61.65	\$ 61.49
	0.8x	\$ 71.59	\$ 71.42	\$ 71.25	\$ 71.08	\$ 70.92
	0.9x	\$ 81.02	\$ 80.85	\$ 80.68	\$ 80.52	\$ 80.36
	1.0x	\$ 90.46	\$ 90.29	\$ 90.12	\$ 89.95	\$ 89.79
	1.1x	\$ 99.89	\$ 99.72	\$ 99.55	\$ 99.39	\$ 99.23

Acquisition History



OVER \$1 BILLION INVESTED IN ACQUISITIONS SINCE 2008

Acquisition History



Date	Acquired Company Name	Segment(s)	Description, Enhancements from the Acquisition
2/3/2010	swissauto	Powersports	Enhancements in snowmobile engines
4/19/2011	Indian Motorcycles	Motorcycles	New legendary brand to the motorcycles division
4/25/2011	GEM (Global Electric Motorcars)	On-road, GEM	New segment, GEM vehicles are electric powered and widely used in the fleet and government vehicle markets.
11/16/2011	Goupil Industrie SA	GEM, Small Vehicles	This acquisition builds on the GEM segment with improvements in light-duty haulers and on-road commercial electric vehicles.
7/24/2012	Eicher Motors Limited	General	Joint venture, development and diversifying vehicle needs in India. The price of investment for each party was <u>\$50 million USD</u> .
12/6/2012	Teton Outfitters, LLC	PG&A	Addition of KILM Technical Riding Gear – waterproof, breathable, durable, GORE-TEX®, comfortable gear
4/11/2013	AIXAM MEGA (A.M. Holding S.A.S)	Small vehicles, On-road	This acquisition enhances the on-road quadricycles and light duty commercial vehicles segments in Europe.
11/4/2013	Primordial	General	Enhances the technology systems in Polaris vehicles with new developments in a software-based combat vision system
4/1/2014	Kolpin Outdoors, Inc.	Powersports	Additions of guns' boots, brackets, windshields, plows
11/12/2014	LSI Products Inc., Armor Holdings, LLC	PG&A	Additions of harnesses, suspension seats, spare tire mounts
1/15/2015	Brammo Power	GEM, Powersports, Electric Motorbikes	Addition of new lithium ion technology to Polaris' electric powered vehicles.
2/18/2015	HH Investment Limited	GEM, Small Vehicles	Enhancements of light utility vehicles, GEM's, and gasoline powered go-karts.
4/22/2015	TIMBERSLED	Motorbikes	Additions of powersports vehicles and snow bikes.
1/4/2016	509 Trail Tech	PG&A	Additions in snowmobile helmets and goggles.
3/7/2016	Taylor Dunn	ORV, Global Adjacent Markets	Additions and improvements in commercial and warehouse industrial vehicles.
10/12/2016	Transamerican Auto Parts	ORV	Adds growth in the 4WD market with off-road Jeep and truck accessories. The acquisition cost was <u>\$665 million USD</u> .

Date	Model(s)	Description	Quantity
6/20/2017	Polaris GEM	Loose wheel lug nuts posing safety hazard	N/A
6/19/2017	Polaris Slingshot	Missing grommets posing crash hazard	N/A
5/9/2017	RMK and SKS Snowmobiles	Weld can separate in steering posing crash hazard	6000
4/13/2017	Sportsman 450, 570, 850, Scrambler 1000 ATV's	Malfunction of electronic power steering unit posing crash hazard	3800
4/13/2017	Polaris Ranger 900 ROV's	Heat shield can fall off posing fire hazards	51000
3/21/2017	Sportsman 850, 1000 ATV's	Right side panel may melt posing fire hazards	19200
3/2/2017	Polaris Recreational off-highway-vehicles (ROV's)	Vehicle engines can melt nearby components posing safety hazard	13500
12/14/2016	Polaris Indian Motorcycle Co.	Fuel leak possibility posing safety hazard	N/A
4/9/2016	Polaris RZR 900 and RZR 1000 ORV's	Reports of thermal related incidents including fires	N/A
12/10/2015	Polaris Snowmobiles: INDY, RUSH, SWITCHBACK	Steering pitman arm can crack posing safety hazard	4700
7/23/2015	Polaris Youth RZR ROV's	Fuel pump ring can leak posing fire hazard	4300

Manufacturing Facilities

