



# Polaris Inc.

## “Inflationary Pressures and Supply Chain Challenges Negatively Impacts PATMI”

Bloomberg: PII:US | Reuters: PILN | NYSE: PII

### Valuation / Recommendation

We are maintaining our target price of USD158.71 and BUY recommendation for Polaris. Despite the hit to profitability in 1Q22, we are maintaining our FY22 EPS estimate of USD9.02 as we expect sales to pick-up in the back half of 2022.

### Investment Highlights

**1Q22 revenue was flat at USD1.96bn (1Q21: USD1.95bn).** Polaris maintained revenue as improved product mix and price increases offset lower volumes which was negatively impacted by supply chain issues.

**1Q22 PATMI fell 47.9% yoy to USD69.9m (1Q21: USD134.1m).** The decline in PATMI was mainly due to weaker gross profit margin on inflationary pressures and supply chain challenges.

**Returning capital to shareholders.** On top of paying a regular cash dividend of USD0.64 per share on March 15, 2022, Polaris repurchased 1.5m shares worth USD172.3m in 1Q22. As of 31 March 2022, the Board of Directors has authorized the Company to repurchase up to an additional USD681.7m of the Company’s common stock. We are encouraged by management’s decision to repurchase shares as we think that the stock is currently trading below at an attractive price .

**Risk factors.** Supply chain issues could remain for a significant period of time which could negatively impact profitability. An economic slowdown or recession in Polaris’ markets could adversely impact its financial performance and position.

Share Information		Top 3 Shareholders (%)	
Market Cap (USD bn)	6.4	Vanguard Group Inc	9.72
Issued Shares (m)	60.3	BlackRock Inc	8.07
52W High (USD)	139.79	State Street Corp	6.95
52W Low (USD)	94.24		
Estimated Free Float (%)	94.0		
Adjusted Beta vs S&P 500	1.0		
65-Day Average Vol. (*000)	762		

Sources: Mercury Securities, Bloomberg, Wall Street Journal

INVESTMENT STATISTICS FY Dec	FY19	FY20	FY21	FY22F	FY23F
Revenue (USD m)	6,782.5	7,027.9	8,198.2	9,300.0	9,811.5
Adjusted EBITDA	721.8	855.0	946.1	1,013.8	1,056.5
PATMI	324.0	124.8	493.9	553.2	577.7
EPS (USD)	5.27	2.02	8.06	9.02	9.42
EPS Growth (%)	(1.7)	(61.7)	299.0	12.0	4.4
PE (x) <sup>1</sup>	18.3	46.0	13.2	11.8	11.3
Gross Dividend Yield (%) <sup>1</sup>	2.5	2.7	2.4	2.4	2.4
Net Gearing (x) <sup>2</sup>	1.4	0.7	1.0	0.4	0.2
ROAA (%)	7.6	2.8	10.2	10.5	10.1
ROAE (%)	32.8	11.1	41.7	39.5	32.8

Sources: Mercury Securities, Company

<sup>1</sup>PE and gross dividend yield for FY19-20 are based on the closing share price on the last trading day of 2019 and 2020

<sup>2</sup>Net gearing is calculated as: (total debt - cash and equivalents)/shareholder’s equity

NYSE  
CONSUMER DISCRETIONARY  
BUY  
TP: USD158.71  
Price: USD106.45

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### Business Overview

Polaris Inc. is engaged in the manufacturing of powersports vehicles namely snowmobiles, off-road vehicles (ORV), motorcycles, boats, and parts, garments & accessories. The Group’s portfolio of brands include Polaris Snowmobiles, Indian Motorcycle, RZR off-road vehicles, and Bennington boats.

Polaris’ products are sold through a network of approximately 2,300 independent dealers in North America, approximately 1,400 independent international dealers through over 30 subsidiaries, and approximately 90 independent distributors in over 120 countries outside of North America.

RESULTS (USD m) FY Dec 31	1Q22	1Q21	yoy %
Revenue	1,956.8	1,951.1	0.3
EBITDA	156.1	243.8	(36.0)
Depn & Amortization	61.3	59.6	-
EBIT	94.8	184.2	(48.5)
Finance Costs	(11.8)	(11.5)	-
Profit Before Tax	86.1	175.2	(50.9)
Tax	(16.2)	(41.0)	-
Net Profit	69.9	134.2	(47.9)
Minority Interests	-	(0.1)	-
PATMI	69.9	134.1	(47.9)
Basic EPS (USD)	1.16	2.16	(46.3)

### Stock Return Information

S&P 500 (pts)	4,115.8
Expected Share Return (%)	49.1
Expected Gross Dividend Yield (%)	2.4
Expected Total Return (%)	51.5

### Price Performance

	1M	3M	12M
Absolute (%)	2.2	(1.3)	(13.4)
Relative to Index (%)	2.4	(0.0)	(10.7)



Sources: Mercury Securities, Bloomberg, Company

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