

Small Talk – Polaris Industries



Presented by
Joan Loken, Director
Rocky Mountain Chapter

Rocky Mountain Chapter

Disclaimer

The information in this presentation is for educational purposes only and is not intended to be a **recommendation to purchase or sell any of the stocks**, mutual funds, or other securities that may be referenced. The securities of companies referenced or featured in the seminar materials are for illustrative purposes only and are not to be considered endorsed or recommended for purchase or sale by BetterInvesting™ National Association of Investors Corporation ("BI"). The views expressed are those of the instructors, commentators, guests and participants, as the case may be, and do not necessarily represent those of BetterInvesting™. Investors should conduct their own review and analysis of any company of interest before making an investment decision.

- **Securities discussed may be held by the instructors in their own personal portfolios** or in those of their clients. BI presenters and volunteers are held to a strict code of conduct that precludes benefiting financially from educational presentations or public activities via any BetterInvesting programs, events and/or educational sessions in which they participate. Any violation is strictly prohibited and should be reported to the CEO of BetterInvesting or the Director of Chapter Relations
- **This presentation may contain images of websites and products or services not endorsed by BetterInvesting.** The presenter is not endorsing or promoting the use of these websites, products or services.
- **This session is being recorded for future use.**

2

Rocky Mountain Chapter



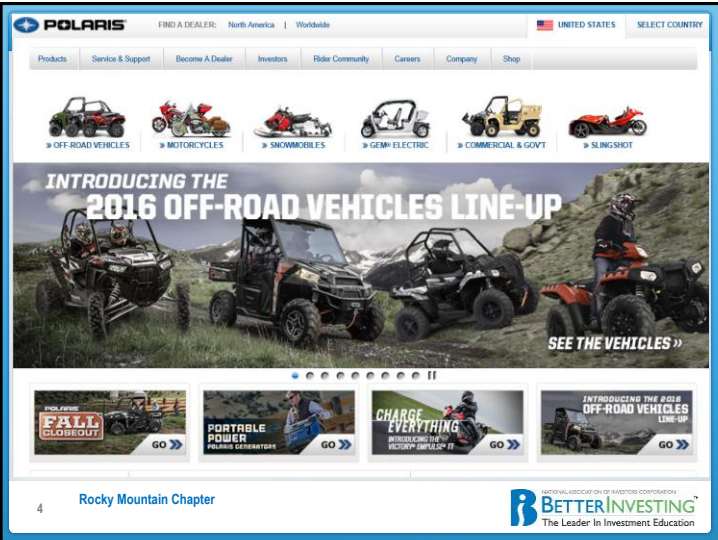
Poll Question

- ☐ Have you completed a Stock Study of Polaris?
- YES
 - NO



3

Rocky Mountain Chapter



4

Rocky Mountain Chapter



**POLARIS®**



~8,100 Employees Worldwide

15 Manufacturing Locations

5 Research & Development Centers of Excellence

~1,850 Dealers In North America

~1,400 Dealers Outside North America

>380,000 Units Shipped Worldwide in 2014

>100 Countries – Polaris Products Sold

5

Rocky Mountain Chapter



Polaris Strategic Objectives

Vision & Strategy

VISION
Fuel the passion of riders, workers and outdoor enthusiasts around the world by delivering innovative, high quality vehicles, products, services and experiences that enrich their lives.

STRATEGY
Polaris will be a highly profitable, customer centric, \$8B global enterprise by 2020. We will make the best off-road and on-road vehicles and products for recreation, transportation and work supporting consumer, commercial and military applications. Our winning advantage is our innovative culture, operational speed and flexibility, and passion to make quality products that deliver value to our customers.

Guiding Principles

Best People, Best Team
Safety & Ethics Always
Customer Loyalty

Strategic Objectives

Best in Powersports PLUS
5-8% annual organic growth

Global Market Leadership
>33% of Polaris revenue

Strong Financial Performance
Sustainable, profitable growth
Net Income Margin >10%

Growth Through Adjacencies
>\$2B from acquisitions & new markets

LEAN Enterprise is Competitive Advantage
Significant Quality, Delivery & Cost Improvement

Performance Priorities

Growth
Margin Expansion
Product & Quality Leadership
LEAN Enterprise

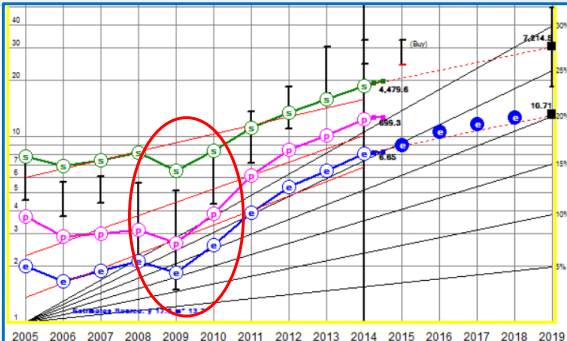
GROW SALES >\$8 Billion by 2020 | 12% CAGR **INCREASE NET INCOME >10% of Sales by 2020 | 13% CAGR**

6

Rocky Mountain Chapter




Is this Quality Company? Polaris Industries



7

Rocky Mountain Chapter




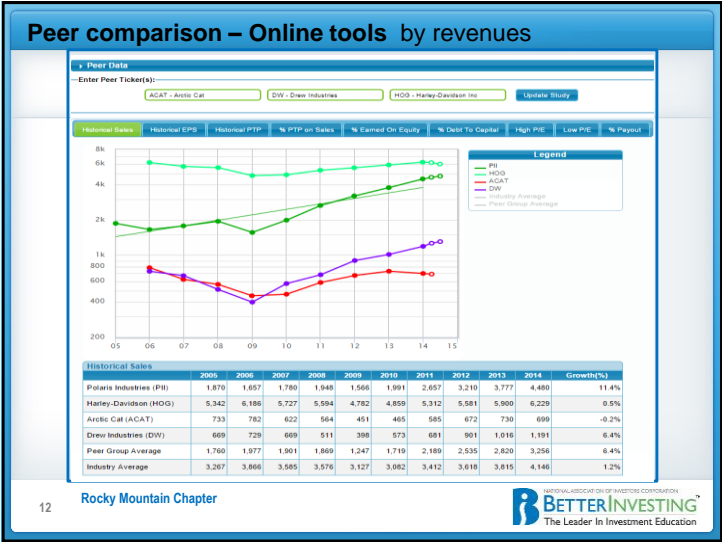
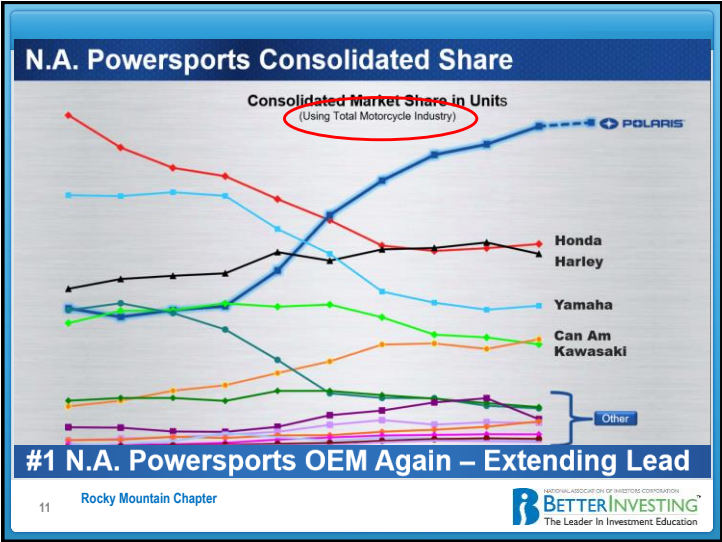
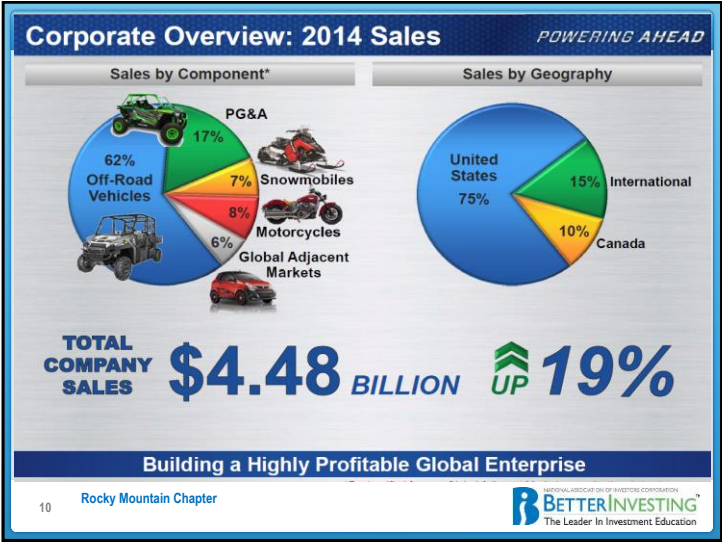
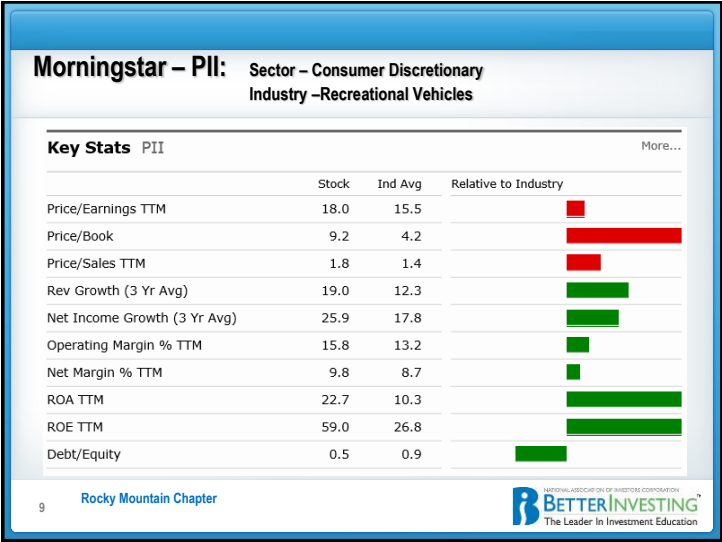
Morningstar 4 Pillars - Polaris

- ▶ **Economic Moat** – Wide (Competitive Advantage)
- ▶ **Valuation** – Undervalued
- ▶ **Uncertainty** – High (Cash Flow Predictability or Valuation Risk)
- ▶ **Financial Health** – Strong
- ▶ **Stewardship** – Exemplary
- ▶ **Price to Fair Value** - 0.81
- ▶ **Fair Value Estimate** – \$169.00

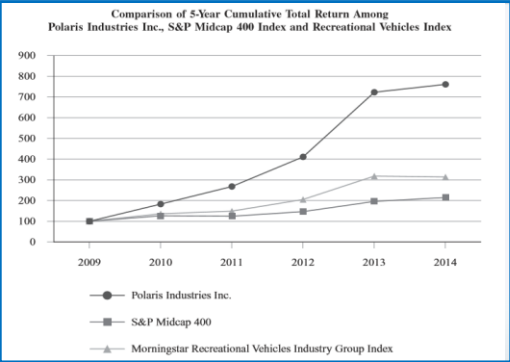
8

Rocky Mountain Chapter





2014 Annual Report



13

Rocky Mountain Chapter



Off-Road Vehicles

POWERING AHEAD



#1 in Market Share – 16 New MY'16 vehicles Introduced

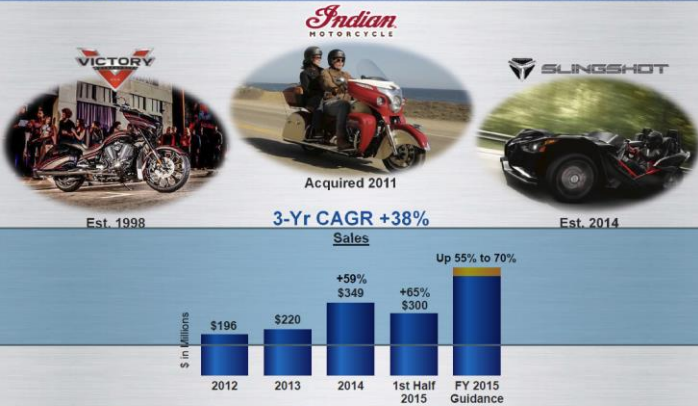
14

Rocky Mountain Chapter



Motorcycles

POWERING AHEAD



Amazing Products & Launches – Big Opportunity!

15

Rocky Mountain Chapter



Slingshot

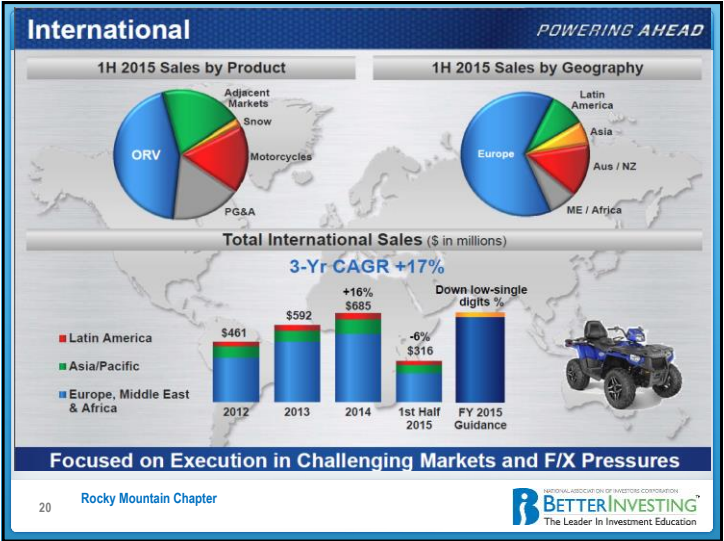
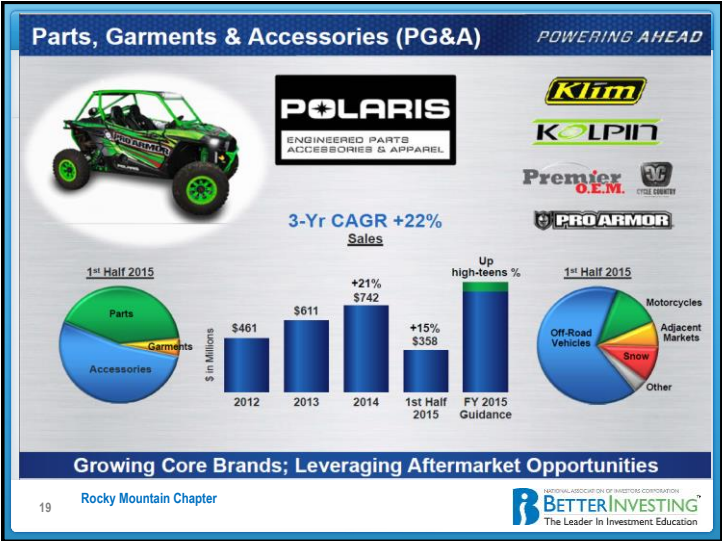
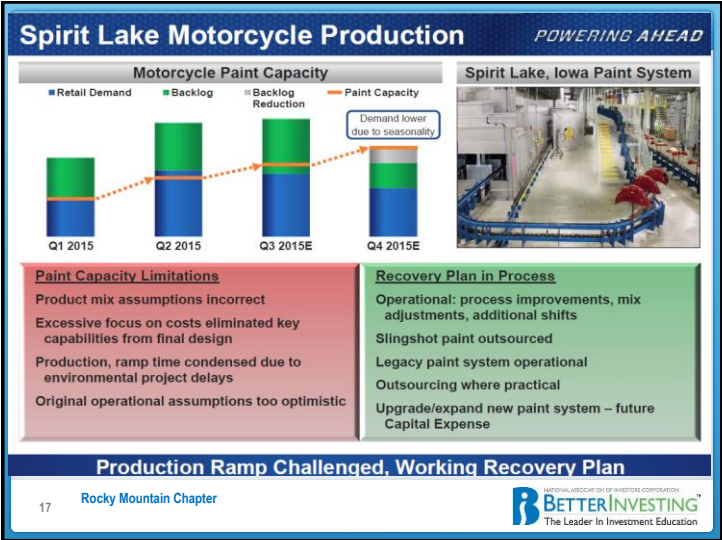
POWERING AHEAD



16

Rocky Mountain Chapter





Global Adjacent Markets

Total Sales**

Year	Sales (\$)	Change
2013 (Reclassified)	\$221	
2014 (Reclassified)	\$273	+24%
1st Half 2015	\$132	+2%
FY 2015 Guidance	Up 5% to 10%	

**Beginning in 2015 the organization restructured by combining Small Vehicles, Commercial & Military into "Global Adjacent Markets"

Work & Transportation*

*Small Vehicles + Commercial

+

Military

Growing Outside Powersports


22 Rocky Mountain Chapter

BETTER INVESTING
The Leader in Investment Education

Q315 Results Reported 10/21/15

- ▶ **Revenues:** \$1.46 B, up 12% from Q314
 - M/C sales up 154%
 - Snowmobiles up 14%
 - Global Adjacent Markets up 10%
- ▶ **EPS:** \$2.30/sh vs. \$2.06/sh in Q314 (up 12%)
- ▶ **Forecast FYE 2015:**
 - **Sales:** Up 10-11% over FYE 2014
 - **EPS:** \$7.37 - \$7.42, up 11-12% over FYE 2014

24 Rocky Mountain Chapter

 NATIONAL ASSOCIATION OF INVESTORS CORPORATION
BETTER INVESTING
The Leader In Investment Education

2015 Gross Profit Margin Guidance <i>POWERING AHEAD</i>			
METRIC	Actual Q3 2014	Actual Q3 2015	Guidance FY 2015
Prior period	30.4%	29.8%	29.4%
Production volume/capacity	↔	↔	↔
Product cost reduction efforts	↑	↑	↑
Commodity costs	↔	↑	↑
Currency rates	↓	↓	↓
Higher selling prices	↑	↑	↑
Product mix	↔	↓	↓
Motorcycle Production Constraints	N/A	↓	↓
New plant start-up costs	↓	↔	↔
Warranty costs	↔	↔	↔
Depreciation/Tooling amortization	↓	↓	↓
Sales promotional costs	↑	↓	↓
Current period	29.8%	28.5%	28.8 to 29.0%
Change	-55 bps	-126 bps	Down 40 to 60 bps

↑ Improvement to gross profit margin % ↓ Impairment to gross profit margin % ↔ Neutral to gross profit margin %

SWOT Analysis



Strengths – Internal factors that may positively influence company performance

Weaknesses – Internal factors that may negatively influence company performance

Opportunities – External factors that may positively influence company performance

Threats – External factors that may negatively influence company performance

Strengths



- ▶ Product line up a driving factor in future growth
- ▶ #1 In Off Road Vehicles
- ▶ Strong reputation for innovation and new product lines
- ▶ Management remains focus on Lean production
- ▶ Operates as best-in-class manufacturer
- ▶ Offers best products with newest technology
- ▶ 1 out of every 3 power sports sales is a Polaris product

Weakness



- ▶ Volatility in costs could weigh on profitability
- ▶ Competes with some formidable brands
- ▶ Business is dependent on credit availability
- ▶ Problems delivering supply to match demand
- ▶ Faces integration risks as becomes more acquisitive
- ▶ Recent quarters are showing some slowing trends

Opportunities

- ▶ Inorganic growth strategy allows forays into new product category opportunities
- ▶ Crafted a plan to organically & inorganically grow through branding relationships as with Bobcat
- ▶ Recent acquisitions have a distribution channel in Europe
- ▶ A joint venture in India opens that market
- ▶ Small vehicles are set to experience robust growth overseas



29

Rocky Mountain Chapter



Threats

- ▶ Competitors have brought innovative offerings to market
- ▶ Significant negative impact from foreign currency exchange rates in FY2015 (esp. CAD, AUD and Euro)
- ▶ Global consumer confidence remains unstable
- ▶ Liability risk as it self-insures against product liability
- ▶ Need snow to sell snowmobiles and related products
- ▶ It is in a cyclical industry and a domestic downturn would affect sales & profitability



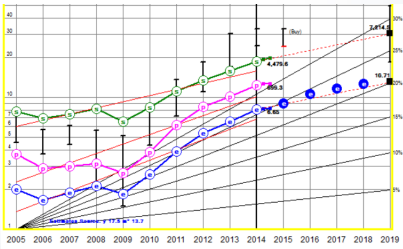
30

Rocky Mountain Chapter



Let's look at the SSG

It's Time to Make Some Judgments



31

Rocky Mountain Chapter



Adding Judgment - Sales

- ▶ 15.1 Manifest Investing
- ▶ 11.0 Company Guidance for 2015
- ▶ 11.4 Ten Years Historical & Value Line 3-5 years est.
- ▶ 10.2 ACE Online tools 2 year est.
- ▶ 9.8 Yahoo Next Year



32

Rocky Mountain Chapter



Adding Judgment - EPS

- ▶ 19.6 Ten Year Historical
- ▶ 17.5 Yahoo ACE 5 year est.
- ▶ 15.4 Toolkit ACE est.
- ▶ 13.6 Online Tools 2 yr & Value Line next 3-5 est.
- ▶ ----- Preferred Procedure



33

Rocky Mountain Chapter



Adding Judgment - High P/E

- ▶ 23.4 52 week High P/E
- ▶ 22.5 Five year average High
- ▶ 20.5 Ten year average High
- ▶ 17.7 Average P/E most recent 5 years



34

Rocky Mountain Chapter



Adding Judgment – Low P/E

- ▶ 16.9 2015 Low P/E
- ▶ 13.2 Five Year Average Low P/E
- ▶ 11.7 Ten year average Low P/E
- ▶ 9.8 2010 Low & Five Year Lowest



35

Rocky Mountain Chapter



Adding Judgment – Low Price

- ▶ Forecast Low Price – from tonight's poll numbers
- ▶ \$62.60 - Average Low Price Last 5 years
- ▶ \$82.80 - Recent Severe Market Low
- ▶ \$55.60 - Price Dividend Will Support
- ▶ \$98.76 – Price Variant Quotient (PVQ)




36

Rocky Mountain Chapter




Would You Consider Buying

- ▶ Yes – Polaris has ability to continue growing
- ▶ Maybe – not at this time
- ▶ No – Unable to determine potential with confidence
- ▶ No – It doesn't fit my portfolio



37 Rocky Mountain Chapter

 **BETTERINVESTING**
The Leader In Investment Education