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| **Company Polaris Inc.** | Ticker: PII Current Price: $69.30 | Sector: Utilities | Sub Industry: Utilities Network |
| Target Price: $92.19  Stop Loss: $58.90  52 Week High/Low: $157.62/$69.11 | TTM P/E: $10.24  Forward P/E: $10.66  TTM EPS: $6.73 | Beta: 0.90  Credit Rating: IG6 (0.029% 1-Yr Default Probability)  Rating Outlook: | Market Cap: $45.539B  Avg. Vol (30 day): 125M  Dividend Yield: 3.52% |

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| **Company Background:** |
| Polaris Industries manufacturers off-road vehicles for recreational and utility use. Vehicles include motorcycle, snowmobiles, and side-by-side vehicles. The company is present in the U.S., Canada, Mexico, Western Europe, and Australia. Polaris provides replacement parts and accessories for all products and sells through a network of independent distributors and dealers.  Yahoo Finance. |
| **Industry Outlook:** |
| Unemployment has steadily been decreasing since 2009 and now sits at 5.1%. Additionally, U.S. home prices have rebounded from the recession. Both are good pieces of news for the leisure product industry. When the workforce is employed, there are more discretionary funds available for recreation. Following suit, when home values rise, homeowners feel more comfortable spending cash. The industry as a whole has a large potential in developing countries. Low gasoline prices also make these vehicles more affordable to operate. Lastly, baby boomers will continue to be drawn to Polaris Vehicle activities. |
| **Investment Thesis:** |
| Since the ROE regulation may change from the FERC’s decision, ITC is shifting its capital plans to focus more on contractual transmission projects. It currently has two projects in the pipeline. The first is the Lake Erie Connector, which will bring power back and forth from Canada to the U.S. The second, is a project shared with NRG Energy and York Capital Management to bail out the Puerto Rico Electric Power Authority with $3.5B. PREPA is about to default on $700M in loans and the new capital would allow the utility to modernize and upgrade. It is estimated that PREPA is owed $1.75B in surge charge. Additionally, the company last year had announced a repurchase program of $150 million common stock shares. However, ITC’s high gross and pre-tax margins indicate a differentiated product portfolio and good cost control.  Valueline, Utility Dive. |
| **Investment Risks:** |
| Polaris is well positioned for substantial growth for the next 3-5 years. The company has been bolstering expansion efforts in Europe, which will also diversify of risk. Currently, the stock is experiencing a selloff based on slightly lower reforecast earnings for 4Q15 and recall of 53,000 RZR units. That being said, Polaris currently sits just above its 52-week low and is severely undervalued. Look forward to big gains once the market realizes the company’s true market value. Polaris is deeply rooted in the ORV’s snowmobile markets and also has a presence in motorcycles manufacturing. There are only a handful of companies that are involved in these markets. Polaris and Artic Cat are the only companies that are heavily involved in both ORV and Snowmobiles. Most other Polaris’s competitors only focus on one market, for example, Harley-Davidson is the world’s largest motorcycle manufacturer. Morningstar |
| **Takeaways From Last Quarter’s Investor Call Transcripts:** |
| • Slightly beat reduced 4Q15 Estimates  • 100 Workers preemptively laid off to reduce costs, no other major planned cuts  • Reduced output to allow dealers to sell through inventory  • Expect high dollar to put pressure on sales for first quarter to 50% less than last year  • Light snowfall in N. America compounds drop in demand for snowmobiles and ORV  • Management still moving forward to open Alabama plant later this year  • Motorcycle sales were up 33% in 4th quarter, 67% increase YoY comparison  “Our outlook for 2016 reflects another volatile year in powersports driven by near-term growth pressures from weak end markets as the threat of a worldwide economic slowdown looms” – CEO Scott Wine  Yahoo Finance |

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| **Financial Performance:** | **Discounted Cash Flow** |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | 2012 | 2013 | 2014 | 2015 | 2016E | 2017E | | Revenue | 3,209.80 | 3,777.1 | 4,479.6 | 4,719.3 | 4,761.7 | 4,949.3 | | Operating Profit | 478.4 | 577.9 | 714.7 | 716.1 | 656.1 | 717.9 | | Net Income | 312.3 | 377.3 | 545.0 | 455.4 | 423.6 | 459.9 | | Revenue Growth % | 20.81 | 17.67 | 18.6 | 5.35 | 0.90 | 3.94 | | EBITDA% | 549.0 | 670.0 | 842.2 | 868.3 | 830.7 | 891.5 | | Operating Profit % | 14.91 | 15.3 | 15.95 | 15.17 | 13.78 | 14.51 | | Net Income Margin | 9.73 | 9.99 | 10.14 | 9.65 | 8.95 | 9.46 | | D/E | 15.52 | 52.87 | 25.85 | 46.74 |  |  | | Interest Coverage | 80.65 | 93.06 | 63.59 | 62.51 |  |  | | EPS | 4.54 | 5.51 | 6.86 | 6.90 | 7.22 | 7.34 | | PE Ratio | 19.12 | 26.74 | 22.74 | 12.73 | 10.69 | 9.61 | | Current Ratio | 1.61 | 1.16 | 1.29 | 1.40 |  |  | | ROE | 52.46 | 61.12 | 64.00 | 48.81 | 39.63 | 36.03 | | ROA | 23.01 | 23.79 | 24.15 | 20.41 | 20.66 | 18.09 | | Dividend Per share | 1.48 | 1.68 | 1.92 | 2.12 | 2.23 | 2.43 | | |  |  |  | | --- | --- | --- | |  | 2015 | 2016 | | 3 Year Avg. Revenue Growth | 13.87% | 8.23% | | Avg. EBITDA Margin | 18.31% | 18.48% | | NOPAT Margin | 10.08% | 10.08% | | Cost of Debt | | 1.81 | | Tax Rate | | 26.75 | | Cost of Equity | | 9.26 | | WACC | | 8.7% | | Perpetuity Growth Rate (Terminal) | | 4.4% |   **Analyst Opinion**   |  |  |  | | --- | --- | --- | | Buy: 11 | Hold: 8 | Sell: 0 |  |  |  |  | | --- | --- | --- | |  | Rating | Target | | Morningstar | 5/5 Stars |  | | S&P NetAdvantage | A, Strong Buy |  | | Valueline | A |  | |

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| **Relative Valuation** | **Total Return** |
| |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | THO US | DW US | BC US | Ind. Average | **PII US** | | P/E | 12.64 | 19.14 | 12.95 | 92.71 | **10.20** | | P/B | 2.44 | 3.16 | 2.76 | 27.80 | **4.56** | | Dividend Yield | 2.17% | 7.31% | 1.28% | 2.51% | **3.08%** | | BEst PEG Ratio | 0.88 | 1.09 | 0.80 | 0.89 | **0.79** | | EPS (Last FY) | 4.04 | 2.90 | 3.05 | 2.44 | **6.89** | | Rev Growth (Last FY) | 11.75% | 17.34% | 5.06% | 32.58% | **-13.28%** | | NI Growth (Last FY) | 29.73% | 11.46% | -116.28% | 5.23% | **-18.25%** | | Operating Margin | 7.54% | 7.87% | 11.67% | 11.17% | **15.17%** | | Debt / Equity | 0.00 | 21.99% | 35.15% | 915.60% | **46.74%** | | Market Cap | 2.68B | 1.32B | 3.56B | 1.85B | **4.52B** |   **Prepared By: Jason Harris** | |  |  |  |  | | --- | --- | --- | --- | |  | PII | Sector | S&P 500 | | YTD | -18.35% | -6.47% | -7.28% | | TTM | -52.18% | 4.65% | -5.56% | | Last 3 Years | -21.19% | 44.23% | 25.93% | | Last 5 Years | 100.99% | 97.00% | 47.97% |   **CSR Characteristics**   |  |  |  | | --- | --- | --- | |  | Company | Industry | | ESG Disclosure | 17.36 | 14.05 | | Governance Disclosure Score | 51.79 | 50.00 | | Social Disclosure Score | 19.30 | 19.30 | | Environmental Disclosure Score | 1.55 | 1.55 | |