POLARIS INDUSTRIES INC.

# Fourth Quarter & Full Year 2016 Earnings Results

January 24, 2017

# Richard Edwards
# Director of Investor Relations

**POLARIS INDUSTRIES INC.**

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**January 24, 2017**

# Safe Harbor

Except for historical information contained herein, the matters set forth in this document, including but not limited to management's expectations regarding future sales, shipments, margins, currencies, net income and cash flow, the opportunities for expansion and diversification of the Company's business and the Company's guidance on earnings per share are forward-looking statements that involve certain risks and uncertainties that could cause actual results to differ materially from those forward-looking statements. Potential risks and uncertainties include such factors as product offerings, promotional activities and pricing strategies by competitors; manufacturing operation expansion initiatives; acquisition integration costs; product recalls; warranty expenses; foreign currency exchange rate fluctuations; environmental and product safety regulatory activity; effects of weather; commodity costs; uninsured product liability claims; uncertainty in the retail and wholesale credit markets; performance of affiliate partners; changes in tax policy and overall economic conditions, including inflation, consumer confidence and spending and relationships with dealers and suppliers. Investors are also directed to consider other risks and uncertainties discussed in our 2015 annual report and Form 10-K and subsequent Form 10-Qs filed by the Company with the Securities and Exchange Commission. The Company does not undertake any duty to any person to provide updates to its forward-looking statements.

The data source for retail sales figures included in this presentation is registration information provided by Polaris dealers in North America and compiled by the Company or Company estimates. The Company must rely on information that its dealers supply concerning retail sales, and other retail sales data sources and this information is subject to revision.

Non-GAAP Measures - Constant Currency Reporting. This presentation includes information regarding the Company's 2016 actual results and 2017 full year expectations on a constant currency basis, which is a non-GAAP measure, as well as on a GAAP basis. For purpose of comparison, the results on a constant currency basis uses the respective prior year exchange rates for the comparative period to enhance the visibility of the underlying business trends, excluding the impact of translation arising from foreign currency exchange rate fluctuations.

This presentation also contains certain non-GAAP financial measures, consisting of "adjusted" gross profit, operating expenses, net income and net income per diluted share" as measures of our operating performance. Management believes these measures may be useful in performing meaningful comparisons of past and present operating results, to understand the performance of its ongoing operations and how management views the business. Reconciliations of adjusted non-GAAP measures to reported GAAP measures are included in the financial schedules contained in this presentation. These measures, however, should not be construed as an alternative to any other measure of performance determined in accordance with GAAP.

# Key Definitions

**Throughout this presentation, the word "Adjusted" is used to refer to GAAP results minus the following:**

- *TAP Inventory step-up purchase accounting*
- *TAP acquisition costs and integration expenses*
- *Impacts associated with the Victory wind down*

**Beginning in 2017 a new reporting segment called "Aftermarket" was established which includes TAP plus our 5 aftermarket brands; 509, Klim, Kolpin, Pro Armor and Trail Tech, that were previously included in the ORV/Snowmobiles and Motorcycles reporting segments. 2016 sales and gross profit results will be reclassified to account for the fourth segment beginning in 2017 for comparison purposes.**

**See slide 5 for GAAP to non-GAAP reconciliations**

# GAAP / Non-GAAP Reconciliation Schedules

## Reconciliation of GAAP "Reported" Results to "Adjusted" Results (unaudited)

| Q4 2016 | Reported GAAP Measures | | | | Adjustments | | Adjusted Measures | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q4 2016 | Q4 2015 | $ Chg | % Chg | Q4 2016 | Q4 2015 | Q4 2016 | Q4 2015 | $ Chg | % Chg |
| Sales | $1,217,789 | $1,105,618 | $ 112,171 | 10% | $ - | - | $1,217,789 | $1,105,618 | $ 112,171 | 10% |
| Gross Profit | 312,772 | 310,274 | 2,498 | 1% | 8,803 (1) | - | 321,575 | 310,274 | 11,301 | 4% |
| *Gross Profit %* | *25.7%* | *28.1%* | - | *(238) bps* | | | *26.4%* | *28.1%* | - | *(165) bps* |
| Operating Exp. | 233,332 | 169,072 | 64,260 | 38% | (12,651)(2) | - | 220,681 | 169,072 | 51,609 | 31% |
| Net Income | 62,581 | 110,682 | (48,101) | (43%) | 13,515 (3) | - | 76,096 | 110,682 | (34,586) | (31%) |
| Diluted EPS | $ 0.97 | $ 1.66 | $ (0.69) | (42%) | $ 0.21 | - | $ 1.18 | $ 1.66 | $ (0.48) | (29%) |

| FY 2016 | Reported GAAP Measures | | | | Adjustments | | Adjusted Measures | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | FY 2016 | FY 2015 | $ Chg | % Chg | FY 2016 | FY 2015 | FY 2016 | FY 2015 | $ Chg | % Chg |
| Sales | $4,516,629 | $4,719,290 | $(202,661) | (4%) | $ - | - | $4,516,629 | $4,719,290 | $(202,661) | (4%) |
| Gross Profit | 1,105,623 | 1,339,042 | (233,419) | (17%) | 8,803 (1) | - | 1,114,426 | 1,339,042 | (224,616) | (17%) |
| *Gross Profit %* | *24.5%* | *28.4%* | - | *(389) bps* | | | *24.7%* | *28.4%* | - | *(370) bps* |
| Operating Exp. | 833,803 | 692,206 | 141,597 | 20% | (12,651)(2) | - | 821,152 | 692,206 | 128,946 | 19% |
| Net Income | 212,948 | 455,361 | (242,413) | (53%) | 13,515 (3) | - | 226,463 | 455,361 | (228,898) | (50%) |
| Diluted EPS | $ 3.27 | $ 6.75 | $ (3.48) | (52%) | $ 0.21 | - | $ 3.48 | $ 6.75 | $ (3.27) | (48%) |

**Adjustments:**

(1) Represents inventory step-up related to the TAP acquisition

(2) Represents the acquisition costs and integration expenses related to the TAP acquisition

(3) The company used its estimated statutory tax rate of ~37% for the non-GAAP adjustments

**2017 Adjusted Guidance:** 2017 guidance excludes the pre-tax effect of TAP inventory step-up purchase accounting of approx. $15 million, acquisition integration costs of approx. $15 million and the impacts associated with the Victory wind down which could be in a range of $50 to $70 million in 2017. The Company is in the process of finalizing its analysis of the anticipated total costs to wind down the Victory motorcycle business and will provide more clarity as the analysis is completed and the costs are incurred throughout the year. 2017 sales guidance excludes any Victory wholegoods sales as the Company is exiting the brand beginning in 2017.

# Scott W. Wine
# Chairman & CEO

**POLARIS INDUSTRIES INC.**

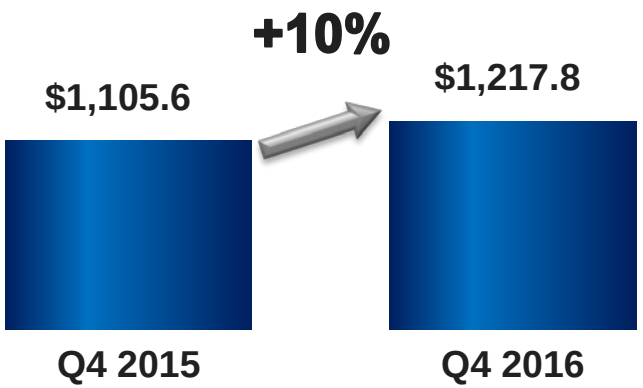
## Fourth Quarter & Full Year 2016 Earnings Results

**January 24, 2017**

# Q4 2016 Sales and Income

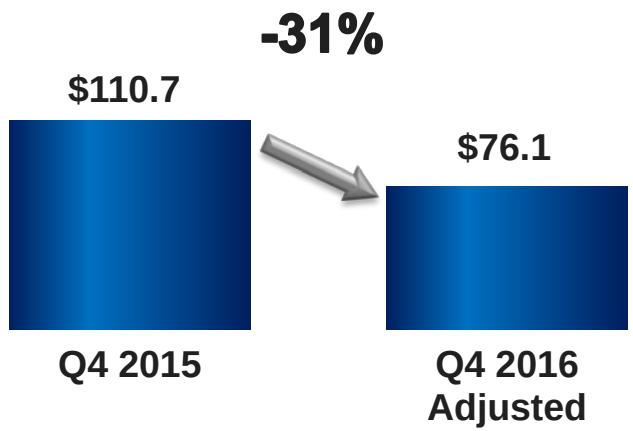
## Q4 2016 Sales

($ millions)




## Q4 2016 Adjusted* Net Income

($ millions)




**Q4 sales and adjusted* net income finished in-line with previous expectations**

Acquisition of Transamerican Auto Parts (TAP) added $109 million of sales in Q4 – company sales flat excluding TAP

ORV/Snowmobile sales up 5%; Motorcycles down 35%; Global Adjacent Markets up 21%

**Adjusted* earnings reported at $1.18 per diluted share, down 29% from prior year**

Adjusted* gross profit margin down 165 bps – volume and mix, as previously guided

**N.A. dealer inventory down 8%, in line with company expectations**

ORV down 11%; motorcycles up to targeted levels

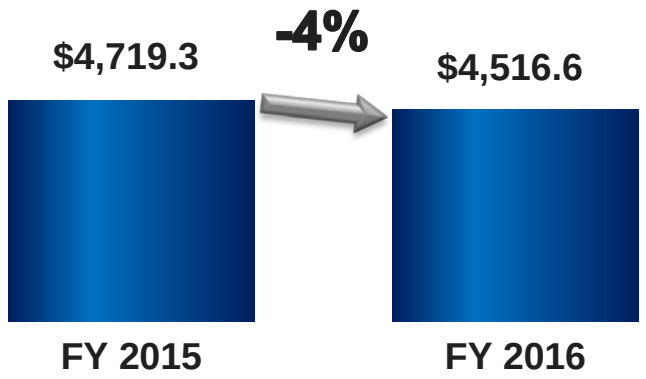
* See slide 5 for non-GAAP reconciliations

**Q4 Sales & Adjusted Earnings Finished In-Line With Revised Expectations**

# Full Year 2016 Sales and Income

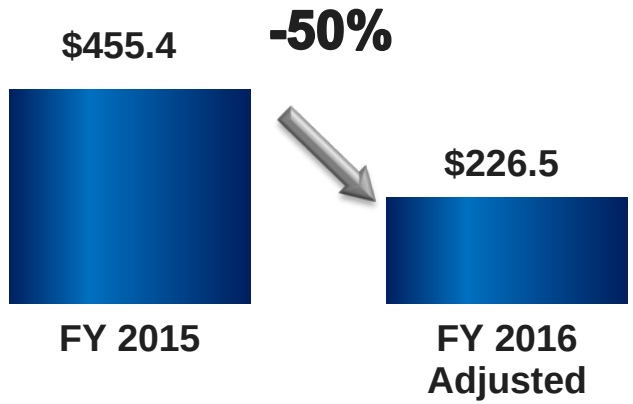
## Full Year Total Company Sales

($ millions)




## Full Year Adjusted* Net Income

($ millions)




**Full year sales and adjusted* net income finished in-line as expected per revised guidance**

- TAP accounted for $109 million, or 2% of full year sales
- ORV/Snowmobile sales down 9%; Motorcycles up 1%; Global Adjacent Markets up 10%
- Results include ~$120 million of costs associated with warranty, legal and other recall related activities

**Adjusted* earnings were $3.48 per diluted share, down 48% from prior year**

- Adjusted* gross profit margin down 370 bps – promotions, currency and warranty pressures

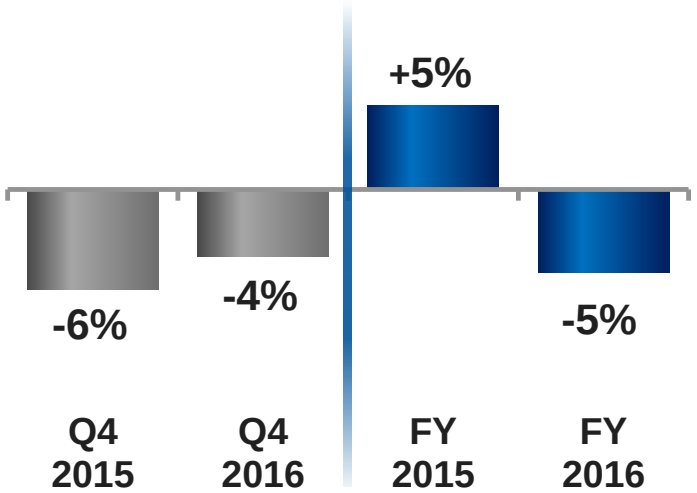
* See slide 5 for non-GAAP reconciliations

**FY Sales & Earnings Disappointing; Execution Not Representative of Polaris Capabilities**

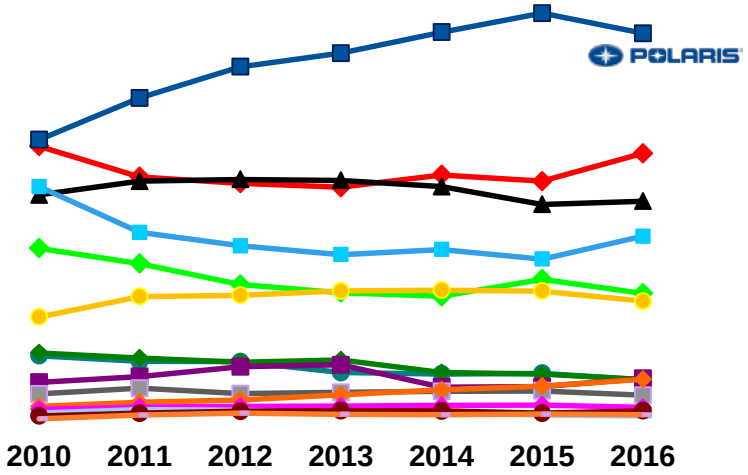
# N.A. Powersports Retail Sales

## Polaris Retail Sales & Market Share

**Retail % change, # vehicle units**




**Consolidated Market Share in Units Using Total Motorcycle Industry**




## Q4'16 Retail Sales by Business (vs. Q4'15)

| (# vehicle units) | POLARIS | INDUSTRY |
|---|---|---|
| **Off-Road Vehicles** | ⇩ mid-single digits % | ~flat* |
| Side-by-Sides<br>ATVs | ⇩ low-single digits %<br>⇩ high-single digits % | |
| **Motorcycles** (900cc & above) | ⇩ mid-single digits % | ⇩ low-single digits % |
| **Snowmobiles** | ⇩ about 1% | ~flat |

*estimated

**Polaris N.A. retail down 4% for Q4 2016 vs. Q4 2015**

Indian Motorcycle retail up about 20% in Q4, total motorcycles down, primarily Slingshot

ORV down; *RZR* recall disruptions, competition and weak ATV industry

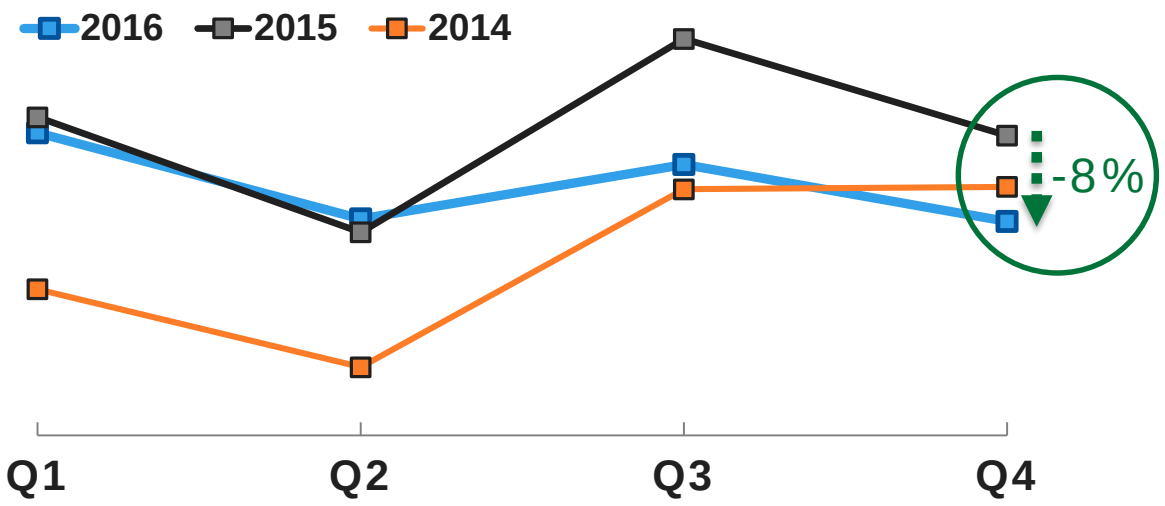
**North American Industry retail trends continued soft**

Oil/Gas, Ag remain weak

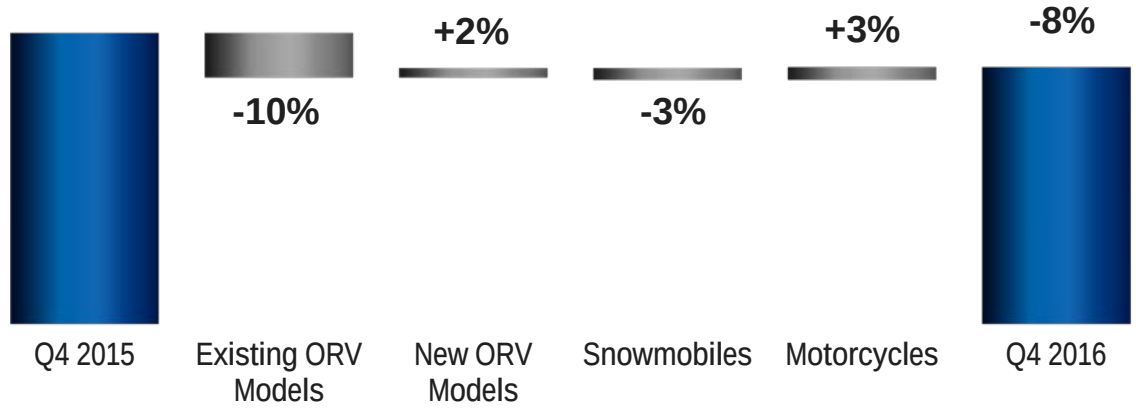
**Markets Remain Weak / Volatile**

# N.A. Dealer Inventory

## Polaris N.A. Total Dealer Inventory




## Q4 Total N.A. Dealer Inventory




**Polaris Q4 2016 N.A. dealer inventory down 8% vs. Q4 2015**

- ORV down 11% year-over-year
- Motorcycles up ~30% as expected, inventory at appropriate RFM levels
- Snowmobiles down, as expected

**Dealer inventory levels ongoing priority – SxS moving to RFM in 2017**

**Dealer Inventory Levels Finished as Expected**

# 2016 Product Recall Update

**Aggressively addressed product quality throughout the year**

- Issued 13 safety bulletins
- Significant effort involved to get owners back riding safely

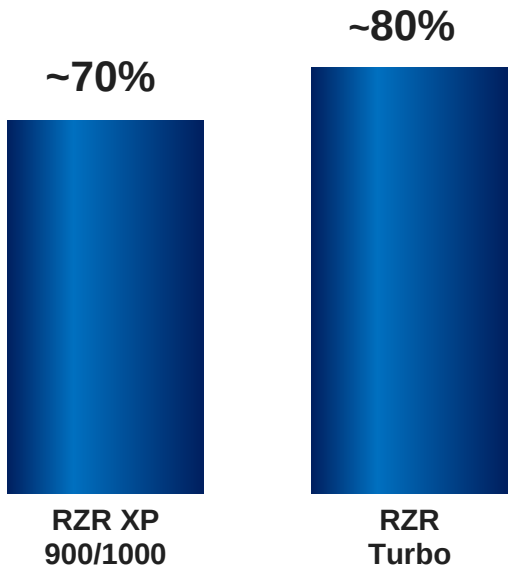
**Making Progress**

- Making significant progress on the two main recalls
- Completed thorough review of all MY17 ORV's
- New Global Safety and Quality function established
- New Safety and Quality GDP goal in 2017

**Mixed NPS scores, as expected**

- Recalls negatively impacted CY'16 scores
- MY'17 ORV product review expected to show positive improvement

**Recall Completion Rates – U.S.**




**Proactively Driving Improvements in 2017**

# Victory Motorcycle Exit

## Reason for Decision

- The company has lost money since inception in 1998
- Sales of Victory are down ~20 percent from the peak in 2012
- Limited investment dollars to support all three motorcycle brands
- Indian Motorcycle brand much more recognizable worldwide

## Positive impact on remaining motorcycle business

- Increased focus on remaining two brands (Indian/Slingshot)
- Increased R&D for product development acceleration
- Remove financial pressure of an unprofitable brand

**Very Passionate People Who Supported Victory**

# Transamerican Auto Parts Acquisition

**Closed acquisition on November 10, 2016**

**Strong cross-functional integration team in place**

**Margin enhancement initiatives progressing; $20M in synergies expected by 2019**

Sourcing, distribution & logistics, pricing optimization

**Accretive to 2017: $0.25 to $0.30 per dilutive share, excluding inventory step-up purchasing accounting and acquisition costs**



**Greg Adler, CEO - TAP**
**3rd generation to head TAP**
**22 years at company**

## 2016 Highlights

Proforma Sales Up 12%

Same store sales Up 8%

+320,000 new customers




**Leveraging our Balance Sheet to Drive Growth in New Markets**

# Strategic Objectives

## Best in Powersports PLUS

✓ 5-8% annual organic growth

## Growth through Adjacencies

✓ >$2B from acquisitions & new markets

## Global Market Leadership

>33% of Polaris revenue

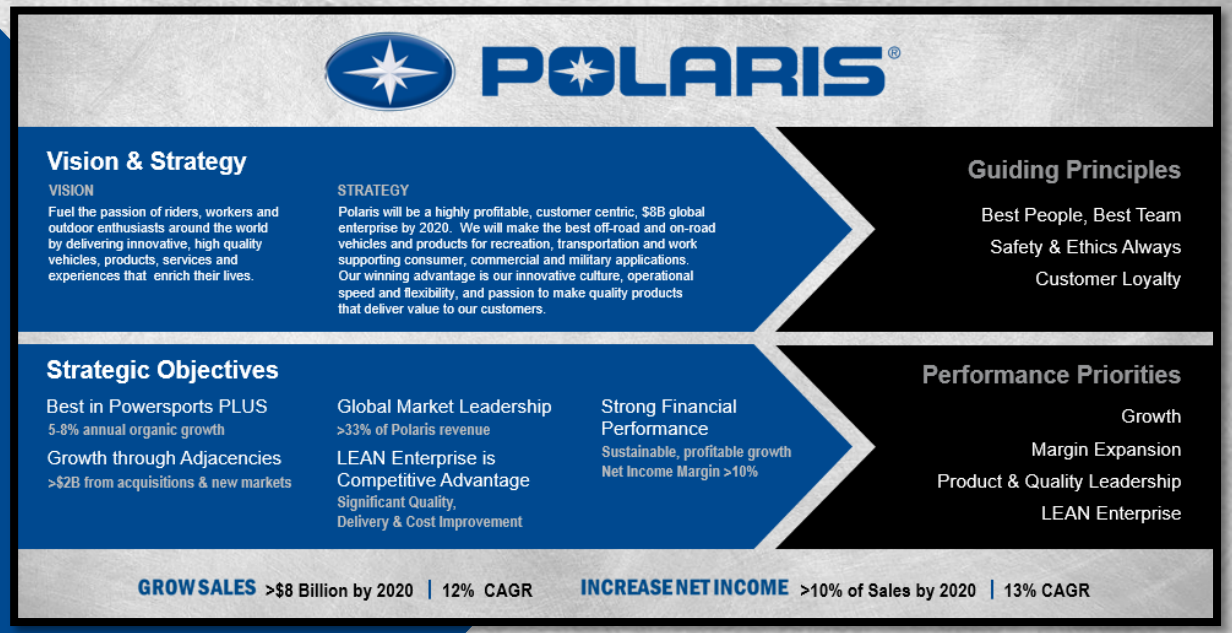
## LEAN Enterprise is Competitive Advantage

✓ Significant Quality, Delivery & Cost Improvement

## Strong Financial Performance

Sustainable, profitable growth

Net Income Margin >10%




**GROW SALES** >$8 Billion by 2020 | 12% CAGR

**INCREASE NET INCOME** >10% of Sales by 2020 | 13% CAGR

= Under Review

**Vision & Strategy Remain Unchanged, Reviewing Financial Goals Given Recent Performance**

# Mike Speetzen
# EVP Finance & CFO

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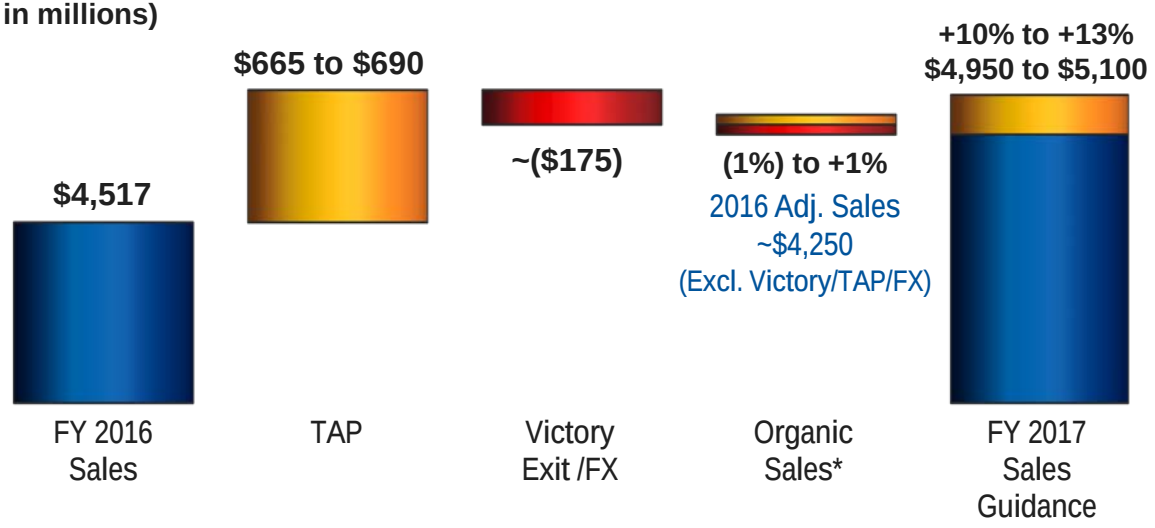
## Fourth Quarter & Full Year 2016 Earnings Results

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# 2017 Full Year Guidance

## Total Company Sales

($ in millions)



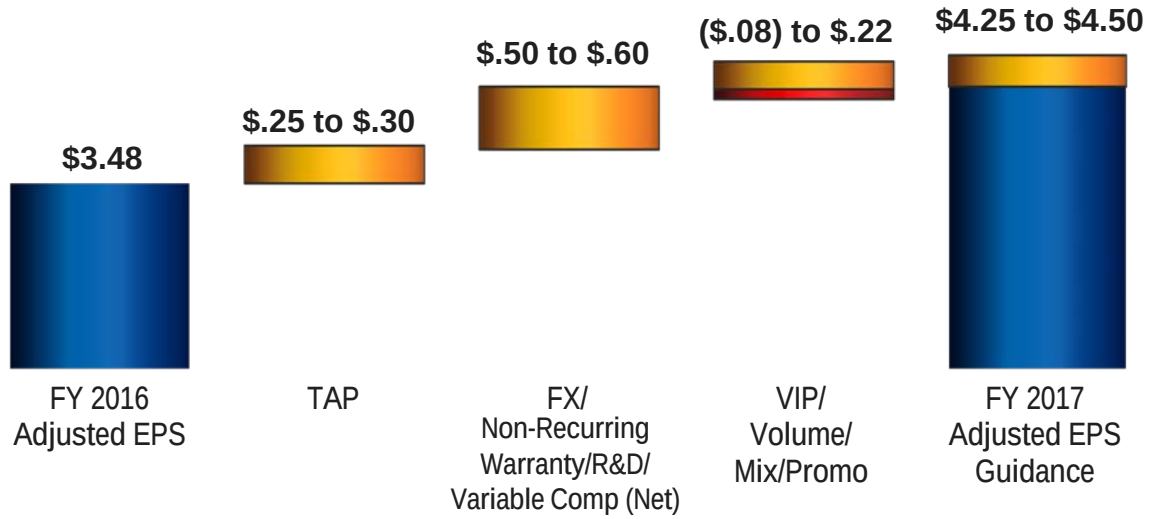

**Powersports market weak**

**Organic revenue expectations +1% to -1%**

**TAP FY'17 = $775 to $800**

**Victory wind down / FX headwinds**

## Total Company Adjusted** EPS




**+ $120M non-recurring warranty, legal and other recall related**
**+ TAP accretive in 2017 approx. 25¢ to 30¢**
**+ VIP drives positive results**
**+ Opportunity to drive organic volume growth**

**– Increased R&D – up mid-teens %; quality & innovation**
**– Higher promotional costs**
**– Negative FX impact**
**– Higher variable compensation costs**

* Organic sales represents revenue excluding TAP, Victory sales and the effects of FX
** See slide 5 for discussion regarding non-GAAP adjustments excluded from 2017 guidance

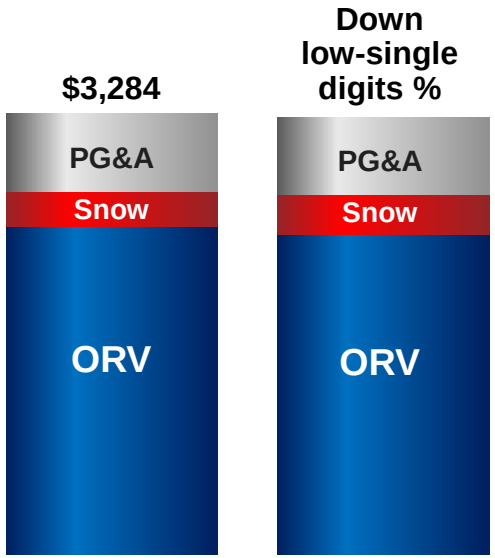
## 2017 Sales & Earnings Guidance Up Year-Over-Year on Adjusted Basis

# 2017 Full Year Guidance by Segments

($ in millions)

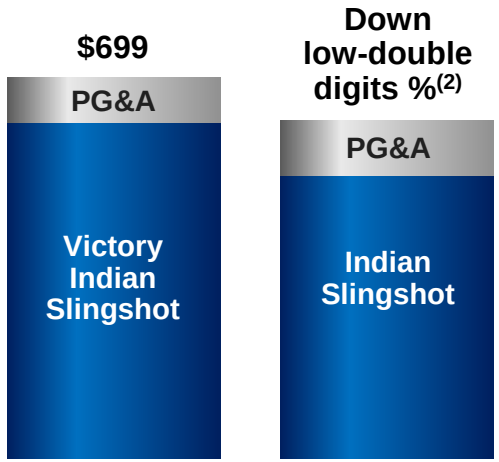
## ORV/Snowmobiles



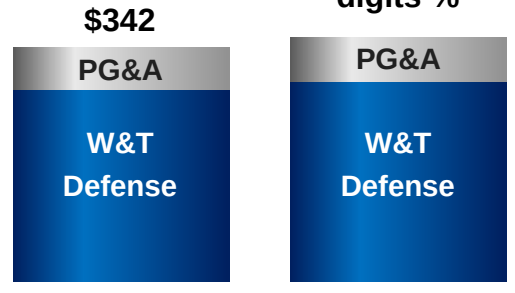

## Motorcycles



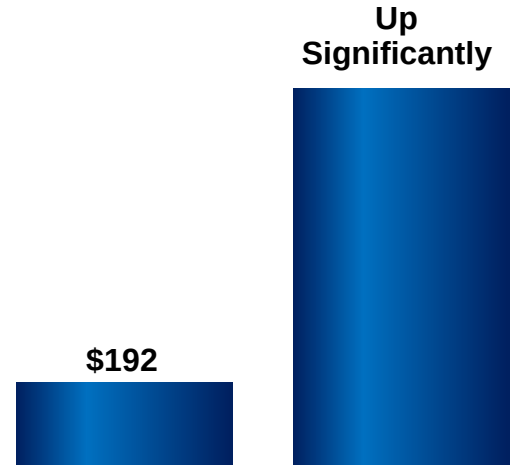

## Global Adjacent Markets




## Aftermarket




(1) Full Year 2016 sales have been reclassified to account for new Aftermarket segment reporting which includes aftermarket brands previously reported in their respective segments

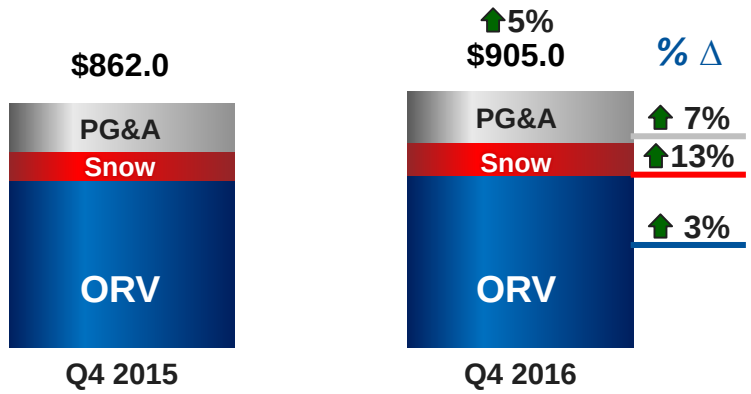
(2) On a comparable basis, motorcycle expectations is “Up low-double digits %” in 2017 after adjusting for Victory wholegood sales reported in 2016

**Aftermarket Segment Addition in 2017 to Include TAP + Other Aftermarket Brands**

# Off-Road Vehicles (ORV) / Snowmobiles

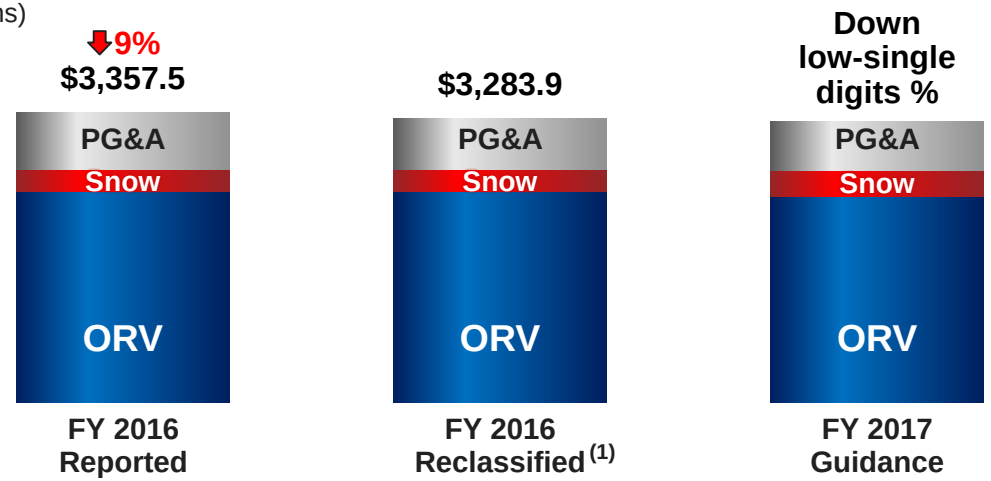
## Q4 2016 ORV/Snow Segment Sales

($ millions)




## FY 2016 ORV/Snow Segment Sales & Guidance

($ millions)




**ORV up 3% in Q4 2016; easy comparables in Q4 2015**

*Oil & gas/Ag remains weak*

**PG&A up 7%; increased part sales**
**ORV average selling price flat in Q4'16**
**Snow up due to timing**

**2017 Guidance:**

Overall ORV industry stable
Promotional levels elevated



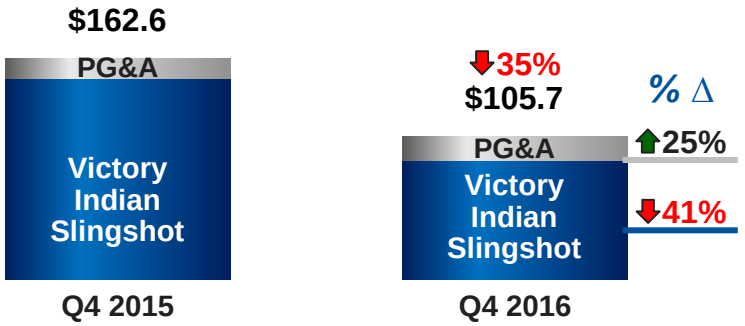

(1) Full Year 2016 sales have been reclassified to account for new Aftermarket segment reporting which includes aftermarket brands previously reported in their respective segments

**Weak Industry / Recall Activity Overshadowing Improved Execution**

# Motorcycles

## Q4 2016 Motorcycles Segment Sales

($ millions)




## FY 2016 Motorcycles Segment Sales & Guidance

($ millions)




**Motorcycle shipments down 35%**

*Slingshot sales constricted by Q4 recall*

*Victory and Indian comparing to artificially high Q4'15 shipments*

**Average selling price was down 9% in Q4 – product mix**

**2017 Guidance:**

FY down on reported 2016 basis; 2017 up excluding Victory

Overall motorcycle market remains weak







(1) Full Year 2016 sales have been reclassified to account for new Aftermarket segment reporting which includes aftermarket brands previously reported in their respective segments

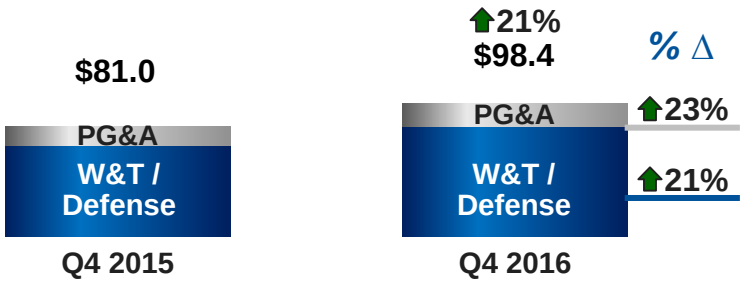
(2) On a comparable basis, motorcycle expectations is "Up low-double digits %" in 2017 after adjusting for Victory wholegood sales reported in 2016

**Increased Focus on Indian & Slingshot in 2017**

# Global Adjacent Markets (GAM)

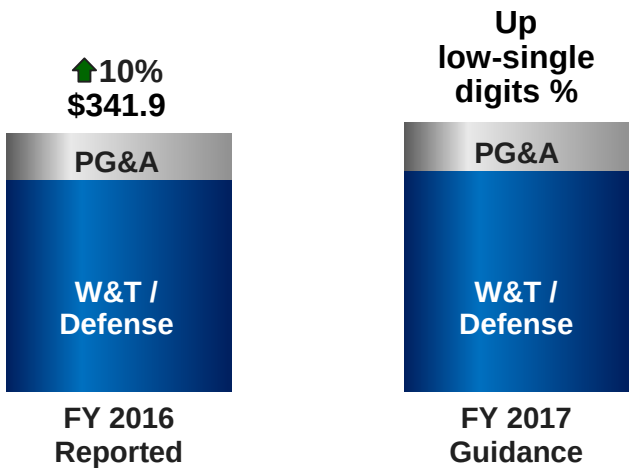
## Q4 2016 GAM Segment Sales

($ millions)




## FY 2016 GAM Segment Sales & Guidance

($ millions)



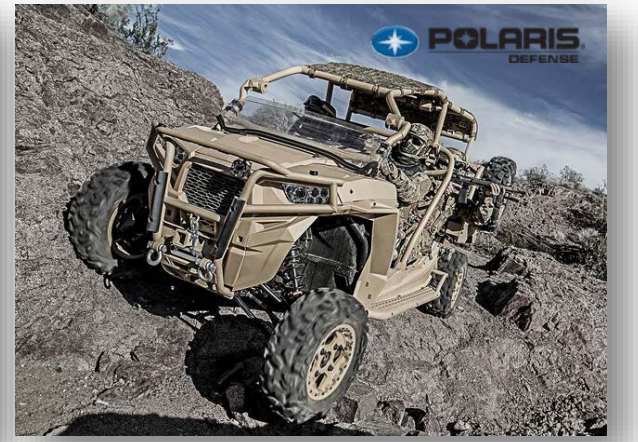

**GAM ⬆ 21% due to Taylor-Dunn acquisition and military**

**Average selling price for GAM was up 8% in Q4'16**

**2017 Guidance:**

Leverage current global portfolio for costs and growth opportunities




**Building Diverse Channels for Future Growth**

# Aftermarket

## FY 2016 Aftermarket Segment Sales & Guidance

($ millions)




**Closed acquisition of TAP November 2016**

**FY 2016 reclassified sales includes $83 of other aftermarket brand sales**

**2017 Guidance:**

Leverage size of combined portfolio for growth and profitability improvement

TAP and other aftermarket brands are expected to grow in 2017













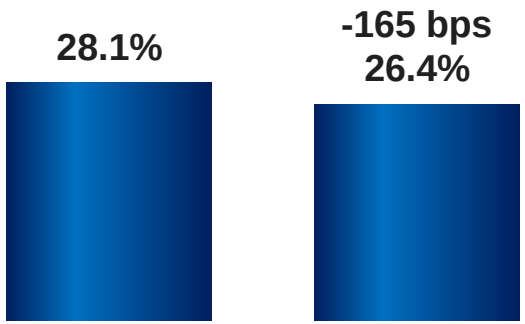



(1) Full Year 2016 sales have been reclassified to account for new Aftermarket segment reporting which includes aftermarket brands previously reported in their respective segments

## TAP Acquisition / Integration Off to Solid Start

# Gross Profit Margin Guidance

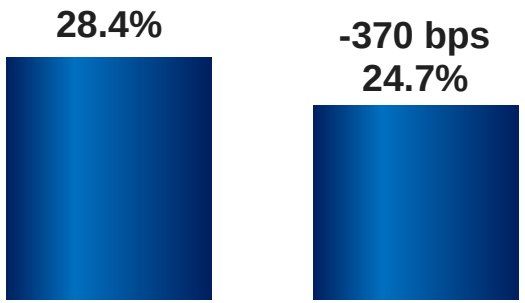
## Adjusted* Gross Margin Q4 2016




| | |
|---|---|
| ⬆ Product Mix | ⬇ Promos / Incentives |
| ⬆ VIP | ⬇ Warranty |
| ➡ Acquisitions | ⬇ FX |

| GM by Segment | Q4 2015 | Q4 2016 |
|---|---|---|
| ORV/Snow | 30.5% | 28.6% |
| Motorcycles | 14.8% | 1.5% |
| Adjacent Markets | 27.4% | 29.5% |

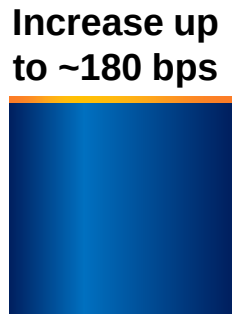
## Adjusted* Gross Margin FY 2016




| | |
|---|---|
| ⬆ VIP | ⬇ Warranty |
| ⬆ Product Mix | ⬇ Promos / Incentives |
| | ⬇ FX |

| GM by Segment | FY 2015 | FY 2016 |
|---|---|---|
| ORV/Snow | 32.1% | 27.7% |
| Motorcycles | 13.9% | 12.9% |
| Adjacent Markets | 27.0% | 27.8% |

## Adjusted** Gross Margin 2017 Guidance




| | |
|---|---|
| ⬆ VIP | ⬇ FX |
| ⬆ One-time warranty | ⬇ Promos / Incentives |
| | ➡ Product mix |

| GM by Segment | 2017 Expectations |
|---|---|
| ORV/Snow | ⬆ |
| Motorcycles | ⬆ |
| Adjacent Markets | ➡ |
| Aftermarket | ⬆ |

* See slide 5 for non-GAAP reconciliations
** See slide 5 for discussion regarding non-GAAP adjustments excluded from 2017 guidance

KEY: ⬆ Improvement ⬇ Headwind ➡ Neutral

**2017 Gross Margin Improvement Driven Primarily by VIP & 2016 Non-recurring Events**

# Other FY 2017 Expectations

**Adjusted operating expenses: increase mid-teens % (slight increase as a % of sales)**

- ↑ R&D
- ↓ Legal and other related costs
- ↑ Operating expense from acquired companies
- ↑ Variable compensation

**Income from financial services: down ~10% due to lower dealer inventory levels**

**Interest expense: more than double due to TAP acquisition funding**

**Income taxes: approximately 34.5% of pretax profits**

**International sales: about flat with 2016 on a constant currency basis**

**PG&A: up low-single digits %**

**Diluted shares outstanding: approximately flat**

**Operating cash flow: down significantly**

# Scott W. Wine
# Chairman & CEO

**POLARIS INDUSTRIES INC.**

## Fourth Quarter & Full Year 2016 Earnings Results

**January 24, 2017**

# Closing Comments

**New Administration brings economic optimism/uncertainty**

**Powersports competitors aggressive – ORV product positioning improved**

**Safety & Quality fundamentals in place**

**TAP integration proceeding on plan**

**Indian Motorcycles outpacing industry**

**VIP/RFM implementation building competitive advantage**

**2017 - Regaining Footing as the ‘Best in Powersports”**



POLARIS®

# Thank You

## Questions?

# Supplemental Data

## Q4 Supplemental Sales Performance – PG&A, International

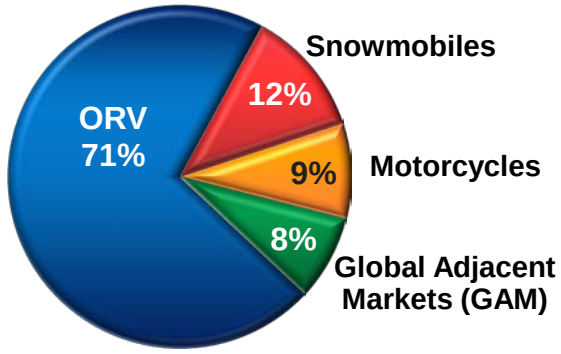
## Q4 Financial Position

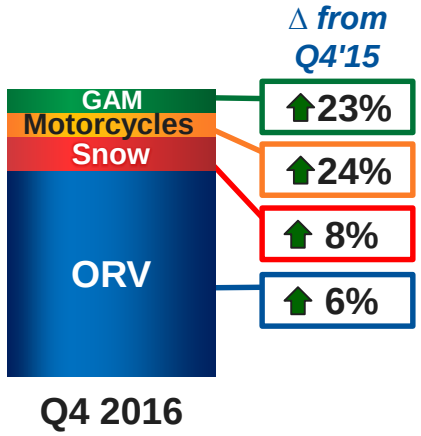
## Income from Financial Services

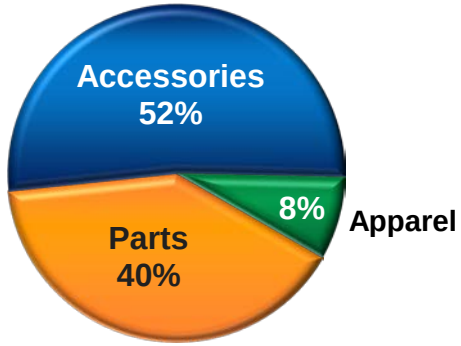
# Q4 2016 Supplemental Sales Performance

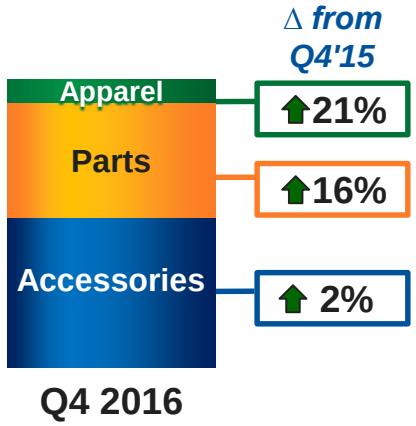
## Parts, Garments & Accessories (PG&A)*

### Q4 Sales ⬆9% to 214.4 Million



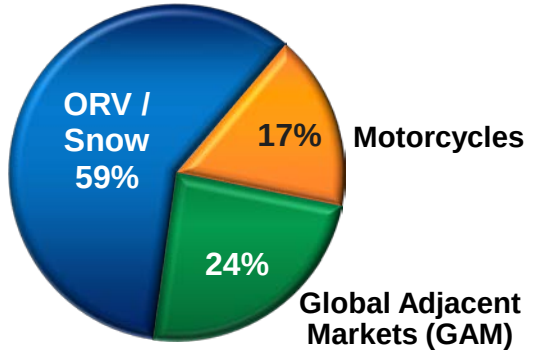



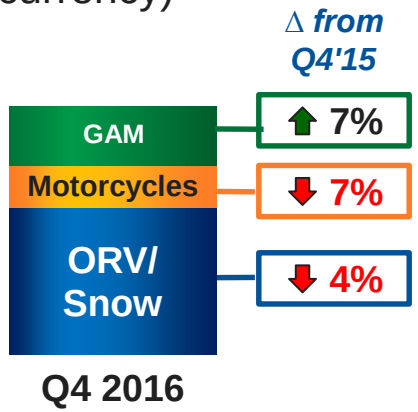



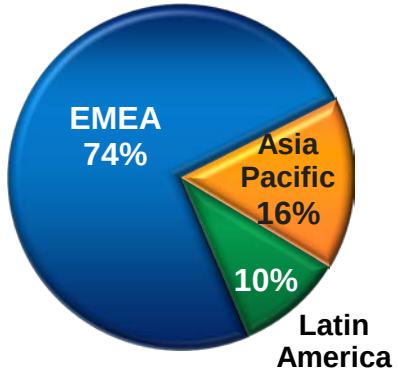

*Does not include TAP

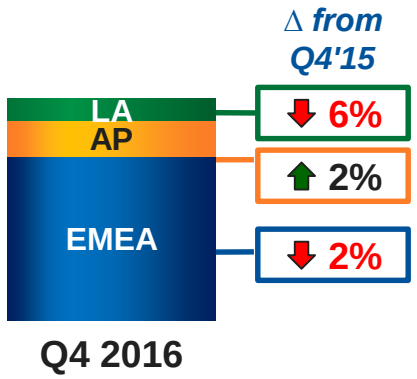
## International

### Q4 Sales ⬇2% to $178.2 Million
(~flat constant currency)



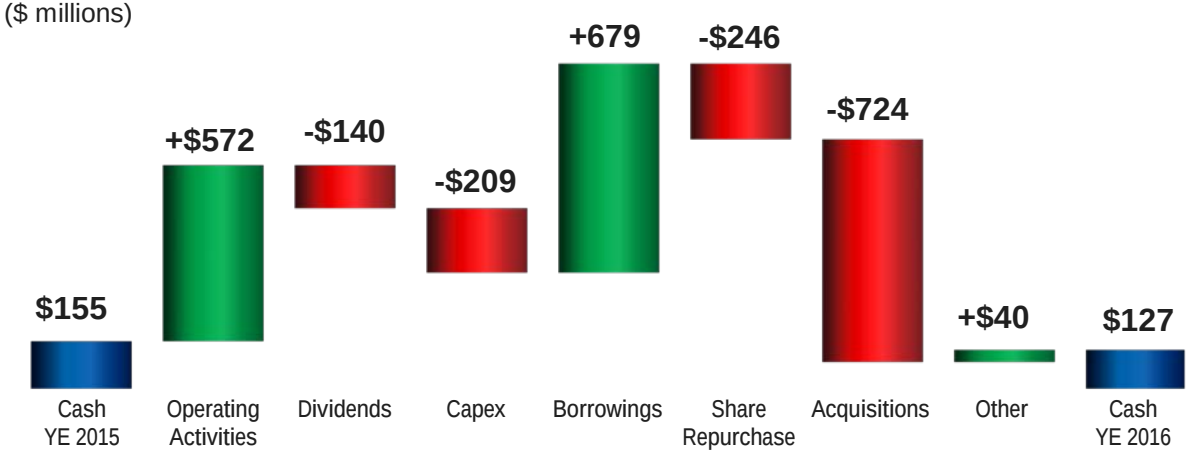



# 2016 Polaris Financial Position

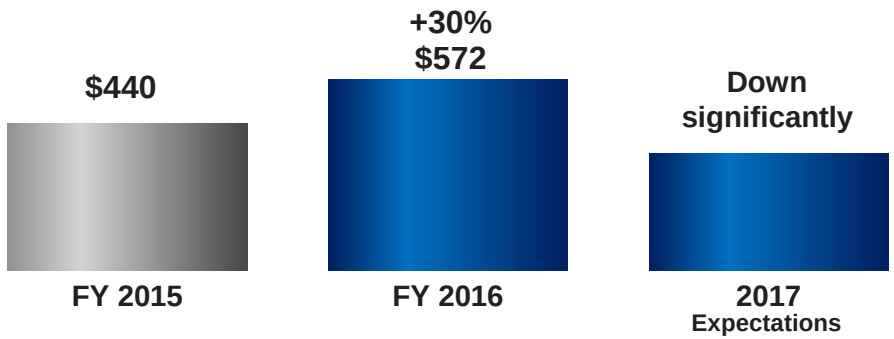
## Cash Drivers

($ millions)




## Operating Cash Flow

($ millions)




## Capital Summary December 2016

($ millions)

| | | Fav/(Unfav) Dec 2015 |
|---|---|---|
| Cash | $ 127 | -18% |
| Debt /Capital Lease Obligations | $1,142 | +147% |
| Shareholders' Equity | $ 867 | -12% |
| Total Capital | $2,009 | +39% |
| *Debt to Total Capital* | *57%* | *(-25%)* |

## FY 2016 Summary

- Operating cash flow up
- Factory inventory down significantly year-over-year, excluding acquisitions

## 2017 Expectations

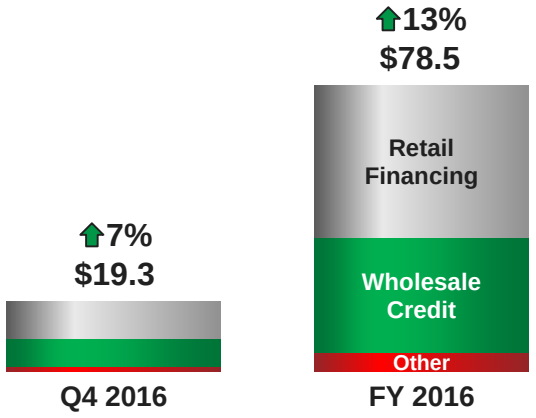
- Cap Ex expected to be lower than 2016
- Operating cash flow expected to be down significantly – timing of accrual payments and Victory wind down

**Financial Position Remains Solid**

# Income from Financial Services

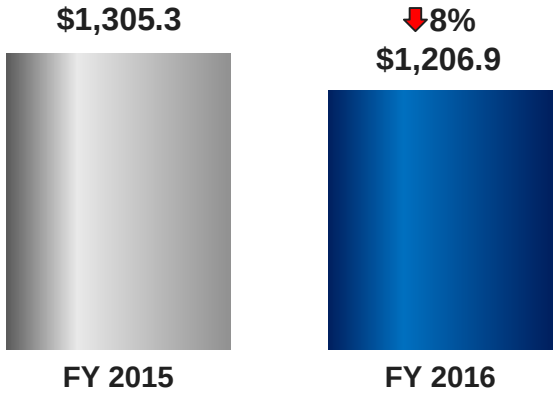
## Income from Financial Services

($ millions)

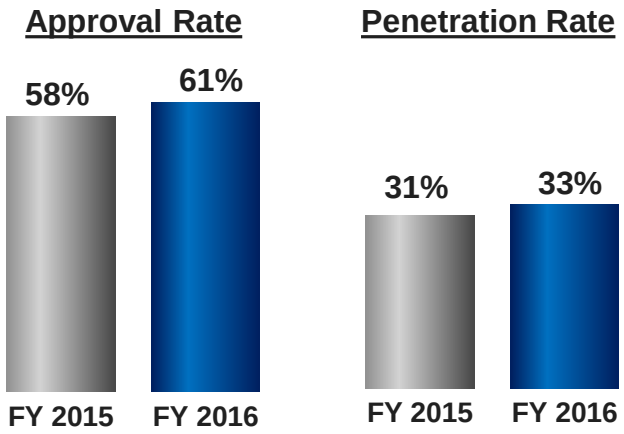



## Wholesale Credit PA Receivables

($ millions)




## Retail Credit




**2017 financial services expectations: down ~10% due to lower dealer inventory levels**

**Q4 and FY income from financial services up – volume related, higher penetration rates & extended service contracts**

**Portfolio Remains Healthy**