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# Polaris Inc. (PII)

Q2 2025 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to the Polaris Second Quarter 2025 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to J.C. Weigelt, Vice President, Investor Relations. Please go ahead.

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**J.C. Weigelt**

*Vice President-Investor Relations, Polaris Inc.*

Thank you, Gary, and good morning or afternoon, everyone. I am J.C. Weigelt, Vice President of Investor Relations at Polaris. Thank you for joining us for our 2025 second quarter earnings call. We will reference a slide presentation today which is accessible on our website at [ir.polaris.com](http://ir.polaris.com). Joining me on the call today are Mike Speetzen, our Chief Executive Officer; and Bob Mack, our Chief Financial Officer. Both have prepared remarks summarizing our 2025 second quarter, as well as our expectations for 2025. Then, we'll take your questions.

During the call, we will be discussing various topics which should be considered forward-looking for the purposes of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projections in the forward-looking statements. You can refer to our 2024 Form 10-K and our other filings with the SEC for additional details regarding risks and uncertainties. All references to 2025 second quarter actual results and future period guidance are for our continuing operations and are reported on an adjusted non-GAAP basis, unless otherwise noted. Please refer to our Reg G reconciliation schedules at the end of the presentation for the GAAP to non-GAAP adjustments.

Now, I will turn it over to Mike Speetzen. Go ahead, Mike.

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## Michael Todd Speetzen

*Chief Executive Officer & Director, Polaris Inc.*

Thanks, J.C. Good morning, everyone, and thank you for joining us today. Before we walk through our second quarter results, I would like to begin by acknowledging the outstanding work of our team. While there is plenty of external noise, tariffs, interest rates, a dynamic and often unpredictable macro environment, I'm proud to say Polaris is winning where it counts. We've exceeded expectations for the quarter, gained share across our business, mitigated a portion of the tariff impacts, generated strong free cash flow, and have dealer inventory at healthier levels across most product categories.

Our plants are running leaner and more efficient than ever, surpassing even pre-pandemic benchmarks, all while maintaining the highest levels of quality that our customers and dealers come to expect. And we are bringing industry leading products to the market. I'm more confident than ever that we'll emerge from this cycle stronger because the Polaris team is focused and executing on what we can control.

Today, Bob and I will walk you through our Q2 performance and update on our tariff mitigation strategy and how we are positioning Polaris for long-term growth, stronger earnings, and higher returns. In Q2, sales were down 6%, reflecting the ongoing powersports industry downturn and increased promotions. For the quarter, shipments were down just 4%, which was better than our expectations in April.

Additionally, retail was flat and we had share gains across every segment. Dealer inventories continue to be a focus for us and we remain in a much better place compared to last year. Year-over-year, inventory is down 17%, excluding snowmobiles. You will recall, we plan for fewer shipments of snowmobiles later in the year to help address elevated inventory in the channel due to two bad snowfall seasons.

Margins were pressured by negative mix, incentive comp, and elevated promotions. However, we're seeing real progress from our lean and quality initiatives. The team is building on the incredible efforts that started last year; and for 2025, we are on track to deliver an incremental \$40 million in operational efficiencies.

Additionally, the continued focus on quality has led to lower warranty costs in the quarter and we expect these efforts to provide a benefit for the full year. Adjusted EPS came in at \$0.40, which was down year-over-year, but well ahead of last year's – of the latest consensus expectations. Our decision today to not reinstate full year guidance stems from the fact that there remains an abundance of uncertainty around tariffs and the potential impact on consumer spending.

We continue to actively monitor developments and will reevaluate our decision on providing full year guidance once we have greater clarity. Like last quarter, we've decided to provide more assumptions for the business in the third quarter, which Bob will walk through shortly. That said, our commitment to navigating these challenges and positioning Polaris for long-term success remains unchanged.

Retail was flat year-over-year in Q2, driven by growth in RANGER, crossover and Indian Motorcycle. In utility, ATV was flat while RANGER saw mid-single digit growth. In recreation, crossover vehicles grew mid-single digits, although RZR was down mid-single digits. In the crossover segment, the Polaris XPEDITION has been a standout story since it launched a little over two years ago. It has helped us grow our crossover market share from under 35% pre-pandemic to about 55% today. That's one of the biggest share shifts in ORV in over five years, and it underscores the power of innovation.

We gained share across all segments during the quarter, including ORV, despite aggressive promotions from other OEMs. We always said these aggressive promotions would likely be a short-term issue, and we believe we remain well-positioned to gain back share with our innovative product line across ORV once industry levels normalize and industry retail stabilizes.

In On Road, Indian Motorcycles gained multiple market share points, especially in the heavyweight category, aided by the launch of our PowerPlus lineup earlier this year. Marine also gained share, driven by our new entry-level Bennington pontoon, which has resonated well with non-cash buyers, as well as our all-new M Series Bennington, which has performed well with more luxury-oriented buyers.

We also wrapped up our Annual Dealer Survey with over 800 participants. The key takeaways are: dealers are largely comfortable with their Polaris inventory, they want us to stay focused on innovation, as it drives traffic and share; and uncertainty remains high, which is impacting their willingness to move more and to order more inventory. We're listening. We're staying close to our dealers, supporting them through the downturn, and preparing for an eventual market rebound.

Turning to tariffs, the landscape continues to change at a rapid pace. Consistent with our April call, we want to provide you with a snapshot of the impact, given current tariffs in effect. The biggest change from what we spoke about in April would be the tariff on our China spend. This all-in rate is currently at approximately 55%, which is lower than the 170% that was in place in April. That alone reduces our expected 2025 tariff impact by over \$150 million. While this reduction was welcomed, we still believe the current tariff structure puts us at a competitive disadvantage, given our heavier US manufacturing footprint versus competitors that also source from China but manufacture in countries like Mexico or Japan.

For tariffs that have been enacted, we now expect full year gross tariff costs of \$180 million to \$200 million, with less than \$100 million in incremental tariffs hitting the P&L this year after mitigation and inventory deferrals. That's \$125 million lower than our April estimate. These amounts exclude potential impacts from tariffs that have not yet been enacted. This remains a fluid situation, and we are already implementing actions that can reduce our tariff exposure over the short and long term through our four-pronged mitigation strategy as we continue to reevaluate our supply chain, manufacturing, footprint, pricing, and market priorities.

These are tough decisions but we're making – we're taking a data-driven approach to protect our long-term competitiveness and profitability. Our proactive approach is already providing – proving successful as we expect to have relief for most of these new tariffs over the next couple of years. We're targeting to reduce sourced parts from China to the US by 35% by year end, which is slightly higher than what we had initially thought, as the teams have identified even more opportunities to reduce exposure.

Of this amount, almost half is already complete, with parts sourced from different regions being received at our plants. Further, the team expects to have a transition plan for 80% of our China-sourced parts by the end of the year. The timing of the actual moves are still being determined, but the progress here is real, with the goal of creating a supply chain with minimal tariff exposure relative today. We have also negotiated with suppliers to mitigate pass-through costs, saving over \$10 million to-date through our efforts.

I'm confident in our tariff mitigation strategy and execution to-date. I also remain confident that we're taking the appropriate actions to drive our long-term strategy to increase shareholder value. Over the short term, we will continue to take a prudent approach to our cost structure as we position Polaris for a market recovery. Given our

cash preservation playbook, we will be thoughtful about evaluating discretionary spend and CapEx over the near term, and we'll focus on maximizing our cash generation.

Our approach has proven to be successful as we cut inventory and generated approximately \$290 million in free cash flow in the second quarter. Share gains and innovation are helping drive sales performance above industry results. Our focus on lean is driving tangible results within our plants, which should translate into greater earnings power.

When the powersports cycle begins to improve, we believe Polaris will be in an even stronger position at the dealership with higher margins and greater earnings power. Ultimately, the goal remains to generate above-average returns for shareholders, and we believe we are taking the appropriate steps to meet this goal.

I'm now going to turn over to Bob to provide you with more details on the financials. Bob?

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## Robert P. Mack

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

Thanks, Mike, and good morning or afternoon to everyone on the call today. Second quarter adjusted sales declined 6%, primarily due to planned shipment reductions and elevated promotional activity. However, results exceeded our expectations, driven by higher-than-anticipated shipments in Off Road. International sales were down 5%, reflecting similar dynamics. PG&A sales declined 1%, impacted by lower wholegoods shipments, partially offset by strength in parts and oil.

Gross margin was pressured across all segments due to unfavorable mix and heightened promotions, particularly in Off Road, though, we saw some benefit from ongoing manufacturing efficiencies. We also had incremental tariff costs of \$10 million hit the P&L in the quarter, which was within our anticipated range. Adjusted EBITDA margin also faced headwinds from incentive compensation.

As you saw in our press release this morning, we recognized a non-cash goodwill impairment charge during the quarter associated with our On Road segment due to the continued decline in financial performance and prolonged deterioration of industry conditions. We also had an impairment related to a strategic investment recorded in other expense.

Within the quarter, we generated \$320 million in operating cash flow, supported by continued focus on reducing net working capital, especially inventory. This marks the highest second quarter of operating cash flow since the height of the pandemic in 2020. This translated into approximately \$290 million in free cash flow for the quarter, a testament to the strength of our recessionary playbook.

Off Road sales declined 8%, driven by lower wholegoods volume and increased promotions. Industry-wide dealer inventory levels improved during the quarter, suggesting a potential return to healthier inventory positions. Our data shows all OEMs, except one, now have DSOs below 140 days, compared to three OEMs above that threshold last quarter. Polaris DSOs remain around 110 days, well below historical norms, reinforcing our confidence in our positioning.

Gross margin declined 55 basis points due to mix and promotions, with the lower year-over-year mix within the side-by-side shipments. Operational efficiencies and lean initiatives continued to support margins, and warranty expense remained a tailwind where we continue to see an improvement in model year 2025 claims as a result of our commitment to quality.

Moving to On Road, sales during the quarter were down 1%, driven by ongoing softness within our Slingshot business. This was partially offset by mid-single digit sales growth in Indian Motorcycle. Adjusted gross profit margin was down 83 basis points, driven by a year-over-year mix headwind within our European [ph] Aixam (00:18:55) business.

In Marine, sales were up 16%, driven by positive shipments of new boats, including the new entry-level Bennington pontoon. Recent SSI data reflects share gains for our pontoon brands in the second quarter, supported by our competitive positioning in the entry-level of the premium segment. However, the broader Marine industry continues to face pressure from elevated interest rates and macroeconomic uncertainty. Gross profit margin declined due to unfavorable operational expenses and negative mix in the quarter.

Moving to our financial position, we generated approximately \$320 million in operating cash flow this quarter, translating into \$289 million of free cash flow. Much of this was derived from a focused effort to reduce working capital, including an initiative to lower inventory at our plants, given our ability to operate more efficiently today versus a year ago. We remain committed to our recessionary strategy until economic policy and demand stabilizes.

In June, we proactively amended our existing credit facility and prepaid senior notes via revolving loans. The amendment extends the maturity of our \$400 million 364-day term loan and provides a covenant relief period to allow incremental flexibility in this dynamic environment. We intend to be prudent with capital until we return to a more predictable environment. This approach includes the ability to continue the normal payout of our dividend, which the board will review later this week.

We also have approximately \$1 billion of liquidity available through our revolver. Our net leverage ratio ended the quarter at 3.1 times EBITDA, and we believe the additional flexibility allowed under our amended credit facility mitigates downside risk. With the strong free cash flow generation year-to-date and enhanced financial flexibility, we are well-positioned to emerge stronger from this prolonged downturn.

As with our April call, we are not providing formal guidance, but we'll share key planning assumptions. First, we expect third quarter sales to be between \$1.6 billion and \$1.8 billion. We are planning on fewer shipments and net pricing to be neutral year-over-year, with price offsetting promotions. Retail is expected to be flattish year-over-year. We estimate the P&L impact of incremental new tariffs to be between \$30 million to \$40 million, net of inventory deferrals. We estimate this level of tariffs to be a fairly accurate run rate going forward from enacted tariffs and deferrals from the first half of this year. Again, this assumes no change in current enacted tariff policy or mitigation efforts as of today.

Due to tariff impacts and the incentive compensation headwind, we do expect adjusted EPS for the third quarter will be negative. We continue to believe the ultimate impact on the consumer from these tariffs is not known and, thus, we remain hesitant to provide longer-term guidance until we have a clearer picture.

In closing, while the macroeconomic environment remains uncertain, our disciplined execution, strong cash flow generation, and proactive financial management position us well to navigate the current challenges. We remain focused on operational efficiency, maintaining a healthy balance sheet, customer-driven innovation, and supporting our dealer network as we prepare for a return to more stable market conditions. Our long-term strategy remains intact and we are confident in our ability to emerge stronger and deliver value for our shareholders over time.

With that, I'll turn it back over to Mike to talk about a new product launch and wrap up the call. Go ahead, Mike.

## Michael Todd Speetzen

*Chief Executive Officer & Director, Polaris Inc.*

Thanks, Bob. Before I wrap up our prepared remarks and move to Q&A, I'm excited to share details around a new product that is launching later today. You've heard me talk about the opportunity that exists for us in the entry and value segment for our products. We're incredibly proud of the home runs we've delivered in the premium space – vehicles like Polaris XPEDITION, the RANGER XD 1500, NorthStar Edition, and the RZR Pro R.

However, we also recognize the opportunities that exist in the entry or value space and have been focused on expanding our vehicle portfolio to better meet the needs of customers we are not currently reaching. There's a segment of customers that want the quality, the dealership service, brand leadership Polaris offers, but we're not at the right price level for them.

Later today, we're launching the Polaris RANGER 500. We believe this is the right product at the right price to address a customer base that makes up approximately 50% of all utility vehicle purchases. We expect the new RANGER 500 will allow Polaris to capture more volume and share, as there are many potential buyers of side-by-sides that are looking to unlock the value between fun and productivity at a lower price, and we believe we have the right product here.

Starting at \$9,999, the RANGER 500 is built for customers who are looking for a vehicle that has the features needed to get more done around their yard or property while being easy to use and easy to own, as we expect these customers will be newer to the ORV ownership experience. And we're designing it all at a more accessible price point. It comes standard with a 1,500 – with 1,500 pounds of towing capacity, a 300-pound gas assist dump box, a 2,500-pound winch, and over 30 accessory options.

Dealers who have previewed it are excited about the customer acquisition potential. We'll begin shipping in just a few weeks. This launch adds to the most innovative and updated product portfolio on [ph] dealers for us (00:24:32). We made this innovation leadership commitment to you in 2022 and have continued to deliver year-after-year. We plan to stay on the offense to deliver rider-driven innovation and the best customer experience in the industry.

Now, let me close with this. We're doing a great job controlling what we can control. Dealer inventory is largely within our control, and the vast majority of our product lines are in a healthier place versus last year and aligned with demand. Innovation is alive and well, as demonstrated by our share gains in the quarter. The RANGER 500 is an exciting new launch for us; and if dealer feedback on the vehicle is any sign, we believe the RANGER 500 will be a big success story for us. Plus, there's more to come on the innovation front.

We're on track to deliver \$40 million in operational efficiencies this year, approximately half of that has already been achieved through deeper penetration of lean at our factories, as well as other initiatives. On tariffs, we are executing on our mitigation strategy and not only taking costs out this year, but creating a transition plan for the majority of our China spend to further reduce our exposure to tariffs.

When the powersports market recovers, and we believe it will, the work we've done will shine through. I've never seen our plants run this efficiently and we know there's more improvements to be done. Our innovation calendar is packed, our dealer relationships are strong, and our culture is resilient. Altogether, we believe this is a recipe for unlocking long-term value for our shareholders through higher sales growth, greater earnings power, and stronger returns.

We appreciate your continued support. And with that, I'll turn the call back over to Gary to open up the line for questions.

## QUESTION AND ANSWER SECTION

**Operator:** We will now begin the question-and-answer session. [Operator Instructions] At this time, we will pause momentarily to assemble our roster. Our first question is from Craig Kennison with Baird. Please go ahead.

**Craig Kennison**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Hey, good morning. Question on USMCA. It feels like you're aligning for a new world order for global supply chains that is less dependent on China and more optimized for USMCA. But USMCA is subject to renegotiation, too, so I'm curious how you are preparing for those scenarios and what might be the optimal scenario for Polaris?

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Yeah. Thanks, Craig. Yeah. Look, there's still a lot of trade deals to be negotiated and we are aware of USMCA potentially being one that could go through a phase that, I think all parties have to align on what those changes could be. At the end of the day, the China tariff rate is likely to be the highest, at least based on the rhetoric we've heard from the administration. And so, while we're still incurring tariffs from other countries that we may source from, China's is obviously the highest, and so we've ramped up our efforts to continue to pull that level of sourcing down. Sometimes we're working with existing Chinese suppliers who are moving to different locations or just migrating to new suppliers. We do have a pretty heavy push to try and get sourcing back to either the US or Mexico because we know that, under a USMCA environment, that's probably going to be the most advantageous.

And I would tell you that we are probably positioned better than any of our competitors with regards to that, because we do have a nice manufacturing footprint in Mexico, but we also have a nice manufacturing footprint in the US with Roseau, Huntsville and Spirit Lake. And so, it gives us the ability to flex volume between the two, depending on the tariff regime. And if they end up aligning USMCA to have an inbound tariff against China or any of the other countries for any inbound materials that would go into say, Mexico.

I think the good news is, we've got a team that's been going through and running the scenarios. We've got alignment, as I talked about in my prepared remarks, we've taken quite a bit of exposure out. We've also been working directly with our suppliers to get short-term relief on pass-through, as well as with migration of their production out of places like China. And I think the real message is we're agile and we're prepared and we can react. I think we've demonstrated that we've been able to pull our exposures down pretty quickly. Quite frankly, I'd rather have the teams focused on some of the other things that we're seeing value created from in the business. But the reality is, we're able to do those and deal with these tariff exposures at the same time. So, we think we're positioned well and we're going to continue to stay close to it. We've got a great government relations team. We spend a lot of time interacting with the administration. And so, as we see things developing, we can pivot pretty quickly.

**Robert P. Mack**

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

A

Yeah, Craig. And thanks, Mike.

**Craig Kennison**

*Analyst, Robert W. Baird & Co., Inc.*

Yeah, I mean, it's – go ahead.

Q

**Robert P. Mack**

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

As we look at these parts, as Mike said, we're – obviously, our first focus is on the parts that come from China into the US, but a lot of those same suppliers supply parts that go to Mexico for other types of vehicles. And so, as we develop that supply base to take those Chinese parts that are coming to the US, we're developing that supply base for the future also, which I think positions us well if USMCA – the targets in USMCA change or, as Mike says, there's some kind of tariff regime that gets applied on Chinese parts in Mexico.

A

The other thing we're doing is, just given the posture of the administration, as we look at new products, we're pushing for a higher level of USMCA content than the current regulation just because, if it's going to go a direction, it's likely to go up, not down. And so, we're also making sure that we're planning for the future as we develop new products.

**Craig Kennison**

*Analyst, Robert W. Baird & Co., Inc.*

That's really helpful. If I could sneak in a follow up. Just looking at the RANGER 500 you just announced, I'm curious, do you think you can win at lower price points given the current trade policy and the impact on your cost structure relative to competitors at lower prices?

Q

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

Yeah. In fact, we are making a higher margin on this RANGER than the one that it essentially replaces, the RANGER 570. Just wasn't the vehicle that these customers wanted. It was too high a price. It didn't look good, didn't have the features. And so, we put a small team together, told them they had to innovate this quickly, and they did an excellent job. And they used some technologies we've used in the past, and they found a way to get this vehicle at the price point that we think is going to be very successful at the dealership.

A

We previewed this with our dealer council, which is essentially representatives from across the dealer network that Bob and I meet with every few months. And we brought the vehicle in, let them walk around it, and they basically said, look, you guys, this is going to be a home run. We've got a lot of customers that come in and buy cheap vehicles that really want a Polaris but it's too high of a price point.

We're making the vehicle down at our Monterrey facility. So, at this point, it really isn't carrying the drag of tariffs. And obviously, we're working that supply chain hard in the event that USMCA regulations change so that we can make sure that we continue to qualify. So, it's a big market. It's 50% of the utility market.

And we know that not all these customers are going to migrate up, but a good portion of them are going to eventually start to move into the 1000 – the XP 1000 or NorthStar, and these are customers we want to bring into the family. So, we're really excited about it. The PG&A offering of 30 accessories also provides margin uplift for us and for the dealers as customers get comfortable with the vehicle and start putting more accessories on it.

**Robert P. Mack**

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

A

Yeah. And Craig, if you think about it, a lot of these competitive products that fall in this category are made either in China or Vietnam. And so, they're going to be subject to a fairly heavy tariffs, that going to, I think, change the dynamic at the lower end of the market, at least for a while. And a lot of those companies don't offer a lot of dealership service, and so I think we'll be the first OEM to deliver, a really good product in this price range with – backed by accessories, service, dealer warranty, all those good things. So, we're excited about the opportunity and look forward to how that rolls out.

**Craig Kennison**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Great. Thank you.

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Thanks, Craig.

**Operator:** The next – excuse me, the next question is from Noah Zatzkin with KeyBanc Capital Markets. Please go ahead.

**Noah Zatzkin**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Hi. Thanks for taking my questions. I guess, first, maybe not to put too fine a point on it, but I think guidance implies roughly \$50 million of tariff impact in the fourth quarter. So, just trying to think through kind of the run rate as we look out to next year, is it as simple as kind of multiplying that by four, or I know there are some deferrals as well embedded in 3Q. So, just trying to think through how you're thinking about the annualized tariff impact next year, and understand that you're still doing work around the China piece of the supply chain.

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Yeah, I'll let Bob get into some of the details. We think, inclusive of the Section 301 tariff, we think we're probably around \$230 million on an annualized basis. Now, recognize that that number would have been probably north of \$300 million without the mitigation efforts. And what I would tell you is that we're not done, we're still working on that \$230 million to bring it down. And it's all the things that we put on the page, everything from sourcing location to working with our suppliers. We are not giving up on our efforts with the administration, albeit we haven't made much progress. But we've met with everybody from the Department of Commerce to USTR to the Economic Adviser for President Trump. So, we're going to continue to advocate for ourselves to see what we can do. But we're working that number hard, and we're committed to getting it below that \$230 million.

**Robert P. Mack**

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

A

Yeah. So, Noah, the way I would think about it, we talked about a run rate of \$30 million to \$40 million in Q3, and that that's relatively accurate as the – as an ongoing run rate. Q3 is a little bit of a tougher calculation because you've got some stuff that's at the higher tariff rates that came in Q2 that will roll in in Q3. And then, obviously, the tariff rates moved in the quarter. So, I think if you think about a run rate of \$40 million, you're going to be pretty close. And obviously, that's subject to, new tariffs coming in. The new European tariff won't have any major

impact, at least as we look at it right now. But obviously, we can't contemplate really what else is going to happen. And it also doesn't include any further mitigations.

The one thing I would caution you on, if you look at slide 5, you can't just take the previous version of that slide and this version of that slide and kind of backsolve the volume coming out of China. Because in the current slide, that \$60 million to \$70 million includes some carryover that's from the higher tariff that we had earlier in the quarter. So, the math isn't exactly straightforward.

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**Noah Zatzkin**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Got it. That's really helpful. And maybe just one more. Obviously, you made some comments around maybe you guys being more impacted than some of your competitors in terms of tariffs. So – and then maybe part of it is the RANGER 500 offering, but could you kind of talk about how you're thinking about maybe offsetting some of that pressure, whether it's price or just how you're thinking about staying competitive there? Thanks.

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**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Yeah. I mean, I'd say, look, it's all the things we've talked about. I mean, we know we're not in a strong industry right now, so price is not a big lever. I will tell you, some of our competitors have done things like tariff surcharges, which we are not going to do. We're likely to see price increases that would be more typical as you see model year changeover, think low-single digits, very low-single digits. And the reality is we've got the ability to flex production between the US and Mexico where we need to and, we're not going to do anything significant long-term at this point because there's too much trade policy up in the air. So, we need a little bit more stability around exactly what the ground rules are before we start making any decisions.

But we'll keep working with our suppliers. We'll obviously keep working the administration to see if we can get some relief for the largest and really only US powersports player. And ultimately, at the end of the day, what's going to win is innovation. And that's what I think we're proving right now. We've got the most innovative product lineup in powersports across the board. And even the second largest competitor in the industry is working hard to try and catch up to us. And when you look at what we've done with the XD 1500, you look at what we've done with the Pro R, you look at what we've done with Polaris XPEDITION, we have products in categories that our competitors aren't even present, and so they've got to spend a lot of time catching up. And so, we're going to we're going to press that advantage and continue to gain share and work to make customers happy with the best product on market.

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**Noah Zatzkin**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Thank you. Really helpful.

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**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Thanks.

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**Operator:** The next question is from Joe Altobello with Raymond James. Please go ahead.

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**Joseph Altobello**

*Analyst, Raymond James & Associates, Inc.*

Q

Thanks. Hey, guys. Good morning. I guess, first on retail, could you speak to what you saw in terms of the cadence throughout the quarter and what you're seeing here in July? We get the sense, in talking to our dealer checks, that it was fairly volatile from quarter-to-quarter. So, I'm curious what you guys saw – from month-to-month, sorry?

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Yeah. When we take youth and snow out of our ORV business, it was actually up all three months. Now, granted it did move around. And we've seen that performance continue into July. So, the utility segment is obviously holding up the strongest. On the rec side, as I talked about my prepared remarks, XPEDITION continues to perform really well. RZR has bounced around a little bit more. The good news is we continue to see the evidence that our customers are using those vehicles in terms of repair order activity, miles ridden, consumables like oil and tires.

And we know from the survey that I referenced in the last earnings call that, while they are using the vehicles, they are just not ready to drop back into the market yet. I think if we were to see some broader economic stability and I think as these trade policies get set, that's helping, as well as we start to see interest rates move, I think you're going to see these customers start to move off the sidelines. They've had these vehicles for a long time, and that's why we're making sure that we're prepared with the right inventory at the right location at the right time.

So, at this point, we feel we feel good. We feel like retail has started to stabilize, I guess, would be the way I would articulate it. But there's still a lot of uncertainty in terms of what are the trade deals going to ultimately do from an economic standpoint, it certainly feels like people are getting more optimistic than pessimistic, and it's also going to be dependent on what we see happen from a interest rate perspective. So, as we – both, Bob and I indicated, we're not prepared to go out and give guidance at this point because we still have those two variables moving around and they're obviously very closely linked. And as – once we start to get a little bit more clarity, I think we can start to give a little bit more forward guidance around where we see retail going.

**Joseph Altobello**

*Analyst, Raymond James & Associates, Inc.*

Q

Got it. Helpful.

**Robert P. Mack**

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

A

Yeah, one thing to keep in mind, Joe, as you get into Q3, you're into model year changeover for most of the manufacturers, too. So, you've also got that dynamic of, next Q3 retail tends to be a little bit lumpy. It'll go up and down just because you've got customers. Some customers are waiting on new model year stuff that's been announced. Other customers are trying to get deals on old model year. So, Q3 is always a little bit more volatile from a retail standpoint.

**Joseph Altobello**

*Analyst, Raymond James & Associates, Inc.*

Q

So, just...

**Robert P. Mack**

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

But inventory is pretty clean in the channel so that should temper that, hopefully, a little bit this year.

A

**Joseph Altobello**

*Analyst, Raymond James & Associates, Inc.*

Well, that was my next question. So, you've got a cleaner channel from a competitive standpoint, you've got the model year changeover. So, are you starting to see some easing on the promo front or your competitors are still pretty aggressive?

Q

**Robert P. Mack**

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

A little bit. But consumers are still looking for a deal. I think interest rates being high doesn't help. While we do see promo easing a bit in the second half, I don't think it's going to be anything significant. I think aside from the fact that we've got the best product out in the market, it is helpful that many of our competitors have started to draw that dealer inventory down. I would tell you that we still have one bad actor out there that, while they are better than where they have been, they are still high.

A

Frankly, they're higher on a DSO basis than we or BRP or any of the others were at the worst point. So, while they have improved, they still are high. And obviously, they'll have to contend with that with the dealer base. I think the dealers, given that we and the other large player in the industry have gotten our dealer inventory levels down to a very respectable level, I think that's putting a lot of pressure on the – primarily the Japanese OEMs to get inventory levels down to give the dealers some breathing room.

**Joseph Altobello**

*Analyst, Raymond James & Associates, Inc.*

Got it. Okay. Thank you.

Q

**Operator:** The next question is from James Hardiman with Citigroup. Please go ahead.

**Sean Wagner**

*Analyst, Citigroup Global Markets, Inc.*

Hi. This is Sean Wagner on for James. I guess, can you help us bridge last year's 2Q with this year's? Retail was flat but EPS down almost \$1. How much of that was under-shipping the channel which would, in theory, return next year if you guys are feeling good about where your inventories stand, which it seems like you do? And then, how much is increased promo or pricing differences or other factors?

Q

**Robert P. Mack**

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

Yes, I can give you a little bit of color, Q2 versus Q2 last year from a profitability standpoint. Mix was a headwind. Last year, we were still having channel fill on XPEDITIONS and XDs and NorthStar. So, that went against us a little bit. Promo, the – really, the elevated promo started really in the second half of last year. So, Q2, there's some promo headwind incentive comp which we've talked about. Tariffs was \$10 million bucks in the quarter, I said that earlier.

A

On the plus side, our operations performance continued to improve. Our warranty rates are coming down and we're seeing really good benefit from that. And also, much better customer satisfaction as the focus we've put on quality the last few years really starts to play through. And then, a little bit of benefit from flooring. We were – we had a lot more dealer inventory last year. I mean, we did do some extended flooring in Q3, Q4 last year, but we'll start to lap that. And with dealer inventory down [ph] to start (00:45:23), we got some benefit of that in Q2, and we'll have a little more as the year progresses. Those are the big pieces.

**Sean Wagner**

*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. And I guess, to piggyback off that, how should we think about 3Q margins? You've given us the tariff headwind there, but I guess how should we think about the other moving parts?

**Robert P. Mack**

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

A

Yeah, I mean, obviously we're not giving guidance. But I think the big things, I mean, tariff is a big driver relative to last year, price promos relatively flat a little bit, probably better warranty and better operations performance. So, kind of a continuation of the story really from Q2.

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Well, and the other thing to keep in mind, if you remember last year, we cut our – what we call our bonus and profit share program, which goes across the entire company. And so, we started picking up benefits in the third quarter of last year, and that program is being funded at full value given the execution that the team's been realizing this year. So, that's going to create a little bit of the headwind from a margin standpoint as well.

**Sean Wagner**

*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. And I guess, just piggybacking off that, I think you mentioned that promo should be improving in the back half. Does it – at some point, does it become does that even out year-over-year and also become a tailwind? Or I guess, when do you expect that to happen?

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Well, I mean, it's tough to say. I mean, it really depends on what happens with interest rates. I mean, we're spending a fair amount of money doing interest rate buydowns. The flooring cost are tied to interest rates, so the flooring period that we've got product out there. And then, ultimately, consumer demand is obviously tracking with what's going on with trade policy and some of the broader economic stuff. And when you look at some of the stats that have been coming out lately relative to home sales as well as capital goods being purchased by businesses, they would indicate a little bit of a slowdown.

And we know that if the economy starts to slow, people may start to back off. But at this point, it's tough to predict where all that's going to go. I'd like to be optimistic that as these trade deals get done and if the Fed were to make an interest rate move, I think that that would bolster confidence in the broader economic, and I think that could bode well for us. But at this point, it's difficult to predict, which is why we're not guiding.

**Robert P. Mack**

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

A

Yeah, I think the thing that's changed and will continue to impact the industry is, last year and even earlier this year, a lot of the promo spend, particularly last year, was targeted at inventory clearance. And as we move into Q3, as we said earlier, most of the manufacturers have relatively cleaned up their inventory. And so, there's less inventory clearing promo out there. And the promo spend that everyone has in the market is targeted more at moving retail. So, if retail stays solid, interest rates come down, there could be an opportunity there. But I think it's way too early to call that ball because there's a lot of factors that aren't in our control and are really unknown at this point.

**Sean Wagner**

*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. Makes sense. Thanks, guys.

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Thanks.

**Operator:** The next question is from Tristan Thomas-Martin with BMO Capital Markets. Please go ahead.

**Tristan M. Thomas-Martin**

*Analyst, BMO Capital Markets Corp.*

Q

Hey, good morning.

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Hey.

**Tristan M. Thomas-Martin**

*Analyst, BMO Capital Markets Corp.*

Q

Can you – Mike, I know you called out the RANGER 500 having a better margin profile than the RANGER 570 it replaced. How should we think about the RANGER 500 margin profile relative to some of your more premium products?

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Well, I mean, look, it's not going to be as high as our more premium products. I mean, you think about a NorthStar Edition, XD 1500, that's got every bell, whistle. And quite frankly, you're not going to be able to make that kind of margin on a product at this category. But it is a very good, respectable margin. And we think it's not going to be an overwhelming portion of the product portfolio. And quite frankly, it's customer acquisition. So, we bring these people in and they create significant lifetime value over the timeframe of the product. And frankly, these are sales that we weren't getting most likely before. And we think it's going to become a big competitive issue for some of the cheaper players that come out of Asia.

**Tristan M. Thomas-Martin**

*Analyst, BMO Capital Markets Corp.*

Q

Okay. Got it. And then, just switching to Marine really quickly. Pretty big kind of delta between kind of sales and shipment performance relative to retail. And we've kind of consistently heard that entry-level is still weak. So, if dealers are ordering some of your more entry-level product, are they seeing any signs of improvement at that price point, are they restocking? You had anticipated improvement at the entry-level [indiscernible] (00:50:30).

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Well, I mean, there's a couple of things. One is, we've got that price-protected, lower-end boat that it is selling well and it's enabling dealers to move at those lower price points. And then, we've also got new products. We launched a number of new boats across the lineup. The Bennington M Series, the Hurricane 3200 deck boat, the Hurricane 24-foot Center Console. And dealers have ordered those because they see a path to be able to retail or they're retailing them as we speak. Thing I'd also remind you is we spent two years – we were well-ahead of the other Marine players getting our dealer inventory healthy. And so, some of it is just the year-over-year compare dynamics that you're seeing relative to our business versus the broader industry.

**Tristan M. Thomas-Martin**

*Analyst, BMO Capital Markets Corp.*

Q

Great. Thank you.

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Thanks

**Operator:** The next question is from Alex Perry with Bank of America. Please go ahead.

**Alexander Perry**

*Analyst, Bank of America*

Q

Hi. Thanks for taking my questions here. I guess, first just to start, can you talk through the share dynamics in On Road with Indian Motorcycles up low double-digit percent versus industry down low-teens, what do you think is driving that? And any particular color on, certain segments within the On Road business, if it's your more value-oriented units that are outperforming, would be super helpful. Thanks.

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Yeah. And, look, with Indian, I think it's pretty simple. I mean, we've got an excellent product. The PowerPlus was a homerun. The next, the largest player in the industry really doesn't have that entry-level bike like we do with the Scout lineup. And those – I think those two coupled together has really put us in a strong competitive position. Obviously, they are also distracted with some other issues that have been going on with their business, so that certainly doesn't help them. But I'm going to give the credit to the team. We've built the best distribution, both in North America, but also globally. And we have the best product on the market, everything from the entry-level Scout Series to our heavyweight bikes. And I think that's what's winning in the marketplace right now.

**Alexander Perry**

*Analyst, Bank of America*

Q

Really helpful. And then, just a follow up on the ORV retail trends. So, pretty significant improvement there, up 1% versus the down 11% last quarter and pretty significant improvement in utility. Is it fair to say we're moving off the bottom of the cycle? How much of it was sort of promo versus the easier comps versus organic? And then, as we look at to each retail, any color on sort of how you're thinking about that by segment? Is it fair to assume that sort of ORV and On Road are expected to outperform? Thank you.

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Yeah, I mean, look, I don't want to necessarily get into trying to predict forward. I mean, we clearly have some internal assumptions, but we're not providing forward guidance because of the uncertainty out there. It's tough to say if we're seeing things stabilize. It's certainly less volatile than it has been. The utility segment has continued to hold up quite well. We saw that pretty consistently through the second quarter. We are seeing that continue through July. And so, we're happy with that.

And we're really keeping an eye on that – the rec space specifically around the RZR business, as well as the Marine portfolio. Those are higher ticket price items and consumers are really just reluctant to go spend right now unless they really need to or they're fortunate enough to have the financial flexibility to do that. And so, I think it's going to take a few things happening over the next, whether that's two quarters, four quarters, not entirely sure. But the good news is the utility segment holding up well. We just added, obviously, with the new RANGER 500, we just added another weapon in the arsenal for that category. And so, we feel good about it.

**Alexander Perry**

*Analyst, Bank of America*

Q

Perfect.

**Robert P. Mack**

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

A

One dynamic to keep in – for everybody to keep in mind is youth – our youth business has been kind of volatile. We had previously made youth product in high tariff markets. And so, we're in the process of moving that, which has impacted supply, which will – we know will get sorted out before we get to the holiday season, but it has created a little bit of a noisy dynamic in youth, depending on what inventory positions are. So, that will probably continue through Q3. Not a big driver of profitability, obviously, but it's in the math.

**Alexander Perry**

*Analyst, Bank of America*

Q

Perfect. That's incredibly helpful. Best of luck moving forward.

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Thanks.

**Operator:** The next question is from David MacGregor with Longbow Research. Please go ahead.

**Joseph Nolan**

*Analyst, Longbow Research LLC*

Q

Hey, good morning. This is Joe Nolan on for David. Can you just talk about the share gains...

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

How you doing?

**Joseph Nolan**

*Analyst, Longbow Research LLC*

Q

Good. Yeah, you just talk about the share gains on On Road, but you also saw share gains in ORV despite the heavy promotional environment. Just was hoping you could talk about some of the factors driving those gains. And you also mentioned competitors implementing some tariff surcharges. Does that also play a factor in maybe expecting some expected share gains in the [ph] second half of the (00:56:05) year as well?

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Yeah, look, I think there were a few factors. I think, one, as I talked about in my prepared remarks, the competitive set has started to get inventory in a better spot, so that levels the playing field a little bit. But I think the reality is, when you look at where we're seeing strength in our business, Polaris XPEDITION, RANGER 1500, nobody has a product to compete with that. And they're great products and customers love them.

And so, as I mentioned in my prepared remarks, we've taken that crossover segment from just under 35% share up over 55%, and so that certainly helps. But even in the RANGER core lineup where we have NorthStar, we're seeing strength there in that utility segment and we've got a superior product that customers want. And so, we continue to see success from a retail standpoint.

**Joseph Nolan**

*Analyst, Longbow Research LLC*

Q

Got it.

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

I think on the tariff surcharge, that certainly isn't going to help some of our competitors who are doing that. But quite frankly, where they're doing it, I don't know that I would say they've got an overly competitive product to what we have anyway.

**Joseph Nolan**

*Analyst, Longbow Research LLC*

Q

Okay.

**Robert P. Mack**

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

A

Yeah. I mean, it's a little bit – the math gets complicated because people are putting tariff surcharges on, and then promoting them back out. So, I'm not sure what the real impact is or what that strategy is going to get anyone. But like Mike said, I don't know that it's on products that are going to have a big impact on what we're doing. We just

continue to see really good strength in the utility side of the business. And hopefully, rec is starting to – will start to level out. We've seen a little bit better performance out of rec, certainly not ready to call a bottom, but would be good to see that market just get flat for a few quarters and see if we can get that going again.

**Joseph Nolan**

*Analyst, Longbow Research LLC*

Q

Yeah. Okay. That's helpful detail. And then, mix was a bad guy in the quarter against the tough year ago compare, facing some channel load for XPEDITION and other products. Just how should we think about mix into the second half mix?

**Robert P. Mack**

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

A

Mix will be flat to up a little bit. It's a little hard to say right now but I don't think it'll continue to be as much of a headwind. We were lapping kind of fill in the channel on some of those bigger products. And we continue to see good, strong performance really across the line in the NorthStar versions. And so, if that continues, that usually provides some positive mix, but we won't be lapping the channel fill anymore because by last – by Q3 last year, we had all those machines in the channel.

**Joseph Nolan**

*Analyst, Longbow Research LLC*

Q

Okay, great. Thank you, guys.

**Operator:** The next question is from Scott Stember with ROTH. Please go ahead.

**Scott L. Stember**

*Analyst, ROTH Capital Partners LLC*

Q

Good morning and thanks for taking my questions.

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Hey, Scott.

**Scott L. Stember**

*Analyst, ROTH Capital Partners LLC*

Q

Yeah, on tariffs, it doesn't sound like the second quarter had all that much in there. But turning to – you talked about the third quarter having negative EPS. Is that strictly driven by the full boat run rate of tariffs coming through or is there something else in the cost side or in the revenue side that would drive that?

**Robert P. Mack**

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

A

Well, a couple of things. So, yes, I mean, there – we said \$30 million to \$40 million of impact kind of run rate for tariffs. In Q2, it was \$10 million. So, that's certainly part of it. In terms of headwinds, if you look at the center of the – or the midpoint of the guidance for revenue, that would have us down about \$150 million relative to Q2. And that's just the cycle of inventory and not wanting to get ahead on dealer inventory. So, obviously, that'll have an impact depending on where that lands in that range, most of the other factors are relatively flat, not hugely

impactful. And we'll continue to see better performance on ops and warranty, like we have through the quarters or through the last couple of quarters.

**Scott L. Stember**

*Analyst, ROTH Capital Partners LLC*

Q

Got it. And then, just last on the consumer credit side, are you seeing any tightening of lending or any deterioration of credit through your lending arrangements that you have?

**Robert P. Mack**

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

A

No, not really. I mean, credit continues to be a challenge. Consumers are – they struggle a little bit in terms of debt to income, and cash flow is what the lenders are really focused on. But availability of credit has been good, and we're getting good penetration. Rates haven't really changed in terms of our financing rates, relative to approvals. Write-offs kind of peaked last year and have been relatively stable this year in the industry. So, that feels good. What we really need is for rates to come down, and that's the biggest thing and that'll help us because it'll help our buydowns and it'll help the consumer because it'll just lower all – lower the overall rate of financing.

One thing I wanted to add to my previous answer is you also have, if you're thinking year-over-year in Q3, you've got the impact of incentive comp, and there's a little more incentive comp in Q3 than there was in Q2. So, that's another one of those dynamics.

**Scott L. Stember**

*Analyst, ROTH Capital Partners LLC*

Q

Could you quantify how much that would be in the third or fourth quarter, the comp?

**Robert P. Mack**

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

A

No, it'll – but the run rate will be just a little bit higher than it was in Q2. It won't be dramatic.

**Scott L. Stember**

*Analyst, ROTH Capital Partners LLC*

Q

Okay. Got it.

**Robert P. Mack**

*Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.*

A

It's – the more dramatic is year-over-year.

**Scott L. Stember**

*Analyst, ROTH Capital Partners LLC*

Q

Got it. Thanks so much.

**Michael Todd Speetzen**

*Chief Executive Officer & Director, Polaris Inc.*

A

Thanks.

**Operator:** This concludes our question-and-answer session and the conference has also now concluded. Thank you for attending today's presentation. You may now disconnect.

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