28-Jul-2026

Polaris Inc. (PII)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Polaris Quarter Two, 2026 Earnings Call and Webcast. 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 of Investor Relations. Please go ahead.

J.C. Weigelt
Vice President-Investor Relations, Polaris Inc.

Thank you, Bailey. And good morning or afternoon, everyone. I'm J.C. Weigelt, Vice President of Investor Relations. Thank you for joining us for our 2026 second quarter earnings call. We will reference a slide presentation today which is accessible on our website at 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 2026 second quarter results as well as our expectations for the remainder of 2026. 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 2025 10-K and our other filings with the SEC for additional details regarding risks and uncertainties. All references to 2026 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 and at the end of our earnings deck for the GAAP to non-GAAP adjustments.

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

Michael Todd Speetzen

Chief Executive Officer & Director, Polaris Inc.

Thanks, J.C. Good morning, everyone, and thank you for joining us. Strong second quarter results reflect the momentum building across our business. We exceeded expectations across all key metrics, gained share in our ORV business for the fifth consecutive quarter, and continued proving that the strategic actions taken over the last several years are making Polaris a stronger, more focused and more profitable company.

Second quarter reported sales increased 9%. Excluding Indian Motorcycle, sales grew 17%. Sales were driven by double-digit growth in our Powersports segment, led by ORV with our utility RANGER line and our fast-growing commercial business, where growth is driven by investments in infrastructure and data center projects.

We also saw strong contributions from Marine, which grew 16% in the quarter. Across our portfolio, North American retail increased 4% with ORV up 5%. Both measures exclude used vehicles. We finished the quarter with solid share gains in ORV, reinforcing our belief that our combination of innovative products and strong dealer relationships continue to differentiate Polaris in the marketplace.

From a profitability standpoint, our results include a $74 million benefit related to IEEPA refund claims. We have removed these refunds from some of our adjusted financial metrics today to provide the underlying operational performance of our business in the quarter. We refer to these as our operational adjusted results, which exclude the $74 million in tariff refunds but include ongoing tariff expense.

Operational margins expanded at both the gross profit and EBITDA levels, even after excluding the tariff refunds. Higher shipments, favorable mix, and positive net pricing more than offset higher commodity costs and the $32 million of ongoing tariff headwind we experienced during the quarter. Importantly, we continue to realize improved operating leverage from the portfolio optimization and manufacturing efficiency work we've executed over the past several years.

We delivered adjusted earnings per share of $1.97, which included the pre-tax $74 million in tariff refunds. Excluding these tariff refunds, operational adjusted EPS was $1.01, well above our target range of $0.70 to $0.80. We also saw operational gross profit margin expand by 82 basis points, excluding the tariff refunds and against a second quarter 2025 margin that had little ongoing tariff impact.

These results reflect the strength of our execution, the competitiveness of our product portfolio, and the discipline we've maintained across the organization. As a result of our performance and with the strong momentum we've built through the first half of the year, coupled with tariff refunds, we are raising our full year 2026 guidance. While there remains uncertainty, we believe Polaris is operating from a position of strength, controlling what we can, while navigating a dynamic environment. We have a clear strategy, the best team in powersports, and a portfolio that continues to resonate with customers around the world.

We're continuing to build positive momentum. We're gaining share in our core segment through focused innovation, dealer relationships are strong and dealer inventory remains healthy. And we're beginning to see meaningful benefits from the work we've done to refine our portfolio, simplify our organization, and strengthen our operational execution. Our team is aligned around a common strategy and a goal of strengthening and extending Polaris' leadership position within the powersports industry.

Moving on to our retail performance, ORV North American retail was up 5%, outperforming the industry and gaining share for the fifth consecutive quarter. Trends within ORV remain consistent with recent quarters and despite a cautious consumer environment, we're continuing to take share to the strength and breadth of our portfolio and category defining vehicles. Our utility products make up over 70% of our Powersports segment and remain a clear source of momentum in this environment, with retail up more than 10% and RANGER continuing to outperform the market. We believe that performance reflects both the strength of our product line-up and the value customers see in the Polaris brand.

One highlight of the quarter is that the recent industry data shows the RANGER 500 was the fastest growing off-road vehicle in the industry. In addition, our recently launched RANGER CAB units, the RANGER 1000 and the Ranger XP 1000, drove multiple points of market share gains in the utility side-by-side market, which is the largest subsector of the ORV market. Not only that, the second quarter marked our highest share in the subsector since 2021. We continue to believe there is a long-term trend in the industry with retail demand shifting to cab units, given their capability refinement features.

The second quarter marked the first time when over half of our ORV retail was in cab units. That's proof we deliver innovation customers want and that we are winning in the largest and most important part of the market. On the recreational ORV side of the business, we continue to see a cautious consumer due to macroeconomic factors such as inflation, higher borrowing costs and negative headlines. These negative factors have been consistent over a couple of years, and our retail outlook for the recreational ORV industry remains pressured.

Turning to Marine, our second quarter pontoon retail was down high-single digits, according to the May SSI data. Through May, the data reflects the pontoon industry is down approximately 9%. Our pontoon brands continue to perform well at the premium end with the Bennington QX and Godfrey Sanpan.

Here, consumers are not as sensitive to macro trends and interest rates, while retail at the mid and lower tier pontoons continue to be soft, given a more interest rate sensitive customer. I think, it's worth repeating what I said last quarter. What truly differentiates Polaris is the strength of our entire portfolio at the dealership. We are the global leader in powersports and we operate like it. Look for us to strengthen this leadership position with new product launches at our upcoming dealer events in August of this year and in early 2027.

We continue to see healthy dealer inventory levels across our portfolio. During the second quarter, we strategically increased inventory and utility, given the robust growth we are experiencing in this category. At the same time, we have right-sized inventory positions in areas of the business such as ORV recreation, seasonal and marine, given weaker demand. In aggregate, dealer inventory was down 8% in the quarter versus last year and dealers' DSOs are slightly over 100 days, which remains well below historic levels.

We remain committed to matching shipments to retail and through the first half of this year, we have successfully executed this strategy. Improving our mix at the dealership remains a real opportunity for us and it's an area we continue to invest in and measure progress against. Rather than a one-size-fits-all approach, we are tailoring our actions with each dealer to ensure a healthier channel and putting our dealers in the best position for success such that every dealer carries the right mix and the right number of units for their market.

We have already seen positive results with an 18% improvement in sales velocity in the first half of the year, helping our dealers navigate a choppy market. A program like this is a win-win for our dealers and Polaris and reflects our relentless focus on dealer health and stronger operational management.

I'm now going to turn over to Bob to provide you with more details of the financials and the increase to our full-year guidance. Bob?

Robert P. Mack

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

Thanks, Mike. We delivered another strong quarter with sales and earnings both above the high-end of our expectations. Sales were up 9% or up 17% organically when excluding Indian Motorcycle. All three of our segments posted top-line growth in the quarter, led by our core Powersports segment where both ORV and commercial lines grew double digits. Marine continues to see a benefit from favorable mix, while PG&A achieved double-digit growth, led by higher parts sales and Powersports. Aixam & Goupil also grew 6% over the prior year.

The underlying performance of the business is well ahead of our expectations. Our reported results and guidance include the tariff refund claims made in the quarter that Mike spoke about. To help evaluate the underlying performance of the business, we are also providing operational margin and EPS metrics that exclude the tariff refunds. $74 million of tariff refunds booked in the quarter contributed $0.96 to adjusted EPS. Excluding that benefit, operational adjusted EPS was a $1.01 well ahead of the $0.70 to $0.80 range we discussed heading into the quarter.

Adjusted EBITDA margin from operations which excludes the tariff refunds, also improved meaningfully by approximately 180 basis points compared to last year, primarily due to higher volumes, positive net price, and favorable mix. These positive factors were partially offset by incremental tariffs, higher commodity costs, and a modest increase in operating expenses. Adjusting EBITDA for the separation of Indian Motorcycle, tariffs and commodities, our second quarter EBITDA incrementals would have been over 32%. This rate demonstrates that our strategy to optimize our plants and organization while pruning non-profitable businesses is having its intended outcome of increasing the profitability profile of Polaris.

Turning to our segments, Polaris Powersports sales were up 70% year-over-year. RANGER and commercial shipments were significantly above last year's levels, supported by continued strength in utility demand across a range of categories. Commercial remains a clear bright spot delivering solid revenue growth in the quarter, driven by strong infrastructure-related demand, particularly from data center construction projects. We believe Polaris is well positioned to capitalize on this opportunity through its dedicated commercial dealer network, focused commercial sales approach, and Pro XD line-up purpose-built for demanding work site environments.

Given the level of infrastructure investment we are seeing, we believe there is a continuing runway to expand our commercial business at above current Powersports industry growth rates. Powersports PG&A sales were up 21%, driven by factory-installed accessories and parts sales. Commercial PG&A revenues were up significantly, bolstered by strategic investments we made to help maximize the uptime for our commercial customers.

Gross profit margin from operations improved 77 basis points, driven by higher net price, as promotional activity remained below last year's levels and positive product mix. Adjusted gross profit margin increased 458 basis points, reflecting much of the tariff refunds being recorded in Polaris Powersports. Importantly, these improvements were achieved despite an approximate 100 basis points of commodity cost headwind. Marine sales were up 16%, driven by higher shipments and a richer mix of pontoons, led by the Bennington QX and Godfrey Sanpan, the premium lines within each brand. We also saw a modest benefit from net price. Gross profit margin improved 21 basis points year-over-year, again reflecting favorable mix, which we expect to continue through the selling season along with higher net price.

Higher commodity costs, particularly aluminum, continued to pressure margins and we expect that dynamic to continue until aluminum pricing retreats from current levels. Aixam & Goupil sales were up 6% as higher Goupil sales more than offset shipments – lower shipments within Aixam. Aixam retail was up double digits, which improved dealer inventory in that business. Gross profit margin improved 242 basis points, driven by lower warranty expense and favorable leverage of fixed cost from increased sales volumes.

Our capital deployment priorities remain unchanged: first, investing in higher margin profitable growth; second, returning capital to shareholders through our dividend, and third, paying down debt. With strong operational performance in the second quarter, combined with the $74 million of tariff refunds, our net leverage ratio improved to 2.6 times from 3.6 times at the end of the first quarter, moving back below [ph] three turns (00:14:13) and well within our covenant requirements. We expect net leverage to continue to decrease in the second half of the year.

We remain very confident in our financial position and our approach to capital deployment is disciplined. We expect strong cash flow conversion in the second half as seasonal working capital builds unwind and we plan to continue to strengthen the balance sheet flexibility while managing the business in line with investment-grade metrics.

Moving to guidance, we are raising our full-year outlook for the second time this year, reflecting both the strong operational performance in the first half of the year and the $74 million of tariff refunds. We now expect sales of $7.3 billion to $7.5 billion, up 2% to 5% compared with our prior guidance of flat to up 2%. Adjusting for the sale of Indian Motorcycle, organic sales are expected to be up approximately 10%. We expect a flattish retail environment in the second half of the year with a viewpoint that it could be up low-single digits if demand holds in the back half. We are prepared to build and ship to those higher levels, but we'll continue to align with retail to ensure dealer inventory remains healthy.

We are also increasing our margin outlook. We now expect adjusted EBITDA margin to increase 250 basis points to 275 basis points. Operationally, we expect adjusted EBITDA margin to increase 145 basis points to 170 basis points compared with our prior guidance of 100 basis points to 140 basis points. Removing the impact from the separation of Indian Motorcycle, tariffs and commodities, this would translate into EBITDA incrementals of nearly 40% at the high-end of our guidance. The increase reflects the strength of our year-to-date operational performance, even as we continue to manage higher commodity costs, specifically diesel, steel and aluminum. We now expect a $70 million headwind from those increased commodity costs.

The work we have done around lean is supporting our operating model and allowing us to drive improved throughput without adding unnecessary costs into our plants. That is creating better operating leverage and underpinning the increase in our margin guidance. On tariffs, we expect to pay approximately $215 million this year, unchanged from our prior outlook. That assumes no material change to USMCA or other tariff policies currently in place.

We continue to execute against our tariff mitigation strategy with the goal of reducing our exposure to China and bringing China sourced material cost of goods sold to below 5% by the end of 2027, from 18% in 2024. We are ahead of our internal goals today and are making progress [ph] identifying (00:16:55) alternative suppliers in the United States and Mexico, which helps localize our supply chain.

The Indian Motorcycle separation remains on track to be accretive by approximately $50 million to adjusted EBITDA, with the benefit weighted more toward the back half of the year, January 2027, due to the seasonality of motorcycle sales. We also raised our adjusted EPS guidance. We now expect 2026 adjusted EPS of $3 to $3.10. Operationally, that translates to $2.05 to $2.15 compared with our March 3 guidance revision of $1.60 to $1.70. While we expect the ability to recover additional tariff refunds, those are not included in our [ph] guidance today (00:17:39), because there is not currently a formal process to apply for the next phase of expected refunds and certain amounts must be recovered from suppliers.

We estimate the total potential future refund opportunity to be approximately $40 million. [ph] For the quarter (00:17:55), we expect sales to increase 4% to 5% compared to last year, with growth driven primarily by commercial, government and defense and marine. We are also factoring in higher commodity and logistics costs with offsets [ph] from net price (00:18:10) improvements. We expect adjusted EPS in the second half of the year to be close to $1 and the quarterly earnings forecast to be evenly weighted between the third and fourth quarters, but may shift based on timing of shipments as we enter seasonality of fall and winter products.

Stepping back, we are beginning to see the benefits of the actions we have taken to strengthen our competitive position of dealerships and improve efficiency across our plants. Our decision to raise guidance reflects the benefit from tariff refunds, but it is equally a function of strong year-to-date performance, improved operational execution, and increased confidence in the earnings power of the business. We have momentum across the segments at our dealers, in our plants, and throughout our teams. There is work ahead, but we are executing from a stronger [ph] financial position (00:18:56) and I am confident in our ability to keep building on this progress.

With that, I'll turn the call back over to Mike. Go ahead, Mike.

Michael Todd Speetzen

Chief Executive Officer & Director, Polaris Inc.

Thanks, Bob. In the second half of the year, our priorities remain consistent. We forecast a flattish retail environment for the second half of 2026 with [indiscernible] (00:19:14) in the utility category where our recreational offerings are expected to remain soft. We're excited about the second half of the year given the innovative product launches being announced in August, and we expect those products to have a greater impact in the fourth quarter as they arrive at dealerships. We also intend to maintain our commitment to align our build to shipments and shipments to retail to ensure dealer inventory levels remain appropriate.

Regarding our tariff mitigation strategy, we are ahead of schedule. We still await news from our broader 301 investigation and any update to USMCA. But we are taking the appropriate actions to reduce our tariff burden from China and we expect to see meaningful savings over the coming years should tariff policy remain [ph] consistent (00:19:55) with where things stand today.

We're raising guidance because the business is performing better than we expected coming into the year and even relative to three months ago. We're gaining share. Dealers are healthy. Channel inventory is in the right place and our operations continue to see efficiencies from our lean efforts. These fundamental metrics give us confidence in both the remainder of 2026 and reinforce the long-term earnings potential of Polaris.

At the halfway point of the year, it's worth stepping back to recognize what we've accomplished. The results we are reporting today were not driven by a single quarter. They reflect a clear strategy and several years of disciplined execution. Put simply, we are doing what we said we would do. We said we would focus on innovation. We did. With that innovation, we said we would gain share. We have. We said we would improve dealer inventory. We did. We said we would simplify the portfolio and improve manufacturing efficiencies and we have.

And today those efforts are increasingly visible in both our operating performance and financial results. The progress we've made reinforces our confidence that Polaris can deliver on its mid-cycle targets of mid-single digit sales growth, mid-to-high teens EBITDA margins, and double-digit EPS growth.

The foundation is stronger today than it was a year ago and our team is executing well. The work we've done over the last several years is beginning to show in our results. The job isn't done, but we're building momentum and we're well positioned for the remainder of 2026 and beyond. Polaris is the leader in Powersports and I'm confident in our strategy to deliver higher earnings power and stronger returns for our shareholders. It's an exciting time to be a part of the Polaris story and we appreciate your continued support.

With that, I'll turn it over to Bailey to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question and answer session. [Operator Instructions] Our first question comes from Noah Zatzkin with KeyBanc Capital Markets. Please go ahead.

Noah Zatzkin
Analyst, KeyBanc Capital Markets, Inc.

Q

Hi. Thanks for taking my questions. Obviously, UTV was particularly strong in the quarter. So, just wondering what drove the sequential retail acceleration there? And was data center construction a meaningful piece of that? And then, how do you think about the opportunity there into the second half? And then, any line of sight to improvement or green shoots you're seeing in rec? Thanks.

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

Yeah. Thanks, Noah. A couple of things. We did see retail accelerate into the second quarter. Remember that there is a level of seasonality that happens as we come out of the first few months of the year. It was also probably a little bit more exaggerated given a late start to the Marine season. We saw the retail pick up in pontoons as we came into the second quarter. I'd point to a couple the new products, the new Cabbed Ranger 1000 and the XP 1000 at the entry level. Those drove considerable share points.

And obviously, that drove us above and beyond what the market was doing, which led to the share gains that we had coming into the first quarter. And then, obviously, continued strength around things like the Ranger 500, which was the highest selling vehicle across the industry. Certainly the commercial business continues to operate strong. It is data center as well as just large mega construction projects as the firms look for more vehicles to be on site as those projects are starting to move forward. It's tough to say what that trajectory looks like. Obviously, if you look at the broader projections, it would say those markets are going to continue to grow.

We're obviously playing that a little cautious. As we look forward, we've obviously built in what we're expecting in terms of higher demand relative to what they're going to need for vehicles on site. But, we'll continue to learn more as we go and those projects continue to get built out.

On the rec side, look, it's been a couple of years. Feels like even longer. Just given where we're at in terms of the overall consumer, on the rec side, the vehicles are a want, not a need. And the good news is, we know people are using the vehicles. It's hard to find a boat slip. You look at repair order activities for our off-road vehicle business.

You look at tire consumption, oil consumption, where we can track miles ridden. We can see that it's up, it's above where we were back in 2019.

So, that's all good. We see it in parts coming through our PG&A business. But, the consumer remains somewhat on the sideline, especially, at the low to middle of the range. The high-end customers I talked about, I don't want to say they're immune, but they tend to be more cash buyers. They've got higher disposable income and they're not being as impacted. But, as you get down into the mid and definitely into the lower ranks of the customer profile, inflation is persistent. The good news is, we are seeing at least some initial signs that it's slowing, but it's still well above the Fed's target of 2%.

We've moved from interest rate cuts to now a talk of interest rate increases. Oil prices are all over the place, given the conflict overseas. And that's created, I think, some concern on macro side. And I think anything large discretionary is seeing a heavy impact. And really that's where our rec business fits in. So, as we talked about, we've made sure we've continued to make adjustments in our inventory profiles at the dealer where we see strength in the utility side, which makes up 70% of our Powersports segment. We've leaned in heavier to make sure they've got the right inventory. And on the rec side, we've continued to pull back where appropriate, make sure that we've got the inventory sized in, in a good spot.

Noah Zatzkin
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks. Maybe just one more operational ORV adjusted gross margin came in better than expected. So, if you could just speak to the operational savings and efficiencies. I guess, you've seen in the quarter. And then, how you think about the opportunity looking ahead? Thanks.

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

Yeah. I mean, the promo in the business has started to come down. We've certainly benefited from mix. Even with some of our value models selling at a higher rate, we're still doing really well at the high-end NorthStar on the utility side, which obviously brings nice margins with it. I think, the underlying work we've done in all of our factories to lean out and get the business ready for the volume to come back. And now, you're seeing that as the volume ramps up both in Huntsville and in Monterrey, you're getting the incremental savings. I was really happy with the performance. I mean, I talked about it in my prepared remarks.

Our overall company margins were up 82%, gross margins, that is, 82 basis points, and that's with a pretty significant year-over-year increase in the ongoing tariff expense. We really hadn't incurred much of that in the second quarter of last year. Everything was still ramping into inventory and really hadn't come through the P&L. And I think it's just a testament to the work being done inside the business. Obviously we'll have more to say as we get through the year, but it certainly is a nice [audio gap] (00:27:46) continue to build from. And you look at the combination of the slight price increases we've had, lower promo cost, and then just efficiencies of getting more volume through the factories. It's a really strong set-up for the business as we move into the second half.

Noah Zatzkin
Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you.

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

[ph] You bet (00:28:05).

Operator: Our next question comes from Joe Altobello with Raymond James. Please go ahead.

Joseph Altobello
Analyst, Raymond James & Associates, Inc.

Q

Thanks. Hey, guys. Good morning. So, Mike, I just want to pick up where you left off there regarding the promo environment. You mentioned that it was easing a little bit here. And obviously, tariffs are a bad guy for you guys, but they're – I think, [ph] worse of the (00:28:31) bad guy for some of your competitors. So, is that playing a role and are you seeing any changes from a strategic standpoint, from your competitive set given those tariff pressures?

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

Not really. We announced this morning factory authorized clearance. What I will tell you is, our non-current inventory is, in even a better spot than last year and last year's was in a great spot. So, we don't anticipate that moving significant increase in promo. As we've talked in the past, it just becomes a really good way to drive foot traffic as well as help the dealers clear out any of the remaining 2026 vehicles they have. We really haven't seen much broadly in the industry. I would say that, we do have a couple of competitors that continue to have elevated inventory levels, but the promo activity associated with that has been a lot more surgical than broad and really hasn't had a deep impact on us and how we're moving forward.

And we expect, as we get into the back half promo as [indiscernible] (00:29:38) comes down slightly, part of that's the mix of vehicles. But it's also the fact that we continue to run at really strong inventory levels and have the right mix of vehicles at the dealers. I referenced it in my prepared remarks, sales velocity was up 18%, which essentially is us measuring how fast does it take us through our dealerships to retail vehicle. And an 18% improvement means, we're paying less in floor plan. It means the dealer's able to rotate more vehicles through. It's good for them. It drives more profitability. And I think it's reflective of the fact that we're getting the right mix of vehicles into the right dealerships as we head into the back half.

Joseph Altobello
Analyst, Raymond James & Associates, Inc.

Q

Got it. Okay. And just to follow-up on that, in terms of the guidance, so you raised guidance by $0.45 at the midpoint this morning, ex IEEPA refund. If I recall correctly, you beat the first quarter by $0.58, held-off on raising. You beat this morning by $0.26 [indiscernible] (00:30:40) midpoint. So, why the delta between the guidance raise and where you've beaten so far in the first half?

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

Yeah. A couple of things. One, it'll be the same – you'll hear the same thing from us that you've heard in the past, right, which is there's an awful lot of uncertainty as we head into the back half. I was encouraged with the fact that USMCA was not canceled, but they're also not done with whatever discussions are happening. We're still waiting on some 301 excess capacity investigation work. [ph] And frankly (00:31:16), the interest rate environment, I think, has everybody kind of stepping back. So, leaning in from that standpoint doesn't seem to make a lot of sense. So, obviously, if things were to continue like they did in the first half, we would obviously do better. But we're trying to play that a little bit cautious.

The second thing and Bob talked about this in his prepared remarks. Commodity prices are through the roof. And the good news is, we're offsetting a significant portion of that driving more than offsetting improvements through operations. But, that has chewed away at some of the beat we would have essentially flowed through to the back half as we look at higher aluminum and steel, obviously, oil and diesel. We're hedging, but that just tends to mute and dampen the effect as opposed to eliminate it.

Robert P. Mack
Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.
A

Yeah. I mean, as we look at the back half of the year, to Mike's point, with commodities, I mean, it's a couple of different stories, right? With the war in Iran and the pressure on oil, we see that in diesel, plastics and other petroleum-based products, that's a decent chunk. The bigger piece is steel, aluminum, copper with steel and aluminum far and away being the leaders there. And some of that's just driven by the tariff structure now and the push for the use of US steel. We are fortunate in that, as we talked about last quarter, we use US steel in all of our products that are made here in the United States and Mexico and have those contracts in place.

But you got a lot of people out there scrambling now to buy US steel [ph] and there's (00:32:48) been a lot of pressure on the forward curve on steel. There's some thought that that's going [indiscernible] (00:32:53) here in the second half of the year. But, by the time we get to there, we already have bought our steel for the year. So, if there's relief, we won't see much of it until next year.

And then, a piece a lot of folks aren't talking about is line haul. We don't – it's not really a commodity we don't – but we include it as we think about commodities. And with all the pressure on both documented drivers and the increased enforcement, from federal officials on that and then some of this activity that's been happening with these really large verdicts against all the transportation brokers, there's a tremendous amount of price pressure on the human side of trucking, not just the diesel side. And so, we've got what we can see baked in. Obviously, we're hedged. We hedge about 50% of our exposure. But we're not 100% positive where that goes in the second half of the year. It's certainly been a lot more volatile than we expected when the year started.

Joseph Altobello
Analyst, Raymond James & Associates, Inc.
Q

Got it. Thank you.

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.
A

Thanks, Joe.

Operator: Our next question comes from Craig Kennison with Baird. Please go ahead.

Craig Kennison
Analyst, Robert W. Baird & Co., Inc.
Q

Hey, good morning. Thanks for taking my question. I wanted to ask about ORV utility. It was up in the low-teens. Is there a way to frame that demand strength with – in the context of consumer buyers versus commercial buyers?

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.
A

Yeah. Just to clarify the XD products that we sell to the rental firms, those do not. Those are not included in retail. So, the commercial stuff that can bleed over into retail is kind of standard product being been purchased by rental companies through dealers and things like that. So, I would say, Craig, the bulk of that growth in the quarter is really driven by primarily utility to the more traditional industries we talk about with utility where it's farmers, ranchers, vineyard owners, large property owners, things like that. So, there's probably a little bleed over impact from rental and commercial in there, just as commercial markets do better, because some [ph] stuff gets bought to (00:35:10) dealers and we don't see that as much, but it's primarily driven by the traditional markets.

Craig Kennison
Analyst, Robert W. Baird & Co., Inc.

Q

And we've been hearing more about some of the strength in your commercial operations more recently, including strength with rental companies, data centers, infrastructure projects as you mentioned. [ph] I wonder – have (00:35:30) you taken a look at framing the total addressable market you have in that commercial segment and do you have an opportunity maybe to focus on that more now that you've simplified the business in recent years?

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

Yeah. I mean, it's a good point, Craig. And, it's really the point we've tried to get at now for several years. We were spending – I'll just give you the example we've used with a few investors. I mean, when you look at our commercial business and the government and defense business, all those together basically are the same size Indian Motorcycles was. But obviously making a significant amount of profit as opposed to losing money. The reality is, we had not put a lot of time and attention around that, and for obvious reasons we were focused on trying to get a money losing business to profitability.

And the benefit we've seen, as we've cleaned up the portfolio is, our ability to really refocus and make sure that we've got investment in those categories. And the nice part is, and we tend to talk about the commercial side just because it gets more of the attention around some of the commercial build out, the data center build out. But our government business, our defense business is growing incredibly fast as well. I mean, it was in the news not too long ago about the Marine contract that we won. We continue to win at the state, local, and federal level with vehicles that go to police, fire, border patrol, you name it.

And then, obviously, our commercial business has been successful with selling primarily into the rental agencies, rental firms that are supporting a lot of the construction build-out across the country. And so, we're continuing to make sure we focus and you some of that's just, good old prioritization in the factory to make sure we've got enough capacity, making sure that are up at centers where we do some of the final work to get the vehicles ready, has the right resources, time and investment. And we're going to continue to look for that as an opportunity.

But the thing we're trying to understand as it relates to data centers is what does that look like longer term? I mean, we certainly have visibility to what the construction build-out profile is. But the use case for the vehicles is something we're continuing to learn. And so, we'll know more over the coming couple of years as to what the replenishment cycle looks like, what happens once they're done with the construction on the site, and what kind of vehicle requirements that they have at that point in time.

Robert P. Mack
Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.

A

Yeah. I mean, one of the things, Craig, as we think about this commercial business and we think about investment, we've made some investments in the last couple of quarters on the parts support side of the business to make sure we're – uptime obviously is super critical to that. We have lot of experience in that area through our military and government business, particularly military. We do a lot of work with them to make sure they've got staged parts and they can repair vehicles quickly in the field. And that same skill set kind of crosses over into the commercial space as we look to make sure that we've got parts in the right places at the right time so that they can quickly repair units and get them back in service. And so, that's another growing part of the business. We have a big install base. And now with all these projects, the base, the vehicles are getting used a lot. Ours are up. And so, it starts to consume parts. So, we're investing there. We're going to continue to look at what else we can do in that space. But definitely an area of opportunity we see going forward.

Craig Kennison
Analyst, Robert W. Baird & Co., Inc.

Q

Thank you.

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

Thanks, Craig.

Operator: Our next question comes from Molly Baum with Morgan Stanley. Please go ahead.

Molly Baum
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Thanks for taking my question. Maybe a bit of a follow-up from that last one. And I don't want to front-run the model year launch in August too much. But, you've called out traction in value-oriented products cabbed utility vehicles and then commercial as well. So I guess, how are you prioritizing new product development across all three of those opportunities? And then, as kind of follow-up related to that, you've talked about investments in parts support for commercial, but are there any specific capabilities from a product standpoint as you continue to kind of invest and innovate here that could maybe better position Polaris for commercial applications? Thank you.

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

Yeah. Maybe I'll talk about the last first. Bob hit on it. We've developed a model. The use case for the commercial vehicles is very different than what your typical consumer uses. And so, given our history, we've effectively, tailor-made these vehicles. And as a result of that, we know exactly what components we need to make sure that we're carrying. Our back order status, even with all this growth, has dropped significantly. Our ability to deliver on time to these rental agencies, a lot of which do their own repair activity, has hit record levels relative to being able to fulfill the demand that they have. And we continue to look for other opportunities.

My background was coming out of aerospace. And one of the things that we did to ensure uptime on jet engines was to make sure we had spare pools, whether that was complete engines or parts. And so, given the growth that we've got in commercial, those are the types of things we're starting to explore, which is really interesting to us. And as I mentioned when I was answering Craig's question, something that we probably wouldn't have focused on in the past, because we were distracted by things that we're probably not making anywhere near the returns that we're getting out of the commercial business.

So, I think, that presents us kind of opportunity for us. And we'll continue to look for ways to grow and build off the high level of support. I mean, the fact that we have such a prominent role, I think, is reflective of the value that we can bring and the confidence they have both in the vehicle, as well as our ability to support their uptime, which is really important.

As far as the product investment prioritization, we've done a lot of work over the past five years to really understand product life cycles, where the consumer is, what the demand profile is. And I can tell you that, all of that goes into a calculus. I'm not going to get into a lot of the detail here, that both supports the utility and the rec side of the business.

As I mentioned, we're going to have some news as we head into next week at our upcoming dealer show. We've got more news coming early next year. And it's all exciting stuff. It's based on product cycles, product generation, as well as, understanding how the consumers are using the vehicle. And I think as demonstrated by the innovation we've delivered in the last five years, we're hitting the mark and we're hitting it well, and we're going to keep that streak going.

Robert P. Mack
Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.

A

I think just to build on Mike's answer on your commercial question, the vehicles we sell in the commercial space are very customized for that space, and we've been doing this for a long time. Those vehicles are diesel-powered. They have different seating, different seatbelts. They are slowed down. They typically are [ph] capped (00:42:42) at 25 miles or 35 miles an hour. And they have a lot of heavy-duty parts that over the last several years, we've learned as we've had this experience with the rental houses, these vehicles in these tough environments, we've learned what breaks, what's hard to repair, what makes it easier for them to manage these vehicles in the field.

And so, it's a fairly different product than our standard RANGER product. And so, I think that positions us really well and we're going to continue to build on that. As one of the things, as Mike said, we're trying to understand is what really is the usage in the lifecycle at data centers. And there's not a great answer to that question right now because this, [ph] boon in data center construction is (00:43:26) fairly recent thing. So, we're working with those customers and those applications to understand the vehicle used the same as it is on other big construction [ph] projects and the (00:43:35) different other specialized they're going to need. So, we'll continue to refine that product and make sure we're offering leading product in the industry for those very difficult applications as this rolls out.

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

And Molly, one of the things I failed to mention when I was talking about the product prioritization, you've seen this from us over the past couple of years. We did a lot of work to understand customer segmentation. And one of the things that we became brutally clear on is we, like many others, had chased customers to the high-end of the market and we had left a gap at the lower end. And I'm not talking cheap, cheap, low-entry type stuff. I'm talking just entry-level pools and you've seen us reprioritize around that. The RANGER 500 is a prime example. That is a customer set we had missed.

Clearly, as demonstrated by the demand for that vehicle, there's a desire for people to get into a Polaris at sub $10,000. There's a subset of those customers that will eventually trade up. And that was what we were missing all along. And I would tell you that, as we look forward [audio gap] (00:44:45) to make sure that across our product portfolio, we're hitting all those customer sets to ensure that we are cultivating, bringing the new customers in and then obviously providing them an opportunity to move up the price ladder with Polaris as opposed to a competitor vehicle.

Molly Baum
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thanks so much.

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

You bet.

Operator: Our next question comes from Gerrick Johnson with Seaport Research Partners. Please go ahead.

Gerrick L. Johnson
Analyst, Seaport Global Securities LLC

Q

Good morning. Thank you. Hey, perfect segway into the question I want to ask about the RANGER 500 and the RANGER 1000 cab units. Those doing well. Who's the buyer there? Is there any evidence now that you've had the RANGER out for about a year? Is there any evidence that these are bringing in new customers or are they enticing maybe replacement buyers or maybe more commercial? So, who is the buyer there?

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

Yeah. I mean, one of the things, Gerrick, that we track is cannibalization. Any time we introduce a product, especially the RANGER 1000 and XP Cabbed, we make some assumptions. The cannibalization has been significantly [audio gap] (00:45:51). We obviously are seeing people that would have bought an uncabbed unit moving into this category, because they would have tended to buy an uncabbed unit and then buy cab components. And they're getting a much better deal when they buy this vehicle in terms of the additional accessories that do come on it.

But it is driving incremental volume. So, it's not just moving people out of that uncabbed to the entry-level cab. We have not seen cannibalization of people moving from a NorthStar ultimate down into this category. So, that's good. And the RANGER 500, I think, we quoted this before, about 70% of the customers that are buying that vehicle [ph] are new to us (00:46:33). That's important because these are customers we would have lost to some of our low-cost players in the industry. And the good news is, is that we know that once we get these people in, there's an opportunity for us to potentially move them up into a RANGER 570 or to an entry-level RANGER 1000 as they use the vehicle more and start to realize that maybe they want some of the additional comforts that come with a full cab vehicle and frankly, if they don't, they stay in the RANGER 500, that's just fine.

We've got plenty of accessory offerings there and we like making sure we've got more Polaris customers coming into the fold. And even though it is the fastest-growing as a total percent of our portfolio, these vehicles are still relatively small. So, obviously, given our margin performance, you're not seeing heavy dilution from a margin. In fact, it's good, because we're getting more volume through our factories. And our mix at the mid and high-end of the category remains strong. So, margin performance is not much of a concern right now.

Gerrick L. Johnson
Analyst, Seaport Global Securities LLC

Q

Okay. That's great. And I just wanted to ask a follow-up on that, some dealers are a little bit reticent to sell the unit with "no margin" in it. But I'd assume that there'd be an attach rate of parts and accessories given that these are barebones machines. So, what is the attach rate look like for parts and accessories both for aftermarket parts and what they add on at the dealership?

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

Yeah. I mean, there certainly is opportunity there. And, it's obviously lower level than we see even on a NorthStar Ultimate, not necessarily something I'm going to get into a lot of the detail on, [ph] but it was a big part of when we came out with the (00:48:20) RANGER 500 is making sure that we did have the accessories that we knew the customer at that price point would be looking for. So, that does give the dealer an opportunity to make additional margin. We've spent a lot of time working through how do we help [audio gap] (00:48:36) successful, developing things like tear sheets that are essentially a one-page document they can hand to the customer that makes recommendations on kind of the most accessorized components for the vehicle just so that they're aware.

Certainly the configurator that we have as a business, which is unique to us relative to many of our competitors is something that in store the dealer can take the customer through and gives them an opportunity for [ph] more access (00:49:02). And then, quite frankly, it's developing the relationship with the customer both from a service perspective as well as, eventually down the road if that customer is looking to trade up or continue to replenish the vehicle, that gives them an [ph] opportunity for ongoing (00:49:18) revenue streams.

Robert P. Mack
Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.

A

Yeah. Gerrick, I mean, there's a bit of a retraining here. We did, I guess, such a good job of moving everything to a lot of the factory, installed accessories now we've got these vehicles that come with very few installed accessories. And so, it's a bit of a retraining for us and for the dealers to make sure we've got all those selling processes right in the dealerships so that they're offering to Mike's point [indiscernible] (00:49:43) different things, to make it easy for a salesperson to walk a customer through sort of what the normal accessories or typical accessories are and try to capture those both at the time of sale. And then, working with marketing teams to make sure we're at six months down the road, three months down the road, we're popping those opportunities in front of those buyers for things that maybe they didn't want to spend the money on at the time when they bought it or didn't know they need and make sure they see the accessories they can buy to add to the uses for their vehicle.

Gerrick L. Johnson
Analyst, Seaport Global Securities LLC

Q

Great. Thanks, Bob. Thank you, Mike.

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

You bet.

Operator: Our next question comes from James Hardiman with Citi. Please go ahead.

James Hardiman
Analyst, Citigroup Global Markets, Inc.

Q

Hey, good morning, guys. Thanks for taking my question.

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

Good morning.

James Hardiman
Analyst, Citigroup Global Markets, Inc.

Q

So, I'm wondering if you could share any color around the shape of demand within the quarter. Obviously, you had, I think, 5% growth in ORV. Just curious, clearly it was a roller coaster ride in terms of headlines over the course of the quarter. Curious just how much volatility that created. And then, any color on July would be great as well. Thanks.

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

Yeah. I mean, there was certainly volatility within the quarter. I think, we talked a little bit about that even coming out of the first quarter. The headlines certainly do drive, I think some consumer behavior relative to [indiscernible] (00:51:18) we think we have a resolution now. We don't have a resolution. Oil's up, oil's down. And so, we do see some of that volatility certainly playing out. The good news is, the month of [ph] July just playing (00:51:30) out consistent with what we saw in the second quarter, which is, utility remaining strong, rec remaining challenged.

And I think that's kind of what we anticipate going forward. As I talked about, obviously, first half retail was up. We're expecting second half retail to be flattish. Obviously, if it's better than that, we're positioned well to take advantage of that. But, we think it's prudent plan that way. And that's really forecasting the utility business to remain up and rec to remain somewhat challenged in that back half. And I think until we see clarity around interest rates, we see clarity around inflation, some resolution overseas and oil start to stabilize. I'm not sure we see that dynamic change much in the near-term.

James Hardiman
Analyst, Citigroup Global Markets, Inc.

Q

Makes sense. And then, maybe initial thoughts, [indiscernible] (00:52:27) way too early, initial thoughts on 2027. Obviously you're not going to be giving us guidance here today, but at least on the tariff piece, help us with some of the puts and takes. Obviously, we can peel back the refund piece. And I certainly appreciate the operational numbers that you've given us today. But I think I heard Bob say, there's maybe $40 million in refunds remaining. I'm assuming that's a 2027 event. You're also getting out of China. I think, that's more of a 2028 benefit than 2027 as we think about that. But maybe walk us through some of those moving pieces and then anything operationally we should be thinking about into 2027 would be great. Thanks.

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

Yeah. I mean, it's tough to comment much on tariffs. I mean, there's still uncertainty around where does USMCA go, where is this next 301 investigation relative to excess capacity. The good news is, to your point, we are driving content out of China at a rapid pace. We're actually slightly ahead of schedule. And [ph] at the end (00:53:31) of this year, we'll be down to less than 5% of our material cost of goods sold coming from China. And the good news about that is, there's a good portion of that is coming back to either the US or Mexico, which helps us from a content requirements standpoint relative to USMCA.

We do think that they'll probably push for higher content requirements. So, we're making sure we're well positioned for that as a result of some of the other activities we've got going. So, we'll obviously have a fair amount of that worked as we get to the end of the year. As far as the tariff refunds, tough to say, we still have the broad 125 number of which we've booked a good portion. There's obviously some portion of that that's dependent on our suppliers getting refunds and bringing those back to us that we're working through.

I would hope that we could get that accomplished all this year. It's cash we're due back. And we're working aggressively to make sure that that we get that. And as we get into next year, volume is going to be the key question in terms of where [ph] do to the markets (00:54:37). The good news is, we've demonstrated getting a little bit of incremental volume through our plants. You'll see pretty strong incremental margins that range anywhere from 30% to 40%. And obviously, [ph] we would look and (00:54:50) keep that momentum going into next year. Our plants are running at about 70% capacity. That's a pretty broad number. Each plant's obviously different. And that's far from where we view as optimal. So, that gives us plenty of opportunity to get more operating leverage and margin expansion as we move forward.

Robert P. Mack
Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.

A

Yeah, James, you were correct. The roughly $40 million to go and about half of that, we got to collect from suppliers. About half is stuff we've got to file with the government where the window to file isn't open yet. I would share Mike's optimism. A lot of our supplier refunds were stuff they applied for in the first two phases and we've got good documentation around that, working well with the part – with the suppliers to get that back. I think, we'll see that over the couple of quarters. We're not going to book it until it shows up.

And then, the stuff that we haven't filed with CBP yet, we'll report as we file when they open the filing window. We don't know when that will be. It's been bouncing around quite a bit. Tariff picture headed into next year to Mike's point, pretty much the same. We're not expecting big changes. We'll see what happens with USMCA and this other 301 that's out there. But we will get the [ph] China spend down. That'll (00:56:13) really to your point be a 2028 thing. We'll be down to sub 5% by the end of 2027. We'll see some benefit from that in 2027. Certainly start to [ph] see it show up more (00:56:20) capital as those purchases from more local buyers roll through. [ph] And there'll be (00:56:25) obviously all stuff that we'll talk about as we get closer into next year and start talking about guidance.

James Hardiman
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Just a point of clarification. You think that you might get the remaining $40 million in the back half, but that's not in your current guidance, correct?

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

[ph] Sure (00:56:45).

Robert P. Mack
Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.

A

It is not in our – neither the cash nor the P&L impact is in our current guidance. I think, we'll get a chunk [ph] of the supply (00:56:51) stuff, the stuff that still has to be filed with CBP. I have no view on whether that'll be [indiscernible] (00:56:57) second half of this year or early next year. It's a pretty complex thing and there's a lot around [ph] them (00:57:05) getting organized around the last phase because it's all the more complicated refunds. Fortunately, the bulk of, as Mike said, the bulk of what we are getting back was in Phase 2 and we filed that and we expect to see that cash roll in, in Q3.

James Hardiman
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thanks, Bob. Thanks, Mike.

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

You bet.

Operator: Our next question comes from Anthony Bonadio with Wells Fargo. Please go ahead.

Anthony Bonadio
Analyst, Wells Fargo Securities LLC

Q

Yeah. Hey, guys. Thanks for taking my questions. So, I just wanted touch on market share a little bit. I know you guys have taken share for five quarters in a row now. And I know some of this is driven by some of the stuff you've done on the innovation front. But can you just maybe talk through who the key donors are there at this point and maybe how to think about a possible competitive response from a product perspective as the new model year rolls out?

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.

A

Yeah. I mean, I think probably more of our dynamic is we're going to start lapping some tough compares when we start picking up momentum in the back half of last year. So, I think, the primary challenge will probably be ourselves. As we look forward, we got a lot of great new stuff coming out, both in the back half of this year as well as heading into next year. So, I think, the pipeline's really good. And I would like to hope that the industry remains rational. We have seen inventory levels come down. The vast majority of the industry has gotten inventory in a good spot. We still have a couple of players who are on a relative basis very high. But we haven't seen necessarily any significant promo or channel activity related to that.

But, frankly, that could change tomorrow. I think, given the products that we have coming out, I think the refresh we've done around our products, we've got the broad category covered. And I think for me it's really about hopefully getting some green shoots around [ph] the rec (00:59:06) business, because I think we're positioned really well with the products, the PRO R, the XPEDITION, you name it. We're in a prime spot to really take [audio gap] (00:59:15) in that category.

Anthony Bonadio
Analyst, Wells Fargo Securities LLC

Q

[indiscernible] (00:59:17). That's super helpful. Thank you. And not to beat a dead horse on commercial here. But if I heard correctly, I think you said commercial is excluded from the retail figure that you guys report. I guess, if that's right, what would that mid-single digit or the demand growth figure look like if that was included? And is there anything you can say to better frame the size of that business for us?

Robert P. Mack
Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.

A

Yeah.

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.
A

Yeah. Look, I don't want to get into the details of it, because, I mean, it isn't a retail view. As Bob highlighted, this vehicle is purpose-built and once they're done on a job site, most of these vehicles are retired permanently. They're used in a pretty rough environment. The fact that we put Kevlar on the back of the seats and things like that gives you a pretty good idea. We don't talk about the size of the commercial, but I did talk about the size of our commercial gov and defense category, which is essentially vehicles that are being used outside of call it, the retail environment. And that business I size pretty close to what Indian Motorcycles was when we divested the business.

Anthony Bonadio
Analyst, Wells Fargo Securities LLC
Q

Appreciate it, guys.

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.
A

You bet.

Operator: The our next question comes 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.

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.
A

Hey, Joe.

Joseph Nolan
Analyst, Longbow Research LLC
Q

Hey. You guys had a number of initiatives in recent years to improve margins, including lean manufacturing, production efficiencies, et cetera. Could you just talk about volume leverage and give an update on incremental margins given all the work you've done on that front?

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.
A

Yeah. I'll let Bob kind of get into the incrementals. But, the one thing I will remind everybody is, yes, we have done a lot of work. We are still in the early innings. I'm encouraged with what I've seen from the team, but we have much further to go in terms of getting lean [ph] fully (01:01:15) adopted in all of our manufacturing facilities as well as in the front office of our business, because there's opportunities there, especially as we enhance some of our IT systems in the coming [audio gap] (01:01:30) as a business.

The good news is, with demand stabilizing, we're not talking about shipping at lower levels where we're now matching ship to retail. And that's giving us a better opportunity to really leverage volume as we get it through the factory and that's obviously driving some pretty strong incrementals that I referenced and Bob referenced during our prepared remarks.

Robert P. Mack
Chief Financial Officer & Executive Vice President-Finance & Corporate Development, Polaris Inc.
A

Yeah. I mean, if we think about the incrementals [indiscernible] (01:01:57) was pretty good. If you took out tariffs both the refunds and kind of net new tariffs and commodities, we'd have been in the low to mid 30s and that will be a little better than that for the full year. Obviously it's a little noisy by quarter. You get into Q3, Q4, we start shipping snow and we have other dynamics that make it a little lumpy. But I think if you focus on the full year, really [ph] solid (01:02:23) incrementals and obviously commodities are something that we own and we got to go try to overcome. But, I think it just shows the level of performance coming through the factory.

And to Mike's point we're not done. We're still, I would say, maybe third inning of our lean journey as a company. And so, I still think there's a lot of factory improvement drive over the next few years. The localization of the supply chain and moving that stuff out of China, part of the incremental benefit of that is just having those suppliers be a lot closer. We can work better with those suppliers. We can continue to tailor what gets delivered [ph] to the plant (01:03:03) how it gets delivered when it gets delivered to fit into our new lean flows. And so, I feel really good about the set-up and the increasing skill of the team. And so, I do think that there's a few more innings to play out as we continue down our lean journey. So, if we can get some volume, I think, the incrementals are going to be really strong and well received.

Joseph Nolan
Analyst, Longbow Research LLC
Q

Got it. That's helpful detail. And then, it's a smaller part of your business, but international sales were up 28%. Could you just talk about what you're seeing in some of your international markets?

Michael Todd Speetzen
Chief Executive Officer & Director, Polaris Inc.
A

Yeah. I mean, look, we've gotten a lot more focused. We don't talk about this as much as maybe some of the other ones. But, as we've gotten the portfolio right sized, we've gotten into a far more surgical approach. I mean, international markets for us are challenging, because there isn't necessarily a market that looks a lot like the US. And so, whether it's going into Mexico, whether it's going into Australia or Europe, there are very different areas that we need to drill into. And whether it's Australia in terms of success with our RANGER product, Europe, the vehicles get used more in an on-road application.

So, making sure that we've got accessibility for vehicles like the RANGER 500, which are increasingly popular or you get into areas like Mexico where you're looking at high RANGER, high PRO R volume. Each of those markets takes a different approach. And I think, it's just reflective of the fact that we're a heck of a lot more focused than we have been historically. We're making sure that we got vehicles specific to that market. The requirements within market are slightly different. So, we have to go through a process to adapt the vehicle and or have a vehicle that meets the needs in certain parts of the regions. And I would say, we're doing a much better job and that's showing up in the growth rates that we're seeing internationally.

Joseph Nolan
Analyst, Longbow Research LLC
Q

Got it. That's helpful detail. Thanks.

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