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Polaris Inc. (PII)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Polaris First Quarter 2024 Earnings Conference 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, today's event is being recorded.

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

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

Thank you, Rocco, and good morning or afternoon, everyone. I'm J.C. Weigelt, Vice President of Investor Relations at Polaris. Thank you for joining us for our 2024 first 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 the first quarter as well as our expectations for the remainder of 2024 then we'll take your questions.

During the call, we will be discussing various topics, which should be considered forward-looking for the purpose 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 2023 10-K for additional details regarding risks and uncertainties. All references to the first quarter actual results and 2024 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.

Michael Todd Speetzen

Chief Executive Officer & Director, Polaris Inc.

Thanks, J.C. Good morning, everyone, and thank you for joining us today. First quarter performance [indiscernible] (00:01:59) consistent with our expectations. You'll recall that headed into the year, we expected the first quarter to be one of the most challenging quarters given the difficult year-over-year comparisons and our plan to actively manage dealer inventory coupled with a more normalized production delivery of snowmobiles.

Q1 also saw us focused on continuing to execute the early stages to improve delivery, increase efficiencies, and drive down operating costs in our larger manufacturing facilities. Sales in the first quarter were down 20%, which was in line with our expectations, and adjusted EPS came in above our expectations given better performance on cost management. While we're pleased with our financial performance, we did experience the worst snowmobile season we've seen in 13 years, driven by a lack of snow across much of North America.

Overall, it was great to see our products take share in ORV, motorcycles, and Marine. Our new product innovation is resonating with customers, which will drive future share gains. That, coupled with our operational improvements, makes me very optimistic about the direction of the business.

North America retail was down 10%, driven by a weak snow season, but was up 3% when you exclude snow. Utility, off-road vehicles continue to lead the way with strong demand for our RANGER line-up. Recreation was down, while On Road was up for the quarter, driven by strength in North American markets, somewhat offset by international market weakness.

Within Marine, we believe retail was flat during the first quarter using our internal registration data as we await the March data from SSI. We continue to play offense when it comes to innovation. Our RZR XP, Polaris XPEDITION and RANGER XD products are dealers in garnering much attention for their attractive features, cutting-edge technology with Ride Command+ in industry-leading capabilities. And we recently added to this launch with the new model year full-size RANGER portfolio and the new Indian motorcycle Scout portfolio. Once again, we delivered industry-leading innovation, further reinforcing our position as the global leader in powersports.

Following through on our commitment to actively manage dealer inventory, we flexed inventory up in categories where we've seen consistent growth, such as Off Road, utility and new product models.

We also reduced shipments to help better manage dealer inventory in categories that have been underperforming, such as Off Road, recreation, and Marine. I'd also remind you that we've been doing this for several quarters. This approach is driven by our ability to adjust to trends we've seen materializing over multiple quarters, aided by our Retail Flow Management system, which is one of the most sophisticated dealer inventory tools in the industry, allowing us to quickly adapt our production and delivery system to current demand environment.

The system gives us near real-time access to our dealer inventory by region, by product, by dealer. We use this data in conjunction with conversations with our dealers to actively manage inventory to enable dealers to have the right inventory to efficiently run their business.

Adjusted gross profit margin was down 248 basis points, driven by elevated promotions that began last year as well as higher warranty costs. Partially offsetting these headwinds was the continued progress to improve our operations. This operational improvement enabled us to more than offset deleverage in the quarter given the lower volumes. We're targeting $150 million of operational savings this year, and while it's still early in the year, our progress thus far aligns with this objective.

During the first quarter, we saw meaningful savings on material costs and logistics and our Huntsville manufacturing facility made tremendous strides in reducing indirect labor and rework costs and achieve significant improvements in execution against their build schedule.

We are also seeing significant improvements in Monterrey, where the production line that created significant issues for us in delivering XPEDITION and RANGER XD in the second half of 2023 is now operating at the targeted output rate and we're seeing significant improvements in efficiency starting to materialize within the facility more broadly.

In summary, it was encouraging to see results that were largely in line to slightly above our original expectations, recognizing there were a number of headwinds we had entering the year. As we proceed through the remaining three quarters of the year, we're expecting further share gains given the significant innovation we've introduced over the past few years and we remain committed to actively manage dealer inventory and drive efficiencies within the business. I'm incredibly proud of our team's execution in the first quarter and want to thank them for their continued dedication and focus.

Turning to more detail on retail. Broadly speaking, retail trends remain consistent with what we've seen over the past year with the exception being snowmobiles. Recreation, off-road vehicles were down for the sixth straight quarter. As we've shared previously, we view the purchase of these vehicles as more discretionary and more sensitive to economic conditions such as elevated interest rates.

Our utility portfolio, consisting of RANGER side-by-sides and ATVs continue to see strength as reflected in our mid-single digit increase in retail. As a reminder, this category is far less discretionary and plays an important part in work applications for ranchers, farmers, owners of multiple acres of land as well as commercial settings and makes up approximately 65% of our Off Road segment sales.

As expected, promotions were elevated across the industry during [audio gap] (00:07:20) a higher promotional environment to continue through 2024. This impacts each of our segments as the industry grapples with elevated interest rates. For Polaris and the industry, this impact is more noticeable within the Marine and Off Road recreational categories where we've seen weak retail for several quarters, resulting in elevated inventory.

Hearing from dealers, they continue to view all powersports inventory is too high and are actively looking for opportunities to manage inventory with strategies ranging from reducing the number of OEMs they carry to adding additional promotional dollars from their own wallet as well as taking fewer shipments from OEMs. Every dealer is dealing with their own unique version of these industry issues. And while we can't influence other OEMs, we do believe that in total, we are doing our part to assist dealers. We're reducing shipments in product segments most challenged and adding promotional dollars where necessary to assist them with moving product.

Given the current trends in rec and utility and the weak snow season, we have adjusted our manufacturing outlook for these lines for the remainder of the year. We've made some meaningful cuts in snow for the upcoming season, given the elevated inventory that is in the channel today.

We've also reduced RZR side-by-side production as recreation retail has been down, and we do not see a near-term improvement given elevated interest rates impacting consumer purchasing decisions and the likelihood that rates stay higher longer than originally anticipated. We've also decreased production of Slingshots, which have a higher mix of consumers who finance their vehicles. While it's early in the retail season, the Marine environment is largely playing out as anticipated.

In utility, we've made the decision to increase production of our RANGER side-by-sides given multiple quarters of strong retail growth and healthy dealer inventory turns. Polaris continues to operate in a disciplined manner regarding our dealer inventory to ensure we have the right inventory in the field to maintain our competitive position while not burdening dealers with excess flooring cost. Our goal is to remain agile while being the partner of choice with our dealer to ensure a healthy relationship today and into the future.

Moving to one of my favorite topics, innovation. We've had a busy couple of months with the launch of our new Indian Scout platform, the new 2025 snowmobile lineup, and the 2025 lineup of full-size RANGERs. The Scout platform was first launched by Polaris 10 years ago and has quickly grown to become the best-selling platform in the Indian motorcycle lineup. We're excited to carry on the tradition of this historically important bike with this new launch. Not only does the bike have a completely new engine, but also added highly sought-after tech features to enhance the rider experience.

[ph] Scout's an entry point to the (00:09:59) brand with more than 90% of Scout owners being new to Indian motorcycle and also serves as a pipeline for growth into the other parts of our lineup. We've seen roughly 70% of our mid-sized riders move up to the heavyweight cruisers or our bagger and touring lineup with their next motorcycle purchase, further reinforcing the importance of Scout and the role it plays to drive further share gains.

We also announced and started shipping [audio gap] (00:10:26) lineup of model year 2025 full-size RANGER side-by-sides. These new RANGERs have rider-inspired design enhancements and upgraded transmission and additional factory-installed accessories. The new lineup makes the best-selling vehicle in the market even better. RANGER is the number one side-by-side in the market and as the utility market continues to grow, we're excited to bring more innovation to our core utility customers.

Wrapping up my comments on the quarter, we executed well in what we knew was going to be a challenging environment. We gained share with a strong product portfolio, made even stronger with our recent new product launches. We're working in partnership with our dealers to ensure they have the right mix and quantity of inventory to effectively manage their business, and we continue to execute our plan to drive $150 million in operating savings in 2024, consistent with our long-term path to drive EBITDA margin expansion.

I'll now turn it over to Bob, who will summarize our first quarter performance and provide updated commentary around our guidance and expectations for 2024. Bob?

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. First quarter sales were $1.7 billion, down 20% versus last year. The decline was expected due to several factors we called out when we spoke in January. These included late-season snowmobile shipments in Q1 2023 as a result of supply constraints, which did not repeat in Q1 2024; the lapping of ORV and marine channel fill in the first quarter of 2023; lower planned factory shipments to contend with elevated dealer inventory in off-road recreation and marine, and lower net price, given the high promotional environment versus Q1 of last year.

Therefore, there were not many surprises on the top line, although the snow season was weaker than we expected which, in the quarter, mostly impacted our snow whole good retail and related snow PG&A lines. Despite this, PG&A sales were up 3%, with strength in our factory-installed accessories in off-road. We continue to view our PG&A business as a driver for both sales and margin throughout the year.

Adjusted EBITDA margin was down 459 basis points due to many of the same factors impacting sales, such as volume and higher promotions. In addition, we are seeing slightly higher warranty costs in off-road and continue to experience higher finance interest associated with flooring interest support for our dealers. As expected, foreign exchange was also a headwind. Somewhat offsetting these headwinds was a positive contribution from operations, despite the deleverage from lower volume and controlled operating expense spending.

One unique item to note is that our tax rate in the quarter was 49.3%, which was more a function of lower net income year-over-year versus anything structural, and we still expect our full year tax rate to be between 21.5% and 22.5%. Adjusted EPS of $0.23 was above our initial expectations for the quarter.

In our Off Road business, revenue was down 16%, mainly driven by factors already discussed, such as the channel fill and the lapping of snow season shipments last year. We shipped close to 6,000 units of our new Polaris XPEDITION and RANGER XD combined during the quarter as we strive to meet customer demand for these category-defining vehicles.

Data shows we gained share on a unit and dollar basis during the quarter in ORV. On a dollar basis, which puts more weight on the premium side of the market versus the lower end and Youth, we gained more share in our nearly 50% of the ORV market. We believe this illustrates our strength as a premium OEM within the ORV market versus inflating market share with Youth and lower-tier products.

The lack of snow across most of North America impacted both our retail and industry retail. Primary impact to us is a change in expected selling of snowmobiles for next season, given current dealer inventory levels. I will cover this further in a moment. Margins in the quarter were pressured by volume, higher promotional levels and finance interest. Operational improvements within our plants were realized and are expected to contribute more dollars as the year progresses.

Thinking about the second quarter, we expect longer-term trends to continue within utility and recreation. Promotions are expected to remain elevated, and we believe our competitive position should only get stronger with the recent launch of our new RANGER portfolio, as well as continued interest in the products we launched last year. On margins, we expect meaningful gross margin expansion as we continue to make progress on our operational savings strategy.

Switching to On Road. Sales during the quarter were down 14%, driven by weakness in Slingshot and a soft international motorcycle market. Indian Motorcycles gained modest share during the quarter, driven by continued strength in the midsized category, which is an area of strength for us, especially with the launch of the new Scout.

On Road gross profit margin was up 41 basis points due to strength from our European businesses, Aixam and Goupil, somewhat offset by higher promotions in the heavyweight category. During the second quarter, we expect a modest benefit from the new Scout launch with offsetting pressure coming from Slingshot and continued promotions.

In Marine, sales were down 53% as the industry continues to deal with elevated dealer inventory levels and higher interest rates, impacting the consumer's decision to purchase. Our shipments in the quarter were in line with our expectations, given the trends we were seeing in the second half of 2023, which resulted in lower volumes in the first quarter and a reduction of dealer inventory versus first quarter 2023.

SSI data through February reflected a decline in year-over-year retail, although our internal data through March suggest our brands are going to be relatively flat year-over-year in the first quarter. As we head into the spring selling season and compare inventory levels to previous years, we feel that our position is much healthier than many of our competitors.

Gross profit margin was down 776 basis points, given top line pressures and less labor absorption at our plants. Our team continues to actively manage the variable components of our cost structure to help protect profits. We continue to see the industry challenge during the second quarter as dealers work through current inventory levels and consumer purchases are hampered by elevated interest rates.

Moving to our financial position. We knew the first quarter was going to be a quarter with minimal EBITDA and cash generation, as is typically the case during the early part of the year with dealer holdback and employee bonus payments being made in Q1. Therefore, we had limited share repurchase activity in the first quarter as we prioritized maintaining our net leverage ratio in the range that we have previously communicated. For the full year, we expect to repurchase enough shares to offset dilution from stock-based compensation plans, and we remain well ahead of our 2026 target of reducing the basic shares outstanding by 10%.

During the quarter, [ph] we used CapEx (00:17:20) investments and returned $53 million to shareholders in the form of dividends and share repurchases. We remain confident in our financial position and our net debt-to-EBITDA ratio is expected to trend lower as we generate more EBITDA and cash as the year progresses. We continue to expect strong adjusted free cash flow this year and believe our capital deployment priorities are aligned with the strategy to build shareholder value.

Now, let's move to guidance and expectations for 2024. We are not changing our full year guidance for Polaris at this time, but are making a minor adjustment at the segment sales level, given the adjustments we have made within On Road to account for current trends. This updated outlook calls for On Road 2024 sales to be down mid-single digits versus our original guidance of flat year-over-year sales.

Recall, the On Road change is in response to weaker trends we are seeing in Slingshot, some additional pressure on motorcycles internationally. While both of these markets are being impacted by higher interest rates, we have seen a more pronounced impact on Slingshot retail, and thus have adjusted our production schedule downward. Promotions and finance interest are expected to remain at elevated levels, which continues to add pressure to our top line and margin.

We maintain our guidance for Off Road 2024 sales at down mid-single digits. Within Off Road, we are now expecting lower snow sales in the second half of the year, given dealer inventory levels coming out of this past season. Additionally, we have pulled back on recreation off-road vehicles vehicle volume, given retail and industry trends. These pullbacks have been offset by the added volume from continued strength we see in our utility off-road vehicles.

Regarding dealer inventory, we are actively addressing areas with elevated inventory, coupled with weaker retail trends, particularly in off-road recreation and marine by reducing shipments of those products to help minimize flooring interest for our dealers. We are also actively managing the mix of products in those segments to align trim levels with consumer expectations.

We target building inventory with new products and in growth categories. One such growth area is utility, where dealers hold approximately 3 turns of RANGER inventory, which is comparable to pre-pandemic levels. Indian Motorcycles is also at similar turns versus pre-pandemic levels.

We have a strong discipline around dealer inventory and understand the frustration our dealers have with other OEMs overshipping the channel or lacking a sophisticated inventory management system. We strive to be a business partner of choice for our approximately 4,000 dealers globally and want to share in their success.

As previously communicated, our margin guidance calls for expanding both gross profit and EBITDA margins with most of the expansion resulting from savings and efficiencies at the gross profit level. In total, we are targeting over $150 million in operational savings with an even larger funnel of opportunity.

Foreign currencies remain volatile and are expected to continue to be a headwind. Given the recent strength of the dollar, we see additional downside pressure from FX. We now believe the negative impact on EBITDA for the year is about $30 million versus our original expectation of approximately $20 million.

For the second quarter, a few things to note. As I mentioned on the January call, we expect sales in the remaining three quarters of the year to be relatively flat year-over-year, including the second quarter. Our assumption is that industry retail is going to be down modestly for the year remains intact with Polaris gaining modest share through the year. Higher year-over-year promotions and finance interest continue to be headwinds. Operational synergies are expected to be larger and be reflected in margin expansion during the quarter. Lastly, FX and interest expense continue to be unfavorable year-over-year.

Before I turn it back to Mike, I want to emphasize how encouraging our recent operating review meetings have been. The energy level around lean and operational improvements is clear. While these improvements take time, we believe we have the right team in place for the journey and we expect to begin seeing results in margin expansion in the second quarter.

It's an exciting time to be at Polaris and witness the innovation we are launching and the passion from our team. We have a lot of opportunities to improve our market share position, margin profile and cash generation capabilities, all of which, I believe, can lead to increasing value for our shareholders.

With that, I will turn it back over to Mike to wrap up the call. Go ahead, Mike.

Michael Todd Speetzen

Chief Executive Officer & Director, Polaris Inc.

Thanks, Bob. The macro environment remains uncertain. And given that, we expect to remain agile regarding both production and dealer inventory. We carried our North American market share gains from last year into the first quarter of 2024. Our expectation is that we'll continue to take share this year with industry-leading innovation, a healthy partnership with our dealers, and a strong value proposition to bring memorable experiences to our customers who enjoy working and playing outside.

Introducing new customers to powersports continues to be a focus for us, as they make up a strong portion of the business. During the first quarter, we saw similar patterns with approximately 70% of our customers being new to

Polaris vehicles. This was a great statistic to see. As the market leader, we continue to grow the space and create awareness for the capabilities and experiences provided by our vehicles.

Operationally, we're on a journey. I was encouraged with the progress we made at the largest facilities, and I'm confident in our improvement plans for the year. I believe our first quarter results, coupled with a focus to drive market share and margin expansion, positions us well to deliver on our 2024 guidance. We thank you for your continued support.

And with that, I'll turn the call back over for any questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Today's first question comes from Craig Kennison with Baird. Please go ahead.

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

Q

Hi. Good morning. Thanks for taking my question. I guess, I wanted to get your perspective, Mike, on the health of the dealer network, given feedback from dealers that inventory is just way too high and a lot of evidence that there's stress in the market caused by skinny margins and high floorplan expense. I feel like you're feeling you've done it all, you've done it right, but your competitors have too much inventory, and I'm not sure that's exactly what I hear from dealers.

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

A

Yes. No, look, I appreciate it, Craig. And certainly, in this environment, it's something we're spending a disproportionate amount of time on. I can tell you, different from many of our competitors, Bob and I and our GBU leaders spent a lot of time out in the field with our dealers. In January, we were with our Indian Motorcycle dealers. And March, Bob and I were out at marine dealers in Michigan, which is the largest market. And then we're headed back out with Steve in May to talk to off-road dealers on the West Coast.

Look, they certainly are under stress. I can tell you from sitting in those dealerships that the conversation is not just a simple five-minute phone call. It's in detail. First and foremost, I think we probably have the best grip on this across the industry. We've got incredible visibility that's enabled through the systems that we have. The RFM process gives us essentially real-time data. We are always going to be the largest part of the discussion, because we are the market leaders. You have to add up a lot of the other OEMs to even get close to our numbers.

So, they are typically going to have more inventory for Polaris than they do with the others. But the devil is in the details relative to the efficiency of the inventory, and we know because we can see through the systems, through CDK, where we have visibility into about 70% of the inventory that we are either number one or top quartile when you look at things like days sales outstanding, 6, 12 months at the dealership, or you look at their mix of current inventory to non-current inventory. In that bucket, we are number one.

Just to give you a frame of reference, there's an OEM that was shipping over 70% through the first quarter of the inventory into dealers that was from model year 2023. And so, that puts into perspective some of the dynamics that are going on at the dealers. In my prepared remarks, I talked about the fact that dealers are taking things into their own hands.

One of the things that became evident as we've met with the marine dealers is that they're trying to move out some of the smaller brands that they brought in during the pandemic when they were desperate just to get their hands on boats. They still have inventory in those brands that they're trying to move and there's a lot of focus and attention around that. And financially, it's a bit of a drag.

Through our JV with Wells Fargo, which is expanding to cover our Marine segment, we have good visibility into each of our dealers. We watch their financial health. Bob is the Chairman of the Board for that JV, and we keep a very close eye. That JV has been effective for well over 20 years and helping us make sure that we're working with the dealers.

Hopefully, as the industry leader, we'll get the rest of the OEMs to follow suit and behave in a consistent manner. We can't control that. So, we're going to do everything we can to do our part. But I'd look at things like dealer inventory, we're up versus where we were in Q1 of last year. If you remember, last year, the channel was still very light in inventory.

But when I look at the models that are not moving quickly, so the models that we outlined, whether that's marine or boats, Slingshots, in aggregate, we've taken those categories down 14% year-over-year. That's pretty significant. And I think reflective of making sure that we're working with our dealers. We're not perfect. But we know where the soft pockets are and we are actively pulling those inventory levels down. We've adjusted our production schedules.

The good news is, given our RANGER lineup and the concentration we have around utility, which is a market that remains strong, we're obviously recognizing the benefit. That's good for our dealers. Those are high-margin vehicles. They bring a lot of accessories along with them. And so, we're obviously pushing production up on that, and we think that's going to go a long way.

So, I think the message is, look, we're going to operate with an incredible level of discipline. We were clear when we gave guidance. We reiterated it today that, as retail goes, our business goes and we're going to make sure that we stay true to that. And we're going to make sure that we keep our dealers healthy here in the near term, because we really value that long-term relationship and health of the network.

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

Q

Thanks, Mike.

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

A

Yeah. And I think a couple of things to think about, Craig. Like Mike said, obviously, we're the biggest in the industry. We're always going to have the highest box count. We also put out more innovative products than other folks. And so, we've got new product launches, which causes some level of channel fill. We do manage with RFM. And if you really look at the rec categories, Mike talked about how much we've taken that inventory down, typically, Q1 to Q2, both in categories like RZR and Marine, coming into the season, you would build a dealer inventory mid-to-high double-digit range, 15% to 20%.

This year, we're down in RZR, we're flat in Marine. And so, not only did we constrain dealer inventory as in 2023 and in the first quarter of 2024, but we didn't see the typical build we would have going into seasonality. So, we're going to hopefully use that seasonality to help keep those inventory levels down in the categories that we see most challenged. So, I feel like we've been probably the most aggressive by a large margin in terms of really managing dealer inventory.

Our Marine inventory is very clean. It's been a challenging market. We talked about in the prepared remarks, we think it will be relatively flat for Q1. Hopefully, we'll see some good response as the warmer weather shows up, but we're not sitting on dealer inventory at our factories. We build to order. And so, we've managed that business with what we see as incoming dealer orders. And so, we feel like we're in a pretty good position compared to a lot of other OEMs.

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

Q

Thanks, Bob.

Operator: And our next question today comes from Noah Zatzkin with KeyBanc Capital Markets. Please go ahead.

Noah Zatzkin
Analyst, KeyBanc Capital Markets, Inc.

Q

Hi. Thanks for taking my question. I guess, you kind of talked through this a little bit. But in terms of kind of where you are on the ORV side in terms of mix, what do you think that implies for promo levels relative to Q1? And then, if you could just kind of talk through the operational improvements that you're realizing and the ability to offset promo looking ahead?

And then second, not to pry too much, but I think, sometimes, you give some EPS color on the forward quarter. So just any thoughts there would be helpful. Thanks.

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

A

Yeah. On the ORV mix and promo implications, when we talked about the year-over-year 2024 versus 2023 and we talked about the increase in promo, most of that really happened in Q1 of this year, and we expect those levels to essentially remain similar as we go into Q2, Q3 and Q4. But if you look back to last year, promo would start ramping up through the course of the year.

So, we think promo will be up. It's probably going to be a little higher than we originally expected, because we know that there's a lot of non-current inventory from some of our competitors out in the market. But as we look at how we've rebalanced production, we brought RZR and Slingshot, snow down, but we're increasing RANGER to recognize the utility strength. We feel like those things all somewhat counterbalance, but we do think there will be a little bit of a headwind from a promo standpoint, but that's all well within the guidance range that we've talked about.

I talked about the operational improvements. I don't know that I'd sit here and tell you that we're going to be able to push those higher than what we had. I mean, we've got a pretty good slug of work in front of us. The team did an excellent job. We talked in the call in late January, early February, about the progress we'd seen coming out of

2023, and that momentum is continuing into 2024 in terms of the underlying factory performance, and essentially digging out of the hole we had gotten ourselves into operationally.

The cost improvement was relatively small in Q1 relative to the total bucket, but that was expected, because it was our smallest quarter and the team is driving that forward. Bob talked about it in his prepared remarks. I mean, we've got a lot of rigor focused around making sure that we get results to the bottom line coming out of this category.

I'll let Bob talk a little bit about the EPS cadence.

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

A

Yeah. I mean, like we said, revenue is going to be relatively flat quarter-over-quarter – I'm sorry, year-over-year for the remaining three quarters. We're not going to give EPS guidance by quarter. We don't do that. But I would say, you'll see stronger operating improvements in the back half of the year, just because all the improvements you make kind of lag a quarter. So, what we saw in Q1 really was result of a lot of the work that happened in Q4. And so, those will build through the year in terms of earnings, but that's all the guidance we're going to give on EPS for the quarter.

Noah Zatzkin
Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you.

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

A

Sure.

Operator: And our next question today comes from Joe Altobello with Raymond James. Please go ahead.

Joseph Altobello
Analyst, Raymond James & Associates, Inc.

Q

Thanks. Hey, guys. Good morning. So, you mentioned earlier that the earnings upside in the quarter really came from better-than-expected operational costs. How much of that was timing related? Maybe you realized some costs earlier than you expected. And is there upside potentially to that $150 million number this year?

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

A

Yeah. Thanks, Joe. No, I wouldn't say, it was hugely time related. Just we got a little bit more and there were a lot of puts and takes in the quarter. So the operational improvements are on track with where we thought they would be. They obviously build through the year. I don't know that there's significant upside to the $150 million. It's a lot of work to get there.

And like I said a couple of times over the last few calls, your efforts – the results lag the efforts by a solid quarter. And so, everybody is working really hard. But we're focused on getting the $150 million this year and then having a good exit rate that can carry into 2025. But I wouldn't plan on a lot of upside to the $150 million as we sit here today.

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

Okay. That's helpful. Maybe secondly, the strategy behind shipping model year 2025 RANGERs here in April seems a little early.

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

Yeah. I mean, the product, obviously, we work on these products for a long time. The product was ready. We're coming into season. We've got strong performance in the utility segment. And so, we wanted to get that product in the hands of consumers. We made a lot of really good quality and drivability improvements that, we think, are responsive to what consumers have been looking for in that product. And so, with it being ready, we decided to go with model year 2025 here in April.

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

It's all about leaning into the most favorable market right now, Joe. And I can tell you, they're excellent products. We've addressed a number of the things that were, I'll call them, sore spots with customers around shifting. But also, we spend a lot of time with consumers looking for ways to enhance what was already an excellent vehicle. And so, we were excited to get it out. The team did an excellent job of executing the program, so we were in a position to be able to ship. And there's a lot of excitement around that vehicle as is with the vehicles we launched last year.

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

Got it. Okay. Thank you, guys.

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

Thanks, Joe.

Operator: Thank you. And our next question today comes from Fred Wightman with Wolfe Research. Please go ahead.

Fred Wightman
Analyst, Wolfe Research LLC
Q

Hey, guys. Good morning. Thanks for the question. I guess, just simplistically, you've given a handful of puts and takes and changes to sort of the production makeup or expectations for the rest of the year, but you guys did beat where you thought you would in 1Q. What is sort of the offset? Is there something later in the year that you're more cautious on as far as why you didn't adjust the full year outlook?

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

Well, I mean, I think, Fred, I kind of hit on it a little bit earlier in terms of, the promo levels are slightly elevated from where we expected them to be – or expect them to be for the rest of the year. I mean, Q1 was pretty close to what we were thinking. But as we look out through the balance of the year, just given interest rates are likely to move, we had expected around three reductions for the balance of the year. And in light of the inflation rate holding up and the comments that the Fed's made, we're likely not to see 3%. I think we're worried if we'll see any. And so, there's a little bit of that that will likely play out in higher promo rates as we continue to adjust through the rest of the year.

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

A

Yeah. I mean, the interest cost isn't we have planned late in the year. So the impact from a forecast standpoint is not particularly significant. To Mike's point, we think that consumers, if there's a few rate cuts, would start to feel a little better and that might have some positive benefit to retail and promo. And if that doesn't happen, obviously, we're going to be in the same environment we're in today. So, we're sort of prepared for that and things were a little bit better in the first quarter. We made a little bit more progress than we thought we would, but nothing that would, at this point, cause us to change our view of the year.

Fred Wightman
Analyst, Wolfe Research LLC

Q

Fair enough. Thanks. And I guess, Bob, you mentioned earlier just that sequential build in dealer inventories that you normally see from 4Q into 1Q. Didn't see that this year, right, because you guys are managing that closely. I guess, when you look at the embedded benefit that you're expecting for gross margins as we move throughout the year from some of the new products, do you think that inventories, where they are today, should still support a portion of the gross margin expansion that was from mix?

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

A

Yeah. We are seeing good inventory build on XPEDITION and XD and the new products, RANGER. I mean, we launched the product, I guess, about a week ago and we started shipping immediately. I think they've started to hit dealers just in the last couple of days. So that was all factored in. I mean, a lot of the cost improvement is things that are either just the cost of operating the plants, the efficiency in the plants. So that shows up fairly immediately as those vehicles get into inventory and same thing on materials. So, we have that all still very aligned.

Fred Wightman
Analyst, Wolfe Research LLC

Q

Great. Thanks, Bob.

Operator: Thank you. And our next question today comes from Megan Alexander with Morgan Stanley. Please go ahead.

Megan Alexander
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Thanks very much. Just wanted to follow up on 2Q. Bob, I think you did clarify you expect sales to be down year-over-year. You talked about significant margin expansion, understand interest expense is a headwind, understand you're not going to give an actual range, but the net of that does suggest earnings should be up year-over-year, I guess. Is that right?

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

Yeah. So thinking about Q2, what we've said is, we think revenue is going to be relatively flat year-over-year. So the revenue side of it will be a big positive or negative. We'll see the cost improvements from the work we're doing on the operations side which will then play out into the earnings. So, we're not giving specific guidance, but I think relatively flat year-over-year is a way to think about it.

Megan Alexander
Analyst, Morgan Stanley & Co. LLC
Q

Okay. Understood. That's helpful. Thank you. And then maybe a follow-up on the ORV retail in 1Q, that 3%. Can you just talk about maybe the cadence over the quarter and what you're seeing so far in April?

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

Yeah. I mean, what I would tell you is that the commentary I provided pretty much sums it up. The rec market around RZR specifically remain weak. We've got now six quarters of that performance. In the RANGER business, utility has remained pretty solid, pretty strong. And so, we did have to try and adapt within the quarter. But as we see those trends continuing through the year, as we talked about in my prepared remarks, we're making those changes in production rates at Monterrey and in Huntsville to adjust for those trends that we see.

So, we were probably a little bit more hopeful that the rec would start to stabilize. And I think the fact that inflation is at 3.5%, I think people are having to make a lot of trade-offs. Gas is still expensive. And with the hope of interest rate relief coming, dimming, mortgage rates hit all-time high, I think you just see consumers continuing to be cautious and careful with how they're spending their money.

And that just is going to prolong that replenishment cycle for our rec business. So at some point in time, we know who these customers are. We know that they're driven by innovation. Once a little bit of relief comes, they're going to want to upgrade their vehicle and we know that through our repurchase cycle. So it's probably more of a delay. Whether that's later this year or into next year is anybody's guess at this point.

Megan Alexander
Analyst, Morgan Stanley & Co. LLC
Q

Got it. That's helpful. Thank you.

Operator: Thank you. And our next question today comes from Alex Perry of Bank of America. Please go ahead.

Alexander Perry
Analyst, BofA Securities, Inc.
Q

Hi. Thanks for taking my questions here. I guess, just my first question, can you talk about how much new innovation supported retail? What has been the feedback on the RANGER XD 1500 and the XPEDITION? And then any early reads you can give on the new Indian Scout lineup and the new RANGER lineup as well? Thank you.

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

Yeah. Well, I mean, I would say that new innovation, we look at the utility segment. And while it's not new, the work that we did to introduce the RANGER NorthStar and specifically around, call it, the premium and the ultimate lines, those have become incredibly popular. They've moved into making up a high percentage of that utility revenue. And so, that, coupled with the capabilities that we enable through Ride Command+ being one of the only connected vehicles out in the marketplace, great audio systems, all that. I mean, it really makes for an incredible value proposition.

So, when you look at the innovation that's being driven in terms of retail and what we're doing in our RANGER business, that's why we've leaned in so heavy, and it's why we launched the model year 2025 new RANGERs. There's a lot of incredible commentary around those vehicles. Dealers are anxious to get their hands on them. This specifically around the things we've addressed that were some of the detractors that customers had. And we'll have those vehicles out demoing and getting visibility with influencers, which is an important aspect of that business.

The XD is now making its way out into the marketplace. Receptivity has been very strong. It is an incredible vehicle with incredible capability. The steel belt technology really affords a smooth riding vehicle that can handle workloads that are equivalent to some of the best pickup trucks out in the marketplace.

XPEDITION, specifically the higher-end trims, the Ultimates and NorthStar cabs, it's tough to keep up with demand on those. They're really serving the purpose that we have. I'd tell you that there's a little bit playing out in the lower-end of that market in general in terms of customers trying to figure out if they want to go with a general, or if they want to go with the lower-end XPEDITION. And so, we'll continue to watch and monitor that, do what we do and adapt to it as time goes on.

The Scout lineup, the team did an excellent job. We started teasing that well ahead of the launch. There's a number of videos you can go watch in terms of influencers who've gotten their hands on those vehicles, ridden them. Bob and I and the management team rode them late last year. They're incredible motorcycles. We know dealers are very excited. We gave them a, essentially a sequestered view back in January when Bob and I were with Mike Dougherty and team at the Dealer Meeting down in Arizona. So they were able to get an advanced view of the bikes, the launch campaign and they were incredibly anxious to get those things out in the marketplace.

So as I talked about in my prepared remarks, it brings in new customers to the Indian segment. It's the largest selling bike we have, and we know that it is a funnel into larger bikes and a lifetime of Indian ownership. So we're really excited about it. I'm proud of the team. The innovation continues to exceed our expectations and we've now got a good solid three years of incredible launches across just about every part of our business, and I think that sets us up well for the long-term.

Alexander Perry
Analyst, BofA Securities, Inc.

Q

Perfect. That's helpful. And then, just my quick follow-up is, I wanted to ask what is embedded in terms of the guidance in terms of rate cuts. I think, [ph] prior year (00:45:36) contemplating three rate cuts, is that still the expectation where are you sort of waiting to see how things play out? Thank you.

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

A

Yeah. So we had originally embedded three rate cuts, at this point, we're down to two, but we've got them late in Q4. So there's no meaningful risk to those rate cuts in terms of actual interest expense for the company or for – dealer – or for our share of dealer floor plan. As we said earlier, the real impact is just, we have a view that the rate cuts will at least provide some stimulus, maybe not actually financially, but mentally to consumers. And if that doesn't happen, we'll be in the environment we're in, which is what we've got contemplated right now. So it won't be meaningful either way for us.

Alexander Perry
Analyst, BofA Securities, Inc.

Q

Perfect. That's helpful. Best of luck going forward.

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

A

Thanks.

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

A

Thanks, Alex.

Operator: And our next question today comes from David MacGregor with Longbow Research. Please go ahead.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Yeah. Good morning, everyone. Thanks for taking my questions. I want to just ask about the production curtailments. So you talked about taking down snow RZR, Slingshot [ph] green (00:46:52). You picked up RANGER. How should we think about the impact of the production curtailments on 2Q as it would relate to or compared to maybe the first quarter?

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

A

Well, I mean, Q2, so we were down nearly $500 million in revenue for the full year and most of that was in Q1. So Q2 looking relatively flat in comparison to last year will be a fair amount of volume. We took a lot of Marine out of Q1 relative to – particularly relative to the year before, but even relative to a normal year. So Marine will start to pick up a little bit as we get into seasonality. And then, really, the RANGER – the added RANGER build helps offset a weaker RZR build. So pretty much an even trade-off there. Snow doesn't really come into play until Q3, Q4.

And like we said in our prepared remarks, the snow build for the year will be down, because either dealers are still sitting on a fair amount of model year -- snow model year 2024 inventory that didn't sell this season given the lack of snow. So I think, it will still play out the way we had originally guided, which was quarter-over-quarter revenue, year-over-year, 23% versus 24% revenue being relatively flat through the remaining three quarters.

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

A

And the only thing I'd add, David is, it sounds relatively simple in terms of, well, we'll take RANGER up to offset RZR and snow. The operational teams who already doing pretty substantial work, I mean, obviously, we don't make all those products in the same facilities. And so, behind the scenes, there's a lot of work being done to work within the confines of Roseau, Huntsville and Monterrey to work through how those impacts of rebalancing snow, Slingshot, RZR and RANGER are executed.

And in light of the improvements that we made starting last year and gain momentum on in the first quarter, I have a lot of confidence in the team to be able to execute on that. But it is a change, but it's the right thing to do, because not only does it lean into where we have strong retail, but it also recognizes where retail is softer and consistent with what we keep reiterating, it helps us manage that dealer inventory position with our network and that's incredibly important to us.

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

A

The other piece of dealer inventory management, we haven't really talked a lot about, but is kind of reality of the market right now is, we are focused on managing trim levels also. And coming out of the pandemic, there's been a lot of focus for consumers on sort of higher-end trim levels. And so, I think, really across all products and really across all manufacturers, everybody was leaning into their highest trim level products. I think that was true in auto as well.

And as the market started to change, consumers are looking for some more of the entry-level trims that they can do accessorize later after their purchase to keep the initial purchase price a little bit lower. And so, starting last year, we started adjusting those trim levels, and we continue to do that. So it's not just having the right number of units, but it's having the right trim level of units in the field, and we think we've made a lot of progress on that.

And it plays to our strength, because we've got the biggest accessory business in the industry. And so, if a consumer buys a vehicle that doesn't have as many accessories on it, we've got the most likely opportunity to sell them those accessories later at good margins. So it's a good switch for us.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Yeah. That make sense. The second question I had was just regarding your cost savings program, the $150 million that you've talked about. How should we think about how much of that makes it to the bottom line in your guidance versus maybe being channeled into other investments?

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

A

So the $150 million is embedded in the guidance as falling to the bottom line as cost improvement. I mean, obviously, there'll be puts and takes on other operational things like warranty and absorption with volumes as volumes move around. But the whole $150 million is true cost savings. And like we said, it builds through the year, so it will have a bigger impact later in the year, but you'll see margins improve sequentially through the quarters.

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

A

Yeah. I mean, I think when you look at the fact that we're talking about the year being down from a revenue standpoint, but pushing margins up, we're doing everything we can. We're being prudent from an operating expense standpoint. But when we look at our manufacturing facilities and baseline back to 2019, and I'm not necessarily suggesting 2019 is the hallmark for us, but it's a good comparison point.

There's a lot that we have to get out of those businesses. Some of that is tougher, because things like commodities are – while coming down sequentially are still elevated from where they were. Labor rates are elevated, but there's a lot of other inefficiencies that crept into the facilities that we've got to get back to. And we're not saying that 2019 is the benchmark. We think we can be better than that, but that's the focus, which means we have to get all that to the bottom line.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Thanks very much. Good luck.

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

A

Yeah.

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

A

Sure. Thanks.

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

A

Thanks.

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

James Hardiman
Analyst, Citigroup Global Markets, Inc.

Q

Hey. Good morning, guys. Wanted to ask one more question...

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

A

Hey, James.

James Hardiman
Analyst, Citigroup Global Markets, Inc.

Q

...on the inventory front. So you've given us a lot of bread crumbs, I think, you said inventory were flat sequentially, three turns for RANGER and for Indian. [indiscernible] (00:52:36) just give us an aggregate where inventory is year-over-year or versus 2019? I can't believe we're still comparing things to 2019, but it's at least some reference point, any way to think about where we are in aggregate?

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

A

Yeah. I mean -- so like we said, we're flat. If you exclude Youth [ph] and the new products, we're down 2% (00:53:02). If you think about RZR, we're down high-single-digits quarter-over-quarter from Q4, total rec same way. I think, I commented earlier, Marine is flat. And normally, we would have built a lot of boats going into seasonality. So we feel good about where that is. RZR, we would have built kind of 15% to 20% going normally coming out of Q4 into Q1 headed into Q2 into seasonality. And even RZR – RANGER, rec is not up significantly. So we didn't -- it's not like we built tons of inventory there either and a lot of it is in the new products. So overall, we feel pretty good about where we are. And hopefully, that's enough to get you to [indiscernible] (00:53:56)

James Hardiman
Analyst, Citigroup Global Markets, Inc.

Q

But just to clarify, Bob, those are all sequential numbers, right, which I think...

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

A

Yeah.

James Hardiman
Analyst, Citigroup Global Markets, Inc.

Q

[ph] a lot us, sort of – we (00:54:01) don't normally think about it that way. So is there any way to put that in the context of last year?

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

A

Well, I mean the problem, James, is when you look at Q1 of last year, we're up 29%. But Q1 of last year, on average, the network had 80 days or less of inventory, which is well below where the industry has ever been. We were still in a restocking position. And so, I think, until we get ourselves work through the year, the year-over-year comparisons while they're interesting, they don't necessarily tell you a lot.

I mean, what we're spending time on is the absolute levels of inventory by product across the network by region, by dealer. And we're looking at the measures that really matter in terms of how quickly is that inventory turning, what's the retail trend that we're seeing on it, what's the current, non-current mix so that we can adjust. And that's what's really driving us to make the corrections that we do.

And frankly, the challenge for us is 2x everybody else, just given the size and complexity of our business. But like I said, when we look at the data that comes through [ph] CDK (00:55:03) and we can see our performance relative to the other OEMs, we are outperforming the group. And I'll continue to reemphasize that, because we have talked about this the last couple of years. We don't just talk about it. We're actually acting on it. A lot of folks are talking about it, but when we look at the data, they aren't acting on it. And we take it seriously. We know that we're a big part of the dealers' business. And so, it really is up to us to take the lead. And hopefully, they'll continue to put the pressure on the other guys or work them out of their dealerships.

James Hardiman
Analyst, Citigroup Global Markets, Inc.

Q

Got it. That makes sense. And then I think, Mike, in your prepared remarks, you talked about what dealers are doing in response to some of the pressure you talked about, I think, I wrote down, reduced OEMs, fewer shipments and then contributing their own promotional dollars. I guess, first, is there any concern about the health of the dealer base? Could we see a pickup in dealer failures? But then, also that reduced OEM seemed like a significant comment that I wanted to circle back on. I'm assuming we're talking about maybe some of the low-end players, but that feels like that could be a positive to you guys longer term if we're able to sort of rationalize the OEM space. Thanks.

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

A

Yes. Yes. So a couple of things from a health standpoint, obviously, we are concerned and keep a very close eye on this. Within each of our businesses, we have a dealer management group. We get a lot of good data through the Wells Fargo JV. And if you look at the history of that JV, I mean, even during the 2008, 2009 time period, because of the proactive nature of how we manage that, the dealer failures were pretty small. Quite frankly, what does concern me is the behavior of some of the other OEMs because, obviously, with 70% of our dealer network shared, 100% of our boat network shared, it isn't just up to us. Hopefully, because of the behavior we exhibit, it helps the dealers put some of that same pressure.

When we've been out with the dealers, like I said in my prepared remarks, one of the things that during the pandemic is, they were bringing in any OEM that had availability. Even if those OEMs were delivering in a year, a fraction of anything that we would, given delivery constraints, they were bringing that inventory in because people are coming in and whether it's a rec vehicle or a pontoon boat, they wanted something. But now as the market is shaking out, in a lot of instances, those short lines that they brought in did play more to the value lower-end buyer, who has really retreated in this marketplace. They're highly interest rate sensitive. Discretionary income is much lower and these are highly discretionary purchases. So they're getting low priority relative to cost of living, increases that they're continuing with.

So as we've talked with dealers, they've been pretty straightforward that one of the options that they're looking at is, they've got to move the boats they have or they've got to move the vehicles they have, but they don't plan to continue to carry some of those lines. And so, we're not going to get into names and all that kind of stuff because, quite frankly, it varies by dealer by region. But I think, it is reflective of the dealer understanding that moving forward, whether you look at our pontoon business, our Off Road business, our motorcycle business, they are a disproportionate share of the market and we're the player to really bet on as they go forward.

James Hardiman
Analyst, Citigroup Global Markets, Inc.

Q

That's good color. Thanks, Mike.

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

A

[ph] You bet (00:58:55).

Operator: Thank you. And our next question today comes 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

[ph] Good morning (00:59:08).

Tristan M. Thomas-Martin
Analyst, BMO Capital Markets Corp.

Q

I have one question on pricing. Looking at your RANGER 25 lineup, base models are – it seems like there's been some price productions on the premium, I think they're higher year-over-year, but with that adoption. So how should we think about your overall 25% pricing on average across all your products? And then, second part of the question, what's the margin difference between a factory installed accessory relative to one that you ship into the dealer channel?

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

A

I'll answer the second question first. The margin difference is not significant. The bigger advantage to factory installed is that, you don't – you get more. Typically, people buy more when they're shown a fully accessorized vehicle. And then also, you don't have to worry about a dealer or the customer selecting a non-Polaris accessory, because it's already on the vehicle. So that's the bigger advantage.

I think the way to think about pricing. There's been a lot of price noise in the market coming through the pandemic between MSRP increases, surcharges, and now increased promo -- and so, I think across the OEM space, you're seeing people as new model years come out, sort of adjust that mix of MSRP, surcharge and promo. I don't know that the impact on net price is going to be particularly significant. It's just where it shows up.

That said, I don't think the industry has got a tremendous amount of pricing power going into model year 2025, given just all the increases that have happened in the current state of the consumer. I think, what you see us focused on, you saw it well in RANGER is, we try to get the trim levels right so that the customer is comparing vehicles that are [ph] specced (01:01:04) in the ways they want to buy them. And sometimes that's taken stuff off on lower trims and adding things on higher trims, but that's something that we tweak every year to try to get the trim level right for what the consumer is coming into dealership and asking for.

Tristan M. Thomas-Martin
Analyst, BMO Capital Markets Corp.

Q

Okay. Thank you.

Operator: Thank you. And our final question today comes from Robin Farley with UBS. Please go ahead.

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

A

Robin?

Operator: Robin, your line is open. Are you on mute, perhaps?

Robin M. Farley
Analyst, UBS Securities LLC

Q

Yes. Thanks. So you mentioned your expectation that you're about gaining share through the year. But you also talked about how other OEMs have some more work to do that maybe some other – I don't know if that was specific to ORV, but you mentioned that others may have more work to do in terms of clearing inventory. So, I guess, I mean, wouldn't that sort of suggest that it will be tough to grow share, not that share loss to another OEM that's clearing inventory is meaningful or long-term. But wouldn't that make it difficult to grow share, if you're sort of saying others have more inventory clearing to do than Polaris has?

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

Yes. I mean, it's not helpful. And there certainly are pockets. I mean, when we talk about share, the internal discussion is far more in-depth by model, by trim line, things like that. So there are areas that – it has presented a far bigger challenge. We're not going to go crazy trying to protect when we're battling someone who's clearing inventory that's a year or more old.

The good news is that, that eventually comes to an end, and we'll be on a better foot as we move forward. And as the last question indicated, we're making real-time adjustments between price and promo to make sure that we're reflecting where the market is. And given the innovation that we have around our products and the competitive nature, I'd stack us up number one relative to anybody coming after us.

So I feel great. I look at the new products, that new RANGER is going to be highly desired. The new Scout is going to be highly desired. We're just now getting momentum around XPEDITION and XD. And then, certainly, as some of the rec markets come back around RZR with the new products that we introduced over the past several years with the XP and the Pro R, we feel really good about the position that we've got there.

Within our Marine business, we've refreshed a ton of the Godfrey line. We've refreshed and are refreshing a lot of the Hurricane models. We went after the low end of the Bennington and obviously, we're going to continue forward on that. So we'll have a lot of new models from our Marine segment. So I feel really good about where we're at, and we'll manage those competitive dynamics and make sure that we're staying disciplined around dealer inventory.

Robin M. Farley
Analyst, UBS Securities LLC
Q

Great. And just one follow-up [indiscernible] (01:04:15) think about restocking and kind of what floor share will look like after everybody has gone through this inventory clearing, which it sounds like if you're expecting retail for the industry to be down modestly for the year, it sounds like maybe Q2 will be the last kind of big clearing.

And when you think about the others restocking, some dealers talk about some OEMs that are not as penetrated, right, in terms of dealer penetration. They can still charge close to MSRP. And so, they can make money on even though it's a lower-priced product than a Polaris product. And I guess, how do you think about competing for floor share when dealers are restocking if they're saying they can make more on a different OEM price point, but not have to kind of compete with other dealers carrying that same brand. Is there anything that you can sort of do to combat that dynamic?

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

I mean, I'm sure there's some pockets of that, but I wouldn't say that's a large scale. I think, you sit down and you spend time like we do, talking with our dealers, I mean, it's evident we are such a big part of the majority of our dealers. And that's important from a profitability standpoint, and they know and they've seen what's happened when they carry some of these smaller brands and you get into difficult times and they don't have as sophisticated inventory management. Any margins that they were making on those quickly get eroded because they carry too much inventory and they're paying all the interest costs.

So I think the good dealers that take a long-term view, understand that and really drive to make sure that we've got a strong relationship with them. And I think, the dealer cultivation we do, whether it's in Indian or Off Road or our Marine business is really setting the bar high, and I have a lot of confidence that we'll continue to build those relationships.

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

A

Yes. And we've continued to evolve. For most dealers, we are far and away the largest dollar profit contributor to their dealerships, our NorthStar Rewards program that we use to manage our dealers. There's a lot of criteria in that around floor space and how they need to present our brands. And there's real money tied to it and the dealers understand that, and we manage it. So, I feel like we're in a good position to deal with that type of situation, Robin.

Robin M. Farley
Analyst, UBS Securities LLC

Q

Okay. Great. Thank you.

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

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Thank you.

Operator: Thank you. And this concludes today's question-and-answer session and today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.