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# **POWERING THROUGH COVID:** WHY THE ACCELERATION OF POWERSPORTS IS NO PASSING TREND


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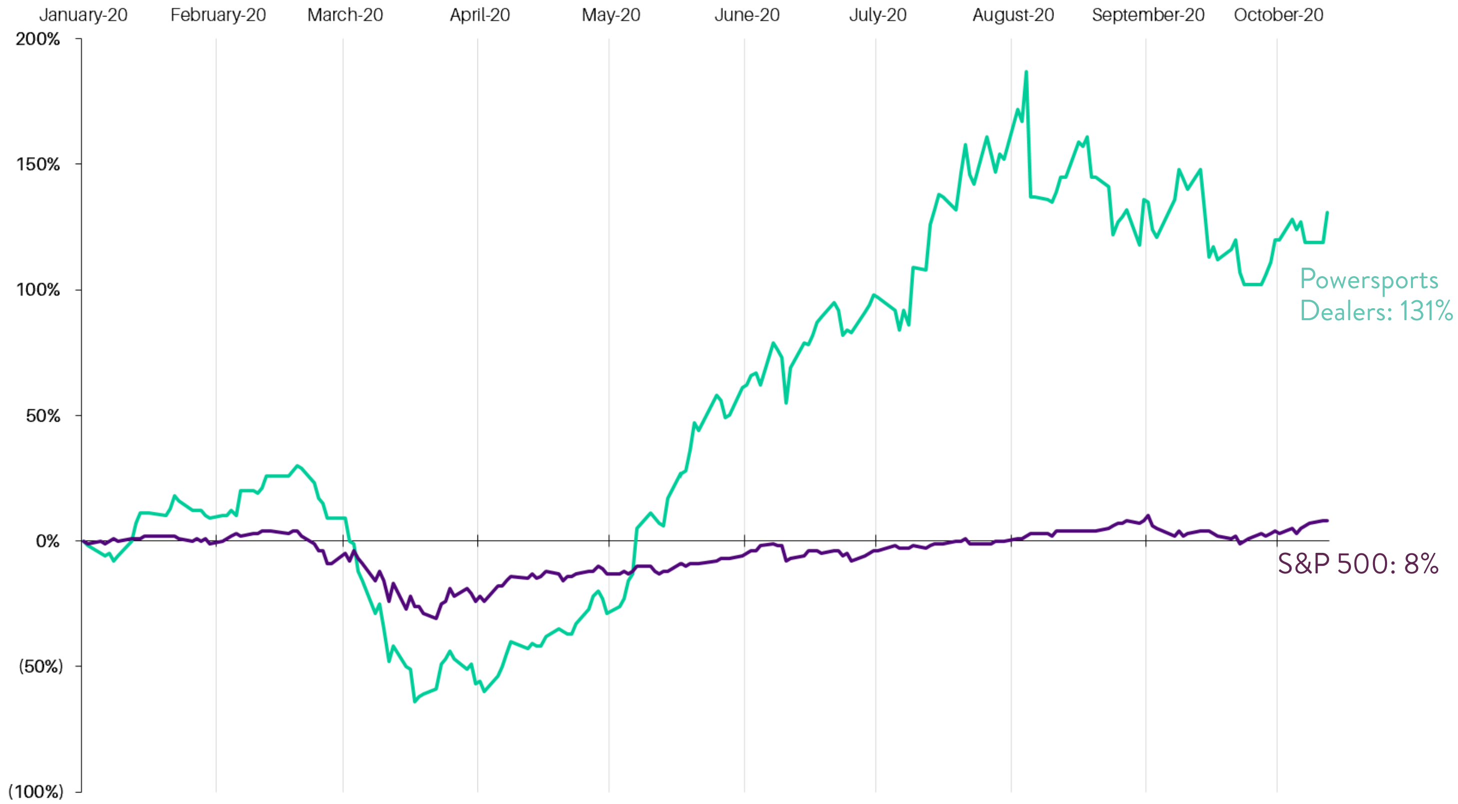
Along with nearly every other sector of the U.S. economy, the powersports category was significantly disrupted by the outbreak of the COVID-19 pandemic. Dealerships and aftermarket brick-and-mortar retailers were initially forced to shut down, eventually shifting to curbside pickup and "by-appointment" selling. Online retailers needed to quickly develop and implement new best practices for picking and packing orders while following social distancing guidelines. With nearly 14 million people suddenly out of work and the stock market down over 30%, consumers paused spending in this period of unprecedented uncertainty.

In contrast to other retail categories, however, the powersports sector rebounded much faster than the broader economy. What distinguished it was a passionate, enthusiast-driven existing customer base combined with healthy demand from new converts seeking to reconnect with the great outdoors.

As global lockdowns eliminated many favorite pastimes, consumers sought out new experiences and discovered powersports to be an inherently socially distanced activity that both physically and mentally removed them from the stress of the pandemic. And while the world may soon return to a sense of normalcy, we expect the recent positive trends and increased consumer appetite for the powersports category to persist for years to come.

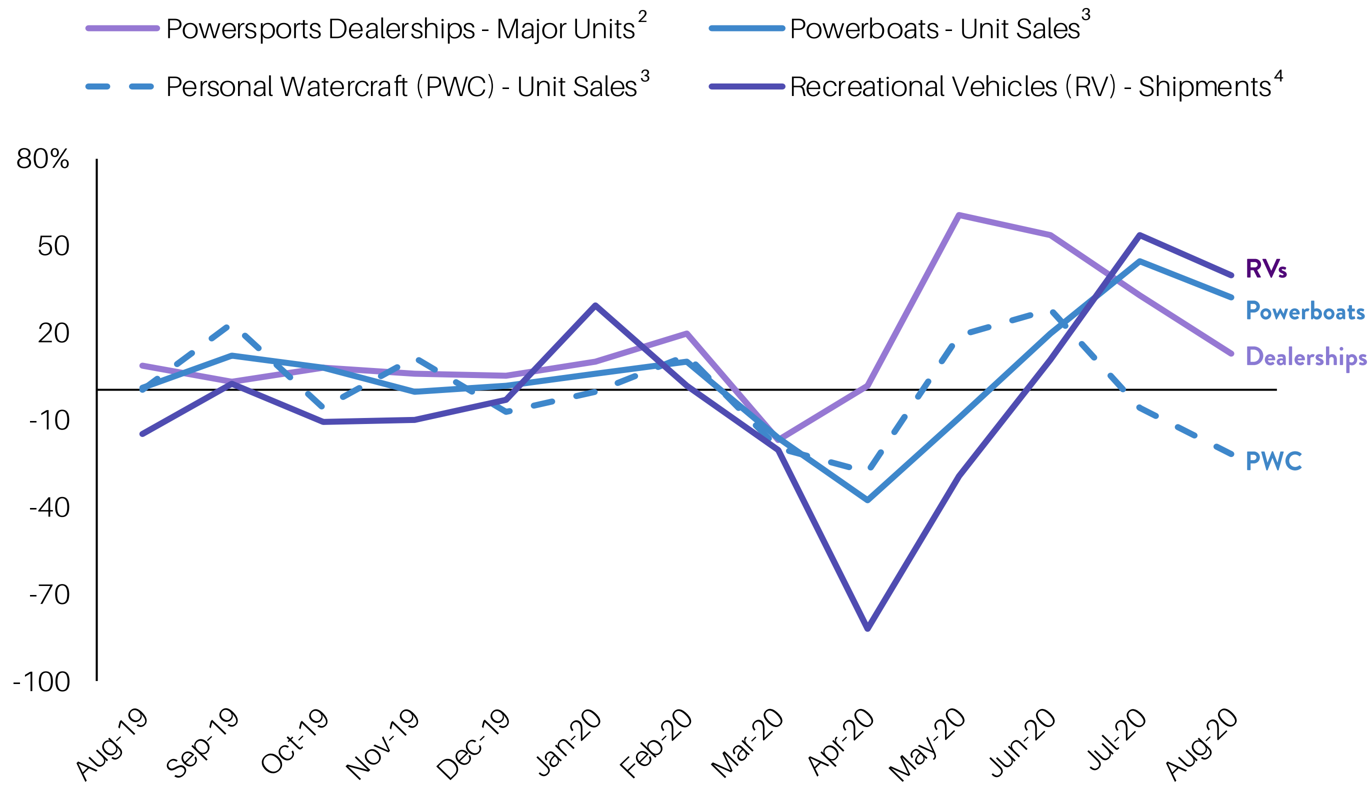
## PUBLIC POWERSPORTS DEALERS' SHARES POWER AHEAD IN 2020




In correlation with strong spring/summer dealer comparable sales, equity investors have rewarded publicly traded Powersports Dealers, with the sector's weighted index up approximately 113% since the beginning of the year.[1]

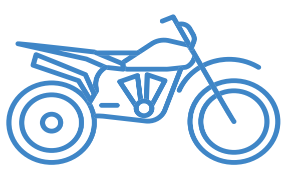
Latest data from the Motorcycle Industry Council indicates that over 10 million U.S. households owned a motorcycle in 2018, an increase of nearly 1.5 million from just four years earlier (the last full survey). Notably, this data does not benefit from the subsequent uptick of interest in the category as a result of COVID-19. Nor does it track the growth within the increasingly popular side-by-side (also referred to as utility terrain vehicle, or "UTV") market – arguably now larger than the combined markets for metric (e.g., non Harley-Davidson) motorcycles and all terrain vehicles ("ATV"s, also referred to as quads). Full-price selling remains strong as we enter the fall season, as new and experienced powersports consumers flooded store floors (or the virtual equivalent thereof) driving dealership comps of 61%, 54%, 33% and 13% in May, June, July and August, respectively, often leaving dealership inventories thin.[2] These same trends were experienced across the marine and recreational vehicle categories, albeit with less volatility in powerboats and personal watercraft (PWC)[3], and with the RV demand spike happening later[4].

## UNIT SALES STRENGTH ACROSS MULTIPLE CATEGORIES

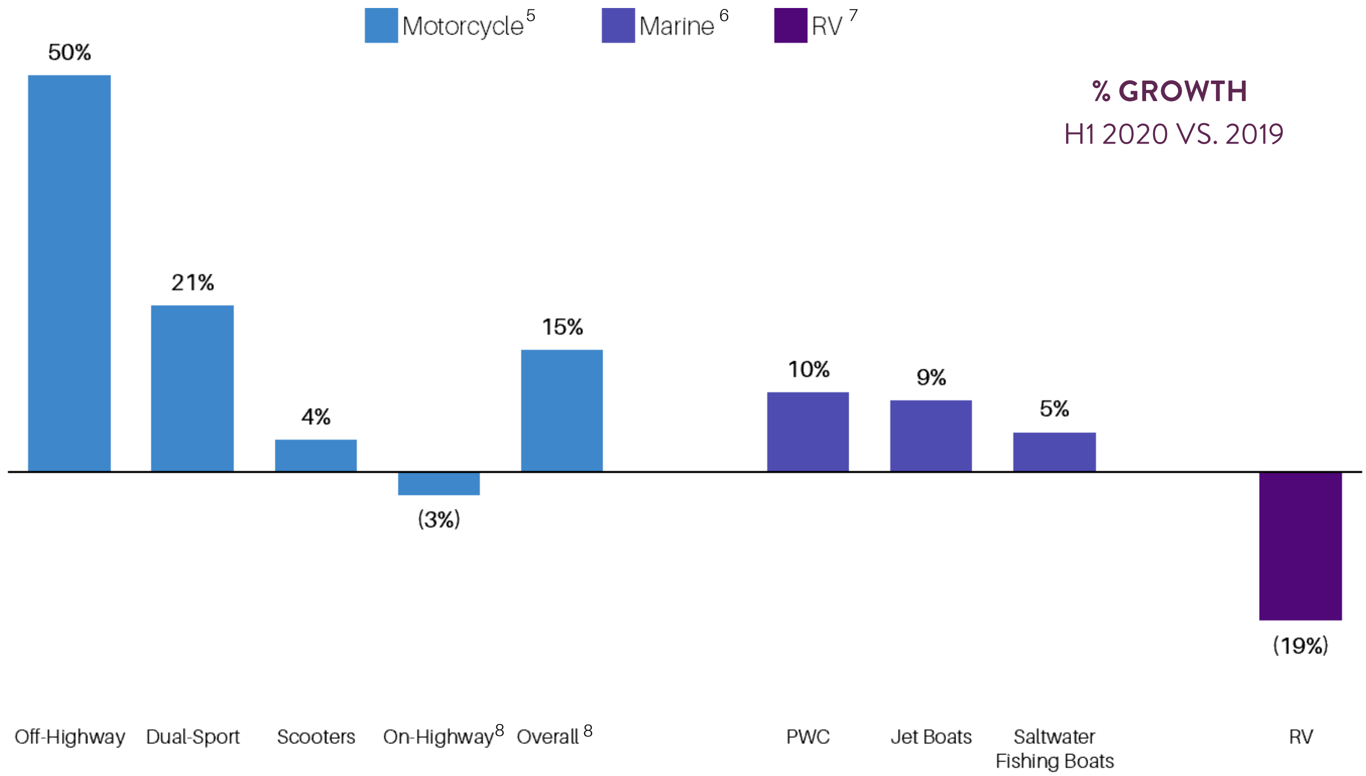



Encouragingly for the sector, many dealerships experienced an influx of first-time customers, some ready to put to work cash that was previously earmarked for things like expensive vacations. For a powersports-curious potential customer wandering into a dealership, side-by-sides ticked a lot of boxes and made purchasing decisions surprisingly easy. These vehicles, which straddle the line between utility and sport, and offer driving characteristics more akin to conventional four-wheel cars and trucks, offer numerous features to entice novice riders, including ease of operation, enhanced roll-over protection, fewer operating restrictions and the ability to bring multiple people along for the ride. A positive knock-on effect is first-time vehicle owners become new accessory buyers and new service customers, thereby expanding the addressable market of the overall powersports ecosystem.

While some market watchers have dismissed the surging interest in the powersports category as a fleeting trend, we remain bullish for the long run given shifting consumer demographics and the enthusiast-driven nature of the sector, as addressed on the next page.



## BROAD-BASED GROWTH ACROSS LEISURE-DRIVEN CATEGORIES




Excluding Harley-Davidson (given their current challenges), overall motorcycle growth was strong in the first half of 2020, with off-highway and dual-sport motorcycle sales soaring 50% and 21%, respectively. Marine products also saw impressive year-over-year growth. Recreational Vehicles witnessed a significant sales pickup, albeit 6-8 weeks behind that in Motorcycle and Marine, with comparable shipments of +11%, +54% and +17% in June, July and August, respectively.

### LIFE-LONG ENTHUSIASTS

One of the distinctive factors setting powersports apart from other discretionary categories is the number of genuine enthusiasts across the industry's varied sub-categories. Most North American powersport consumers don't buy a motorcycle for better gas mileage or for utilitarian commuting. Rather, this is a lifestyle purchase representing the rider's desire for freedom, flexibility and connection with the outdoors. Many riders own several types of powersports vehicles (motorcycles, ATVs, UTVs, Snow, PWC) and spend disproportionately (relative to other forms of transportation) on their passion.

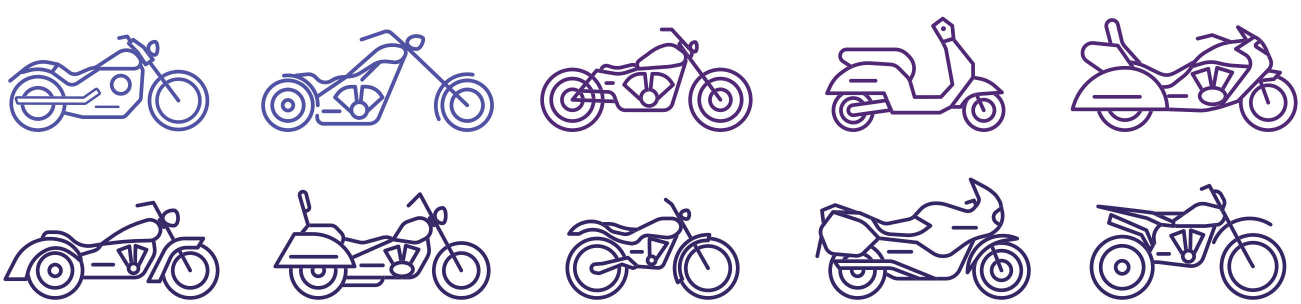
Harley-Davidson, Indian Motorcycle and Fox are brands that hard-core devotees literally tattoo on themselves. It is exceedingly rare to find that level of brand loyalty in other industries, and these are customers who, if you stay true to your brand's ethos—whether that's performance, quality, durability, and/or innovation—will remain customers for life. These consumers are fully engaged with the powersports community. This includes participation in large experiential events like the Sturgis Motorcycle Rally (which draws about 500,000 riders annually), Daytona Bike Week and Biketoberfest, to name a few. Riders are also increasingly active in digital and social channels, and flourishing enthusiast-targeted YouTube channels attract millions of subscribers and generate hundreds of millions of views.

We believe the enthusiast nature of the products and customers, along with significant ongoing hunger for experiential activities in or on a powersports vehicle, will provide long-tail demand to support the industry's growth over the coming years. Moreover, we are convinced that the increased rider base, including the influx of 2020's first-time buyers, will provide a significant boost for long-term demand for aftermarket products and services. **Notably, 80%+ of side-by-side buyers, and a comparable percentage of two-wheel vehicle buyers, respectively spend an average of $3,650[9] and $1,340[10] in new unit parts and accessories upgrades (in addition to investments in apparel, footwear and safety gear) when they purchase a new accessorized unit.**

## THE SHIFTING CORE CONSUMER

To the uninitiated, the powersports participant is the aging white male V-twin motorcycle rider they see in movies and on TV. But powersports activities today are increasingly appealing to a younger, more affluent, and more diverse group of participants. According to the Motorcycle Industry Council, women now make up nearly 1 in 5 motorcycle riders, compared to 1 in 10 in 2000, and on average are 10 years younger than their male counterparts. And while the average age of motorcycle owners approaches 50, only 28% of buyers are over the age of 55.[11]

FEMALE MOTORCYCLE RIDERS: **1 / 10** 2000 vs **1 / 5** 2020 Average 10 Years Younger



Manufacturers and retailers are in turn embracing and supporting this generational and demographic shift through marketing, new product offerings and event sponsorship that both tap into and accelerate this broadening of the powersports core consumer base. In June of this year, Polaris partnered with International Female Ride Day, a globally synchronized ride day celebrating women riders and their passion for powersports, where the only requirement is to "Just Ride!" Polaris is also increasing its diversity-focused partnerships, sponsoring National Bikers Roundup, which brings together thousands of black motorcycle riders.

This evolution extends to the types of products being offered, especially with the advent of new technologies, such as Harley-Davidson's LiveWire electric motorcycle or Polaris' Indian eFTR – an electric motorcycle targeting youth riders. Polaris also announced a ten-year exclusive partnership with Zero Motorcycles, a leader in the development of electric motorcycles, to co-develop electric ATVs and snowmobiles that appeal to an environmentally conscious consumer – and the instant torque junkie. Even the rise of electric and e-assist bicycles is stirring interest in powersports by introducing consumers to the fun of speed with less sweat. These products are providing incremental revenue for dealers who would never have thought about offering electric vehicles a few years earlier, and provide a low-cost, less-intimidating gateway for their customers to the powersports lifestyle.

## LUCRATIVE TIME FOR M&A

From an M&A perspective, we are continuing to see interest both among larger strategics, as well as private equity investors, who have awakened to the value of such a loyal customer base and to the resurgent growth across the category – and who are looking for smart places to deploy capital in a post-COVID world. The powersports retail landscape is highly fragmented with some great operators, but is lacking the big-name consolidators seen in other retail categories – and therein lies great opportunity.

This environment presents compelling prospects for rollups within a category, entry into adjacent categories or new geographies, expansion of service offerings – or all the above. Furthermore, of the great operators who do exist, many are regional and/or channel specific. In other words, there is no Walmart, Target or Amazon of powersports today. With the consumer backdrop in the category so strong, there are many different paths to durable growth organically and via M&A.

From a valuation perspective, we are seeing EBITDA multiples increase as buyers view the future sector potential to be greatly enhanced. As such, owners may be able to sell their business today for significant premiums over what they might have been able to attain just a year ago. For owner/operators, it's an amazing time to be involved in the space.

At PJ SOLOMON, we have worked on many important automotive & powersports aftermarket transactions and, specifically within powersports, we've helped the founders of both RevZilla and FortNine transition to new investors. As we saw in those deals – and in many others over our firm's three-plus decades – a successful transaction is about highlighting unique value-driving company strengths, predicting and preparing for the pain points during a sale process, and ultimately finding an ideal partner that understands what makes your enthusiast business' motor hum.

## THE ROAD AHEAD

While the lockdown certainly accelerated growth within the powersports sector, the dual tailwinds of a growing and diversifying enthusiast crowd and a reconnection with the pleasures and safety of outdoor activity, will position the category as a resilient sector that will succeed long after COVID is resolved. For founders and investors alike, it's an opportune time to think about how to best take advantage of this potentially lucrative – and incredibly fun – category.

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[1] Source: Capital IQ as of October 13, 2020. Note: Represents change in total sector market capitalizations. Powersports Deal¬ers includes: Apollo Tourism & Leisure, Camping World Holdings, Lazydays Holdings, MarineMax, OneWater Marine
[2] Source: CDK Global Lightspeed. Reflects Major Unit sales from over 1,400 dealerships in the Lightspeed DMS network. Major units include new and pre-owned sales.
[3] Source: Statistical Surveys, Inc. and Wall Street Research. Survey reflects states typically accounting for 55-65% of total market share. Powerboats data represents Traditional Segment and Ski/Wake sales.
[4] Source: RVIA. Reflects total RV shipments, including all towable RVs and all motorhomes.
[5] Source: Motorcycle Industry Council.
[6] Source: National Marine Manufacturers Association.
[7] Source: RVIA. Reflects total RV shipments, including all towable RVs and all motorhomes.
[8] Excludes Harley-Davidson. Harley-Davidson retail unit sales declined 22% for the first six months ended June 30, 2020. Including the impact of Harley-Davidson, On-Road Motorcycles and Overall sales declined 10% and increased 6%, respectively, for the first half of 2020.
[9] Source: SEMA. Reflects the average spend per accessorized unit.
[10] Source: 2011 U.S. Motorcycle Competitive Information Study from JD Power & Associates. Reflects average spend on parts and accessories per accessorized unit by new motorcycle owners during the survey period (September 2010 – May 2011).
[11] Source: 2020 Motorcycle Buying Trends Report from Cycle Trader.

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