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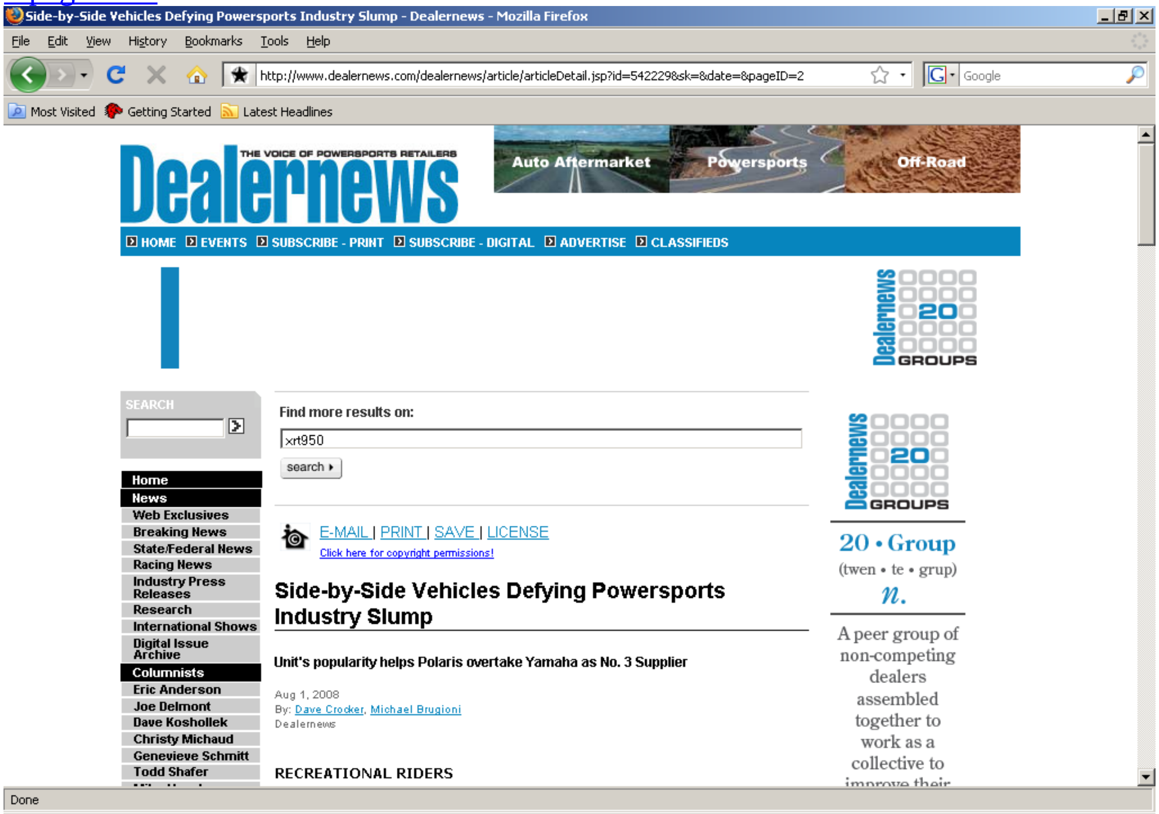

Side-by-Side Vehicles Defying Powersports Industry Slump

Unit's popularity helps Polaris overtake Yamaha as No. 3 Supplier

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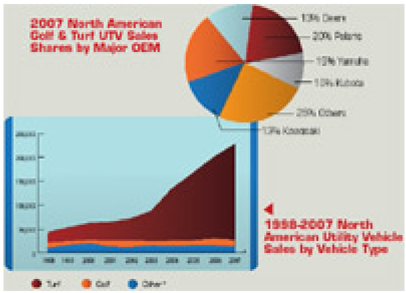
RECREATIONAL RIDERS

Sales to consumers, who include farmers, ranchers and owners of large-acre estates or hobby farms, represented about 40 percent of North American UTV sales in 2000. By 2002 consumers accounted for 47 percent of sales, and by the next year they had surpassed commercial applications with a 55 percent penetration. Over the next four years, the consumer share continued to climb to where it topped 73 percent of sales in 2007. Since 2002, consumers have accounted for nearly 90 percent in the overall growth in UTV sales.

This trend was largely the result of the development of the recreational utility vehicle (RUV) that started when Polaris introduced Rangers that exceeded the conventional 25 mph speed limit. This segment gained momentum with the surge in popularity of the Yamaha Rhino, and more recently evolved with the introduction of the Polaris RZR.



Over the past few years, this new category of "recreational riders" has emerged as a growing customer niche, particularly as some older ATV riders switch from ATVs to UTVs. In 2005, this category could have accounted for as much as 15 percent of total consumer sales. This grew to 20 percent in 2006 and 25 percent in 2007. UTVs are generally unable to negotiate many of the same public trails ATVs are able to travel, so this presents somewhat of an obstacle, although there is less of a problem in more open areas such as those found in the Southwest. But with the success of the new Polaris RZR, which should be able to traverse most ATV trails, it will be interesting to see whether other OEMs downsize some of their vehicles to reflect more kart-type features.

MAJOR OEM SHARES

Up until 2004, five OEMs essentially dominated the North American UTV market: John Deere, Kawasaki, Polaris, Textron and Ingersoll-Rand. Back in 2003, these OEMs accounted for 77 percent of the total market. But during 2004 two new formidable OEMs — Kubota and Yamaha — entered the market with innovative products, significantly impacting the competitive landscape. By 2006, the five OEMs listed above comprised 56 percent of sales, while Kubota and Yamaha together accounted for 29 percent. The leading OEM supplier of UTVs changed in 2006 from Deere to Yamaha. (Yamaha and others prefer to refer to the Rhino and similar products as RUVs.)

In 2007 there was another changing of the guard: Polaris surged ahead of Yamaha as a result of the overwhelming success of the 800 EFI RZR and the growing popularity of the 500 and 700 EFI Ranger series introduced back in 2005. By our estimates, Polaris was the leading supplier of UTVs in North America during 2007 with an estimated near 20 percent share of golf-and turf-type UTVs. The new Polaris EFI Crew, a four-seater that can be converted to six seats, arrived on the market late last year and reportedly has been selling at a brisk pace.

Yamaha fell to second place in the market with an
estimated share of nearly 18 percent. Yamaha also markets completely different golf-type-chassis G-MAX and U-MAX utility vehicle series through its golf and turf dealer network, which we calculated into its share estimate. Yamaha's share is somewhat understated because it introduced the 700 EFI Rhino late in the year while phasing out the old 660 carbureted Rhino. Expect Yamaha to rebound in 2008 (albeit after a weak first half) with new products coming on stream.

Kawasaki moved up to the third position with its Mule product line with an estimated 13 percent to 14 percent share, slightly ahead of Deere. Kawasaki introduced a 750 carbureted Teryx in January, its first entry into the RUV segment. The Teryx should help offset an expected decline with the other Mule models.

Deere fell all the way to fourth place in the market with an estimated share of 13 percent from what had been 20 percent in 2005; it was passed by both Kawasaki and Polaris in 2007. Deere's XUV model with EFI, IRS and a 30 mph top speed has been a success, replacing the disappointing HPX series. Deere is expected to introduce another higher speed XUV model in November.

Kubota has maintained its position as the fifth leading manufacturer and brand with an estimated 10 percent share on nearly flat sales in 2007. The manufacturer last year introduced the RTV1100 with integral cab, which sold very well. Kubota later this year reportedly will introduce a EFI gasoline RTV500 that should sell well.

Sixth-ranked Ingersoll-Rand owns the Club Car brand and makes side-by-sides for Husqvarna and Bobcat. The company is considered the sixth-ranked supplier, and has been able to maintain its sales volume during 2006 and 2007. The same cannot be said of Textron (E-Z-Go, Cushman and Jacobsen), which dropped into a solid seventh place in the North American UTV market. E-Z-Go effectively phased out its unsuccessful attempt at a 4x4 UTV at the beginning of this year. Club Car plans to introduce a low-cost 4x2 and 4x4 XRT950 three-model series with automotive styling and independent rear suspension.

Brister's is now believed to be the eighth-ranked brand. It increased its sales dramatically in 2006 and 2007, largely due to its contract with Tractor Supply. Brister's was acquired in the middle of 2006 by American SportWorks, which earlier had acquired Manco, a major kart manufacturer.

Arctic Cat moved into the ninth position as it continued to increase sales of its Prowler; it also introduced a EFI version in late 2007. Taylor-Dunn was the 10th-ranked brand in sales volume for 2007, although it makes a strictly industrial-type UTV. The company is believed to have a 55 percent share of the industrial vehicle niche, which seems to have dropped to below 10,000 units in 2007.

More than 30 other minor OEMs compete in this market with a variety of vehicle types, including an increasing number of Chinese brands. One example, the Bad Boy SUV, continues to demonstrate that there is a market for an electric 4WD vehicle, at least for hunting use. It's conceivable that more OEMs will emulate this model. Ruff & Tuff, for example, plans to introduce an electric side-by-side in the spring. The rising cost of gasoline may also spur development in alternative fuel units or more efficient batteries, although that technology may not be available and affordable until well after 2010.

Multiple distribution channels for UTVs exist. John Deere, Kubota and, to a lesser extent, Landpride and Bush Hog, market their UTV product lines primarily through their farm dealer networks. By contrast, Club Car, E-Z-Go and Yamaha market certain utility vehicles through their golf and turf distributors. The Cushman, E-Z-Go, Taylor-Dunn and Motrec industrial-type vehicles are generally marketed through industrial channels such as forklift dealers. The turf-type vehicles of Yamaha, Polaris, Kawasaki and Arctic Cat, which have dominated the consumer segment of the market, are sold through their vast motorcycle and ATV dealer networks.

One perception is that the ATV makers are more responsive to consumer needs (given the regular enhancements to their motorcycle, ATV and UTV product lines) than the OEMs that serve primarily the commercial or utility segment and are trying to appeal to homeowners. This could be compounded when Honda, Suzuki and BRP ultimately enter the UTV market over the next year or two. We've previously pointed out that these other OEMs, such as Deere, E-Z-Go and Club Car, appear to be gradually losing their homeowner UTV sales to powersports dealerships, perhaps as a result of the perception among homeowners that the powersports channel is preferred over other channels.

WHAT CONSUMERS WANT

UTVs have 2WD, 4WD or 6WD options. Based on our calculations, more than 70 percent of UTV sales last year were 4x4, 6x4 and 6x6 configurations. That compares to 67 percent in 2006, 60 percent in 2005, 54 percent in 2004 and 37 percent in 2003. Clearly, 4WD vehicles are increasing as a percentage of sales, and we believe this trend will continue as more OEMs introduce models with 4WD features. Also, the consumer segment has a much higher percentage of 4WD, which we estimate at over 80 percent in 2007 versus 55 percent in 2003.

Diesel-powered utility vehicles as a percentage of applications shot up in 2004 as a result of the introduction of the Kubota RTV900, but declined between 2005 and 2007 as increasing sales of Rhinos and Rangers have acted to reverse its effect when comparing gas with diesel models. Diesel models are estimated to represent about 15 percent of UTVs with internal combustion engines.

Electronic fuel injection is becoming more popular with consumers, along with 4WD, independent suspension, bench seats and speeds exceeding 25 mph. According to our research, Polaris, Yamaha, Arctic Cat and Deere are the only manufacturers that were selling EFI models during 2007, excluding mini pickups. Joining them later this year will be Honda with the Big Red, Kubota with its first gasoline entry, and Kawasaki with the EFI Teryx. Estimates are that EFI UTV sales accounted for nearly a quarter of turf-type

UTV sales last year, up from an estimated 10 percent in 2006; this could easily exceed 50 percent by 2009.

Over the last year, the powersports industry has been confronted with a new challenge: a severe downturn in the U.S. economy brought on by the collapse in the housing market and subsequent tight credit conditions that are not likely to ease for another two years, according to economists. The country is also suffering from soaring gas prices and increasing unemployment and inflation. Most economists predict a recession this year followed by a bottoming in 2009 with a slow recovery thereafter. We may not see an upturn in the core motorcycle and ATV markets until 2010, if then.

For utility vehicles, Power Products Marketing predicts a downturn in the commercial segment (golf, other turf, nonturf and industrial markets) by as much as 5 percent to 7 percent. The consumer niche, which includes farmers, ranchers and homeowners, should continue to experience increased growth in the high single digits; older consumers with higher income levels are less impacted by the downturn and more of them trade in their large-displacement utility 4x4 ATVs for sporty and accommodating UTVs.