Harley-Davidson Inc. (HOG)

Updated September 25th, 2019 by Samuel Smith

Key Metrics

Current Price:	$35	**5 Year CAGR Estimate:**	9.4%	**Volatility Percentile:**	67.9%
Fair Value Price:	$36	**5 Year Growth Estimate:**	5.1%	**Momentum Percentile:**	17.2%
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.9%	**Growth Percentile:**	52.6%
Dividend Yield:	4.3%	**5 Year Price Target**	$47	**Valuation Percentile:**	62.7%
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Total Return Percentile:**	61.4%

Overview & Current Events

Since 1903 Harley Davidson has been making American-style motorcycles. The company takes pride in being the pioneers of the style of bikes they manufacture and finance the sale of. Harley Davidson also makes and sells parts, accessories, merchandise and maintenance/repair services. Harley Davidson has a current market capitalization of $5.5 billion. The company's dividend history has been good except for the last recession, when the dividend was cut from $1.29 in 2008 to $0.40 in 2009. This change came as earnings-per-share fell from $3.77 in 2008 to $1.11 in 2009. As motorcycles are mainly luxury items, Harley Davidson's sales are significantly impacted by economic downturns.

Harley-Davidson reported second quarter results on 7/23/2019. Diluted earnings-per-share came in at $1.23, down from $1.45 in the year ago quarter. The company also repurchased $42.9 million worth of shares during the quarter. The hit to earnings came from tariffs and an 8.4% worldwide decline in retail sales. On a positive note, the company obtained the necessary regulatory approvals to mitigate the majority of incremental EU tariffs, completed key milestones in its manufacturing optimization initiative, reduced U.S. retail motorcycle inventory to position them well for cutover to model year 2020, drove year-over-year retail sales growth of 77% in ASEAN markets, achieved the highest ever Harley-Davidson ridership in the U.S. (over 3 million), and announced a broader access initiative for Asia with a small displacement motorcycle planned to launch in 2020.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.06	$1.38	$2.34	$2.72	$3.28	$3.88	$3.62	$3.83	$3.02	$3.19	***$3.04***	***$3.89***
DPS	$0.40	$0.40	$0.48	$0.62	$0.84	$1.10	$1.24	$1.40	$1.46	$1.48	***$1.50***	***$1.69***
Shares[1]	234.3	235.5	230.5	226.1	220.0	211.9	184.7	176.0	168.1	162.8	***162.8***	***162.8***

Harley-Davidson is using a three-pronged approach to growth development called "New Roads". This effort is focused on new products, broader access, and stronger dealers. In terms of new products, this past year the company premiered its first electric motorcycle. Also, 23 new physical stores were opened in Asia to expand the market. Harley-Davidson is also expanding with e-commerce, opening a storefront on Amazon and Tmall, a large Chinese e-commerce site. Overall, we have a 5.1% 5-year expected growth rate. In 2018, $194.2 million of shares were repurchased and a quarterly dividend of $0.37 was distributed, representing a 1.4% increase in dividends per share.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	20.7	16.4	16.9	17.8	17.1	15.5	12.9	15.6	11.9	***11.5***	***12.0***
Avg. Yld.	2.0%	1.4%	1.3%	1.3%	1.4%	1.7%	2.2%	2.8%	2.8%	3.5%	***4.3%***	***3.6%***

The current valuation of Harley-Davidson is at a ten-year low. However, revenue and earnings increased in 2018 and management is following through with their expectations that were set at the end of 2017. Considering these growth prospects and the new rising electric motorcycle market against the current struggles facing the company, we estimate a

[1] Millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

2023 price to earnings ratio of 12.0, which should lead to an average annual tailwind to total returns of 0.9% due to multiple expansion.

We see the yield falling slightly over time as the valuation increases, but Harley Davidson will remain a strong income stock pick for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	667.0%	29.0%	20.0%	23.0%	26.0%	28.0%	34.0%	36.0%	43.0%	46.4%	***49.3%***	***43.4%***

Harley-Davidson has a competitive advantage with its history, unique style and name brand recognition. Harley-Davidson has crafted their image through careful marketing such as licensing deals with TV shows such as 'Sons of Anarchy' that convey the brand's image.

During the Great Recession, Harley-Davidson was hit hard, losing 86% of its market capitalization. Earnings per share also dropped to $0.06 in 2009. Harley-Davidson has an interest coverage ratio of 28.8 and is slowly decreasing long-term debt. The payout ratio is starting to decline as earnings-per-share rise.

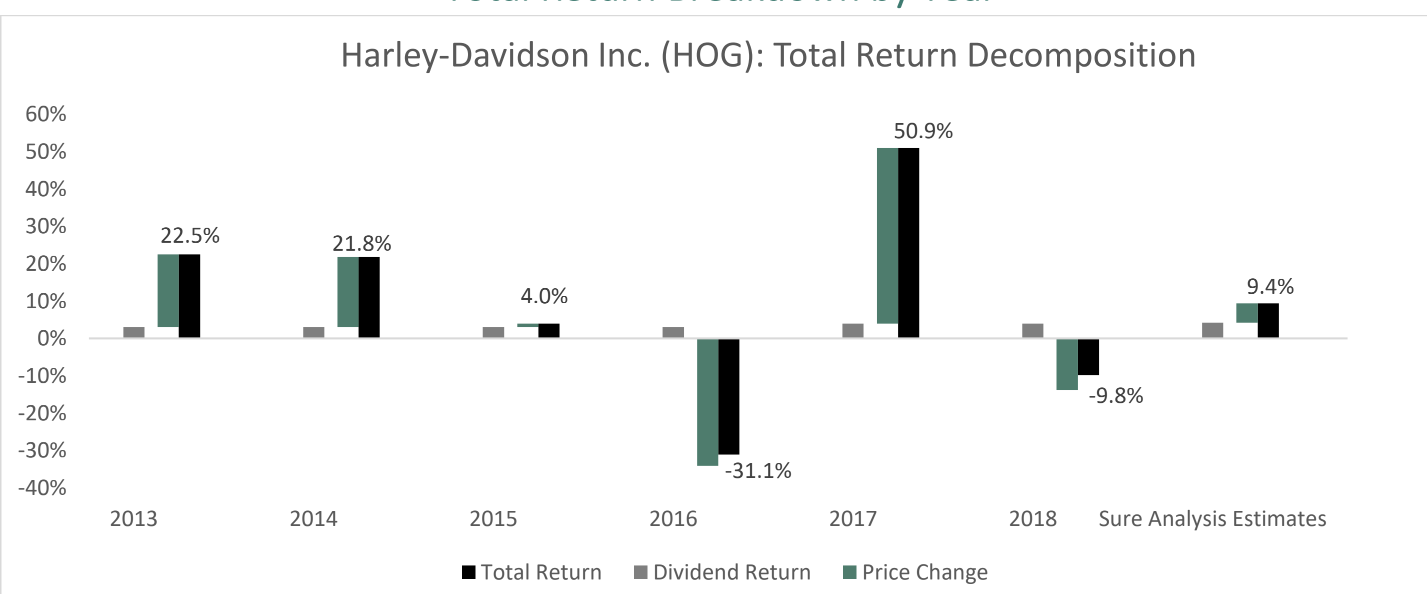
The largest risk to Harley-Davidson is an economic slowdown or recession. This is highly sensitive to the United States economy as 61% of all retail sales in 2017 were in the United States.

Final Thoughts & Recommendation

As the New Roads restructuring takes hold and new customers come forward, total return for Harley-Davidson is expected to be around 9.4% balanced between its 4.3% dividend yield, 5.1% annual earnings-per-share growth estimate, and 0.9% expected annual multiple expansion. The overall risk is concentrated on economic conditions and management's success with the New Roads program. There is also demographic risk here; Harley-Davidson is most popular with the Baby Boomer demographic. As Boomers age, they are less likely to continue riding motorcycles.

If economic conditions remain strong and management's expectations remain satisfied Harley-Davidson, is a buy at its current price of $35. With that said, this company has elevated risk of a dividend cut and earnings declines during recessions.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	4782	4859	5312	5581	5900	6229	5995	5996	5647	5717
Gross Profit	1597	1838	1976	2162	2338	2521	2477	2397	2195	2172
Gross Margin	33.4%	37.8%	37.2%	38.7%	39.6%	40.5%	41.3%	40.0%	38.9%	38.0%
SG&A Exp.	979	1020	1061	1111	1125	1160	1220	1214	1180	1258
D&A Exp.	273	255	180	169	167	179	198	210	222	265
Operating Profit	449	724	898	1029	1154	1281	1156	1046	882	807
Operating Margin	9.4%	14.9%	16.9%	18.4%	19.6%	20.6%	19.3%	17.4%	15.6%	14.1%
Net Profit	-55	147	599	624	734	845	752	692	522	531
Net Margin	-1.2%	3.0%	11.3%	11.2%	12.4%	13.6%	12.5%	11.5%	9.2%	9.3%
Free Cash Flow	421	922	696	612	769	914	840	918	799	992
Income Tax	108	131	245	338	380	439	398	332	342	155

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	9156	9431	9674	9171	9405	9528	9973	9890	9973	10666
Cash & Equivalents	1630	1022	1527	1068	1067	907	722	760	688	1204
Accounts Receivable	269	262	1980	1973	2035	2164	2301	2361	2436	2521
Inventories	323	326	418	394	425	449	586	500	538	556
Goodwill & Int. Ass.	31	30	29	30	30	28	54	53	63	61
Total Liabilities	7047	7224	7254	6613	6396	6619	8133	7970	8128	8892
Accounts Payable	163	225	256	257	240	197	236	235	228	285
Long-Term Debt	5636	5752	5723	5103	5259	5505	6872	6808	6988	7599
Shareholder's Equity	2108	2207	2420	2558	3009	2909	1840	1920	1844	1774
D/E Ratio	2.67	2.61	2.36	2.00	1.75	1.89	3.74	3.55	3.79	4.28

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-0.6%	1.6%	6.3%	6.6%	7.9%	8.9%	7.7%	7.0%	5.3%	5.2%
Return on Equity	-2.6%	6.8%	25.9%	25.1%	26.4%	28.5%	31.7%	36.8%	27.7%	29.4%
ROIC	-0.8%	1.9%	7.4%	7.9%	9.2%	10.1%	8.8%	7.9%	5.9%	5.8%
Shares Out.	234.3	235.5	230.5	226.1	220.0	211.9	184.7	176.0	168.1	162.8
Revenue/Share	20.47	20.70	22.61	24.34	26.33	28.61	29.43	33.21	32.66	34.33
FCF/Share	1.80	3.92	2.96	2.67	3.43	4.20	4.12	5.09	4.62	5.96

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.