Harley-Davidson Inc. (HOG)

Updated February 13th, 2021 by Samuel Smith

Key Metrics

Current Price:	$36	**5 Year CAGR Estimate:**	-0.3%	**Market Cap:**	$5.4B
Fair Value Price:	$24	**5 Year Growth Estimate:**	4.4%	**Ex-Dividend Date:**	03/01/21
% Fair Value:	149%	**5 Year Valuation Multiple Estimate:**	-7.7%	**Dividend Payment Date:**	03/19/21
Dividend Yield:	1.7%	**5 Year Price Target**	$30	**Years Of Dividend Growth:**	0
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	N/A

Overview & Current Events

Since 1903, Harley Davidson has been making American-style motorcycles. They take 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 $5.4 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 their earnings per share fell from $3.77 in 2008 to $1.11 in 2009. As their motorcycles are mainly luxury items, Harley Davidson's sales are significantly impacted by economic downturns.

Harley-Davidson reported Q4 results on 02/02/2021. Non-GAAP EPS came in at $0.44 and GAAP EPS came in at $0.63. Revenue plunged by 39.9% year-over-year to $530.96 million. Gross margin was at 21.6% of sales compared to the 25.8% consensus. The challenging business environment prompted management to restructure the company according to a 5-year plan, which aims to reduce business complexity, and streamline planned motorcycle models by approximately 30 percent.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.34	$2.72	$3.28	$3.88	$3.62	$3.83	$3.02	$3.19	$3.04	$1.44	***$2.42***	***$3.00***
DPS	$0.48	$0.62	$0.84	$1.10	$1.24	$1.40	$1.46	$1.48	$1.50	$0.08	***$0.60***	***$1.50***
Shares[1]	230.5	226.1	220.0	211.9	184.7	176.0	168.1	162.8	162.8	162.8	***162.8***	***162.8***

Harley-Davidson is using a three-pronged approach to growth development called "New Roads". They are 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 their market. Harley-Davidson is also expanding with e-commerce, opening a storefront on Amazon and Tmall, a large Chinese e-commerce site.

That being said, the company has been hammered by the coronavirus outbreak and will likely turn in a very disappointing performance this year, which has forced them to cut their dividend this year as they seek to conserve cash and retain some of their future growth in cash flows for reinvestment in their business and balance sheet repair.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	16.4	16.9	17.8	17.1	15.5	12.9	15.6	11.9	11.5	13.6	***14.9***	***10.0***
Avg. Yld.	1.3%	1.3%	1.4%	1.7%	2.2%	2.8%	2.8%	3.5%	4.3%	0.2%	***1.7%***	***5.0%***

Given the massive headwinds facing the company, we are reducing our fair value estimate from 13 times earnings to 10 times earnings. As a result, we expect the multiple to contract in the years to come, providing a meaningful headwind to total returns. We expect the yield to rise substantially in the coming years through a combination of multiple contraction and dividend growth.

[1] In millions

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	20.0%	23.0%	26.0%	28.0%	34.0%	36.0%	43.0%	46.4%	49.3%	5.6%	***24.8%***	***50.0%***

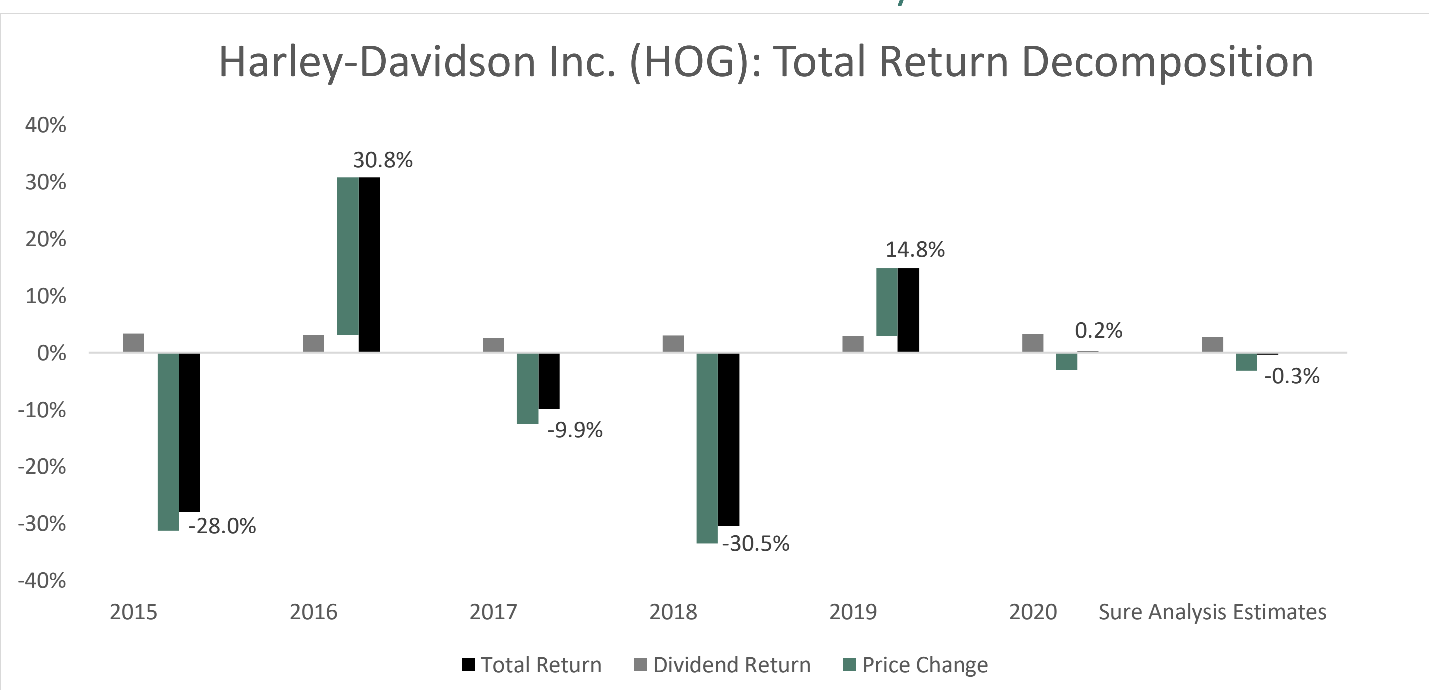
Harley-Davidson has a competitive advantage with its history, unique style and name brand recognition. Harley-Davidson has crafted their image through careful marketing such as licensing deals with TV shows such as 'Sons of Anarchy' that convey the brand's image.

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 more than 20 and is slowly decreasing long-term debt. The largest risk to Harley-Davidson is an economic slowdown or recession. This is highly sensitive to the United States economy as 60%+ of all retail sales in recent years were in the United States. The COVID-19 recession is having a huge impact on sales and earnings, and we expect Harley-Davidson to see a slow recovery in demand.

Final Thoughts & Recommendation

As the "Rewire" restructuring takes hold and new customers come forward, HOG is expected to rebound. That being said, it will likely be a rough road fraught with risk given the unstable nature of the global economy and the company's persistently disappointing results. As a result, we expect total annualized returns for Harley-Davidson to be around -0.5% over the next half decade, and therefore view the stock as a sell. It is certainly not a stock that conservative dividend growth investors should favor as there has already been a steep dividend cut this year and concerns from the recent credit rating downgrade weigh in.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	5,312	5,581	5,900	6,229	5,995	5,996	5,647	5,717	5,362	4,054
Gross Profit	1,976	2,162	2,338	2,521	2,477	2,397	2,195	2,172	1,922	1,024
Gross Margin	37.2%	38.7%	39.6%	40.5%	41.3%	40.0%	38.9%	38.0%	35.8%	25.3%
SG&A Exp.	1,061	1,111	1,125	1,160	1,220	1,214	1,180	1,258	1,199	895
D&A Exp.	180	169	167	179	198	210	222	265	233	
Operating Profit	898	1,029	1,154	1,281	1,156	1,046	882	807	588	129
Operating Margin	16.9%	18.4%	19.6%	20.6%	19.3%	17.4%	15.6%	14.1%	11.0%	3.2%
Net Profit	599	624	734	845	752	692	522	531	424	1
Net Margin	11.3%	11.2%	12.4%	13.6%	12.5%	11.5%	9.2%	9.3%	7.9%	0.0%
Free Cash Flow	696	612	769	914	840	918	799	992	687	1,047
Income Tax	245	338	380	439	398	332	342	155	134	(17)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	9674	9171	9405	9528	9973	9890	9973	10666	10528	12011
Cash & Equivalents	1527	1068	1067	907	722	760	688	1204	834	3257
Accounts Receivable	1980	1973	2035	2164	2301	2361	2436	2521	2532	1653
Inventories	418	394	425	449	586	500	538	556	604	523
Goodwill & Int. Ass.	29	30	30	28	54	53	63	61	75	
Total Liabilities	7254	6613	6396	6619	8133	7970	8128	8892	8724	10288
Accounts Payable	256	257	240	197	236	235	228	285	294	
Long-Term Debt	5723	5103	5259	5505	6872	6808	6988	7599	7445	8987
Shareholder's Equity	2420	2558	3009	2909	1840	1920	1844	1774	1804	1723
D/E Ratio	2.36	2.00	1.75	1.89	3.74	3.55	3.79	4.28	4.13	5.22

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.3%	6.6%	7.9%	8.9%	7.7%	7.0%	5.3%	5.2%	4.0%	0.0%
Return on Equity	25.9%	25.1%	26.4%	28.5%	31.7%	36.8%	27.7%	29.4%	23.7%	0.1%
ROIC	7.4%	7.9%	9.2%	10.1%	8.8%	7.9%	5.9%	5.8%	4.5%	0.0%
Shares Out.	230.5	226.1	220.0	211.9	184.7	176.0	168.1	162.8	162.8	162.8
Revenue/Share	22.61	24.34	26.33	28.61	29.43	33.21	32.66	34.33	33.98	26.34
FCF/Share	2.96	2.67	3.43	4.20	4.12	5.09	4.62	5.96	4.35	6.80

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