Harley-Davidson Inc. (HOG)

Updated February 8th, 2023 by Samuel Smith

Key Metrics

Current Price:	$51.3	**5 Year CAGR Estimate:**	8.5%	**Market Cap:**	$7.5B
Fair Value Price:	$61.2	**5 Year Growth Estimate:**	3.3%	**Ex-Dividend Date:**	03/08/23[1]
% Fair Value:	84%	**5 Year Valuation Multiple Estimate:**	3.6%	**Dividend Payment Date:**	03/23/23[2]
Dividend Yield:	1.2%	**5 Year Price Target**	$72	**Years Of Dividend Growth:**	2
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Hold

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 $7.5 billion.

Harley-Davidson reported fourth quarter and full year 2022 results on Feb. 2, 2023. Harley-Davidson's Q4 GAAP EPS of $0.28 beat analyst estimates by $0.23. Revenue of $1.14B (+11.8% Y/Y) beat analyst estimates by $229.96M. For the full year 2023, HOG expects its HDMC segment to generate revenue growth of 4 to 7% and operating income margin of 14.1 to 14.6%. It expects its HDFS segment to generate an operating income decline of 20 to 25%. It expects its LiveWire business to generate motorcycle wholesale units 750–2,000 and operating income loss of $115 to $125 million.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$3.28	$3.88	$3.62	$3.83	$3.02	$3.19	$3.04	$0.77	$4.21	$4.96	***$4.71***	***$5.53***
DPS	$0.84	$1.10	$1.24	$1.40	$1.46	$1.48	$1.50	$0.44	$0.60	$0.63	***$0.63***	***$1.44***
Shares[3]	220.0	211.9	184.7	176.3	168.1	159.5	152.8	153.3	153.9	170.9	***170.9***	***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 said, the company was hammered by the coronavirus outbreak and turned in a very disappointing performance in 2020, which forced them to cut their dividend that year and keep it low since then as they seek to conserve cash and retain some of their cash flows for reinvestment in their business, as well as balance sheet repair. That said, the business has fully recovered from COVID-19 impacts and has a much rosier outlook moving forward.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	16.9	17.8	17.1	15.5	12.9	15.6	11.9	11.5	13.6	10.3	***10.9***	***13.0***
Avg. Yld.	1.3%	1.4%	1.7%	2.2%	2.8%	3.1%	3.9%	4.3%	4.2%	1.6%	***1.2%***	***2.0%***

Based on their historical averages and a recent recovery in the company's performance as the COVID-19 headwinds continue to dissipate in the U.S., we assume a fair value multiple of 13 times earnings. As a result, we expect the multiple to expand in the years to come, providing a meaningful tailwind to total returns.

We expect the yield to rise substantially in the coming years through dividend growth as the company looks to rebuild its prior payout.

---

[1] Estimate

[2] Estimate

[3] In 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.

Harley-Davidson Inc. (HOG)

Updated February 8th, 2023 by Samuel Smith

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	26%	28%	34%	37%	48%	46%	49%	57%	14%	13%	**13%**	**26%**

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.

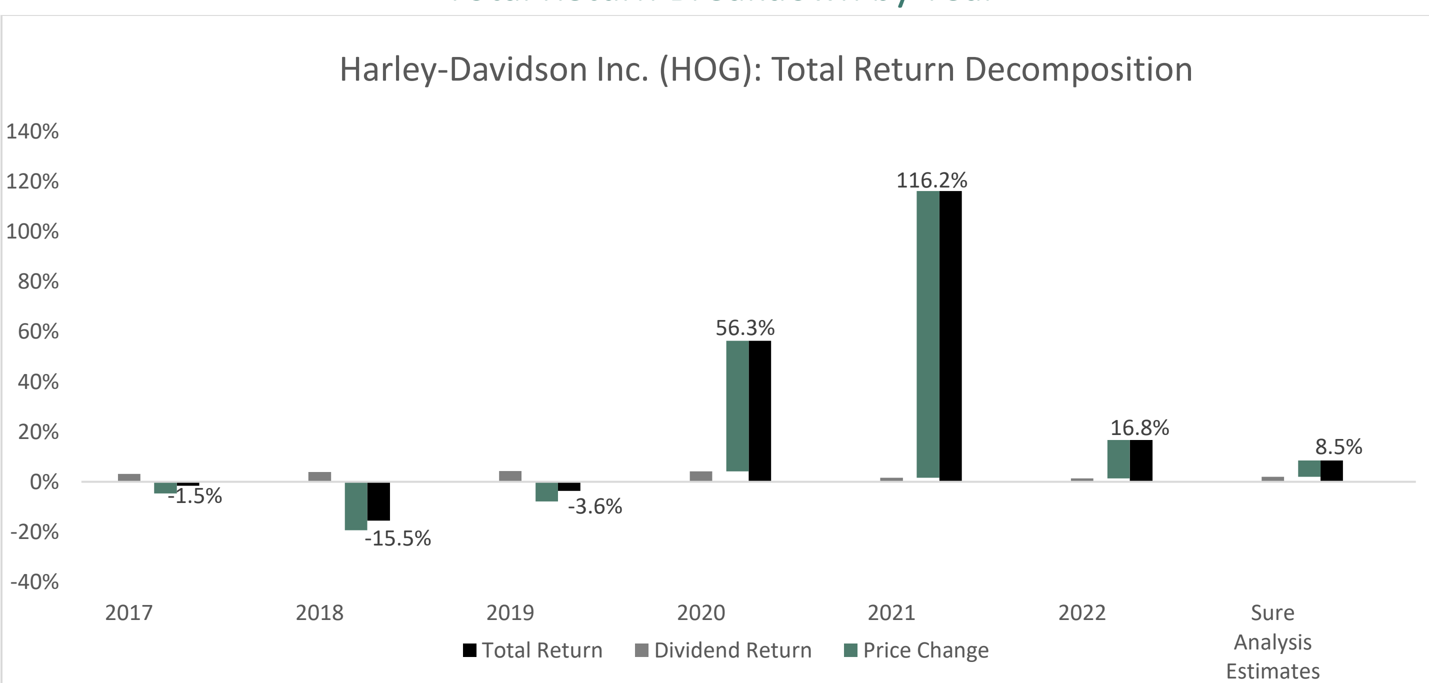
The company's dividend history has been good except for the last recession, when the dividend was cut from $1.29 in 2008 to $0.40 in 2009. This change came as their earnings per share fell from $3.77 in 2008 to $1.11 in 2009. As their motorcycles are mainly luxury items, Harley Davidson's sales are significantly impacted by economic downturns. 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. The company cut its payout during the 2020 recession as well.

Harley-Davidson has a strong interest coverage ratio and is making strides towards 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 outbreak had a huge impact on sales and earnings, and we expect Harley-Davidson to see a continued recovery in demand in the coming years.

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. Notwithstanding, we expect total annualized returns for Harley-Davidson to be 8.5% over the next half decade, and therefore view the stock as a Hold. It is certainly not a stock that conservative dividend growth investors should favor as there has already been a recent steep dividend cut, but it still offers substantial upside potential for more aggressive investors if it can outperform our conservative growth projections.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Harley-Davidson Inc. (HOG)

Updated February 8th, 2023 by Samuel Smith

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	5,900	6,229	5,995	5,996	5,647	5,717	5,362	4,054	5,336	5,755
Gross Profit	2,338	2,521	2,477	2,397	2,195	2,172	1,922	1,372	1,900	2,351
Gross Margin	39.6%	40.5%	41.3%	40.0%	38.9%	38.0%	35.8%	33.8%	35.6%	40.9%
SG&A Exp.	1,125	1,160	1,220	1,214	1,180	1,258	1,199	1,051	1,048	940
D&A Exp.	167	179	198	210	222	265	233	186	165	
Operating Profit	1,154	1,281	1,156	1,046	882	807	588	140	827	909
Operating Margin	19.6%	20.6%	19.3%	17.4%	15.6%	14.1%	11.0%	3.4%	15.5%	15.8%
Net Profit	734	845	752	692	522	531	424	1	650	741
Net Margin	12.4%	13.6%	12.5%	11.5%	9.2%	9.3%	7.9%	0.0%	12.2%	12.9%
Free Cash Flow	769	914	840	918	799	992	687	1,047	856	397
Income Tax	380	439	398	332	342	155	134	(17)	169	192

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	9,405	9,528	9,973	9,890	9,973	10,666	10,528	12,011	11,051	11,492
Cash & Equivalents	1,067	907	722	760	688	1,204	834	3,257	1,875	1,433
Accounts Receivable	2,035	2,164	2,301	2,361	2,436	2,521	2,532	1,653	1,648	2,035
Inventories	425	449	586	500	538	556	604	523	713	951
Goodwill & Int. Ass.	30	28	54	53	63	61	75	76	71	
Total Liabilities	6,396	6,619	8,133	7,970	8,128	8,892	8,724	10,288	8,498	8,586
Accounts Payable	240	197	236	235	228	285	294	291	375	
Long-Term Debt	5,259	5,505	6,872	6,808	6,988	7,599	7,445	8,987	6,889	6,912
Shareholder's Equity	3,009	2,909	1,840	1,920	1,844	1,774	1,804	1,723	2,553	2,907
LTD/E Ratio	1.75	1.89	3.74	3.55	3.79	4.28	4.13	5.22	2.70	2.38

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.9%	8.9%	7.7%	7.0%	5.3%	5.2%	4.0%	0.0%	5.6%	6.6%
Return on Equity	26.4%	28.5%	31.7%	36.8%	27.7%	29.4%	23.7%	0.1%	30.4%	27.2%
ROIC	9.2%	10.1%	8.8%	7.9%	5.9%	5.8%	4.5%	0.0%	6.5%	7.7%
Shares Out.	220.0	211.9	184.7	176.3	168.1	159.5	152.8	153.3	153.9	170.9
Revenue/Share	26.33	28.61	29.43	33.21	32.66	34.33	33.98	26.34	34.43	38.53
FCF/Share	3.43	4.20	4.12	5.09	4.62	5.96	4.35	6.80	5.52	2.66

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