Harley-Davidson Inc. (HOG)

Updated August 20th, 2024 by Samuel Smith

Key Metrics

Current Price:	$36.3	**5 Year CAGR Estimate:**	5.8%	**Market Cap:**	$4.9 B
Fair Value Price:	$33.0	**5 Year Growth Estimate:**	5.9%	**Ex-Dividend Date:**	9/5/24[1]
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.9%	**Dividend Payment Date:**	9/21/24[2]
Dividend Yield:	1.9%	**5 Year Price Target**	$44	**Years Of Dividend Growth:**	4
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**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 $4.9 billion.

Harley-Davidson, Inc. (HOG) reported its second-quarter 2024 results, demonstrating resilience in a challenging market. The company achieved a diluted EPS of $1.63, reflecting a 34% increase from the previous year. Revenue for the quarter was $1.619 billion, up 12% from $1.446 billion in the same period last year, driven primarily by a 13% increase in HDMC revenue. Operating income rose by 9% to $241 million, with net income attributable to Harley-Davidson increasing by 23% to $218 million. In the second quarter, Harley-Davidson saw notable unit growth of over 11% in the core Touring category in the U.S., with a 5.3% market share increase in the 601+cc Street Legal segment. However, global retail motorcycle sales were down 3%, with North America and EMEA experiencing slight declines and Asia Pacific facing a significant 16% drop, primarily due to weakness in China. The HDMC segment reported a 13% revenue increase to $1.349 billion, driven by a 16% rise in global motorcycle shipments. Despite this, gross margin decreased by 2.7 percentage points to 32.1%, primarily due to pricing pressures, higher manufacturing costs, and adverse foreign exchange impacts. Operating income for HDMC was up 2% to $198 million, with an operating margin of 14.7%. Harley-Davidson Financial Services (HDFS) saw a 10% increase in revenue to $264 million, with operating income up 21% to $71 million, driven by higher interest income and a lower provision for credit losses. The LiveWire segment reported a 379% increase in electric motorcycle unit sales but saw an 8% revenue decline due to decreased STACYC third-party branded distributor volumes, although its operating loss improved by 12% to $28 million. The company generated $578 million in cash from operating activities, repurchased $200 million in shares, and maintained cash and cash equivalents of $1.8 billion at the end of the quarter. The effective tax rate for the quarter was 19%, and $47 million in cash dividends were paid.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.88	$3.62	$3.83	$3.02	$3.19	$3.04	$0.77	$4.21	$4.96	$4.87	***$4.12***	***$5.50***
DPS	$1.10	$1.24	$1.40	$1.46	$1.48	$1.50	$0.44	$0.60	$0.63	$0.66	***$0.69***	***$0.90***
Shares[3]	211.9	184.7	176.3	168.1	159.5	152.8	153.3	153.9	146.2	136.6	***131.6***	***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. Also, 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.

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[1] Estimate

[2] Estimate

[3] In millions

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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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.8	17.1	15.5	12.9	15.6	11.9	11.5	13.6	10.3	5.5	***8.8***	***8.0***
Avg. Yld.	1.4%	1.7%	2.2%	2.8%	3.1%	3.9%	4.3%	4.2%	1.6%	2.6%	***1.9%***	***2.0%***

Based on their historical averages and a recent recovery in the company's performance due to COVID-19 headwinds dissipating in the U.S., we assume a fair value multiple of 8 times earnings. As a result, we expect the multiple to face headwinds in the years to come, reducing total returns. We expect the yield to remain around 2% moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	28%	34%	37%	48%	46%	49%	57%	14%	13%	14%	***17%***	***16%***

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.

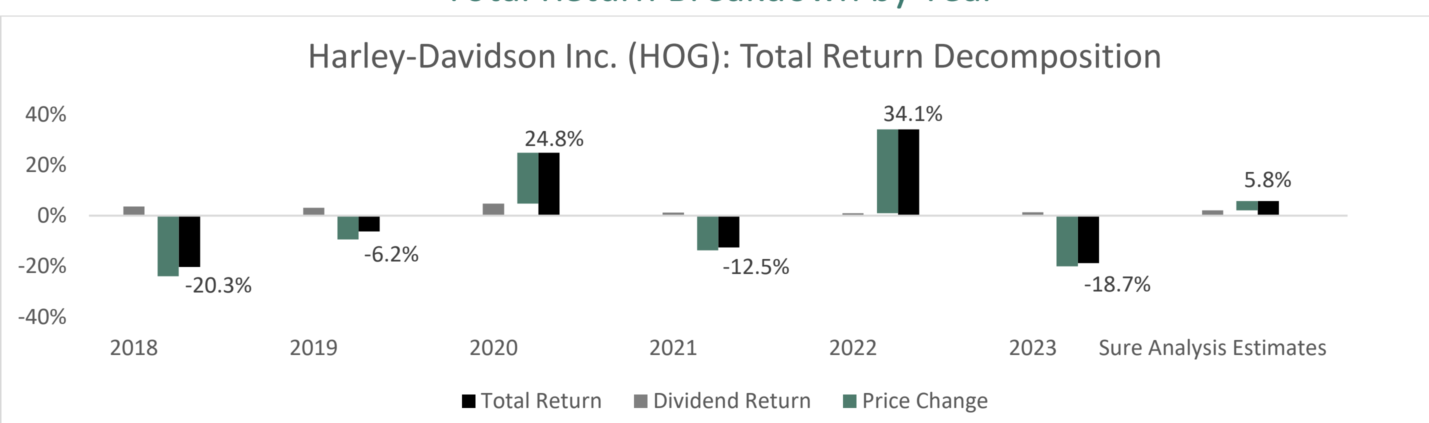
The company's dividend history has been good except for the last recession, when the dividend was cut from $1.29 in 2008 to $0.40 in 2009. This change came as their earnings per share fell from $3.77 in 2008 to $1.11 in 2009. As their motorcycles are mainly luxury items, Harley Davidson's sales are significantly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

We expect total annualized returns for Harley-Davidson to be 5.8% over the next half-decade due to solid growth and a small yield offset partially by a contracting valuation multiple and therefore view the stock as a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	6,229	5,995	5,996	5,647	5,717	5,362	4,054	5,336	5,755	5,836
Gross Profit	2,521	2,477	2,397	2,195	2,172	1,922	1,372	1,900	2,134	2,182
Gross Margin	40.5%	41.3%	40.0%	38.9%	38.0%	35.8%	33.8%	35.6%	37.1%	37.4%
SG&A Exp.	1,160	1,220	1,214	1,180	1,258	1,199	1,051	1,052	1,079	1,176
D&A Exp.	179	198	210	222	265	233	186	165	152	158
Operating Profit	1,281	1,156	1,046	882	807	588	140	823	909	779
Operating Margin	20.6%	19.3%	17.4%	15.6%	14.1%	11.0%	3.4%	15.4%	15.8%	13.3%
Net Profit	845	752	692	522	531	424	1	650	741	707
Net Margin	13.6%	12.5%	11.5%	9.2%	9.3%	7.9%	0.0%	12.2%	12.9%	12.1%
Free Cash Flow	914	840	918	799	992	687	1,047	856	397	547
Income Tax	439	398	332	342	155	134	(17)	169	192	172

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	9,528	9,973	9,890	9,973	10,666	10,528	12,011	11,051	11,492	12,141
Cash & Equivalents	907	722	760	688	1,204	834	3,257	1,875	1,433	1,534
Accounts Receivable	2,164	2,301	2,361	2,436	2,521	2,532	1,653	1,648	2,035	2,381
Inventories	449	586	500	538	556	604	523	713	951	930
Goodwill & Int. Ass.	28	54	53	63	61	75	76	71	68	70
Total Liabilities	6,619	8,133	7,970	8,128	8,892	8,724	10,288	8,498	8,586	8,888
Accounts Payable	197	236	235	228	285	294	291	375	378	349
Long-Term Debt	5,505	6,872	6,808	6,988	7,599	7,445	8,987	6,889	6,912	7,126
Shareholder's Equity	2,909	1,840	1,920	1,844	1,774	1,804	1,723	2,553	2,904	3,253
LTD/E Ratio	1.89	3.74	3.55	3.79	4.28	4.13	5.22	2.70	2.38	2.19

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.9%	7.7%	7.0%	5.3%	5.2%	4.0%	0.0%	5.6%	6.6%	6.0%
Return on Equity	28.5%	31.7%	36.8%	27.7%	29.4%	23.7%	0.1%	30.4%	27.2%	22.9%
ROIC	10.1%	8.8%	7.9%	5.9%	5.8%	4.5%	0.0%	6.5%	7.7%	7.0%
Shares Out.	211.9	184.7	176.3	168.1	159.5	152.8	153.3	153.9	146.2	138.5
Revenue/Share	28.61	29.43	33.21	32.66	34.33	33.98	26.34	34.43	38.53	40.22
FCF/Share	4.20	4.12	5.09	4.62	5.96	4.35	6.80	5.52	2.66	3.77

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