Harley-Davidson Inc. (HOG)

Updated November 8th, 2024 by Samuel Smith

Key Metrics

Current Price:	$32.9	**5 Year CAGR Estimate:**	7.9%	**Market Cap:**	$4.2 B
Fair Value Price:	$33.0	**5 Year Growth Estimate:**	5.9%	**Ex-Dividend Date:**	12/5/24[1]
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	12/21/24[2]
Dividend Yield:	2.1%	**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 $4.2 billion.

Harley-Davidson, Inc. (HOG) reported its third-quarter 2024 financial results on October 24, 2024, delivering an earnings per share (EPS) of $0.91, which exceeded analyst expectations by $0.10. However, revenue for the quarter was $876.41 million, representing a 32.43% year-over-year decline and missing projections by $99.99 million. The company achieved a GAAP net income available to common stockholders of $62.9 million, or $1.21 per common share, alongside a net interest income of $1.8 million. Distributable earnings amounted to $52.0 million, equating to $1.00 per common share. Book value per common share increased to $20.76 from $20.30 as of September 30, 2024.

Harley-Davidson's consolidated operating income fell to $106 million, a 49% decrease from the previous year, driven primarily by a 32% drop in HDMC revenue and a significant decline in motorcycle shipments, which fell by 39% to 27.5 thousand units. North American retail sales declined by 10%, while global retail sales were down 13%, with international markets underperforming expectations. Despite these challenges, Harley-Davidson Motor Company's (HDMC) apparel revenue grew by 13%, and Harley-Davidson Financial Services (HDFS) saw a 29% increase in operating income due to higher interest income and lower credit losses.

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	***127.3***	***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.

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.

---

[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 November 8th, 2024 by Samuel Smith

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	***8.0***	***8.0***
Avg. Yld.	1.4%	1.7%	2.2%	2.8%	3.1%	3.9%	4.3%	4.2%	1.6%	2.6%	***2.1%***	***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 no impact to total returns from the valuation. 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.

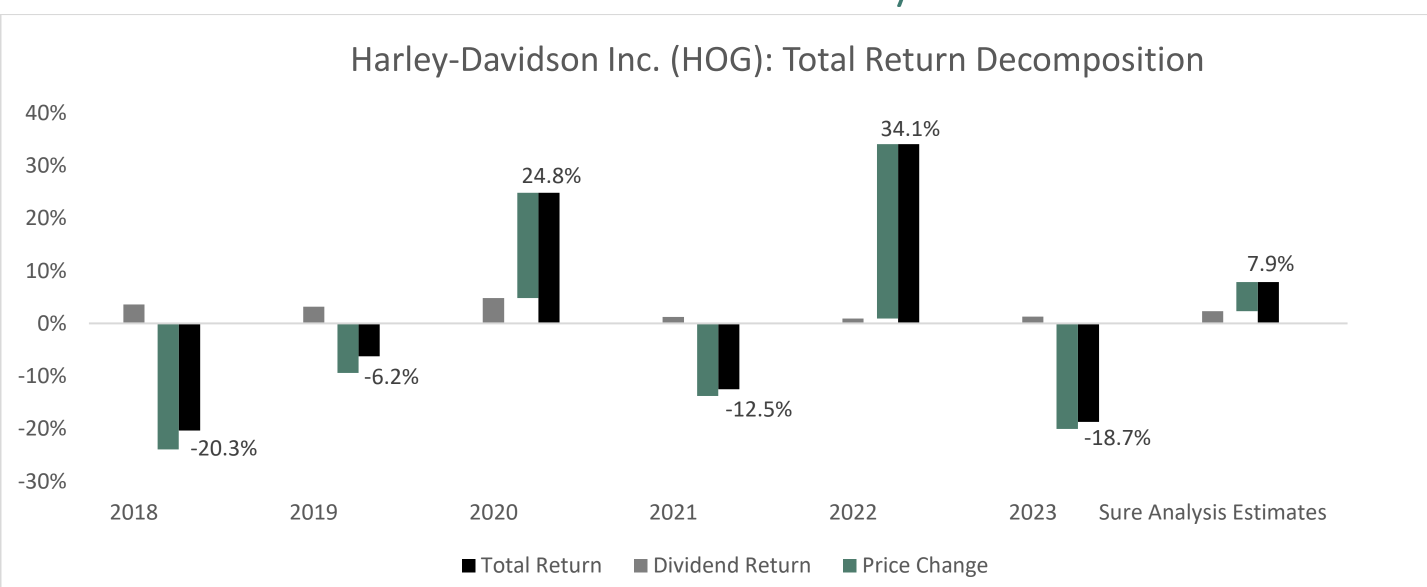
The company's dividend history has been good except for the last recession, when the dividend was cut from $1.29 in 2008 to $0.40 in 2009. This change came as their earnings per share fell from $3.77 in 2008 to $1.11 in 2009. As their motorcycles are mainly luxury items, Harley Davidson's sales are significantly 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 7.9% 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



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 November 8th, 2024 by Samuel Smith

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.