

Harley-Davidson, Inc (HOG)

\$20.53 (As of 05/05/20)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: C

Growth: F

Momentum: F

Summary

Shares of Harley-Davidson have underperformed the industry over the past year. With the lack of youth appeal and fewer people riding motorcycles, sales of Harley Davidson's bikes are on the decline. Demand is likely to remain depressed in the near-future due to coronavirus woes. Amid the growing COVID-19 uncertainty and financial crisis, the motorcycle maker has scrapped its annual views. It has slashed quarterly payout by 94.7% and suspended share repurchases, dampening investors' confidence further. Contracting cash flow amid declining net income is a dampener. Even though the company is implementing cost-cut efforts, such initiatives are not likely to counter weak margins due to low revenues. Rising SG&A expenses, increasing competition and elevated leverage are other headwinds. As such, the stock is viewed as a risky bet.

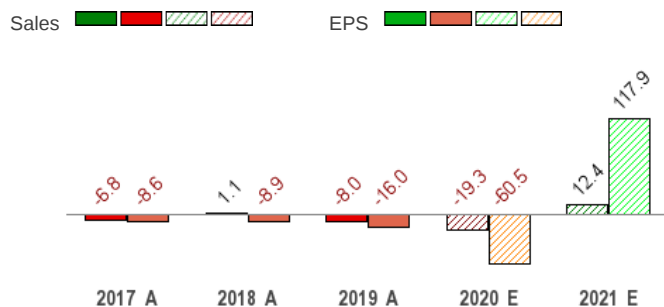
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$40.89 - \$14.31
20 Day Average Volume (sh)	4,059,139
Market Cap	\$3.1 B
YTD Price Change	-44.8%
Beta	1.42
Dividend / Div Yld	\$0.08 / 7.4%
Industry	Automotive - Domestic
Zacks Industry Rank	Bottom 1% (251 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.5%
Last Sales Surprise	8.2%
EPS F1 Est- 4 week change	-49.4%
Expected Report Date	07/28/2020
Earnings ESP	23.8%
P/E TTM	8.9
P/E F1	19.6
PEG F1	2.4
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,074 E	1,072 E	951 E	847 E	4,149 E
2020	1,100 A	782 E	946 E	863 E	3,690 E
2019	1,196 A	1,434 A	1,069 A	874 A	4,573 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.77 E	\$0.93 E	\$0.66 E	\$0.22 E	\$2.31 E
2020	\$0.45 A	\$0.05 E	\$0.40 E	\$0.18 E	\$1.06 E
2019	\$0.80 A	\$1.23 A	\$0.55 A	\$0.09 A	\$2.68 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/05/2020. The reports text is as of 05/06/2020.

Overview

Milwaukee, WI-based Harley-Davidson, Inc. is the parent entity of company groups doing business as Harley-Davidson Motor Company (HDMC) and Harley-Davidson Financial Services (HDFS). The two reportable segments of the company are:

The **Motorcycles and Related Products** segment (accounting for 87% of total revenues in 2019) consists of HDMC that designs, manufactures and sells Harley-Davidson motorcycles (currently comprising cruiser and touring models among others) along with motorcycle parts, accessories, general merchandise and related services. HDMC has presence across the globe and segregates regional markets like the United States, Canada, Latin America, Europe/Middle East/Africa (EMEA) and the Asia Pacific.

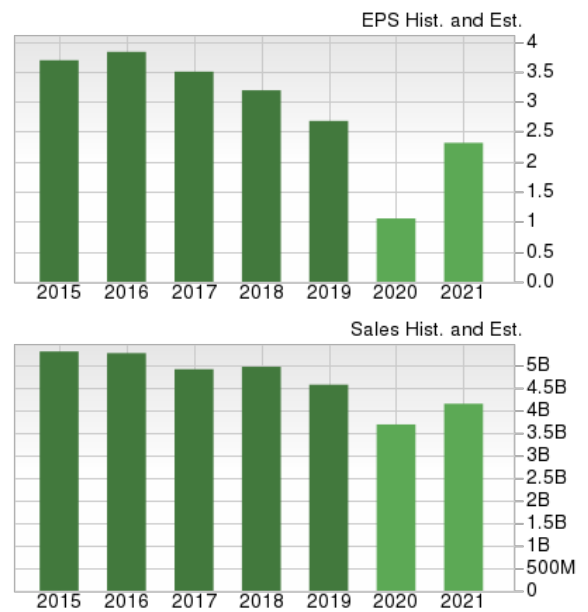
Beside motorcycles, the segment offers a complete line of Harley-Davidson Parts & Accessories (P&A) and General Merchandise. P&A products are replacement parts while General Merchandise includes MotorClothes apparel and riding gear.

It distributes motorcycles and related products through the network of independent dealers present in roughly 100 countries worldwide. At the end of 2018, the company' independent dealerships in the United States, Canada, Latin America, EMEA and the Asia Pacific were 691, 69, 64, 412 and 299, respectively.

As of 2018, the U.S. and European markets accounted for roughly 76% of total independent dealer retail sales of new Harley-Davidson motorcycles. Apart from these two major markets, other markets that drove the company's retail sales were Japan, Australia and Canada.

The **Financial Services** segment (13% of the total revenues in 2019) operates HDFS that provides financing and servicing wholesale inventory receivables and retail consumer loans majorly to buy Harley-Davidson motorcycles. The segment primarily operates in the United States and Canada.

Harley-Davidson is undertaking strategies to grow its rider base worldwide. In sync with the strategy, the company plans to launch 100 motorcycles, add two million Harley-Davidson riders in the United States and grow international business to 50% of its total annual volume. In March, it acquired California-based StaCyc Inc., an entity that designs and sells electric-powered two-wheeled bikes for children.



Reasons To Sell:

- ▼ Over the past few years the company has been battling challenging demographic trends as its core audience grows past the age at which people generally buy motorcycles. Amid the lack of youth appeal and with fewer people riding motorcycles, sales of Harley Davidson's motorbikes are on the decline. With millennial consumers preferring convenient modes of transportation and ridesharing services, they are of the opinion that owning a motorcycle might simply not be an attractive option. Hence, the company's core customer base ages and industry demographics shift seems to be the most pressing issue for Harley-Davidson.
- ▼ Harley-Davidson's sales tend to be strongest when general economic conditions are good as it's basically a discretionary purchase. Unfortunately, thanks to an economic shutdown as a result of the spread of Covid-19, the unemployment levels are rising, spelling more trouble for the company's sales. Notably, during the first-quarter of 2020, sales of Harley-Davidson's bikes declined in all major markets served due to factory closures amid coronavirus. Demand is likely to remain depressed in the near-future. In response to disruptions to the firm's supply chain and coronavirus-led uncertainty, Harley-Davidson also revoked its 2020 annual view.
- ▼ Contracting cash flow amid declining net income is a dampener. The firm's full-year operating cash flow declined 28% y/y in 2019. The trend is likely to continue amid high costs and declining sales. Notably, in the first quarter of 2020, the firm had negative operating cash flow of \$8.6 million as against positive operating cash flow of \$32.7 million, generated in the prior-year quarter. Even though the company is implementing cost-cut efforts, such initiatives are not likely to counter weak margins due to low revenues. Further, Harley-Davidson possesses a stretched balance sheet which restricts its financial flexibility. As of Mar 29, the motorcycle maker carries long term debt of \$4,478 million. Long-term debt to capital ratio of the company stands at around 0.73, higher than the industry's 0.51.
- ▼ Weak results in the financial services division is also a concern. Operating income from its financing arm decreased 8.6% in 2019. In the first quarter of 2020, operating income of the segment plunged around 61% year over year. At HDFFS, the firm expects higher credit losses in 2020. Even though the financing division of the firm forms a small portion of its overall profits, it could be a potential red flag if consumers struggle to make payments. Lower profits at the financing arm are expected to weigh on overall results, going forward.
- ▼ Rising costs due to tariffs on steel and aluminum along with tariffs levied on bikes sold in international markets are likely to dent the profit margins of Harley-Davidson. Soaring SG& A expenses also remain a headwind. Further, increasing competition is also a cause of concern. Harley-Davidson is facing competition from small brands along with foreign bike makers which are resorting to competitive pricing. Moreover, amid the coronavirus-led financial crisis, Harley-Davidson slashed quarterly dividend by 94.7% and suspended share repurchases, dampening investors' confidence further.

Amid the lack of youth appeal and with fewer people riding motorcycles, sales of Harley Davidson's motorbikes are on the decline.

Risks

- In sync with long-term growth objectives to expand product portfolio and customer base, Harley-Davidson will be launching new motorcycle models and technologies that better align with market trends and the tastes of younger generations. The new model launches, in sync with its "More Roads to Harley-Davidson" growth plan, include LiveWire, Low Rider S and CVO Tri Glide. The company's growth plans aimed at encouraging 2 million new riders in the United States, achieving growth without increasing environmental impact and boosting the international business.
 - By 2027, the company aims at launching 100 new motorcycles. The company plans to boost its prospects by launching launch lighter motorcycles and bolstering dealer networks. Apart from adding dealerships globally, the company also launched a program to improve response time, and quality of online and in-dealership leads. The firm aims to deepen its focus and invest in the markets, products and customer segments that offer the most profit potential is appreciable. This includes building on Harley-Davidson's strong position in the United States.
 - The firm's front foot approach to innovation including touring traction control with advanced ABS and H-D Connect is boosting Harley-Davidson's U.S. leadership in Touring and Cruiser motorcycle markets. In 2019, the firm made foray into in the electrification of motorcycles with the launch of LiveWire. Harley-Davidson can certainly benefit from early market entry into the world of electric bikes. It will be able to leverage its already existing network, as the current electric motorcycle brands are mainly startups that lack solid distribution and ability to scale. In 2019, the firm also acquired StaCyc, maker of electric-powered two-wheelers for kids in sync with its objective to adapt to the changing dynamics of the industry.
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Last Earnings Report

Harley-Davidson's Q1 Earnings & Sales Fall Y/Y

Harley-Davidson reported earnings per share of 45 cents in first-quarter 2020, surpassing the Zacks Consensus Estimate of 40 cents. This outperformance resulted from solid revenues in the company's Financial Services segment. Sales in the Financial Services segment totaled \$198.4 million, topping the consensus mark of \$194 million.

The bottom-line figure, however, declined from the prior-year's 80 cents per share. The company's net income amounted to \$69.7 million compared with the year-ago quarter's \$127.9 million.

Total revenues from Motorcycle and Related products, which form the bulk of overall revenues of the firm, declined 8% year over year to \$1099.8 million in the reported quarter. However, the top line surpassed the Zacks Consensus Estimate of \$1,017 million. The company reported consolidated revenues (including motorcycle sales and financial services revenues) of \$1.30 billion, down 5.8% year over year.

Segmental Highlights

Motorcycles and Related Products: In the first quarter, operating income from the Motorcycles and Related Products segment amounted to \$84.6 million, lower than the operating income of \$108.4 million reported in the year-ago period. This decline was mainly due to the temporary suspension of global motorcycle manufacturing in March amid the coronavirus crisis.

In the quarter ended Mar 29, 2020, the company shipped 52,973 motorcycles, down 10.05% year over year.

Harley-Davidson's worldwide retail motorcycle units sold dropped 17.7% to 40,439 from the year-ago quarter's 49,151. The company's retail motorcycle units sold in the United States also declined 15.5% from the year-ago quarter to 23,732. International units sold decreased 20.7% to 16,707 motorcycles from 21,060 in the prior-year quarter. Sales in the Middle East and Africa, Asia Pacific, Canada and Latin America declined 28.4%, 5.3%, 24.7% and 21.5%, respectively from the year-ago period.

Revenues for Parts & Accessories fell 15.7% from the prior year to \$134.7 million. The same for General Merchandise — including Motor Clothes apparel and accessories — declined 11.3% from the prior-year quarter to \$49.2 million.

Financial Services: Revenues for Harley-Davidson Financial Services increased to \$198.4 million from the prior-year quarter's \$188.7 million. However, the operating income slumped 60.9% to \$22.9 million from the year-ago quarter's \$58.7 million.

Financial Position

Harley-Davidson had cash and cash equivalents of \$1,465 million as of Mar 29, 2020, higher than the \$749.6 million reported in the prior-year quarter. Net long-term debt decreased to \$4,478 million from the year-ago period's \$4,744 million. Its long-term debt-to-capital ratio was 72.58% at the end of the first quarter.

As of Mar 29, 2020, the company's net operating cash outflow was \$8.58 million compared with \$32.67 million as of Mar 31, 2019. Capital expenditure in the quarter was \$32.93 million compared with the \$35.25 million recorded in 2019.

Cost-Containment Measures Amid Coronavirus Crisis

Harley-Davidson has enforced a number of measures, including a substantial reduction in all non-essential spending, a company-wide hiring freeze, staffing-level adjustments and no merit increments for 2020, in a bid to minimize costs during this period of reduced business. Additionally, the company has suspended discretionary share repurchases. In total, it expects these efforts to preserve around \$250 million of cash in 2020.

During second-quarter 2020, the company approved a cash dividend of 2 cents per share, down from the first-quarter 2020 dividend of 38 cents.

2020 Outlook

Harley-Davidson withdrew its 2020 guidance in response to disruptions to the company's supply chain due to the coronavirus crisis.

Quarter Ending 03/2020

Report Date	Apr 28, 2020
Sales Surprise	8.17%
EPS Surprise	12.50%
Quarterly EPS	0.45
Annual EPS (TTM)	2.32

Recent News

Here's How Harley-Davidson is Fighting Against Coronavirus

On **Apr 15**, Harley Davidson announced that it has enforced a variety of measures, including a substantial reduction in all non-essential spending, a company-wide hiring freeze, staffing-level adjustments and no merit increments for 2020, in a bid to minimize costs during this period of reduced business. Compensation reductions include 30% salary cuts for executive leadership and 10-20% pay cut for U.S.-based salaried employees. The CEO and board of directors will forgo their entire salary compensations to lower costs amid coronavirus outbreak. The majority of the company's global production employees are currently on a temporary layoff. Nevertheless, medical benefits remain unchanged for all employees worldwide.

Valuation

Harley-Davidson's shares are down 44.8% in the year-to-date period and down 43.5% over the trailing 12-month period. Stocks in the Zacks Automotive – Domestic industry and the Zacks Automotive sector are up 8.2% and down 13% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 25.8% and down 5.2% respectively.

The S&P 500 index is down 11.8% and 1.7% in the year-to-date period and over the past year, respectively.

The stock is currently trading at 13.65X forward 12-month earnings, which compares to 63.41X for the Zacks sub-industry, 17.88X for the Zacks sector and 20.36X for the S&P 500 index.

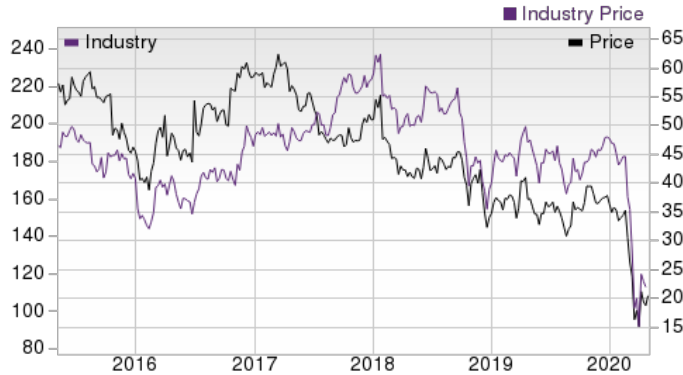
Over the past five years, the stock has traded as high as 15.98X and as low as 4.78X, with a 5-year median of 11.55X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$17 price target reflects 11.33X forward 12-month earnings per share.

The table below shows summary valuation data for HOG:

Valuation Multiples - HOG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.65	63.41	17.88	20.36
	5-Year High	15.98	63.41	17.88	20.36
	5-Year Low	4.78	7.95	8.23	15.19
	5-Year Median	11.55	10.44	9.91	17.44
EV/EBITDA TTM	Current	10.78	14.33	9.28	10.41
	5-Year High	13.48	16.55	11.34	12.86
	5-Year Low	8.81	6.16	6.85	8.28
	5-Year Median	11.15	11.94	9.25	10.78
P/S F12M	Current	0.82	0.98	0.66	3.2
	5-Year High	2.21	0.98	0.76	3.44
	5-Year Low	0.52	0.52	0.5	2.54
	5-Year Median	1.54	0.65	0.61	3.01

As of 05/05/2020

Industry Analysis Zacks Industry Rank: Bottom 1% (251 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ford Motor Company (F)	Neutral	3
LKQ Corporation (LKQ)	Neutral	4
Toyota Motor Corporation (TM)	Neutral	4
Tesla, Inc. (TSLA)	Neutral	3
General Motors Company (GM)	Underperform	5
Garrett Motion Inc. (GTX)	Underperform	5
Honda Motor Co., Ltd. (HMC)	Underperform	5
PACCAR Inc. (PCAR)	Underperform	5

Industry Comparison Industry: Automotive - Domestic				Industry Peers		
	HOG	X Industry	S&P 500	F	GM	HMC
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Underperform	Underperform
Zacks Rank (Short Term)	5	-	-	3	5	5
VGM Score	F	-	-	F	C	B
Market Cap	3.14 B	4.23 B	19.65 B	19.71 B	30.45 B	40.24 B
# of Analysts	6	5	14	6	6	3
Dividend Yield	7.40%	0.00%	2.18%	0.00%	7.15%	3.63%
Value Score	C	-	-	D	B	A
Cash/Price	0.50	0.11	0.06	2.38	0.78	0.56
EV/EBITDA	6.68	8.63	11.77	9.89	3.47	3.64
PEG Ratio	2.40	2.04	2.49	NA	1.21	3.45
Price/Book (P/B)	1.86	2.16	2.64	0.66	0.66	0.50
Price/Cash Flow (P/CF)	3.73	6.73	10.48	1.53	1.43	3.35
P/E (F1)	19.19	20.29	19.10	NA	11.89	11.16
Price/Sales (P/S)	0.60	0.60	2.00	0.13	0.22	0.28
Earnings Yield	5.11%	4.59%	4.99%	-24.55%	8.42%	8.96%
Debt/Equity	2.65	0.75	0.74	3.85	1.43	0.48
Cash Flow (\$/share)	5.50	3.25	7.01	3.25	14.84	6.82
Growth Score	F	-	-	F	D	C
Hist. EPS Growth (3-5 yrs)	-2.92%	4.54%	10.87%	-10.72%	6.93%	8.61%
Proj. EPS Growth (F1/F0)	-60.63%	-34.02%	-9.07%	-202.38%	-62.90%	-25.72%
Curr. Cash Flow Growth	-13.75%	6.65%	5.88%	-2.64%	-8.62%	-7.09%
Hist. Cash Flow Growth (3-5 yrs)	-5.50%	7.39%	8.55%	1.90%	9.37%	-2.43%
Current Ratio	1.09	1.31	1.24	1.32	0.88	1.30
Debt/Capital	72.58%	56.00%	44.07%	79.39%	58.92%	32.33%
Net Margin	6.93%	4.04%	11.00%	-2.06%	4.91%	3.06%
Return on Equity	24.99%	10.87%	16.39%	6.54%	15.19%	5.53%
Sales/Assets	0.49	0.88	0.55	0.57	0.59	0.76
Proj. Sales Growth (F1/F0)	-19.29%	-11.57%	-2.17%	-21.84%	-12.64%	-12.73%
Momentum Score	F	-	-	F	B	C
Daily Price Chg	1.08%	0.92%	0.74%	2.26%	2.46%	0.70%
1 Week Price Chg	9.21%	2.33%	0.53%	1.03%	-4.78%	0.92%
4 Week Price Chg	14.56%	15.51%	6.47%	5.52%	-0.19%	5.39%
12 Week Price Chg	-39.94%	-25.02%	-20.68%	-38.64%	-39.27%	-15.05%
52 Week Price Chg	-43.44%	-35.52%	-10.95%	-52.12%	-44.82%	-17.14%
20 Day Average Volume	4,059,139	1,339,451	2,492,530	85,261,232	15,489,693	813,791
(F1) EPS Est 1 week change	-6.36%	0.00%	0.00%	-44.47%	0.00%	0.00%
(F1) EPS Est 4 week change	-49.42%	-26.97%	-7.39%	-980.72%	-43.85%	-35.94%
(F1) EPS Est 12 week change	-61.27%	-55.46%	-14.21%	-211.09%	-70.69%	-45.33%
(Q1) EPS Est Mthly Chg	-89.68%	-47.50%	-13.52%	-285.40%	-72.30%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	F
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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