

Harley-Davidson, Inc (HOG)

\$35.51 (As of 01/15/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/23/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: F

Summary

The firm's product and technology launches, in sync with the "More Roads to Harley-Davidson" growth plan, are likely to expand product portfolio and customer base. In a bid to establish itself as the leader in the electrification of motorcycles, Harley-Davidson will launch the high-techLiveWire, which will boost sales and prospects. Notably, the firm is emphasizing on bolstering dealer networks. However, with the lack of youth appeal and fewer people riding motorcycles, sales of Harley Davidson's bikes are on the decline, both domestically and internationally. Due to incremental tariff costs, and restructuring and marketing expenses, the company has trimmed its full-year operating margin guidance. The company's elevated leverage of 71% is also a concern. Hence, investors are recommended to wait for a better entry point.

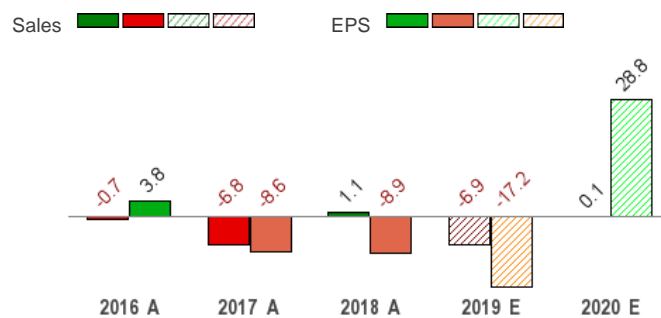
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$41.40 - \$30.17
20 Day Average Volume (sh)	1,388,522
Market Cap	\$5.5 B
YTD Price Change	-4.5%
Beta	1.15
Dividend / Div Yld	\$1.50 / 4.2%
Industry	Automotive - Domestic
Zacks Industry Rank	Top 37% (94 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.8%
Last Sales Surprise	3.1%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	01/28/2020
Earnings ESP	117.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,218 E	1,417 E	1,072 E	932 E	4,629 E
2019	1,196 A	1,434 A	1,069 A	928 E	4,624 E
2018	1,364 A	1,525 A	1,124 A	956 A	4,969 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.97 E	\$1.43 E	\$0.74 E	\$0.28 E	\$3.40 E
2019	\$0.80 A	\$1.23 A	\$0.55 A	\$0.05 E	\$2.64 E
2018	\$1.03 A	\$1.45 A	\$0.68 A	\$0.00 A	\$3.19 A

*Quarterly figures may not add up to annual.

P/E TTM	13.8
P/E F1	10.4
PEG F1	1.3
P/S TTM	1.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/15/2020. The reports text is as of 01/16/2020.

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 (86.9% of total revenues in 2018) 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.

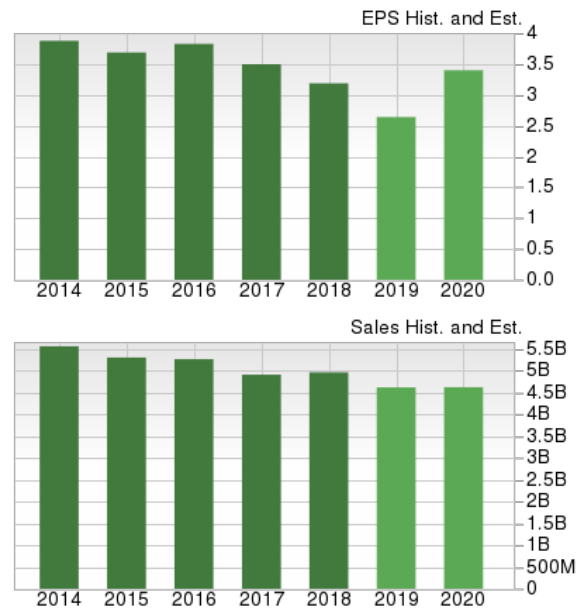
Beside motorcycles, the segment offers a complete line of Harley-Davidson Parts & Accessories (P&A) and General Merchandise. P&A products are replacement parts while General Merchandise includes MotorClothes apparel and riding gear.

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 (13.1%) 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 Buy:

- ▲ In sync with long-term growth objectives to expand product portfolio and customer base, Harley-Davidson will be launching new motorcycle models and technologies for 2020, 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.
- ▲ In a bid to establish itself as the leader in the electrification of motorcycles, Harley-Davidson will be launching the high-tech *LiveWire*, which will be its first attempt in electric two-wheelers. 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
- ▲ The company plans to boost its prospects by launching launch lighter motorcycles and bolstering dealer networks. Emphasis on dealerships is adding customers for Harley. Apart from adding dealerships globally, the company also launched a program to improve response time, and quality of online and in-dealership leads. Harley has been taking initiatives to lower its expenses. It has also been working on manufacturing optimization, which will enable the company to restructure its cost arrangement and optimize product manufacturing process, which is likely to shore up the margins.

In sync with long-term growth objectives to expand product portfolio and customer base, the firm will launch new motorcycle models and technologies for 2020, which is likely to boost prospects.

Reasons To Sell:

- ▼ Amid the lack of youth appeal and with fewer people riding motorcycles, sales of Harley Davidson's motorbikes are on the decline. With new riders not replacing the aging generation as the millennials don't value the motorcycle status symbol, the firm is having a tough time attracting new buyers. With millennial consumers preferring convenient modes of transportation and ridesharing platforms like Uber, they are of the opinion that owning a motorcycle, electric or not, might simply not be an attractive option. As such, the company's retail sales have been declining, both domestically and internationally.
- ▼ Tariffs from the European Union and China on Harley Davidson motorbikes have played spoilsport. Both China and the EU retaliated against US-imposed tariffs by adding their own levies. Imposition of rising tariffs from China is also impacting the performance of the company. Further, the firm is also bearing the brunt of rising cost due to new tariffs on raw materials (steel and aluminum). As it is, the company carries a huge debt burden of \$4.65 billion, representing a leverage of 71%, which restricts the firm's financial flexibility and limits its growth.
- ▼ Bleak outlook has dampened investors' sentiments. The company expects the operating margin in the third quarter to be impacted by lower planned shipments, high tariffs and high selling & general/administration costs. Further, Harley Davidson has also reduced full-year shipment guidance by 5,000 units to 212,000 units. Incremental tariff costs, restructuring and marketing expenses along with the declining demand of motorbikes, both in the U.S. and international markets are likely to weigh on the company. As such, the company has lowered its full year operating income margin forecast to 6%-7% from the prior guidance of 8%-9%.

High leverage, tariff increments, softness in the United States market pose challenges for Harley.

Last Earnings Report

Harley-Davidson's Q3 Earnings Beat Estimates, Down Y/Y

Harley-Davidson, Inc. delivered diluted earnings per share of \$70 cents in third-quarter 2019, which surpassed the Zacks Consensus Estimate of 67 cents. In the prior-year quarter, the figure had amounted to 78 cents per share. This outperformance resulted from the higher-than-expected sales in the firm's motorcycle and related products segment.

The company's net income amounted to \$86.6 million compared with the year-ago quarter's \$113.9 million.

Total revenues declined 4.9% year over year to \$1,069 million in the reported quarter. However, the revenue figure beat the Zacks Consensus Estimate of \$1037 million. The company reported consolidated revenues (including motorcycle sales and financial services revenues) of \$1.27 billion, which declined from the prior-year quarter's \$1.32 billion.

Motorcycles and Related Products

In the third quarter, operating income from the Motorcycles and Related Products segment amounted to \$46.97 million compared with the \$65.66 million reported in the year-ago quarter. This downside primarily resulted from lower revenues and higher tariff costs, partially offset by savings realized from the company's manufacturing-optimization initiative.

In the quarter ending Sep 30, 2019, the company shipped 45,837 motorcycles compared with 48,639 in third-quarter 2018.

Harley-Davidson's retail motorcycle units sold in the United States declined 3.6% to 34,903. International units sold increased 2.7% to 23,619 motorcycles from 23,006 in the prior-year quarter. Sales in the Middle East and Africa (EMEA) and Latin America declined 0.6% and 3.1%, respectively. In Asia Pacific and Canada, sales increased 8.7% and 4.4%, respectively.

Harley-Davidson's worldwide retail motorcycle units sold edged down 1.2% to 58,522 from 59,226 in the year-ago quarter.

Revenues in the Parts & Accessories segment fell 4.3% to \$203 million. Moreover, the metric for General Merchandise — including Motor Clothes apparel and accessories — increased 3.4% to \$60 million.

Harley-Davidson Financial Services

Revenues for Harley-Davidson Financial Services ("HDFS") amounted to \$204 million compared with the prior-year quarter's \$192 million. Operating income declined 13% to \$72.9 million from \$83.8 million in the year-ago quarter. The debt-to capital ratio stands at 71.5% at the end of the quarter.

Financial Position

Harley-Davidson had cash and cash equivalents of 862 million as of Sep 29, 2019, compared with \$927 million as of Sep 30, 2018. Net long-term debt increased to \$4,607 million from \$4197 million as of Sep 30, 2018.

As of Sep 29, 2019, the company's net operating cash inflow was \$848 million compared with \$1122 million as of Sep 30, 2018. Capital expenditure was \$121 million compared with \$119 million recorded in the prior-year period.

Looking Forward

For 2019, Harley-Davidson has reiterated its full-year motorcycle shipment projection in the range of 212,000-217,000 motorcycles. For fourth-quarter 2019, it expects motorcycle shipments to be approximately 38,500 to 43,500.

The motorcycles segment operating margin, as a percentage of revenues, is expected in the band of 6-7% for the full year.

Quarter Ending **09/2019**

Report Date	Oct 22, 2019
Sales Surprise	3.06%
EPS Surprise	7.84%
Quarterly EPS	0.55
Annual EPS (TTM)	2.58

Valuation

Harley-Davidson's shares are down 0.7% over the trailing 12-month period. Stocks in the Zacks Automotive – Domestic industry and the Zacks Automotive sector are up 28.6% and 12.2%, respectively, over the past year.

The S&P 500 index is up 26.3% in the past year.

The stock is currently trading at 10.43X forward 12-month earnings, which compares to 13.13X for the Zacks sub-industry, 10.78X for the Zacks sector and 18.98X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.98X and as low as 8.4X, with a 5-year median of 11.95X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$38 price target reflects 11.18X 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	10.43	13.13	10.78	18.98
	5-Year High	15.98	13.13	11.75	19.34
	5-Year Low	8.4	7.95	8.23	15.17
	5-Year Median	11.95	10.47	9.93	17.44
P/S F12M	Current	1.18	0.84	0.67	3.52
	5-Year High	2.35	0.84	0.76	3.52
	5-Year Low	1.03	0.52	0.5	2.54
	5-Year Median	1.61	0.65	0.62	3
EV/EBITDA TTM	Current	11.95	10.36	8.64	12.12
	5-Year High	13.32	16.37	11.33	12.86
	5-Year Low	8.85	6.48	7.05	8.48
	5-Year Median	11.16	11.17	9.27	10.67

As of 01/15/2020

Industry Analysis Zacks Industry Rank: Top 37% (94 out of 254)



Top Peers

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

Industry Comparison Industry: Automotive - Domestic				Industry Peers		
	HOG Neutral	X Industry	S&P 500	F Neutral	GM Neutral	HMC Neutral
VGM Score	B	-	-	A	B	A
Market Cap	5.48 B	5.48 B	24.22 B	36.44 B	50.22 B	48.58 B
# of Analysts	4	5	13	7	7	2
Dividend Yield	4.22%	0.00%	1.75%	6.53%	4.32%	2.95%
Value Score	A	-	-	A	A	A
Cash/Price	0.18	0.11	0.04	1.02	0.54	0.45
EV/EBITDA	8.57	7.88	14.11	7.10	4.50	4.20
PEG Ratio	1.32	1.34	2.06	1.02	0.52	1.19
Price/Book (P/B)	3.03	2.86	3.34	1.06	1.03	0.61
Price/Cash Flow (P/CF)	5.87	8.36	13.57	2.71	2.14	4.05
P/E (F1)	10.52	12.41	18.90	7.48	5.68	8.86
Price/Sales (P/S)	1.01	0.86	2.65	0.23	0.35	0.34
Earnings Yield	9.57%	8.16%	5.29%	13.38%	17.61%	11.30%
Debt/Equity	2.53	0.67	0.72	2.81	1.43	0.47
Cash Flow (\$/share)	6.05	4.72	6.94	3.39	16.46	6.82
Growth Score	C	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	-2.04%	5.43%	10.56%	-0.36%	12.25%	8.63%
Proj. EPS Growth (F1/F0)	28.72%	8.65%	7.59%	-0.81%	29.24%	-0.16%
Curr. Cash Flow Growth	7.31%	6.06%	14.73%	-13.28%	4.80%	-7.09%
Hist. Cash Flow Growth (3-5 yrs)	-0.25%	5.91%	9.00%	0.48%	12.08%	-2.43%
Current Ratio	1.11	1.13	1.24	1.17	0.96	1.24
Debt/Capital	71.68%	61.11%	42.99%	73.77%	58.83%	32.11%
Net Margin	7.55%	4.74%	11.14%	1.01%	6.19%	3.34%
Return on Equity	28.84%	17.66%	17.16%	15.53%	19.78%	6.14%
Sales/Assets	0.51	0.97	0.55	0.61	0.63	0.78
Proj. Sales Growth (F1/F0)	0.12%	3.74%	4.23%	-2.14%	3.42%	0.10%
Momentum Score	F	-	-	D	F	A
Daily Price Chg	-0.36%	-0.36%	0.27%	-1.08%	0.00%	-0.97%
1 Week Price Chg	-3.97%	-3.69%	0.39%	0.43%	-4.60%	-1.46%
4 Week Price Chg	-6.08%	-5.79%	2.17%	-3.67%	-5.79%	-5.02%
12 Week Price Chg	-10.24%	0.00%	6.65%	-0.22%	-3.99%	3.45%
52 Week Price Chg	-4.21%	-0.47%	22.43%	10.86%	-6.69%	-6.44%
20 Day Average Volume	1,388,522	862,271	1,545,017	37,355,912	7,738,464	323,740
(F1) EPS Est 1 week change	-0.36%	0.00%	0.00%	0.00%	-0.46%	0.00%
(F1) EPS Est 4 week change	-0.36%	0.00%	0.00%	-0.72%	-1.02%	0.00%
(F1) EPS Est 12 week change	-4.85%	-2.60%	-0.41%	-5.77%	-2.48%	-8.65%
(Q1) EPS Est Mthly Chg	-0.25%	0.00%	0.00%	NA	NA	0.00%

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	A
Growth Score	C
Momentum Score	F
VGM Score	B

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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