

## Harley-Davidson, Inc (HOG)

**\$33.82** (As of 01/29/20)

Price Target (6-12 Months): **\$36.00**

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: D

### Summary

With the lack of youth appeal and fewer people riding motorcycles, sales of Harley Davidson's bikes are on the decline, especially in the domestic market. Weak results in the financial services division is also affecting overall profitability. The firm's elevated leverage of 74%, rising SG&A costs and increasing competition are also causes of worry. However, the firm's product and technology launches, in sync with the "More Roads to Harley-Davidson" growth plan, bode well. Last year, the firm made foray into the electrification of motorcycles with the launch of LiveWire. It also acquired StaCyc to leverage its already existing network. Also, while domestic demand appears dull, things are looking up in the international markets, especially the Asia-Pacific region. Hence, the stock warrants a cautious stance.

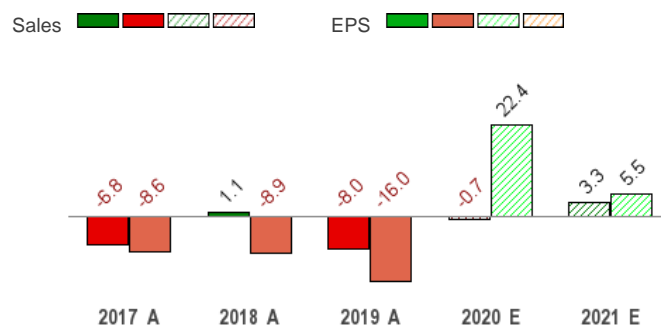
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$41.40 - \$30.17
20 Day Average Volume (sh)	1,951,112
Market Cap	\$5.2 B
YTD Price Change	-9.1%
Beta	1.15
Dividend / Div Yld	\$1.50 / 4.4%
Industry	<a href="#">Automotive - Domestic</a>
Zacks Industry Rank	Bottom 26% (189 out of 255)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	80.0%
Last Sales Surprise	-5.8%
EPS F1 Est- 4 week change	-3.4%
Expected Report Date	04/28/2020
Earnings ESP	-9.8%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,693 E
2020		1,416 E	1,062 E	906 E	4,542 E
2019	1,196 A	1,434 A	1,069 A	874 A	4,573 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.80 E	\$1.66 E	\$0.88 E	\$0.23 E	\$3.46 E
2020	\$0.92 E	\$1.37 E	\$0.70 E	\$0.26 E	\$3.28 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.

P/E TTM	12.7
P/E F1	10.3
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 01/29/2020. The reports text is as of 01/30/2020.

## 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.

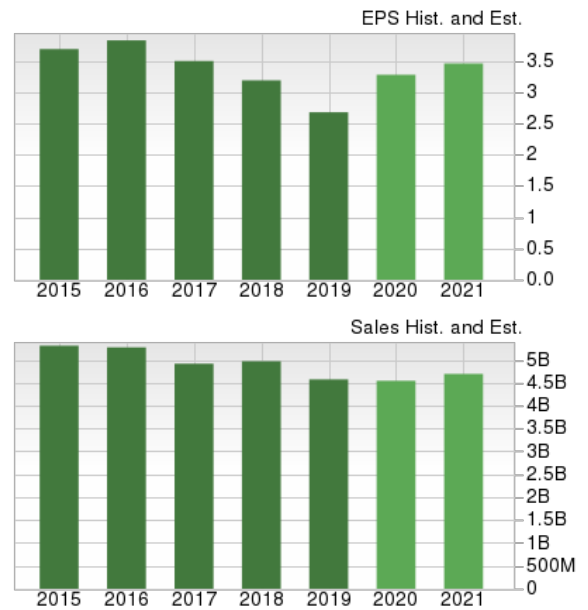
Beside motorcycles, the segment offers a complete line of Harley-Davidson Parts & Accessories (P&A) and General Merchandise. P&A products are replacement parts while General Merchandise includes MotorClothes apparel and riding gear.

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.



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## 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. 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.

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.

▲ 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 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..

▲ While domestic sales are under pressure, things are looking up in the international markets, especially the Asia-Pacific region. In fact, in the latest quarter, sales in Asia Pacific region surpassed Europe as its largest foreign market. For full year, sales in the Asia-Pacific market grew 2.7%. Collaboration with China's most popular motorcycle makers, Qianjiang Motorcycle, to produce a small-bore 338 cubic centimeter bike for the Chinese market under the Harley banner also bodes well. Notably, the firm targets 50% of its revenues to come from overseas market by 2027 and with China being one of the biggest markets for such vehicles, is a smart place to start.

▲ For 2020, Harley Davidson expects operating margin from motorcycle segment to range within 7%-8%, up from 6.3% in 2019. The firm 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. Amid lower year-over-year tariffs from China and European Union along with manufacturing optimization savings, the gross profit is also expected to increase in 2020. Further, the company does not expect any restricting costs in 2020, comparing favorably with \$32.4 million charges incurred in 2019.

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## 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, especially in the domestic markets. 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 services, they are of the opinion that owning a motorcycle might simply not be an attractive option. Hence, as the company's core customer base ages and industry demographics shift, the resulting decline in the U.S. market seems to be the most pressing issue for Harley-Davidson.
- ▼ 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. Even though the company is expected to bear lower y/y tariff costs in 2020, they are still very much present and any re-escalation of tariffs may further put strain on profits. The firm expects its SG&A costs to be higher in 2020. 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.
- ▼ Declining 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 rise in costs and declining sales. Moreover, capital expenditure in 2020 is also projected to be higher year-over-year in the band of \$215-\$235 million, which may further clip the cash flows. As it is, the company carries a huge debt burden of \$4.88 billion, representing a leverage of 74%, which restricts the firm's financial flexibility and limits its growth.
- ▼ Weak results in the financial services division is also a concern. Operating income from its financing arm decreased 8.6% in 2019. At HDFS, 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 redflag if consumers struggle to make payments. Lower profits at the financing arm are expected to weigh on overall results, going forward.

High leverage and softness in the U.S market demand pose challenges for Harley-Davidson.

## Last Earnings Report

### Harley-Davidson's Q4 Earnings Top Estimates

Harley-Davidson came out with quarterly earnings of 9 cents per share, beating the Zacks Consensus Estimate of 5 cents per share. This outperformance resulted from higher-than-expected motorcycle sales in the Asia Pacific region. Precisely, retail motorcycle sales in the Asia-Pacific region totaled 7,691 units, topping the consensus mark of 7,348 units.

The company's net income amounted to \$13.5 million compared with the year-ago quarter's \$495,000.

Total revenues from Motorcycle and Related products, which form bulk of overall revenues of the firm, declined 8.5% year over year to \$874.1million in the reported quarter. The top line also missed the Zacks Consensus Estimate of \$930 million. The company reported consolidated revenues (including motorcycle sales and financial services revenues) of \$1.07 billion, declining 6.5% year over year.

### Segmental Highlights

**Motorcycles and Related Products:** In the fourth quarter, operating loss from the Motorcycles and Related Products segment amounted to \$46.4 million, narrower than a loss of \$59.5 million reported in the year-ago period. Higher sales from the Asia-Pacific region and lower operating costs from the company's manufacturing-optimization initiative can be attributed to the same.

In the quarter ended Dec 31, 2019, it shipped 40,454 motorcycles, down 7% year over year.

Harley-Davidson's worldwide retail motorcycle units sold edged down 1.4% to 38,754 from 39,311 in the year-ago quarter. Harley-Davidson's retail motorcycle units sold in the United States also declined 3.1% from the year-ago quarter to 20,204. International units sold increased 0.5% to 18,550 motorcycles from 18,462 in the prior-year quarter. Sales in the Middle East and Africa, Canada and Latin America declined 2.3%, 14.1% and 0.1%, respectively. Nonetheless, in the Asia Pacific, sales increased 6.2% from the year-ago period.

Revenues for Parts & Accessories fell 9.1% from a year ago to \$129.3 million. The same for General Merchandise — including Motor Clothes apparel and accessories — declined 2.2% from the prior-year quarter to \$57.2 million.

**Financial Services:** Revenues for Harley-Davidson Financial Services increased to \$198.2 million from the prior-year quarter's \$190.2 million. However, operating income declined 7% to \$58.8 million from \$63.3 million in the year-ago quarter.

### Financial Position

Harley-Davidson had cash and cash equivalents of 833.8 million as of Dec 31, 2019. Net long-term debt increased to \$5,124 million from \$4,887 million in the year-ago period. Its debt-to capital ratio was 74% at the end of the quarter.

During the year, the American motorcycle maker bought back \$286.7 million shares and hiked payout by 1.4% to \$1.50 per share.

As of Dec 31, 2019, the company's net operating cash inflow was \$868.3 million compared with \$1,206 million on Dec 31, 2018. Capital expenditure in 2019 was \$181.4 million compared with \$213.5 million recorded in 2018.

### Looking Forward

For full-year 2020, Harley-Davidson projects Motorcycle segment revenues in the band of \$4.53-\$4.66 billion. For first-quarter 2020, it expects Motorcycle segment revenues within \$1.09-\$1.17 billion.

The motorcycles segment operating margin, as a percentage of revenues, is expected in the band of 7-8% for the full year. Operating income from the Financial Services segment is expected to be flat year over year. Capex is projected between \$215 million and \$235 million

Quarter Ending **12/2019**

Report Date	Jan 28, 2020
Sales Surprise	-5.82%
EPS Surprise	80.00%
Quarterly EPS	0.09
Annual EPS (TTM)	2.67

## Valuation

Harley-Davidson's shares are down 8.3% over the trailing 12-month period. Stocks in the Zacks Automotive – Domestic industry and the Zacks Automotive sector are up 27.9% and 8.5%, respectively, over the past year.

The S&P 500 index is up 20.1% in the past year.

The stock is currently trading at 9.71X forward 12-month earnings, which compares to 13.43X for the Zacks sub-industry, 24.97X for the Zacks sector and 18.81X 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 11.88X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$36 price target reflects 10.34X 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	9.71	13.43	24.97	18.81
	5-Year High	15.98	13.43	26.23	19.34
	5-Year Low	8.4	7.95	19.07	15.18
	5-Year Median	11.88	10.47	22.95	17.45
EV/EBITDA TTM	Current	12.11	10.7	15.33	12.25
	5-Year High	13.32	16.37	15.39	12.86
	5-Year Low	8.85	6.48	10.37	8.48
	5-Year Median	11.15	11.34	12.38	10.68
P/S F12M	Current	1.13	0.85	1.06	3.49
	5-Year High	2.33	0.85	1.11	3.49
	5-Year Low	1.03	0.52	0.8	2.54
	5-Year Median	1.61	0.65	0.91	3

As of 01/29/2020

## Industry Analysis Zacks Industry Rank: Bottom 26% (189 out of 255)



## 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
<b>VGM Score</b>	<b>B</b>	-	-	<b>A</b>	<b>B</b>	<b>B</b>
Market Cap	5.22 B	5.22 B	23.91 B	35.13 B	48.01 B	46.72 B
# of Analysts	7	5	13	7	7	3
Dividend Yield	4.44%	0.00%	1.77%	6.77%	4.52%	3.07%
<b>Value Score</b>	<b>A</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Cash/Price	0.17	0.13	0.04	1.05	0.55	0.46
EV/EBITDA	8.77	7.93	14.07	7.01	4.39	4.08
PEG Ratio	1.29	1.37	2.00	1.00	0.51	1.14
Price/Book (P/B)	2.89	2.80	3.27	1.02	0.98	0.58
Price/Cash Flow (P/CF)	6.01	7.60	13.48	2.61	2.04	3.89
P/E (F1)	10.31	12.04	18.76	7.30	5.50	8.51
Price/Sales (P/S)	0.97	0.85	2.61	0.22	0.33	0.33
Earnings Yield	9.70%	8.48%	5.32%	13.66%	18.18%	11.75%
Debt/Equity	2.84	0.69	0.72	2.81	1.43	0.47
Cash Flow (\$/share)	5.63	4.51	6.88	3.39	16.46	6.82
<b>Growth Score</b>	<b>C</b>	-	-	<b>B</b>	<b>C</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	-2.04%	5.43%	10.68%	-0.36%	12.25%	8.63%
Proj. EPS Growth (F1/F0)	22.39%	9.84%	7.73%	-2.30%	29.11%	0.00%
Curr. Cash Flow Growth	-11.80%	-6.09%	12.29%	-13.28%	4.80%	-7.09%
Hist. Cash Flow Growth (3-5 yrs)	-0.25%	5.91%	8.78%	0.48%	12.08%	-2.43%
Current Ratio	1.31	1.17	1.23	1.17	0.96	1.24
Debt/Capital	73.96%	58.99%	43.16%	73.77%	58.83%	32.11%
Net Margin	7.90%	4.78%	11.59%	1.01%	6.19%	3.34%
Return on Equity	28.87%	17.66%	17.38%	15.53%	19.78%	6.14%
Sales/Assets	0.51	0.94	0.54	0.61	0.63	0.78
Proj. Sales Growth (F1/F0)	-0.31%	4.03%	4.05%	-2.30%	3.83%	-0.93%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>D</b>	<b>F</b>	<b>C</b>
Daily Price Chg	0.09%	-0.50%	-0.21%	-1.23%	-0.12%	0.23%
1 Week Price Chg	-1.37%	-2.20%	-1.09%	-1.75%	-3.62%	-3.20%
4 Week Price Chg	-9.06%	-6.07%	-0.01%	-4.73%	-8.20%	-6.22%
12 Week Price Chg	-12.25%	-5.00%	4.14%	-0.67%	-12.55%	-4.05%
52 Week Price Chg	-7.29%	-2.78%	17.24%	1.72%	-14.05%	-11.56%
20 Day Average Volume	1,951,112	1,050,343	1,824,613	49,334,276	8,843,625	440,062
(F1) EPS Est 1 week change	-3.05%	0.00%	0.00%	-1.16%	-0.58%	0.00%
(F1) EPS Est 4 week change	-3.40%	0.00%	0.00%	-1.88%	-2.30%	0.16%
(F1) EPS Est 12 week change	-5.08%	-3.20%	-0.11%	-3.82%	-3.30%	-8.50%
(Q1) EPS Est Mthly Chg	-7.03%	0.00%	0.00%	NA	NA	0.00%

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## 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.

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### 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	<b>A</b>
Growth Score	<b>C</b>
Momentum Score	<b>D</b>
VGM Score	<b>B</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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