

## Harley-Davidson, Inc (HOG)

**\$28.24** (As of 07/29/20)

Price Target (6-12 Months): **\$30.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 06/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: D

### Summary

In sync with long-term growth objectives to streamline product portfolio and expand customer base, Harley-Davidson will be focusing on motorcycle models and technologies that better align with market trends. The firm's turnaround plan, dubbed as 'Rewire', and the five-year strategic plan 'Hardwire' that is expected to be shared in fourth-quarter 2020, boosts optimism. While the initiatives to optimise portfolio will yield long term benefits, Harley-Davidson is expected to witness sluggish sales in the near-term. Aging core customer base and industry demographics along with coronavirus woes have marred the near-term prospects of the firms. Elevated leverage and lower profits at the financing arm are other headwinds. Thus, the stock warrants a cautious stance.

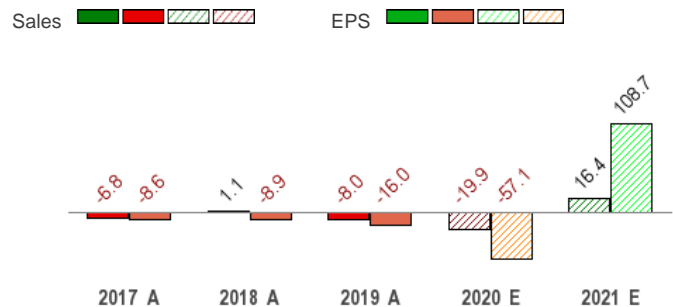
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$40.89 - \$14.31
20 Day Average Volume (sh)	3,917,599
Market Cap	\$4.3 B
YTD Price Change	-24.1%
Beta	1.44
Dividend / Div Yld	\$0.08 / 0.3%
Industry	<a href="#">Automotive - Domestic</a>
Zacks Industry Rank	Bottom 33% (170 out of 253)

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



Last EPS Surprise	-1,100.0%
Last Sales Surprise	-16.2%
EPS F1 Est- 4 week change	-1.0%
Expected Report Date	10/27/2020
Earnings ESP	45.8%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,050 E	1,222 E	987 E	844 E	4,262 E
2020	1,100 A	669 A	941 E	853 E	3,661 E
2019	1,196 A	1,434 A	1,069 A	874 A	4,573 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.78 E	\$0.87 E	\$0.62 E	\$0.25 E	\$2.40 E
2020	\$0.45 A	-\$0.60 A	\$0.43 E	\$0.12 E	\$1.15 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	57.6
P/E F1	24.6
PEG F1	3.1
P/S TTM	1.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/29/2020. The reports text is as of 07/30/2020.

## 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.

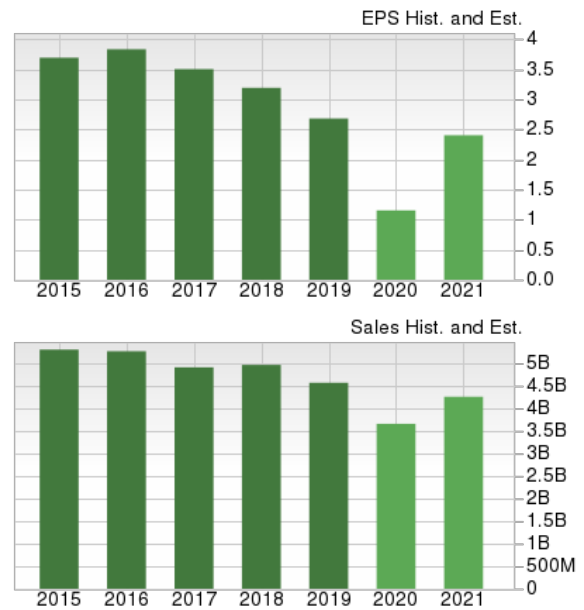
Beside motorcycles, the segment offers a complete line of Harley-Davidson Parts & Accessories (P&A) and General Merchandise. P&A products are replacement parts while General Merchandise includes MotorClothes apparel and riding gear.

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's 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:

- ▲ To pull out the company from the sales slump, Harley Davidson's CEO Jochen Zeitz laid out a turnaround plan, dubbed as 'Rewire', and is working on a five-year (2021-2025) strategic plan 'Hardwire' that is expected to be shared in fourth-quarter 2020. The plan aims to overhaul its operating model and revamp the organization powered by the strength of its legacy brands, optimization of dealer network and prudent inventory management. It should be noted that Harley-Davidson expects 2020 cash savings of \$250 million, including SG&A and capex reductions under the Rewire plan.
- ▲ To drive the brand desirability, the firm aims to reinvigorate product launch efforts via collaborations with key influencers. In fact, the company is soon set to launch a marketing campaign in collaboration with Aquaman and Game of Thrones star Jason Momoa. The firm's efforts to up its marketing game bode well for its turnaround. In sync with long-term growth objectives to streamline product portfolio and expand customer base, Harley-Davidson will be focusing on motorcycle models and technologies that better align with market trends and the taste of younger generations.
- ▲ Putting quality over quantity, the company is focused on clearing excess inventory and streamlining the model line-up by 30%. It is also assessing plans to exit unprofitable international markets and emphasize on 50 markets, primarily in North America, Europe and the regions in Asia-Pacific that hold high potential. Nonetheless, the firm will concentrate on expanding product offerings of the best-selling motorcycles. These initiatives to optimise its business are likely to yield profits in long term.
- ▲ 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 forayed into electric 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, a maker of electric-powered two wheelers for kids, in sync with its objective to adapt to the changing dynamics of the industry.

In sync with long-term growth objectives to streamline product portfolio, Harley-Davidson will be focusing on motorcycle models and technologies that better align with market trends.

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## Reasons To Sell:

- ▼ The company has been battling challenging demographic trends over the past few years, as its core audience grows past the age at which people generally buy motorcycles. As the company lacks youth appeal and a fewer people are riding motorcycles, sales of Harley Davidson 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 aging core customer base and industry demographics shift seem to be the most pressing issue for Harley-Davidson. Further, in June 2020, Harley Davidson was removed from S&P 500 Index, which is seen as a hit to the company's image and prestige.
- ▼ Harley-Davidson's sales have been on declining since past few years. Coronavirus just added to the woes. Thanks to economic shutdown as a result of the spread of COVID-19, the company suffered a massive blow. The iconic motorcycle maker posted quarterly loss for the first time in more than a decade during the second quarter of 2020. During first-quarter 2020, sales of Harley-Davidson declined in all major markets served due to factory closures amid coronavirus. Demand for its bikes is likely to remain depressed in the near future. Amid the coronavirus-led uncertainty, Harley-Davidson has not provided 2020 annual view. It has also slashed quarterly dividend by 94.7% and suspended share repurchases, which dampened investors' confidence further.
- ▼ Harley-Davidson has a stretched balance sheet, which restricts its financial flexibility. As of Jun 30, the motorcycle maker \$6,488.5 million, which rose from the year-ago period's \$4,650.2 million. Total debt-to-capital ratio of the company stands at around 0.83, higher than the auto sector's 0.66. The high leverage, both in absolute and relative terms, restricts the firm's ability to tap onto growth opportunities. Further, rising costs due to tariffs on steel and aluminum, along with tariffs levied on bikes sold in international markets are likely to dent profit margins of Harley-Davidson.
- ▼ Weak results in the financial services division is also a concern. Operating income from the firm's financing arm decreased 8.6% year over year in 2019. In first and second quarter of 2020, operating income of the segment witnessed a year over year plunge of 61% and 94%, respectively. 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.

Amid the lack of youth appeal and with fewer people riding motorcycles, sales of Harley Davidson's motorbikes are on the decline. High debt level also remains a concern.

## Last Earnings Report

### Harley-Davidson Posts Q2 Loss

Harley-Davidson reported second-quarter 2020 loss of 60 cents per share against the Zacks Consensus Estimate of earnings of 6 cents, as coronavirus shutdowns sapped motorcycle sales. In the year-ago quarter, the company recorded earnings of \$1.23 per share. Notably, the Motorcycles and Related Products segments swung to an operating loss of \$121 million against the consensus mark of earnings of \$9.03 million. High restructuring costs also weighed on the firm's results.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	-16.15%
EPS Surprise	-1,100.00%
Quarterly EPS	-0.60
Annual EPS (TTM)	0.49

Total revenues from Motorcycle and Related products, which constitute bulk of the firm's overall revenues, declined 53.3% year over year to \$669 million in the reported quarter. The top line also missed the Zacks Consensus Estimate of \$798 million. The company reported consolidated revenues (including motorcycle sales and financial services revenues) of \$865 million, down 47% year over year.

### Segmental Highlights

**Motorcycles and Related Products:** The Motorcycles and Related Products segment incurred an operating loss of \$121 million against operating income of \$181 million reported in the year-ago period. This decline was mainly due to lower productivity and suspension of global motorcycle manufacturing during most of the quarter amid the coronavirus crisis. In the quarter under review, the company shipped 28,369 motorcycles, down 59% year over year.

Harley-Davidson's worldwide retail motorcycle units sold dropped to 52,712 from the year-ago quarter's 71,846. The company's retail motorcycle units sold in the United States declined 27% from the year-ago quarter to 31,340. International units sold decreased 26% year over year to 19,100 motorcycles. Sales in the Middle East and Africa, Asia Pacific, Canada and Latin America declined 30%, 10%, 30% and 51%, respectively, from the year-ago period.

Revenues for Parts & Accessories fell 24% from the prior year to \$169 million. The same for General Merchandise — including Motor Clothes apparel and accessories — declined 42% from the prior-year quarter to \$38 million.

**Financial Services:** Revenues for Harley-Davidson Financial Services decreased to \$196 million from the prior-year quarter's \$199 million. Operating income slumped 94% to \$5 million from the year-ago quarter's \$76 million due to increasing provision for loan losses amid coronavirus blues.

### Financial Position

Harley-Davidson had cash and cash equivalents of \$3,856 million as of Jun 28, 2020. Net long-term debt increased to \$6,488.5 million from the year-ago period's \$4,650.2 million.

The firm generated \$610.2 million of cash from operating activities in first-half 2020 compared with \$496.2 million in the comparable year-ago period. Capital expenditure in the first six months of 2020 was \$67 million compared with \$83.2 million recorded in corresponding period of 2019.

While the company suspended discretionary share repurchases, it paid a cash dividend of 2 cents per share during second-quarter 2020. Third-quarter dividend of 2 cents per share will be paid on Sep 25 to shareholders of record as of Sep 10.

Given coronavirus-induced uncertainty, Harley-Davidson refrains from providing any outlook and forecast for full-year 2020.

## Valuation

Harley-Davidson's shares are down 24.1% and 21.1 in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks Automotive – Domestic industry and the Zacks Automotive sector are up 81.1% and 18.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 112.9% and 32.2% respectively.

The S&P 500 index is up 0.1% and up 8.4% in the in the year-to-date period and over the past year, respectively.

The stock is currently trading at 15.25X forward 12-month earnings, which compares to 66.92X for the Zacks sub-industry, 27.05X for the Zacks sector and 22.44X for the S&P 500 index.

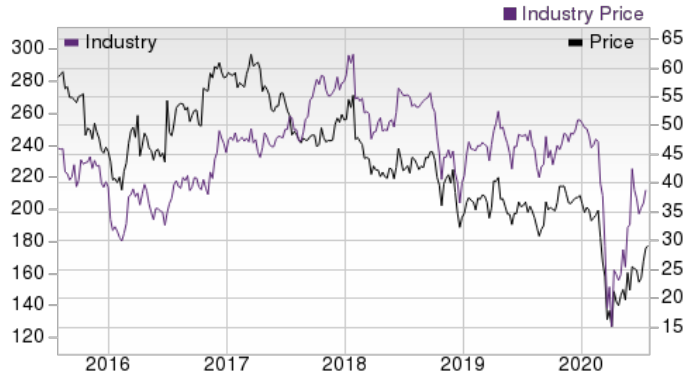
Over the past five years, the stock has traded as high as 16.3X and as low as 4.78X, with a 5-year median of 11.55X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$30 price target reflects 16.21X forward 12-month earnings per share.

The table below shows summary valuation data for HOG:

Valuation Multiples - HOG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.25	66.92	27.05	22.44
	5-Year High	16.3	77.05	27.05	22.44
	5-Year Low	4.78	7.95	8.2	15.25
	5-Year Median	11.55	10.47	9.9	17.52
EV/EBITDA TTM	Current	13.14	19.26	11.57	11.95
	5-Year High	13.48	20	11.79	12.85
	5-Year Low	8.81	6.37	6.94	8.25
	5-Year Median	11.24	12.08	9.32	10.88
P/S F12M	Current	1.09	1.57	0.87	3.54
	5-Year High	2.21	1.57	0.87	3.54
	5-Year Low	0.52	0.52	0.49	2.53
	5-Year Median	1.48	0.65	0.61	3.02

As of 07/29/2020

## Industry Analysis Zacks Industry Rank: Bottom 33% (170 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Garrett Motion Inc. (GTX)	Outperform	1
Ford Motor Company (F)	Neutral	3
General Motors Company (GM)	Neutral	3
Honda Motor Co., Ltd. (HMC)	Neutral	4
LKQ Corporation (LKQ)	Neutral	3
PACCAR Inc. (PCAR)	Neutral	3
Tesla, Inc. (TSLA)	Neutral	3
Toyota Motor Corporation (TM)	Underperform	4

Industry Comparison Industry: Automotive - Domestic				Industry Peers		
	HOG	X Industry	S&P 500	F	GM	HMC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	D	-	-	D	B	A
Market Cap	4.33 B	6.02 B	22.69 B	27.52 B	37.05 B	44.55 B
# of Analysts	8	5	14	6	6	3
Dividend Yield	0.28%	0.00%	1.8%	0.00%	5.87%	3.18%
Value Score	B	-	-	C	A	A
Cash/Price	0.35	0.10	0.07	1.69	1.23	0.55
EV/EBITDA	10.20	10.50	13.11	10.77	3.71	4.22
PEG Ratio	2.98	3.90	3.05	NA	1.74	0.89
Price/Book (P/B)	2.66	3.04	3.15	0.92	0.85	0.58
Price/Cash Flow (P/CF)	5.13	9.47	12.28	2.14	1.75	4.19
P/E (F1)	23.82	25.87	22.27	NA	17.11	15.03
Price/Sales (P/S)	0.96	0.99	2.46	0.18	0.32	0.32
Earnings Yield	4.07%	2.45%	4.25%	-19.08%	5.83%	6.67%
Debt/Equity	4.00	0.98	0.75	3.85	2.00	0.51
Cash Flow (\$/share)	5.50	3.23	6.94	3.24	14.84	6.15
Growth Score	F	-	-	F	C	B
Hist. EPS Growth (3-5 yrs)	-2.92%	1.90%	10.85%	-10.72%	1.65%	7.38%
Proj. EPS Growth (F1/F0)	-57.00%	-40.23%	-7.70%	-211.20%	-68.60%	-28.17%
Curr. Cash Flow Growth	-13.75%	7.98%	5.31%	-2.64%	-8.62%	-11.48%
Hist. Cash Flow Growth (3-5 yrs)	-5.50%	7.39%	8.55%	1.90%	9.37%	1.06%
Current Ratio	1.46	1.28	1.31	1.32	1.12	1.26
Debt/Capital	79.98%	52.26%	44.23%	79.39%	66.71%	33.75%
Net Margin	1.72%	1.59%	10.45%	-2.06%	1.46%	3.06%
Return on Equity	9.55%	6.54%	14.99%	6.54%	6.27%	5.35%
Sales/Assets	0.40	0.74	0.53	0.57	0.49	0.73
Proj. Sales Growth (F1/F0)	-19.94%	-13.10%	-1.97%	-20.78%	-11.41%	-15.11%
Momentum Score	D	-	-	B	C	B
Daily Price Chg	-2.82%	0.00%	1.52%	-1.28%	-1.67%	-0.04%
1 Week Price Chg	1.54%	-0.38%	0.37%	1.18%	-0.76%	-1.91%
4 Week Price Chg	21.99%	15.72%	5.44%	15.72%	3.73%	1.69%
12 Week Price Chg	44.38%	25.90%	15.38%	42.09%	18.27%	12.91%
52 Week Price Chg	-21.07%	-12.46%	-1.61%	-27.39%	-35.82%	3.70%
20 Day Average Volume	3,917,599	1,648,144	1,846,377	70,243,216	13,078,910	554,484
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.99%	0.00%	0.27%	1.85%	0.00%	-8.04%
(F1) EPS Est 12 week change	-1.39%	-10.22%	-0.85%	-8.62%	-15.38%	-16.26%
(Q1) EPS Est Mthly Chg	4.32%	0.96%	0.13%	9.09%	-3.94%	70.59%

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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>B</b>
Growth Score	<b>F</b>
Momentum Score	<b>D</b>
VGM Score	<b>D</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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