

Harley-Davidson

Consumer Conference: HOG Fireside Chat
Takeaways

Reiterate Rating: BUY | PO: 55.00 USD | Price: 39.98 USD

We hosted a Fireside Chat with HOG CFO Jonathan Root and Director of Investor Relations Shawn Collins at our consumer conference in Miami, Florida. Our key takeaways were as follows:

HOG sees “Dawn of a New Era” with new model launch

We believe that HOG is well positioned for 2024 given a significant refresh of its popular Road Glide and Street Glide model families, which HOG believes is more transformative compared to its last refresh in 2013/2014 (Project Rushmore). We believe consumer reaction has been very favorable and the current rate environment has not impacted sell through. The revamped touring models are HOG’s highest margin motorcycles and HOG expects to benefit from a multi-year upgrade cycle from its addressable market of ~1.5mm Harley touring riders. Dealer sentiment remains the strongest in over 12 years given enthusiasm for new models. We believe HOG is already seeing strong retail in the U.S., but new models have not yet shipped internationally (expect potential benefits by end of March). HOG should also benefit from manufacturing efficiencies as its supply chain has become more predictable while management feels good about its ability to realize ~\$100mm of cost savings this year. We reiterate our Buy rating and raise our PO to \$55 (from \$50) based on 11-12x (from 10-11x) our C25 EPS of \$4.75 given strong consumer reception to new model launches.

Trike demand still strong and HOG adjusting production

We believe demand for trikes (~5% of shipments) has exceeded supply for the past several years as an aging boomer population looks to extend their riding years. We believe HOG has adjusted production and already shipped more trikes beginning in 4Q. We model overall shipments down y/y in 1Q as HOG laps a tough comparison from last year and as production schedules cannot be easily adjusted, but see potential EPS upside on stronger gross margin from mix benefits and cost efficiencies.

Incentive programs should help reduce 2023 inventory

We believe HOG has incentive programs in place to help dealers move through 2023 model year motorcycles (~50% of current dealer inventory). The overall promotional environment remains fairly benign for motorcycles, and HOG has not needed to use promos for 2024 model year given strong sell through. HOG expects net pricing to be flat, but should see mix benefits given a shift to the higher-priced touring segment.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.96	4.87	4.05	4.75	5.42
EPS Change (YoY)	17.8%	-1.8%	-16.8%	17.3%	14.1%
Consensus EPS (Bloomberg)			4.21	4.71	5.16
DPS	0.64	0.64	0.64	0.64	0.64
Valuation (Dec)					
P/E	8.1x	8.2x	9.9x	8.4x	7.4x
Dividend Yield	1.6%	1.6%	1.6%	1.6%	1.6%
EV / EBITDA*	11.4x	12.7x	12.8x	11.9x	10.8x
Free Cash Flow Yield*	29.4%	33.1%	11.9%	15.0%	16.4%

* For full definitions of *IQmethod*SM measures, see page 4.

14 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	50.00	55.00

Alexander Perry
Research Analyst
BofA
+1 646 855 1365
aperry3@bofa.com

Robert F. Ohmes, CFA
Research Analyst
BofA
robert.ohmes@bofa.com

Stock Data

Price	39.98 USD
Price Objective	55.00 USD
Date Established	14-Mar-2024
Investment Opinion	B-1-7
52-Week Range	25.43 USD - 40.85 USD
Mkt Val (mn) / Shares Out (mn)	5,460 USD / 136.6
Free Float	90.7%
Average Daily Value (mn)	72.43 USD
BofA Ticker / Exchange	HOG / NYS
Bloomberg / Reuters	HOG US / HOG.N
ROE (2024E)	14.7%
Net Dbt to Eqty (Dec-2023A)	175.6%
ESGMeter™	Medium

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Timestamp: 14 March 2024 05:00AM EDT

iQprofileSM Harley-Davidson

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	5.4%	5.6%	4.1%	4.2%	4.1%
Return on Equity	27.2%	22.0%	14.7%	14.6%	14.6%
Operating Margin	11.9%	28.3%	29.0%	30.0%	32.1%
Free Cash Flow	1,603	1,805	651	818	893

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.4x	2.9x	1.6x	1.7x	1.6x
Asset Replacement Ratio	1.0x	1.6x	1.7x	1.6x	1.5x
Tax Rate	20.6%	19.8%	24.5%	24.5%	24.0%
Net Debt-to-Equity Ratio	189.4%	175.6%	151.2%	130.0%	109.2%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,888	5,836	5,504	5,741	6,109
% Change	7.7%	19.4%	-5.7%	4.3%	6.4%
Gross Profit	1,491	2,558	2,506	2,660	2,938
% Change	15.0%	71.6%	-2.0%	6.1%	10.5%
EBITDA	1,061	951	945	1,015	1,116
% Change	7.0%	-10.4%	-0.7%	7.5%	9.9%
Net Interest & Other Income	339	323	274	295	374
Net Income (Adjusted)	741	707	552	620	707
% Change	13.6%	-4.7%	-21.8%	12.2%	14.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	739	695	543	612	701
Depreciation & Amortization	152	154	145	152	161
Change in Working Capital	613	324	91	85	77
Deferred Taxation Charge	20	0	0	0	0
Other Adjustments, Net	237	881	122	219	204
Capital Expenditure	(158)	(250)	(250)	(250)	(250)
Free Cash Flow	1,603	1,805	651	818	893
% Change	49.9%	12.6%	-63.9%	25.6%	9.2%
Share / Issue Repurchase	(292)	0	0	1	1
Cost of Dividends Paid	(96)	(93)	(87)	(83)	(83)
Change in Debt	38	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,433	757	914	1,057	1,318
Trade Receivables	252	267	255	264	272
Other Current Assets	3,065	3,402	3,489	3,612	3,748
Property, Plant & Equipment	690	786	890	989	1,078
Other Non-Current Assets	6,052	6,922	7,034	7,245	7,443
Total Assets	11,492	12,134	12,583	13,167	13,859
Short-Term Debt	2,455	2,455	2,455	2,455	2,455
Other Current Liabilities	1,079	1,106	1,090	1,137	1,205
Long-Term Debt	4,484	4,484	4,484	4,484	4,484
Other Non-Current Liabilities	568	568	568	568	568
Total Liabilities	8,586	8,613	8,597	8,644	8,712
Total Equity	2,907	3,521	3,986	4,523	5,147
Total Equity & Liabilities	11,492	12,134	12,583	13,167	13,859

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Leisure

Company Description

Harley-Davidson is the largest U.S. manufacturer of motorcycles with a dominant market position in the Touring (46.4% of 2022 shipments), Cruiser (30.5%), Sportster/Street (17.5%), and Adventure Touring (5.6%) segments. It generates operating income/loss across its Motorcycle & Related Segment (75% of company EBIT in 2022), Harley-Davidson Financial Services (35% of company EBIT), and Livewire (~10% of company EBIT).

Investment Rationale

We rate HOG shares Buy as we see accelerating brand momentum and new management strategy driving significant increases in unit profitability.

Stock Data

Average Daily Volume 1,811,665

Quarterly Earnings Estimates

	2023	2024
Q1	2.04A	1.60E
Q2	1.22A	1.14E
Q3	1.38A	1.20E
Q4	0.18A	0.08E

Price objective basis & risk

Harley-Davidson (HOG)

Our \$55 PO is based on 11-12x our F25 adj. EPS of \$4.75 (including Livewire), in line with powersports peers: (1) potential EPS upside on new model launches, (2) accelerating brand momentum, supported by a reset to a "Pull" market strategy (under new CEO Jochen Zeitz), (3) newly established leadership in Electric motorcycles and the creation of a dedicated EV division, and (4) the long-term opportunities for motorcycle division EBIT margin recovery to peak 15%+ and stronger International growth (including China).

Risks are that (1) aggregate on-highway new motorcycle units have been challenged historically, (2) the timing of a launch of a premium low displacement motorcycle for China remains uncertain, (3) rider safety remains a top concern for new joiners, and (4) HOG global dealerships are declining.

Analyst Certification

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US - Broadlines, Hardlines, Food Retailers & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Academy Sports + Outdoors	ASO	ASO US	Robert F. Ohmes, CFA
	Arhaus, Inc	ARHS	ARHS US	Robert F. Ohmes, CFA
	BJ's Wholesale Club Holdings	BJ	BJ US	Robert F. Ohmes, CFA
	Costco Wholesale Corporation	COST	COST US	Robert F. Ohmes, CFA
	Grocery Outlet Holding Corp.	GO	GO US	Robert F. Ohmes, CFA
	Harley-Davidson	HOG	HOG US	Alexander Perry
	Life Time	LTH	LTH US	Alexander Perry
	Mattel	MAT	MAT US	Alexander Perry
	Mister Car Wash	MCW	MCW US	Robert F. Ohmes, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Robert F. Ohmes, CFA
	Planet Fitness, Inc.	PLNT	PLNT US	Alexander Perry
	Sprouts Farmers Market, Inc.	SFM	SFM US	Robert F. Ohmes, CFA
	Sysco Corporation	SY	SY US	Kendall Toscano
	Target Corp.	TGT	TGT US	Robert F. Ohmes, CFA
	The Kroger Co.	KR	KR US	Robert F. Ohmes, CFA
	Topgolf Callaway Brands Corp	MODG	MODG US	Alexander Perry
	Upbound Group Inc.	UPBD	UPBD US	Vicky Liu
	Walmart Inc	WMT	WMT US	Robert F. Ohmes, CFA
NEUTRAL				
	Dick's Sporting Goods	DKS	DKS US	Robert F. Ohmes, CFA
	Fox Factory Holding Corp	FOXF	FOXF US	Alexander Perry
	Hasbro	HAS	HAS US	Alexander Perry
	Williams-Sonoma	WSM	WSM US	Robert F. Ohmes, CFA
	Xponential Fitness	XPOF	XPOF US	Alexander Perry
	YETI Holdings, Inc.	YETI	YETI US	Robert F. Ohmes, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Robert F. Ohmes, CFA
	Canada Goose Holdings Inc	YGOOS	GOOS CN	Alexander Perry
	Canada Goose Holdings Inc	GOOS	GOOS US	Alexander Perry



US - Broadlines, Hardlines, Food Retailers & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Columbia Sportswear	COLM	COLM US	Alexander Perry
	Dollar General Corporation	DG	DG US	Robert F. Ohmes, CFA
	Dollar Tree, Inc.	DLTR	DLTR US	Robert F. Ohmes, CFA
	Hibbett Sports, Inc.	HIBB	HIBB US	Alexander Perry
	National Vision	EYE	EYE US	Robert F. Ohmes, CFA
	Tractor Supply Company	TSCO	TSCO US	Robert F. Ohmes, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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Harley-Davidson (HOG) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.



Equity Investment Rating Distribution: Leisure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	16	55.17%	Buy	9	56.25%
Hold	7	24.14%	Hold	5	71.43%
Sell	6	20.69%	Sell	4	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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