

## Harley-Davidson

## HOG announces CFO transition

Reiterate Rating: BUY | PO: 55.00 USD | Price: 37.36 USD

## HOG CFO leaving for new opportunity

HOG announced 4/12 that CFO Gina Goetter will be leaving HOG and David Viney, Vice President & Treasurer, will serve as Interim CFO effective April 28, 2023 (upon Goetter's departure) while an external search process is ongoing. Mrs. Goetter is leaving to join Hasbro (HAS) as CFO effective May 18, 2023 and we believe this move reflects a broader role and compensation opportunity for Goetter rather than issues at HOG given that we believe this opportunity emerged recently. HOG did not reiterate their F23 guide however we believe their strategy remains on track despite what we believe was a slower start to the dealer network in 1Q in part due to unfavorable weather & some slowdown beginning in Feb. due to the higher rate environment (see [HOG Dealer Expert call Takeaways](#)). Importantly, we recognize HDFS is not a bank and does not hold long term assets and HOG has recently raised ~\$2B through 3 transactions since February to fund HDFS through the rest of the year.

## Lower PO (to \$55) and 1Q U.S. retail unit sales forecast

Our 1Q23 adj. EPS estimate of \$1.30 remains unchanged but we lower our 1Q U.S. retail unit sales to -12% y/y from -5% given weather challenges, tightening of credit standards, and higher interest rates which likely impacted dealer network unit sales in the U.S. during 1Q. Given a likely slower than expected start to 2023 for the dealers, we lower our PO to \$55 (was \$65) reflecting 10-11X (was 11-12X) our F24 adj. EPS (incl. Livewire) of \$5.20 (was \$5.23) as the rising cost of financing motor vehicle purchases should weigh on HOG's valuation. Reiterate Buy.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.21	4.96	5.00	5.20	5.51
GAAP EPS	4.19	4.96	5.00	5.20	5.51
EPS Change (YoY)	446.8%	17.8%	0.8%	4.0%	6.0%
Consensus EPS (Bloomberg)			4.61	4.98	5.10
DPS	0.60	0.64	0.64	0.64	0.64
Valuation (Dec)					
P/E	8.9x	7.5x	7.5x	7.2x	6.8x
GAAP P/E	8.9x	7.5x	7.5x	7.2x	6.8x
Dividend Yield	1.6%	1.7%	1.7%	1.7%	1.7%
EV / EBITDA*	11.2x	10.4x	10.3x	8.9x	8.6x
Free Cash Flow Yield*	19.8%	29.2%	16.3%	17.2%	19.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

12 April 2023

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	65.00	55.00
2024E Rev (m)	6,444.3	6,424.4
2025E Rev (m)	6,923.5	6,902.7
2024E EPS	5.23	5.20
2025E EPS	5.55	5.51

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## Stock Data

Price	37.36 USD
Price Objective	55.00 USD
Date Established	12-Apr-2023
Investment Opinion	B-1-7
52-Week Range	29.80 USD - 51.77 USD
Mkt Val (mn) / Shares Out (mn)	5391 USD / 144.3
Average Daily Value (mn)	80.80 USD
BofA Ticker / Exchange	HOG / NYS
Bloomberg / Reuters	HOG US / HOG.N
ROE (2023E)	22.3%
Net Dbt to Eqty (Dec-2022A)	189.4%
ESGMeter™	Medium

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HAS- Hasbro

HOG- Harley-Davidson

HDFS- Harley-Davidson Financial Services

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Refer to important disclosures on page 5 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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Timestamp: 12 April 2023 08:56PM EDT

# iQprofile<sup>SM</sup> Harley-Davidson

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	3.1%	5.4%	5.6%	5.5%	5.0%
Return on Equity	30.5%	27.2%	22.3%	19.1%	17.3%
Operating Margin	9.1%	11.9%	27.2%	28.4%	29.4%
Free Cash Flow	1,069	1,573	877	927	1,069

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.8x	2.4x	1.5x	1.5x	1.6x
Asset Replacement Ratio	0.6x	1.2x	1.3x	1.2x	1.1x
Tax Rate	21.6%	20.6%	23.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	197.6%	189.4%	145.2%	113.6%	90.2%
Interest Cover	NM	NA	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	4,540	4,888	6,087	6,424	6,903
% Change	39.1%	7.7%	24.5%	5.5%	7.4%
Gross Profit	1,297	1,491	2,561	2,756	3,001
% Change	56.6%	15.0%	71.8%	7.6%	8.9%
EBITDA	992	1,063	1,080	1,240	1,293
% Change	204.9%	7.1%	1.6%	14.8%	4.3%
Net Interest & Other Income	421	339	270	275	342
<b>Net Income (Adjusted)</b>	<b>653</b>	<b>741</b>	<b>720</b>	<b>738</b>	<b>782</b>
<b>% Change</b>	<b>450.1%</b>	<b>13.6%</b>	<b>-2.9%</b>	<b>2.6%</b>	<b>6.0%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	653	739	710	728	774
Depreciation & Amortization	165	154	163	172	184
Change in Working Capital	(34)	613	44	59	83
Deferred Taxation Charge	1	20	0	0	0
Other Adjustments, Net	390	237	171	178	238
Capital Expenditure	(105)	(190)	(210)	(210)	(210)
<b>Free Cash Flow</b>	<b>1,069</b>	<b>1,573</b>	<b>877</b>	<b>927</b>	<b>1,069</b>
<b>% Change</b>	<b>NM</b>	<b>47.1%</b>	<b>-44.2%</b>	<b>5.6%</b>	<b>15.4%</b>

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,875	1,433	1,808	2,190	2,544
Trade Receivables	182	252	250	260	272
Other Current Assets	2,493	3,065	3,166	3,272	3,426
Property, Plant & Equipment	684	690	737	776	802
Other Non-Current Assets	5,817	6,052	6,213	6,381	6,610
<b>Total Assets</b>	<b>11,051</b>	<b>11,492</b>	<b>12,175</b>	<b>12,878</b>	<b>13,653</b>
Short-Term Debt	2,294	2,455	2,455	2,455	2,455
Other Current Liabilities	1,049	1,079	1,133	1,190	1,272
Long-Term Debt	4,626	4,484	4,484	4,484	4,484
Other Non-Current Liabilities	529	568	568	568	568
<b>Total Liabilities</b>	<b>8,498</b>	<b>8,586</b>	<b>8,640</b>	<b>8,697</b>	<b>8,779</b>
<b>Total Equity</b>	<b>2,553</b>	<b>2,907</b>	<b>3,534</b>	<b>4,182</b>	<b>4,874</b>
<b>Total Equity &amp; Liabilities</b>	<b>11,051</b>	<b>11,492</b>	<b>12,175</b>	<b>12,878</b>	<b>13,653</b>

\* For full definitions of iQmethod<sup>SM</sup> 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 (39% of 2020 shipments), Cruiser (38%) and Sportster/Street (23%) segments. It generates operating income across its Motorcycle & Related Segment (55% of company EBIT in 2019) and Harley-Davidson Financial Services (45% 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 2,162,811

## Quarterly Earnings Estimates

	2022	2023
Q1	1.45A	1.30E
Q2	1.46A	1.64E
Q3	1.78A	1.89E
Q4	0.28A	0.15E

## Price objective basis & risk

### Harley-Davidson (HOG)

Our \$55 PO is based on 10-11x our F24 adj. EPS of \$5.20 (incl. Livewire) as we believe HOG should trade more in line with its historical multiple of 10-15x given: (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 (incl. China).

Risks to the downside are (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

I, Robert F. Ohmes, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Food Retailers & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Academy Sports + Outdoors	ASO	ASO US	Robert F. Ohmes, CFA
	BJ's Wholesale Club Holdings	BJ	BJ US	Robert F. Ohmes, CFA
	Clarus Corporation	CLAR	CLAR US	Alexander Perry
	Costco Wholesale Corporation	COST	COST US	Robert F. Ohmes, CFA
	Dick's Sporting Goods	DKS	DKS US	Robert F. Ohmes, CFA
	Fox Factory Holding Corp	FOXF	FOXF US	Alexander Perry
	Grocery Outlet Holding Corp.	GO	GO US	Robert F. Ohmes, CFA
	Harley-Davidson	HOG	HOG US	Robert F. Ohmes, CFA
	Hibbett Sports, Inc.	HIBB	HIBB US	Alexander Perry
	Life Time	LTH	LTH US	Robert F. Ohmes, CFA
	Planet Fitness, Inc.	PLNT	PLNT US	Alexander Perry
	Solo Brands	DTC	DTC US	Robert F. Ohmes, CFA
	Sysco Corporation	SYU	SYU US	Kendall Toscano
	The Kroger Co.	KR	KR US	Robert F. Ohmes, CFA
	Topgolf Callaway Brands Corp	MODG	MODG US	Alexander Perry
	Walmart Inc	WMT	WMT US	Robert F. Ohmes, CFA
	Xponential Fitness	XPOF	XPOF US	Alexander Perry
<b>NEUTRAL</b>				
	Funko Inc.	FNKO	FNKO US	Alexander Perry
	Holley Inc.	HLLY	HLLY US	Alexander Perry
	Target Corp.	TGT	TGT US	Robert F. Ohmes, CFA
	YETI Holdings, Inc.	YETI	YETI US	Robert F. Ohmes, CFA
<b>UNDERPERFORM</b>				
	Canada Goose Holdings Inc	YGOOS	GOOS CN	Robert F. Ohmes, CFA
	Canada Goose Holdings Inc	GOOS	GOOS US	Robert F. Ohmes, CFA
	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
	National Vision	EYE	EYE US	Robert F. Ohmes, CFA
	Sprouts Farmers Market, Inc.	SFM	SFM US	Robert F. Ohmes, CFA



## US - Food Retailers &amp; Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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**IQmethod<sup>SM</sup> 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 &amp; 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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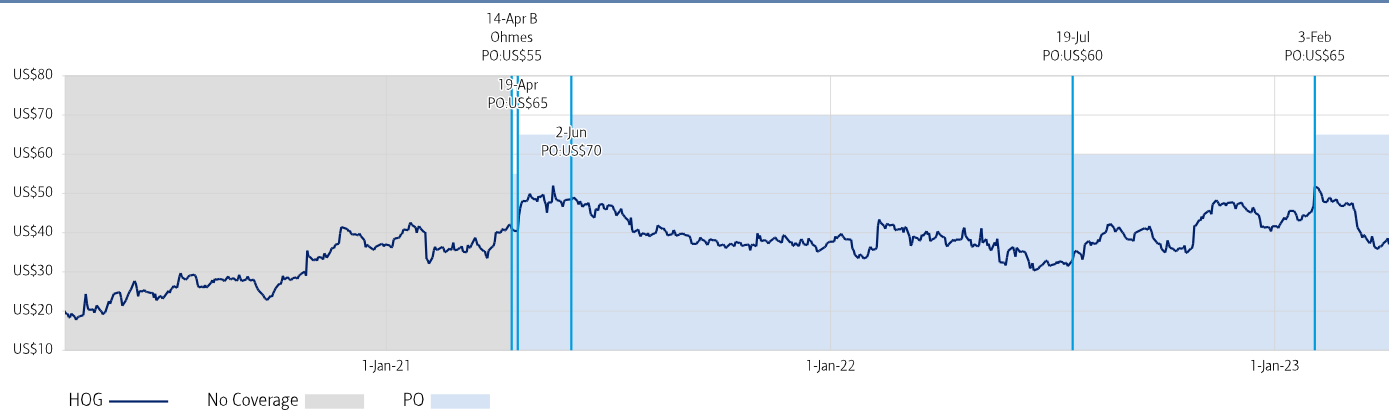
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### Harley-Davidson (HOG) Price Chart



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 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	14	51.85%	Buy	7	50.00%
Hold	9	33.33%	Hold	6	66.67%
Sell	4	14.81%	Sell	1	25.00%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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