

Harley-Davidson

4Q EPS ahead as other income offsets lower HDMC revenue & gross margin

Maintain Rating: BUY | PO: 45.00 USD | Price: 34.54 USD

4Q EPS ahead as other income offsets gross margin miss

Harley-Davidson (HOG) reported 4Q23 EPS of \$0.18 (vs. our -\$0.08), which benefited from a lower tax rate, narrower Livewire losses, and higher other/investment income vs. our model. HOG shipments were above our estimates (29.6K vs. our 28.5K), but price per motorcycle of 0.6% was below our 11.1%, which led to the HDMC revenue decline of -13.8% (below our -5.0%). HDMC gross margin of 22.9% (vs. our 26.0%) was down 360bps vs. last year given lower volume, higher sales incentives, and other manufacturing costs, which more than offset the benefits of shipment mix and lower raw material costs. U.S. retail unit sales decreased -9.1% (vs. our -14.0%) “impacted by both the high interest rate environment and the discontinuation of legacy Sportster at the end of 2022 in the region.”

2024 HDMC guidance appears conservative

HOG provided initial 2024 guidance, which includes (1) HDMC revenue of flat to -9% and operating income margin of 12.6% to 13.6%; (2) HDFS operating income of flat to up 5%; and (3) LiveWire operating loss of \$115 to \$125mm. We estimate implied EPS guidance of \$4.50 at the mid-point (assuming no share repurchase) vs. street at \$4.47.

See benefits from new model launch; maintain Buy

We believe that HOG is well positioned for 2024 given a significant refresh of its popular Road Glide and Street Glide model families. Key changes include the addition Milwaukee-Eight 117 engine into standard models (featured in last year's ST model), a new touchscreen infotainment system, and a new front fairing design. We believe that HOG's last significant product refresh for its touring lineup was Project Rushmore in August 2013, which led to a 16% increase in touring shipments and 6% increase in global retail sales in the year following the launch. HOG's CEO commented that “We are excited by the early read of our new Model Year launch, the most comprehensive product development in the touring platform in well over 10 years, that will redefine the Harley-Davidson Grand American Touring experience for years to come and lay the foundation to drive retail sales growth in '24.” We maintain our Buy rating.

08 February 2024

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Stock Data

Price	34.54 USD
Price Objective	45.00 USD
Date Established	1-Feb-2024
Investment Opinion	B-1-7
52-Week Range	25.43 USD - 50.29 USD
Mrkt Val (mn) / Shares Out (mn)	4,810 USD / 139.3
Free Float	90.9%
Average Daily Value (mn)	42.32 USD
BofA Ticker / Exchange	HOG / NYS
Bloomberg / Reuters	HOG US / HOG.N
ROE (2023E)	21.0%
Net Dbt to Eqty (Dec-2022A)	189.4%
ESGMeter™	Medium

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HDMC = Harley Davidson Motor Company

HDFS = Harley Davidson Financial Services

K = thousand

vs. = versus

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Timestamp: 08 February 2024 08:30AM EST

Price objective basis & risk

Harley-Davidson (HOG)

Our \$45 PO is based on 9x our F25 adj. EPS of \$5.00 (including Livewire), more 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 (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.

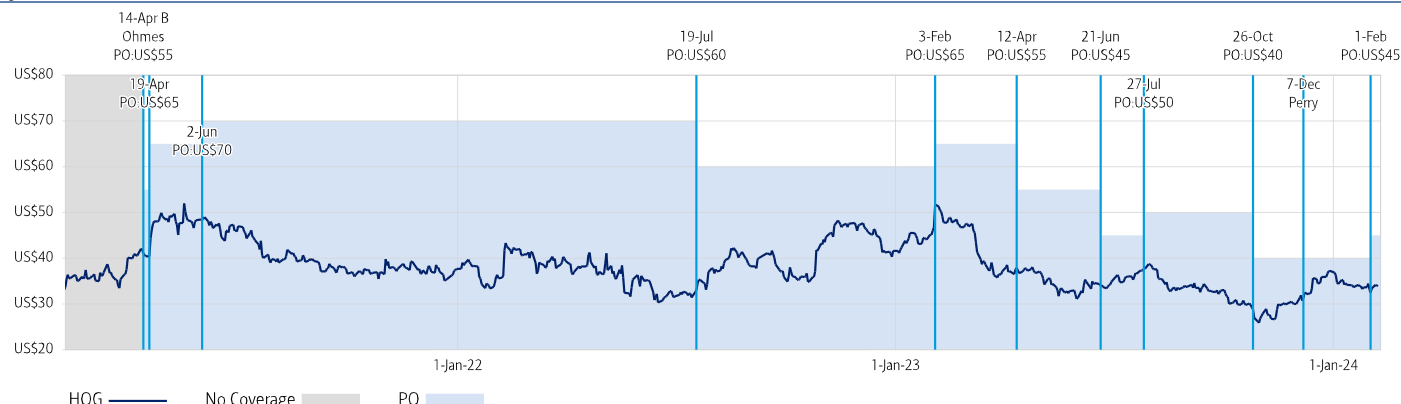
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Harley-Davidson (HOG) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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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
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Sell	807	22.84%	Sell	383	47.46%

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