

Global Strategic Management – TOPIC BRIEF 2

COURSE NAME/ID: Global Strategic Management (GSM) STR 7559-01 Section 1

COMPANY: HARLEY DAVIDSON

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ARTICLE: Harley-Davidson's Electric Motorcycles Struggle to Connect with Investors by Bob Tita.

(Source: <https://www.wsj.com/articles/harley-davidsons-electric-motorcycles-struggle-to-connect-with-investors-11667224929>)

INTRODUCTION

The article discusses the diminished returns provided by **LiveWire**, which was acquired by **Harley-Davidson** in a **\$1.8 billion special-purpose acquisition company**, or SPAC merger in September 2022, compared to the actual projected sales. The deal yielded only half the amount of cash Harley anticipated, mainly because most of the SPAC investors withdrew their interest in LiveWire.

In this article, we will analyze whether Harley has made the right decision in acquiring LiveWire, the risks associated with the acquisition, and its plan to expand in international markets. We will also look at Harley's association with Taiwan's Kymco Ltd for expanding Harley's electrical segment to Europe and Asia.

FIVE FACTOR ANALYSIS FOR ACQUISITION OF LIVEWIRE

1. Synergy

Harley achieved **reciprocal synergies** in its acquisition of LiveWire by having the companies work closely together and execute tasks through an iterative knowledge-sharing process. Through this process, Harley was able to evolve the LiveWire models into a design and quality standard influenced by Harley. *(Ref Figure 1: Evolution)*

2. Nature of Resources

Harley made the right choice in acquiring LiveWire because the synergy-generating resources, such as deep technology knowledge, manufacturing at scale, and intellectual property, all of which are hard resources that are easy to value. Harley and LiveWire can create synergies relatively quickly with these resources. *(Ref Figure 2: Competitive Advantage)*

3. Extent of Redundant Resources

When there are many redundant resources, companies can either use them to generate economies of scale or cut costs by eliminating them. Here, LiveWire also had the capability of manufacturing at scale. *(Ref Figure 2: Competitive Advantage)*

4. Degree of Market Uncertainty: High/moderate

There is a lot of uncertainty in the market conditions. This can be attributed to the fact that there was a lack of a proper winning strategy for Harley's electrical segment, even though Harley's share price has increased by 16% compared to the 17% drop in S&P 500. The first bikes were priced at \$30,000, which was way too expensive for most riders. Finally, most riders who were used to the throaty rumble were put off by the quiet whirl of the electric motor.

However, we believe that Harley will be able to achieve its target of selling 101,000 LiveWire bikes by 2026 because there has been increased penetration in the North American and European markets, as seen in China (*Ref Figure 3: EV Penetration*), and because of the forecasted \$20.4 billion addressable market with a CAGR of 26% (*Ref Figure 4: Addressable Markets*). The bikes are also great for urban travel since recharging of batteries happens during braking and gives a longer range in stop-and-go traffic.

The risks are further reduced by Harley's strategic partnership with Taiwan's Kymco Ltd and getting Kymco to invest \$100 million for a 4.9% stake in LiveWire (*Ref Figure 5: Strategic Partnerships*).

5. Level of Competition

With a rising number of companies pivoting towards the EV space, the M&A deals Harley has executed are advantageous. LiveWire was acquired by Harley for \$1.8 billion, which a company like Harley with \$1.65 billion at the time of acquisition can easily finance. (*Ref Figure 6: Financials*)

Most of the analysis aligns with Harley's 5-year plan. (*Ref Figure 7: Snippet from 5-year plan*)

THREE TESTS FRAMEWORK TO VALIDATE DIVERSIFICATION

1. The Industry Attractiveness Test

Entry into the electrical segment by acquiring LiveWire and expanding its foothold through Kymco is the natural course of action for Harley to take. This way, it can best optimize its value chain and target the segment of new drivers who will feel more comfortable riding the motorcycle without gear. With the world moving towards high-performance zero-emission vehicles, it's imperative that Harley moves into the segment and continues its legacy as one of the world's best motorcycle manufacturers. Also, the industry is growing at a CAGR of 26% and is expected to cross \$20 billion in value. (*Ref Figure 3 and 4*)

2. The Cost of Entry Test

Harley took its time in launching the LiveWire in 2019 and only sold through 60 out of its 550 dealers. This way, Harley was able to market test the model to reduce the cost of entry while also gathering enough feedback to decide if it's worth aggressively going for the new market.

Following this, they dropped the price of their signature model to \$22,000 and are planning to roll out lighter weight models for \$16,000 and less (*Ref Figure 8: Future Models*). This will help attract customers who may not have previously driven or owned gasoline-powered motorcycles.

3. The Better Off Test

Even though Harley is not better off at the moment, which is mostly due to investors of AEA -Bridge shareholders cashing in \$370 million of the \$ 400 million and because of which Harley had to invest an additional \$100 million. In the end, the net cash proceeds from LiveWire's offering were about \$294 million, instead of the \$545 million originally forecasted.

We believe Harley will be better off because of introduction of cheaper models, unique positioning of LiveWire (*Ref Figure 9: Positioning*)

ANALYSIS OF THE RISK INVOLVED

1. Financial Risk: *LOW*

Harley had the funds to acquire LiveWire for \$1.8 billion and fund additional \$100 million easily.

2. Diversification Risk: *LOW*

Both companies belong to the same industry and hence for Harley the technology will be smooth.

3. Cultural Risk: *LOW*

Since both companies are US based, integrating managers will be easy since they have similar cultural backgrounds.

4. Management Risk: *MODERATE*

Moderate because the industry is growing and the control of expansion to European and Asia market is majorly in the hands of Kymco.

5. Knowledge Transfer Risk: *LOW*

Low because since it's an acquisition, IPs and other capabilities also get transferred.

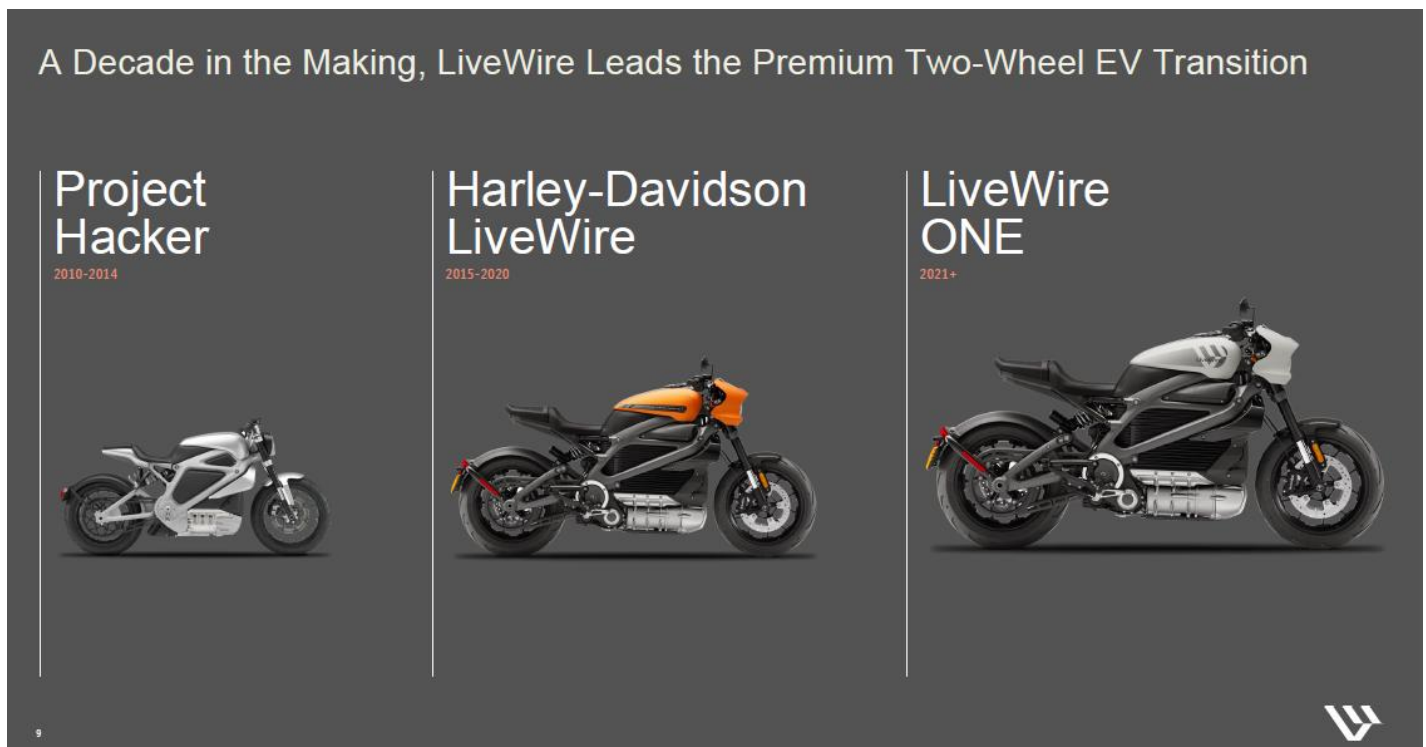
As observed, most of the risk associated with the acquisition are low to moderate in level.

CONCLUSION

Harley has made the right decision in acquiring LiveWire and forming strategic alliance with Kymco. As the industry matures and becomes full electric, strategic acquisitions and partnerships like these help **Harley-Davidson** maintain its market presence and its title as the industry leader.

APPENDIX

Figure 1: Evolution



Source: LiveWire Investor presentation 2021

Figure 2: Competitive Advantage

LiveWire Presents an Attractive Risk-Adjusted Investment Opportunity in EV

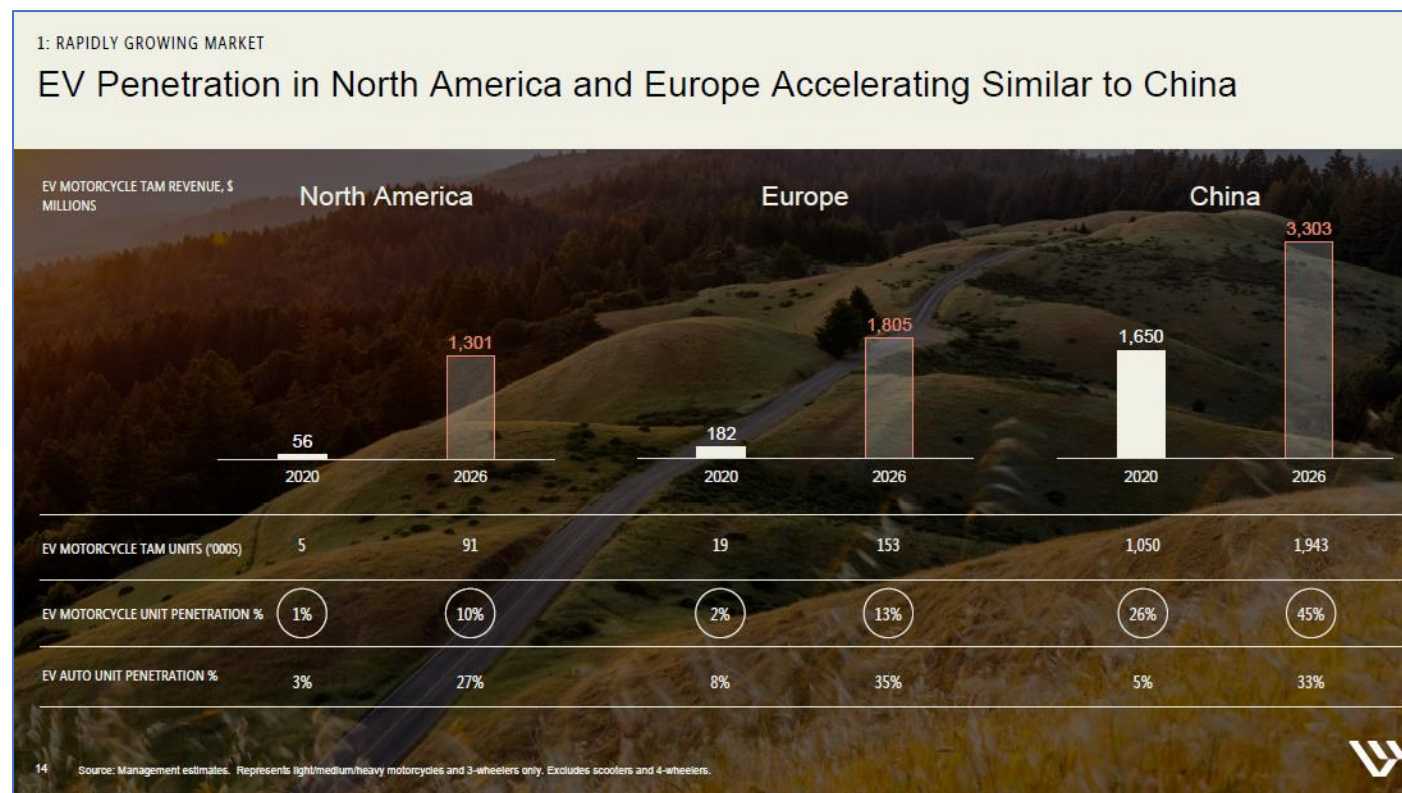
		AUTO OEMS	EMERGING EV OEMS
Deep Technological Underpinning	✓	✓	○
Commercially Viable Product Available Today	✓	✓	○
Large Addressable Market	✓	✓	✓
Long-Term Growth Potential	✓	○	✓
Attractive Industry Competitive Dynamics	✓	○	○
Established Global Market Position	✓	✓	○
Heritage of Manufacturing at Scale	✓	✓	○
Ability to Leverage Established Distribution & Dealership Network and Finance Company	✓	✓	○
Funded Business Plan	✓	✓	○

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Already accelerating towards a successful future

Source: LiveWire Investor presentation 2021

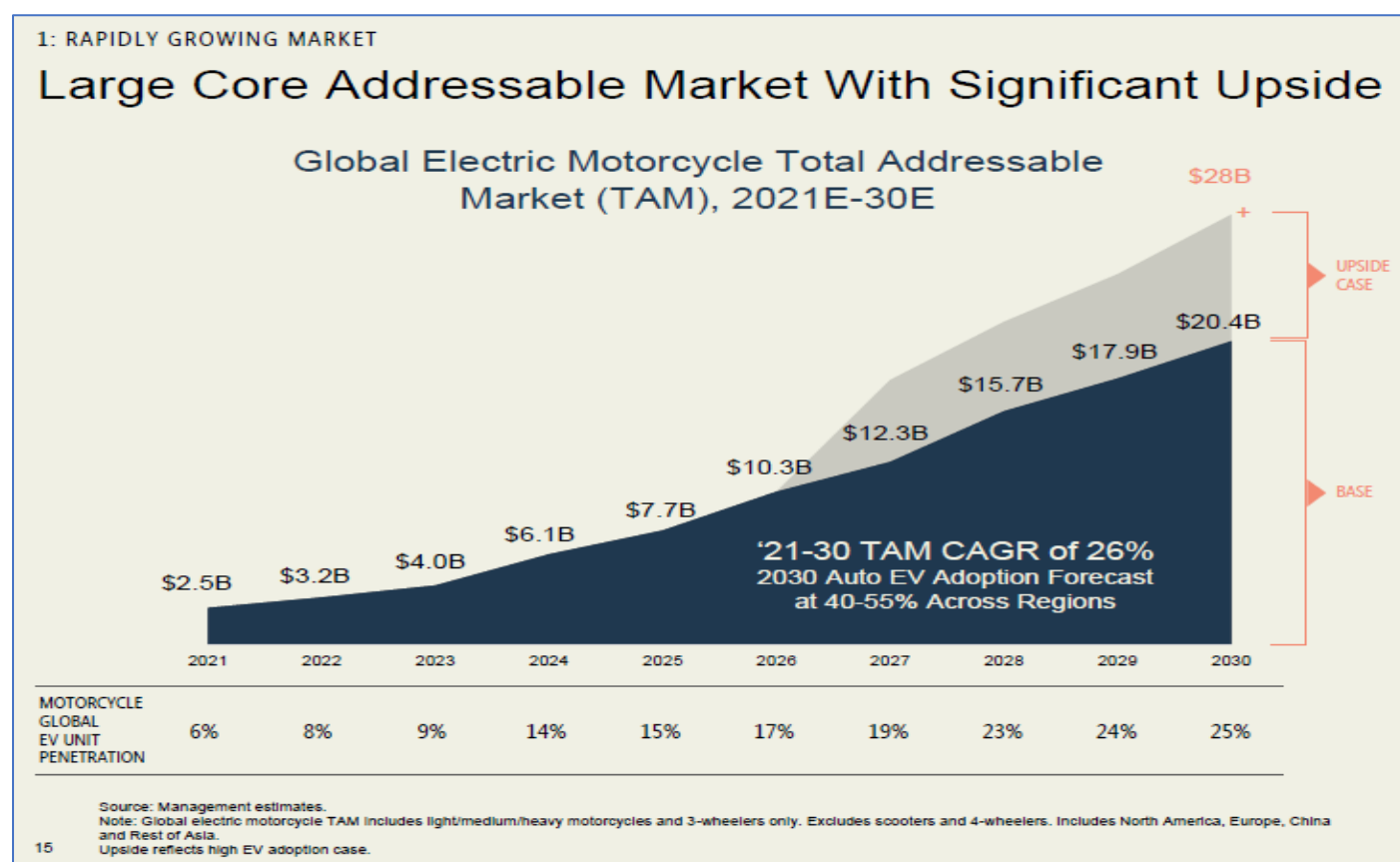
Figure 3: EV Penetration



Source: LiveWire Investor presentation 2021

Source: Management estimates. Represents light/medium/heavy motorcycles and 3-wheelers only. Excludes scooters and 4-wheelers.

Figure 4: Addressable markets



Source: LiveWire Investor presentation 2021

Source: Management estimates.

Note: Global electric motorcycle TAM includes light/medium/heavy motorcycles and 3-wheelers only. Excludes scooters and 4-wheelers.

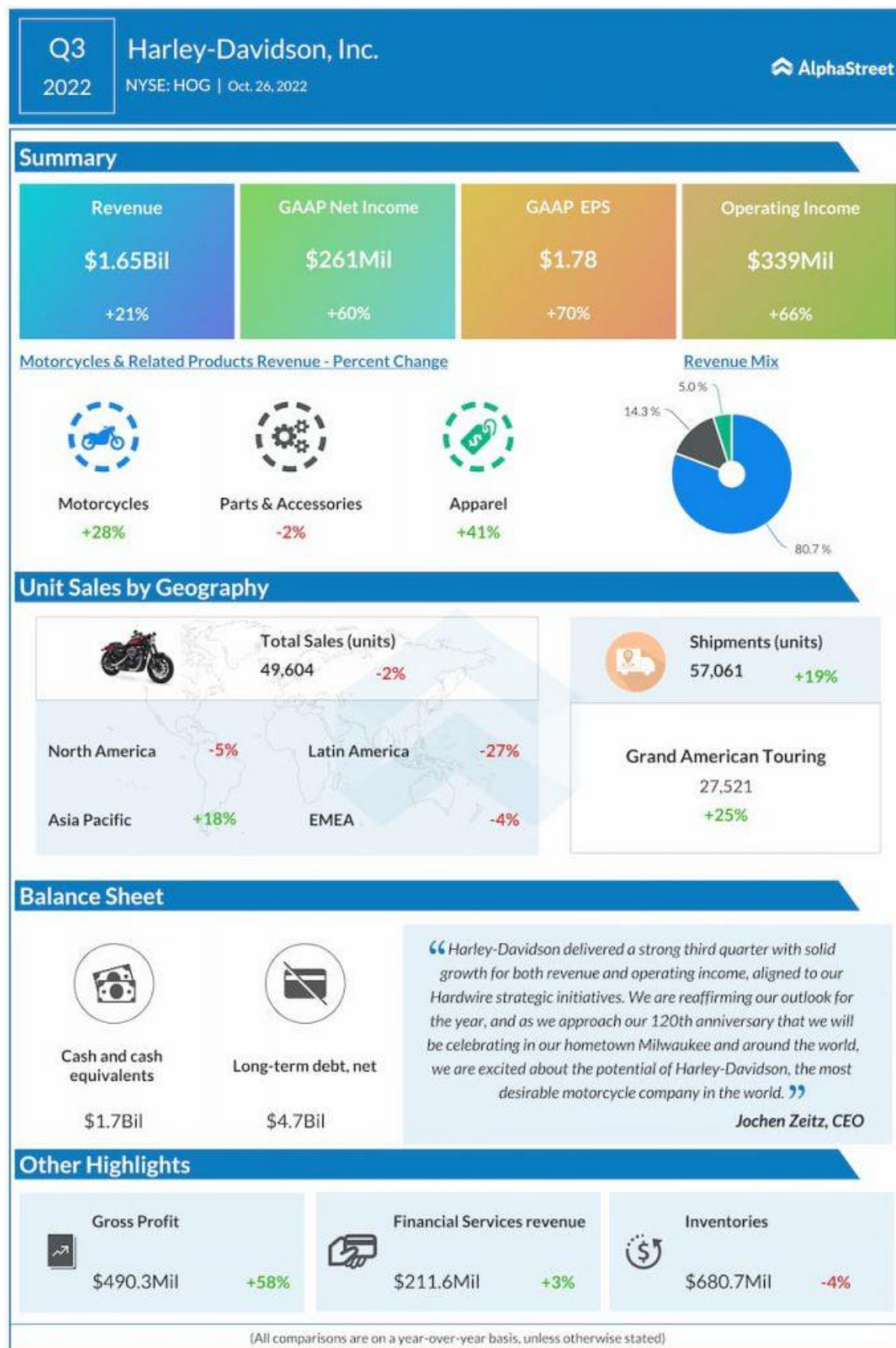
Includes North America, Europe, China, and Rest of Asia.

Upside reflects high EV adoption case.

Figure 5: Strategic Partnerships



Figure 6: Financials



Source: Alphastreet

<https://news.alphastreet.com/harley-davidson-hog-q3-2022-earnings-key-financials-and-quarterly-highlights/>

Figure 7: Snippet from 5-year plan

Key Highlights:

- Target increased profitability and low double-digit EPS growth through 2025
- Broaden view of its customers, inclusive of non-riders, tailoring each step of the journey in new ways and through multiple channels, including enhanced digital touchpoints
- Invest in core segments of Touring, large Cruiser and Trike to strengthen and grow its position
- Expand into Adventure Touring and within the Cruiser segment to unlock untapped volume and margin
- Launch *Harley-Davidson Certified™*, a pre-owned motorcycle program supporting growth expected across all complementary businesses
- **Strengthen commitment to electric with the creation of a dedicated division focused exclusively on leading the future of electric motorcycles**
- Fuel power of Harley-Davidson as a global lifestyle brand through reinvigoration of parts, accessories and riding gear and global expansion of financial services
- Extend employee ownership to all employees by offering an equity grant to approximately 4,500 employees, aligning with new approach to Inclusive Stakeholder Management

Harley-Davidson has redefined its geographic footprint, with a focus on ten global markets that matter most to future success. The company will strategically drive these markets to their full potential by developing custom product and go-to-market approaches. The company will continue to test further avenues for desirable long-term growth through premium low displacement partnerships.

Lead in Electric

Electric motorcycles are important to Harley-Davidson's future and the company is committed to remaining at the forefront of electric motorcycle technology following its groundbreaking success with the LiveWire® motorcycle, widely regarded as the leading electric motorcycle in the world. The company is investing in its long-term success by creating a separate division dedicated exclusively to electric motorcycles. The focus will be on technology development, with an approach to product and go-to-market actions that reflect the expectations of the targeted customer to deliver the most desirable electric motorcycles in the world.

Figure 8: Future Models

6: PRODUCT PORTFOLIO TO DRIVE RAPID GROWTH

Poised to Grow the Market by Expanding the Product Portfolio...



LIVEWIRE ONE



LIVEWIRE S2 MODELS



LIVEWIRE S3 MODELS



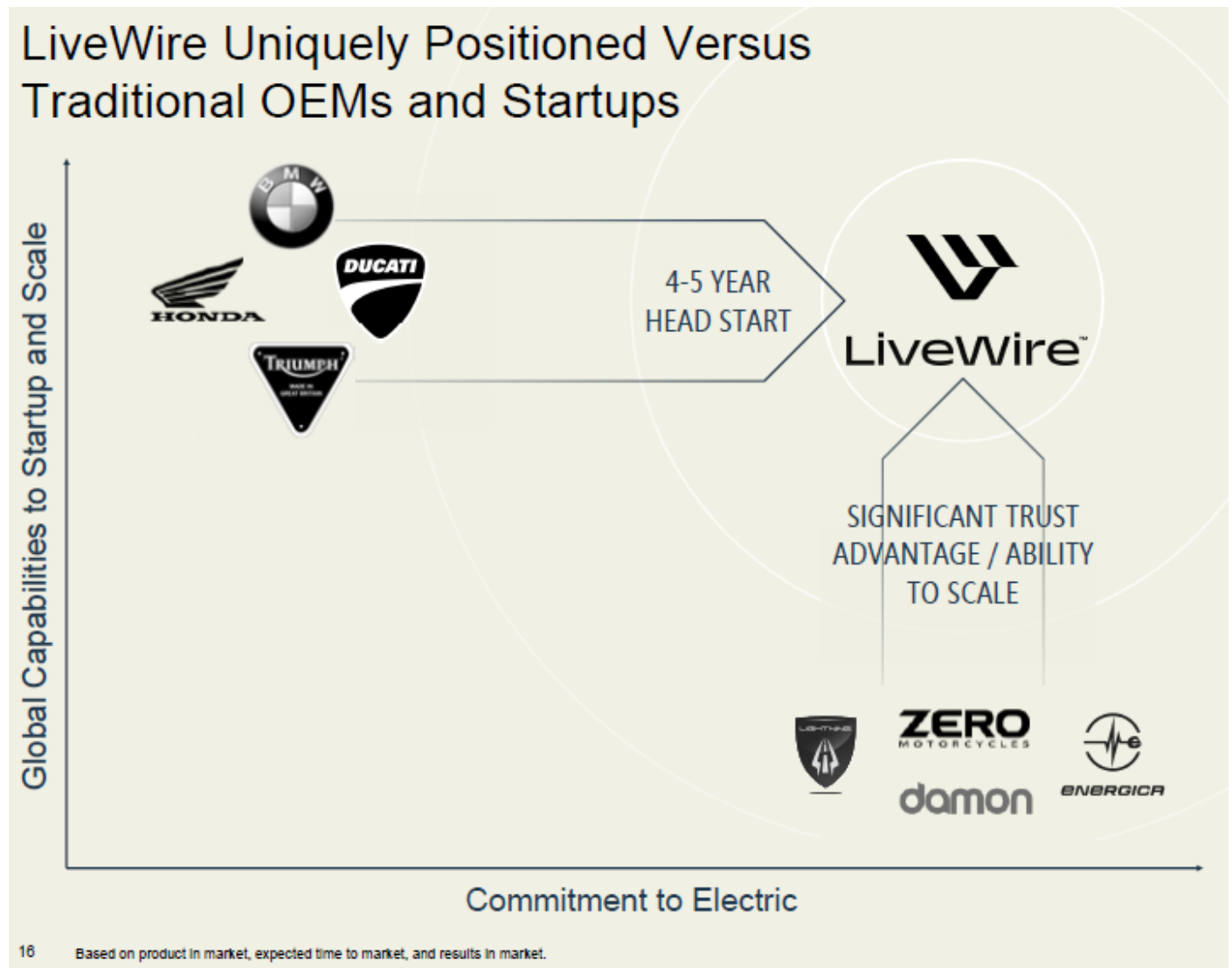
LIVEWIRE S4 MODELS

...with a Compelling Future Product Set Underpinning 100k Unit Projection

- ▶ Demonstrating the breakthrough capabilities of a premium electric motorcycle
- ▶ Extending the portfolio to a range of middleweight applications
- ▶ Scaling down the Arrow architecture to a platform of lightweight 2-wheelers; partnering with KYMCO
- ▶ Leveraging latest technologies to address heavyweight motorcycles with expected improvements in range and charging capabilities

Source: LiveWire Investor presentation 2021

Figure 9: Positioning



16 Based on product in market, expected time to market, and results in market.

Source: LiveWire Investor presentation 2021