



# Fundamental Analysis on Harley Davidson Company

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# Company Overview:-

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- **Foundation Year:** 1903
- **Founder:** William S. Harley, Arthur, Walter Davidson, William A. Davidson
- **Type of Company:** Public Company
- **Traded in Stock Market as:** NYSE HOG (Ticker symbol: HOG)
- **Business Sector:** Automobile
- **Headquarter:** Milwaukee, Wisconsin, U.S.
- **Chairman and CEO:** Jochen Zeitz
- **Products:** Motorcycles , Parts & Accessories , General Merchandise, Financial Services like Insurance,



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# **Qualitative Fundamental Analysis**

# PEST Analysis

## Political

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- **Free Trade Agreements** facilitates company's global expansion and such a political external factor threatens the business by increasing the influx of cheaper products or substitutes that compete against Harley-Davidson.
- **Increasing e-commerce support** helps company for better market reach.
- Improving inter-governmental support helps company for **patent protection**.
- Government requirements to make eco-friendly business affect company's operations.
- Regional government **extending sops to local manufacturers**.
- **New international trade policies** owing to newly elected president in US.

# Economical

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- Economic **growth of linkage sectors** like oil sector, metal sector, etc. helps company to grow economically.
- **Economic stability** of major markets helps Harley-Davidson to stably grow its business in its core markets.
- In some **high-growth developing countries** where there is demand for motorcycles, Harley-Davidson can grow and expand rapidly. But on the other hand, **stable credit accessibility** could support competitors, which threaten Harley-Davidson. Nonetheless, Company can still capitalize its economies of scale.
- Company also **provides financial services** which may also contribute to company's growth significantly but it also add **risks of defaulting**.



# Social

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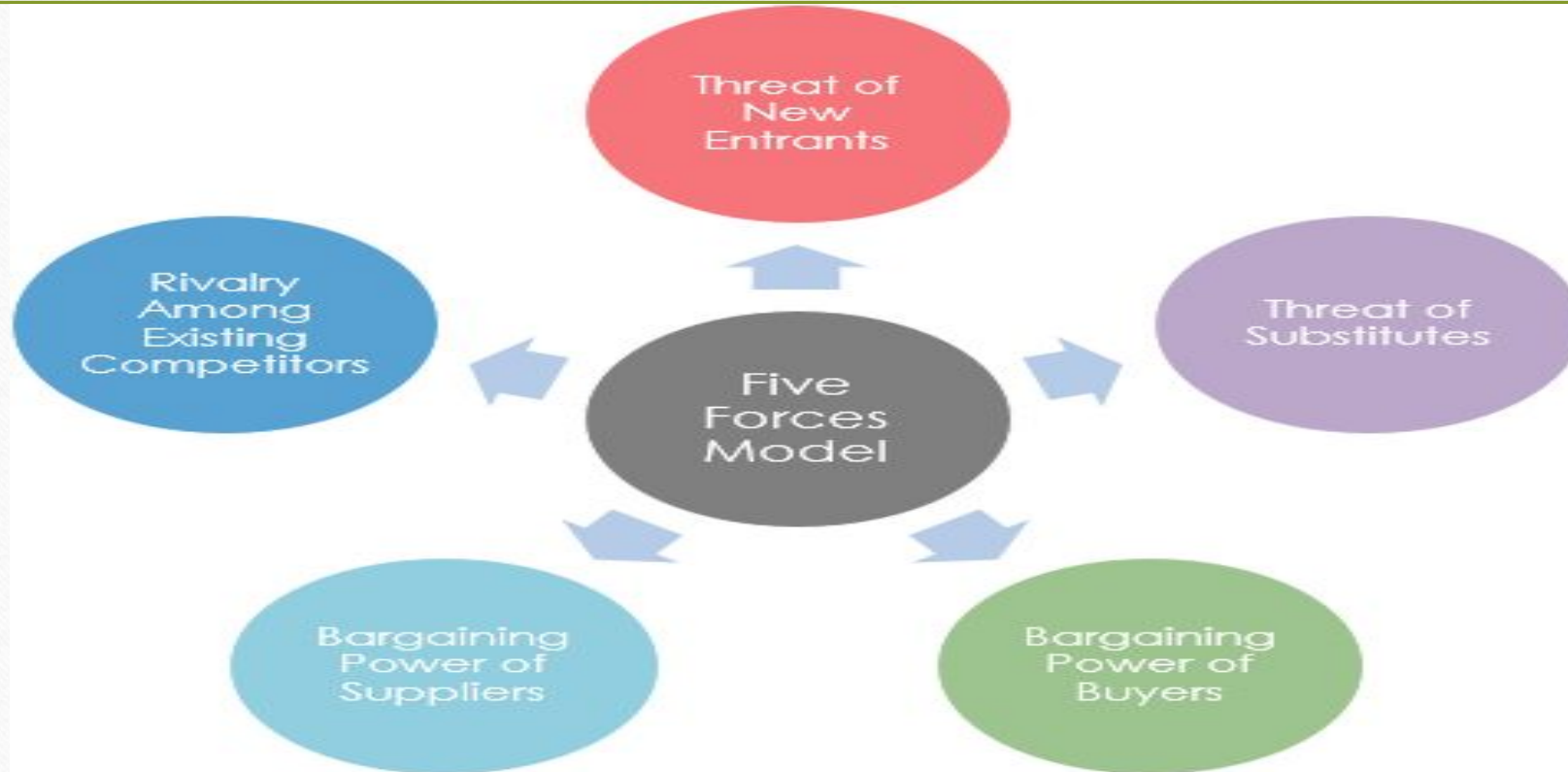
- Company can expand its market of **leisure motorcycles** by developing certain attitudes towards leisure.
- Company can also target **female customers** by increasing involvement of women in biking.
- As most of products are based on combustion with significant emissions, company can try to promote and develop **green technology**.
- Company's Riding academy organizes riding events for both skilled and new riders by giving education about riding.

# Technological

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- By focusing more on features of its products as its selling point, company can increase its **R&D investments**.
- Company can also increase products' quality by incorporating with more **automated and computing technology** like artificial intelligence, machine learning, etc.
- As products are generally heavy, company can add **additional safety features**.

# Porter's Five Forces Analysis





# Competitive Rivalry- High

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- Company **competes with large number of firms** including small firms in local market, so competitive rivalry is strong force.
- Company also faces **threat of substitutes** from rivals like private car at same price.
- Moderate variety of company helps to compete as **customer values products' features and quality**.
- But to still compete company must build a **sustainable differentiation**, build a **proper scale** to compete better and can also **collaborate with competitors** if possible so that it can compete on larger scale.

# Bargaining power of customers-High

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- **Moderate switching costs** for customers make it easy for them to switch if company increases products' prices as variety of substitutes are available.
- But also companies in the motorcycle industry and the automotive industry now provide high quality information to customers to empower them in making better purchase decisions. So, as Harley-Davidson thrives on its products' features and qualities, **more knowledgeable the customers, more benefits for the company.**
- By **building large base of customers**, company can tackle bargaining power of customers plus can also increase its sales.
- As customers often seek for discounts and offerings, company can tackle it **by innovating rapidly** and new products will also reduce defection of existing customers.



# Bargaining power of suppliers-Low

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- As **opportunity of forward integration is low**, Harley Davidson's suppliers are weak. Thus, they have **low control** on company's sales and distribution of products.
- Also, individual suppliers have low **leverage for imposing their demands as stability of supply is high**. But still moderate size suppliers affect company moderately.
- Thus, company can safely give **low priority** to bargaining power of suppliers.
- To avoid this problem, company can form **efficient supply chain, experiment product with different materials** so if price of any one raw materials goes up then company can shift to other and **developing dedicated suppliers** whose business depends on Harley-Davidson entirely.

# Threat of substitutes-Moderate

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- **Availability of substitutes is high** like private car, public transportation, etc., but customers who are really into chopping motorcycles are very less likely to substitute readily.
- **Moderate switching costs** and **moderate substitutes** variety makes substitutes have a significant but limited attractiveness.
- To tackle this threat, company should be **service oriented** rather than product oriented, **understanding core need** of the customer and try to **increase switching cost**.
- As threat of substitute is moderate, it is quite **significant concern during strategic formulation**



# Threat of new entrants-Moderate

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- Companies like Harley Davidson benefit from **moderate economies of scale**, so only few entrant can achieve such benefit.
- Due to **moderate switching costs**, customers easily shift to other companies. This may also affect the new entrant.
- **Cost of brand development is high** so this prevent new entrants successfully competing against developed companies like Harley-Davidson.
- Some ways to prevent new entries is **investing more in R&D** so company can keep **innovating new products** which will attract new customers as well as give a reason to buy its products to existing customers and also leading towards **dynamic industry** which discourage entries due to no extraordinary profits and **building economies of scale** so fixed cost can be lowered.

# SWOT ANALYSIS





# STRENGTHS

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- **Strong brand image** in motorcycle industry because of custom bike culture which also help to form a **strong loyal base of customers**. Moreover, **more than century of experience** creates strength of expertise.
- Harley has a characteristic rallies of “HARLEY OWNERS GROUP” on continuous basis involving Harley owners from different part to interact and experience different lifestyle. This rich heritage is one of its main strengths.
- Its distinguished promotional and strategic activities pull customers and thereby having a high “Top of a Mind awareness” score.
- Diversifying its product to solve problems like ageing which also help to target new sector of customers which eventually lead to expansion of customer base.
- Financial Stability also helps company to move forward on growing path.

# WEAKNESSES

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- Outside U.S. it has only one manufacturing plant in India and one assembling plant in Brazil which causes **difficulties in meeting global demand** and also lead to **increase in prices to exported countries**.
- More than 65% of its revenues collected from U.S. market and as U.S. market has its own limitations in terms of growth, it clearly indicates **over-dependence on U.S. market** which is risky.
- **Relying on limited suppliers** can affect business in long-run. Because increase in input prices will lead to increase in operational cost. Thus, affecting the products prices resulting in reduction in production, capacity constraints, financial distress and eventually leads to delay delivery and customer dissatisfaction.



# OPPORTUNITIES

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- Harley-Davidson has an **opportunity of global expansion** as its demand is increasing in Asian and Europe markets and also there are very few players (rather none) for competition.
- Opportunity to **diversify its products** like lower CC bikes which will attract young customers and women. Thus, expanding loyal base of customers.
- **Increasing marketing efforts** can also help to pull untapped segments of customers like women.
- Global expansion can also be achieved by utilizing opportunity of **forming alliance** with complementary players in other countries.

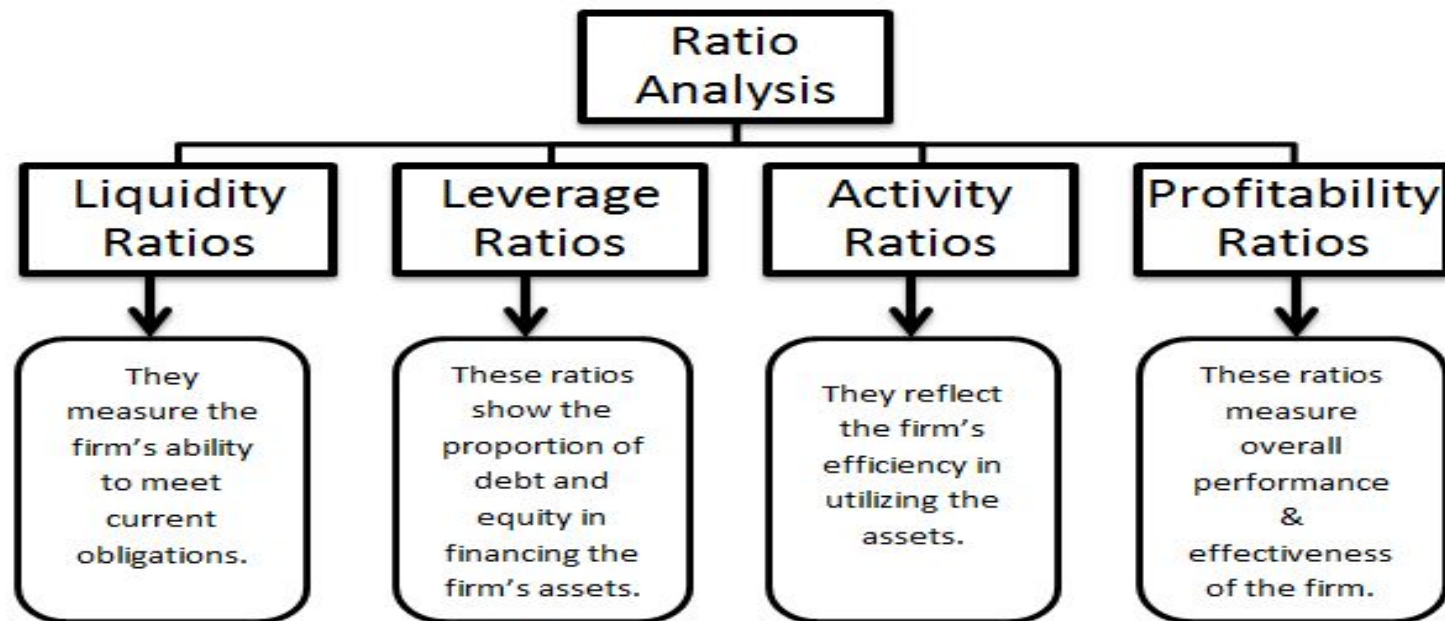
# THREATS

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- Harley-Davidson has **threat of aggressive competition** from companies Toyota, Royal Enfield, etc which offers low-cost products and now also offering chopper bikes.
- Moreover, **environmentalism trend** like increase in preference of electric vehicles has a negative impact on Harley-Davidson, whose products and brand are known for internal combustion engines
- Company also faces **threat of being market myopic** as it has over-dependence on U.S. market.



# Quantitative Fundamental Analysis



# Operating Performance

## EBITDA Margin

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- EBITDA margin = EBITDA/Net sales
- This ratio indicates the profitability of current operations of company

2014	2015	2016	2017	2018	2019
23.12%	21.89%	19.99%	18.21%	18.41%	16.16%

- From above, EBITDA margin has been decreased which indicates problems of liquidity but still it is greater than 15% which indicates a good financial health of company.

Harley-Davidson	Honda	Suzuki
16.16%	25%	10.9%

- EBITDA margin of Harley is higher than Suzuki which indicates Harley making more profit from operations and more liquid but it is less than that of Honda.



# Net Profit Margin

- Net profit margin = net profit/net sales, it takes into account all costs associated with continuing the operations. It gives idea about efficiency of converting sales into profit.

2014	2015	2016	2017	2018	2019
15.17%	14.17%	13.13%	10.62%	10.70%	9.26%

- It can be observed that net profit margin has decreased successively which indicates decrease in the efficiency of company to convert sales into profit.

Harley-Davidson	Honda	Suzuki
9.26%	22%	3%

- From above table, it is clearly visible that Honda is better than both Harley-Davidson and Suzuki in converting sales into actual profit. But it also depends on size and complexity of company. But still Honda has more than double profit margin than that of Harley-Davidson. So, Harley needs to improve its net profit margin.

# Asset Turnover Ratio

- Asset turnover ratio = Net sales/Total Assets, it measures the sales generated from each unit of asset.

2014	2015	2016	2017	2018	2019
0.584	0.531	0.533	0.493	0.466	0.434

- Asset turnover ratio has decreased successively which shows that company is facing to generate more sales per unit of assets and also indicates decrease in efficiency of utilizing assets.

Harley-Davidson	Honda	Suzuki
0.434	0.822	1.07

- Harley has worst asset turnover ration among the three, which is threat for Harley because it shows that they does not utilize the assets efficiently. Suzuki has more than 1 which indicates that it generates 1.07 unit of sales per unit of asset and Harley doesn't generate even a half unit. But it is also true that Harley is more capital intensive than other two which justify this ratio up to an extent.



# Return on Assets

- Return on assets =  $\text{Net Profit} / \text{Total Assets}$ , it measure the operating efficiency of company irrespective of financial structure and also gives an idea about profit generated per unit of asset.

2014	2015	2016	2017	2018	2019
8.86%	7.53%	7.00%	5.23%	4.98%	4.02%

- Return on assets has been decreased which shows that inefficiency of company of generating income by efficiently utilizing assets.

Harley-Davidson	Suzuki
4.02%	4%

- Both Harley and Suzuki has almost same return on assets.

# Return on Equity

- Return on equity = Net Profit/Shareholder's equity, it measures profit accruing to shareholders' of the company.

2014	2015	2016	2017	2018	2019
29.03%	40.89%	36.05%	28.29%	29.96%	23.48%

- Return on equity has been observed fluctuating but generally I has decreased which indicates decreased in profit accruing to shareholders.

Harley-Davidson	Suzuki
23.48%	8%

- Harley has higher ROE than Suzuki which is good sign for the Harley-Davidson.



# Liquidity Ratio

## Current Ratio

- Current Ratio = Current Assets/Current Liabilities, it measures the ability of company to meet short-term obligations. It also shows liquidity of the firm.

2014	2015	2016	2017	2018	2019
1.65	1.45	1.35	1.23	1.25	1.31

- Current ratio is less than that in 2016 but it has increased from 2017 successively which is good sign, and also ratio is always greater than 1 which is best sign that current asset is more than current liabilities.

Harley-Davidson	Suzuki
1.31	1.3

- Current ratio is same for both the company and also greater than 1.

# Leverage Ratio

## Debt to Equity Ratio

- Debt to Equity ratio = Total debt/ Shareholders' Equity, which measures the leverage of the firm and show whether firm is over-leveraged or not.

2014	2015	2016	2017	2018	2019
2.28	4.43	4.15	4.41	5.01	4.84

- From the above table, it is clearly visible that Debt to equity ratio has doubled in 2015 from 2014 but after it has been quite steady.

Harley-Davidson	Honda	Suzuki
4.84	2.93	20.64

- Honda has lowest debt to equity ratio which shows it has lowest leverage whereas ratio for Suzuki is very high which shows it has high leverage. Harley's ratio is quite normal looking at its size and complexity which is a good sign.



# Stock Valuation Multiples

## P/E Ratio

- P/E ratio = Share price/Earning per share, it measures the duration needed to earn back what its investors are currently paying for the stock.

2014	2015	2016	2017	2018	2019
9.59	10.08	9.71	12.31	11.66	13.88

- From above table P/E ratio has been increased which indicates duration needed to earn back what investors are currently paying has been increased which may be bad sign to stock market investor.

Harley-Davidson	Honda	Suzuki
13.88	16.74	10.1

- P/E ratio is lowest for Suzuki which is good sign for investor thinking about investing in Suzuki. P/E ratio of Harley is also quite good.

# P/S Ratio

- P/S ratio =  $\text{Share Price} / (\text{Total Sales} / \text{Number of outstanding shares})$ , it shows how much investors are willing to pay for the stock and also to check whether stock is undervalued or not. It is more stable than P/E ratio.

2014	2015	2016	2017	2018	2019
1.45	1.42	1.27	1.30	1.24	1.28

- P/S ratio has decreased sharply in 2016 from 2015 but after that it is stable which is good sign as invest are always willing to pay for the stock.

Harley-Davidson	Honda	Suzuki
1.28	3.68	0.32

- Suzuki P/S ratio is quite low which shows it is undervalued whereas it is opposite for Honda as it seems it is over-valued. But it is quite stable for Harley which is good.



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**THANK YOU!!!**