

COMPANY PROFILE

Harley-Davidson, Inc.

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COMPANY OVERVIEW

Harley-Davidson, Inc. (Harley or "the company") is engaged in the design, manufacture and sale of heavyweight motorcycles as well as motorcycle parts, accessories and general merchandise. The company also provides financial services such as wholesale and retail financing and insurance programs. Harley operates in North America, Europe/Middle East/Africa (EMEA), Asia-Pacific and Latin America. It is headquartered in Milwaukee, Wisconsin and employed 6,400 people as on December 31, 2013.

The company recorded revenues of \$5,899.9 million during the fiscal year ended December 2013 (FY2013), an increase of 5.7% over FY2012. The operating profit of the company was \$1,153.7 million during FY2013, an increase of 15.3% over FY2012. The net profit was \$734 million in FY2013, an increase of 17.6% over FY2012.

KEY FACTS

Head Office	Harley-Davidson, Inc. 3700 West Juneau Avenue Milwaukee Wisconsin 53208 USA
Phone	1 414 342 4680
Fax	
Web Address	http://www.harley-davidson.com
Revenue / turnover (USD Mn)	5,899.9
Financial Year End	December
Employees	6,400
New York Ticker	HOG

SWOT ANALYSIS

Harley is engaged in the design, manufacture and sale of heavyweight motorcycles as well as motorcycle parts, accessories and general merchandise. The company has a strong market position and brand image which enables it to gain more business and enhances shareholder's value. However, various regulatory compliances could impose additional costs and obligations on the company's operations, which could distress its margins.

Strengths	Weaknesses
Strong market position and brand image enables the company to get more business Wide distribution network enhances geographic reach Robust financial performance helps the company in future growth prospects	Product recalls may negatively impact consumer confidence and brand image Unfunded employee post-retirement benefits could negatively affect the liquidity position
Opportunities	Threats
Robust outlook of global motorcycle industry could provide growth opportunities New product and market development strategies could help in business expansion	Intense competition could negatively impact financial condition and results of operations Compliance with government laws and regulations could increase operational cost Reliance on third party suppliers to obtain raw materials may have adverse impact on business and results of operations

Strengths

Strong market position and brand image enables the company to get more business

Harley is one of the leading American heavyweight motorcycle manufacturers. It has been enjoying the largest share of the US heavyweight (601+cc) motorcycle market. In FY2013, FY2012 and FY2011, the company's market shares in the US, based on retail registrations of new Harley Davidson motorcycles, were 54.9%, 53.9% and 52.1% respectively. In Europe, the company's market share based on registrations was 12.8%, 12.1%, and 12.1%, during FY2013, FY2012 and FY2011, respectively.

During 2013, in the 16-country European market, Harley grew its market share year over year and held the number two position in the highly competitive 601cc and up segment. In EMEA outside the 16-country European market, retail new Harley motorcycle sales grew 11.4% year over year. The

company had its highest level of new motorcycle sales ever in its Asia-Pacific markets, selling 26,890 motorcycles, up 9.8% from FY2012. The company had particularly strong growth rates in emerging markets, including India and China, and occupied a leading position in the 601cc-plus category in both Japan and Australia. In Brazil, Harley's largest Latin America market, it captured the market share lead in the 601cc and above category for the first time in 2013. Overall, retail sales of new Harley-Davidson motorcycles in Latin America were up more than 13%.

In addition, the company has a strong and unique brand image. The company's motorcycles feature classic styling, innovative design, distinctive sound, and superior quality with the ability to customize. It markets its products under the following brands: Harley-Davidson, Harley, H-D, Touring, Dyna, Softail, Sportster, V-Rod, MotorClothes, H.O.G., and Tour Pak. In addition, the financial services and products of the company are licensed under Harley-Davidson, H-D and the Bar & Shield logo. Thus, strong market position coupled with a strong brand image enables the company to gain more business and enhance the shareholder's value.

Wide distribution network enhances geographic reach

The company markets its vehicles through a network of independent retail dealers and distributors. In the US, the company sells its motorcycles and related products at wholesale to a network of approximately 696 independently-owned full-service Harley dealerships, including secondary retail locations. In Canada, there are approximately 69 independent Harley dealerships, including secondary locations. In the EMEA region, the company sells its motorcycles and related products through 371 full service dealerships. In addition, Harley's distribution network includes 271 full service dealerships in Asia Pacific region and 51 full service dealerships in Latin America region.

Furthermore, the company planned to increase its international dealer network between 100 to 150 dealer points from the end of 2009 through the end of 2014. Through December 31, 2013, the company added 118 new international dealers. The global network of Harley dealers made total retail sales of 260,839 new Harley motorcycles in FY2013, an increase of 4.4% compared to the previous fiscal.

Therefore, strong network enhances the company's reach in a wide range of geographies that allows Harley to meet demand for its products in multiple regions through a cost-efficient way.

Robust financial performance helps the company in future growth prospects

Harley's witnessed a strong financial performance over the past three years. For instance, in FY2013 the company's revenues increased with a compound annual growth rate (CAGR) of 5% from \$5,312 million in FY2011 to \$5,899.9 million in FY2013. As a result of a significant increase in revenues and consistent control on the cost structure, the company witnessed a considerable increase in its profits. For instance, the company's operating profit increased with a CAGR of 18% from \$830 million in FY2011 to \$1,153.7 million in FY2013. Furthermore, the company's net profit grew at a CAGR of 11% to \$734 million in FY2013. Due to this, the company's profit margins also increased considerably. For instance, the company's operating profit margin grew from 15.6% in FY2011 to 19.6% in FY2013. Similarly, the company's net profit margin increased from 11.3% in FY2011 to 12.4% in FY2013.

Thus, strong financial performance strengthens the financial position of the company and enables it to expand. Additionally, it lends greater stability to the company's operations and allows for further growth.

Weaknesses

Product recalls may negatively impact consumer confidence and brand image

Harley announced recalls that cover a number of its motorcycles due to manufacturing and design problems. For instance, in October 2013, Harley voluntarily recalled certain 2014 model Touring motorcycles equipped with a hydraulic clutch system that may pose a safety issue for riders and/or passengers. The recalls included a "Do Not Ride" notice to owners and a "Do Not Deliver" notice to Harley-Davidson dealers until the motorcycle is fixed. The recalls affected 25,185 Touring motorcycles and 3,861 Softail CVOs and Trikes, built between May 2013, and October 2013. Some of these motorcycles exhibited a condition in which the hydraulic clutch system lost the ability to generate enough lift to disengage the clutch. If the clutch did not disengage as intended, the rider had difficulty slowing or stopping the motorcycle, which resulted in an accident.

Similarly, in October 2012, Harley recalled 2,800 2012 model V-Rod Night Rod Specials and certain 2013 model V-Rod models to address a problem with a license plate bracket. Earlier in 2011, the company announced a recall of approximately 308,474 motorcycles in the US and overseas due to problems with the rear brake light switch. The recalled vehicles included 2009-2012 Touring and Trike models. The company claimed that the rear brake light switch was exposed to excessive heat from the exhaust system which may cause the switch to not activate the brake lamp or activate the brake lamp when no brake is applied. The company recalled about 250,000 units in the US and 50,000 outside.

Thus, such product recalls negatively influence the consumer confidence in Harley's products and a continuation of this trend may impact its brand image in future.

Unfunded employee post-retirement benefits could negatively affect the liquidity position

The company has significant unfunded pension, supplemental employee retirement plan agreements (SERPA) and postretirement healthcare obligations. Harley provides retirement benefits for most of its employees, either directly or by contributing to independently administered funds. In FY2013, the company's pension and SERPA benefits obligations stood at \$1,714.6 million as compared to the planned assets of \$1,920.6 million, resulting into an unfunded status of \$205.9 million. Furthermore, the company's postretirement healthcare benefit obligations stood at \$366.5 million, against planned assets of \$147.8 million, resulting into an unfunded status of \$218.6 million. Unfunded pension, SERPA and postretirement healthcare will force the company to make regular cash contributions to bridge the gap between pension assets and liabilities, pressurizing the liquidity position of the company.

Opportunities

Robust outlook of global motorcycle industry could provide growth opportunities

The global motorcycle manufacturing industry has fluctuated between strong growth and decline in value and volume in recent years, and dropped into decline in 2012. The industry is, however, expected to grow strongly till 2017. According to the industry sources, the global motorcycle industry is expected to have a value of approximately \$94 billion in 2017. Developing regions, such as Asia and Latin America, which perceive two-wheelers as a basic mode of transportation, are expected to remain the most promising markets for the motorcycles. A combination of factors such as demographic condition, economic condition, and environmental regulations are expected to have important impact on market dynamics.

Harley is one of the leading motorcycle manufacturing companies in the world. The company designs, manufactures and sells motorcycles as well as a line of motorcycle parts, accessories, general merchandise and related services. The company conducts business on a global basis, with sales in North America, EMEA, Asia-Pacific and Latin America. Thus, the strong outlook for the global motorcycles market coupled with its new product launches could provide growth opportunities for the company.

New product and market development strategies could help in business expansion

Harley focuses on new product and market development strategies. For instance, during 2013, the company introduced Project Rushmore, a completely new line of touring motorcycles, completed its multi-year restructuring program, implemented flexible surge production capabilities at its largest production facility and continued to make significant investments in future products and new markets. New products were developed with a level of consumer input in product design and development. The company's eight motorcycle models in the Rushmore lineup were enthusiastically embraced by customers in the US and internationally. In addition, Harley revealed the Street 750 and Street 500 which are designed for the lifestyle and riding need of growing generation of urban young adults globally. In developing these motorcycles, the company interviewed more than 3,000 consumers and dealers in more than 10 countries to understand what they're looking for in the company's motorcycle.

Furthermore, Harley has also been working in close partnership with its dealers, to constantly drive the evolution of its customer experience. For instance, in 2013, more than 5,000 dealership personnel in 255 stores took part in intensive, in-store learning on best practices for providing great customer experiences. In 2014, the company will complete this training for the balance of the global dealer network. Harley adopted flexible manufacturing as per seasonal sales patterns. The company launched seasonal surge production at its plants in York and Kansas City enabling it to deliver right motorcycles to the right customers at the right time. The company gained tremendous flexibility to adjust more quickly to other market dynamics as well, better matching the production of its 30 models in all their variations, to shifts in customer and geographic demand.

Moreover, the company also introduced new products in the past year. For instance, the company which has long dominated market for heavyweight motorcycles rolled out first Harley-brand lightweight bikes in decades for global market in November 2013. The Street 500 and Street 750, built on the new "Revolution X" platform, are set to arrive in the second quarter of 2014 in the US and in some international markets. Harley looks to broaden its portfolio and target a wider customer base, and expects that these new introductions to impact the annual sales as well as the revenue per motorcycle.

Thus, such product and market development strategies could significantly drive the company's sales, revenues and market share in years to come.

Threats

Intense competition could negatively impact financial condition and results of operations

The company faces intense competition from other players in the market in which operates. Competition in the heavyweight motorcycle market is based upon a number of factors, including price, quality, reliability, styling, product features, customer preference, warranties, availability of financing and quality of dealer network. The company competes with a number of US and international companies, including BMW, Ducati, Honda Motors, Polaris Industries, Kawasaki, Suzuki Motors and Yamaha Motors, among others. Many of these competitors are more diversified and have financial and marketing resources which are substantially greater than those of Harley. In addition, Harley' products compete with many other recreational products for the discretionary spending of consumers with other vehicles designed for utility applications.

Therefore, working in such a competitive environment exerts continued pressure on the operations of the company, which may result in a further downward price that could adversely impact Harley' financial condition and results of operations.

Compliance with government laws and regulations could increase operational cost

Harley's sales and operations in areas outside the US may be subject to foreign laws, regulations and the legal systems of foreign courts or tribunals. These laws and policies governing operations of foreign-based companies may result in increased costs or restrictions on the ability of the company to sell its products in certain countries. The company's international sales operations may also be adversely affected by US laws affecting foreign trade and taxation.

Furthermore, the company's domestic sales and operations are subject to governmental policies and regulatory actions of agencies of the US Government, including the Environmental Protection Agency (EPA), SEC, National Highway Traffic Safety Administration, Department of Labor and Federal Trade Commission. In addition, the company's sales and operations are also subject to laws and actions of state legislatures and other local regulators, including dealer statutes and licensing laws. Changes in regulations or the imposition of additional regulations may have a material adverse impact on the company's business and results of operations.

Moreover, the company's motorcycle products use internal combustion engines. These motorcycle products are subject to statutory and regulatory requirements governing emissions and noise, including standards imposed by the EPA, state regulatory agencies, such as California Air Resources Board (CARB), and regulatory agencies in certain foreign countries where the company's motorcycle products are sold. The company is also subject to statutory and regulatory requirements governing emissions and noise in the conduct of the company's manufacturing operations.

Therefore, any significant change to the regulatory requirements governing emissions and noise may substantially increase the cost of manufacturing the company's products. Additionally, any changes or enhancements to the aforementioned standards could impose additional costs and obligations on the company's operations, which could distress its margins.

Reliance on third party suppliers to obtain raw materials may have adverse impact on business and results of operations

The company relies on third party suppliers to obtain raw materials and provide component parts for use in the manufacture of its motorcycles. In certain circumstances, the company relies on a single supplier to provide the entire requirement of a specific part and a change in this established supply relationship may cause disruption in the company's production schedule. Therefore, the company can experience supply problems such as unfavorable pricing or untimely delivery of raw materials and components. In addition, the price and availability of raw materials and component parts from suppliers can be adversely affected by factors such as the supply of a necessary raw material or natural disasters.

Further, adverse economic conditions and related pressure on select suppliers due to difficulties in the global manufacturing arena could adversely influence their ability to continue their supply to the company. Thus, potential risks associated with the suppliers may have a material adverse impact on the company's business and results of operations.

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