



**HARLEY-DAVIDSON, INC.**  
**2018 FIRST QUARTER UPDATE**

APRIL 24, 2018



# 2018 FIRST QUARTER UPDATE



## THIS PRESENTATION SUPPORTS THE AUDIO CONFERENCE CALL

### CONFERENCE CALL AGENDA

- **Introduction** Amy Giuffre, Director, Investor Relations
- **Business Perspectives** Matt Levatich, President and CEO
- **Financial Results** John Olin, Senior Vice President and CFO
- **Q&A** All

*This presentation includes forward-looking statements that are subject to risks that could cause actual results to be materially different. Those risks include, among others, matters we have noted in our latest earnings presentation and filings with the SEC. Harley-Davidson disclaims any obligation to update information in this presentation. Additional information and risk factors are included at the end of this presentation.*



# OBJECTIVES AND STRATEGY THROUGH 2027



## BUILDING THE NEXT GENERATION OF HARLEY-DAVIDSON RIDERS GLOBALLY

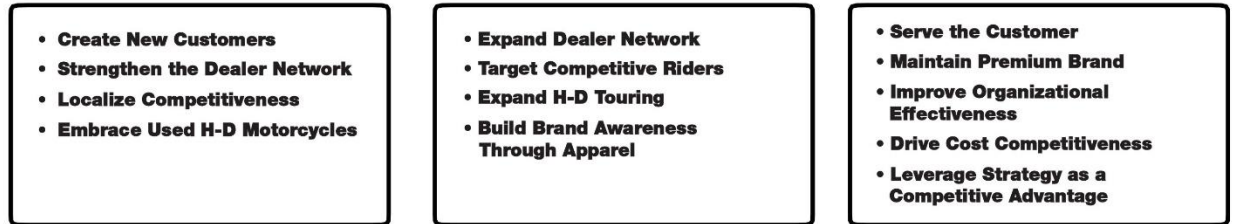
### OUR 10-YEAR OBJECTIVES



### OUR STRATEGIES



### OUR 3-YEAR STRATEGIC FOCUS



### OUR STRATEGIC ENABLERS



## WE FULFILL DREAMS OF PERSONAL FREEDOM



# BUSINESS PERSPECTIVES

MATT LEVATICH, PRESIDENT & CEO, HARLEY-DAVIDSON, INC.



**Q1 2018**



## **Highlights**

- **EPS of \$1.03 (\$1.24 excluding manufacturing optimization costs)**
- **Consolidated revenue up 2.7%**
- **HDFS operating income up 20.8%, year-over-year credit losses down**
- **Increased dividend 1.4%, repurchased 1.4 million shares**
- **Growth in international retail sales**
- **Manufacturing optimization initiative on-track**
- **Confirmed full-year shipment guidance**
- **Strategy enhancement and acceleration planned**

**Committed to driving long-term value and maintaining brand premium**



# BUILDING RIDERSHIP



## We build riders



- **Two New Sportsters**

- Iron 1200 \$9,999\*
- Forty-Eight® Special \$11,299\*



- **Freedom Promise**

- Reinforce value
- Drive repurchase



\* US MSRP



# INTERNATIONAL MOMENTUM



*Harley-Davidson apparel store, Shanghai*

- **Retail sales growth Q1 yr./yr.**
- **Softail selling very well behind effective test ride program**
- **7 new international dealer points added**
- **Brand apparel stores opened in China and India**



# STRATEGY



## Enhanced Strategy

- Bold new moves to deliver long-term objectives and accelerate performance through 2022
- Refining plans, will announce details this summer

**BUILDING THE NEXT GENERATION OF HARLEY-DAVIDSON RIDERS GLOBALLY**





# OUTLOOK



## The next 115 years

- 2018 - Confident in our business plans and confirming guidance
- Will leverage significant potential and accelerate growth
- Celebrating 115 years of freedom, building the next generation





## **FINANCIAL RESULTS**

**JOHN OLIN, SENIOR VICE PRESIDENT & CFO, HARLEY-DAVIDSON, INC.**



# Q1 2018 VS. Q1 2017 RESULTS



## REVENUE

**\$1.54**

Billion



**2.7%**

## NET INCOME

**\$174.8**

Million



**(6.2)%**

## EPS

**\$1.03**



**(1.9)%**

*Earnings impacted by:*

- **Motorcycles Segment operating income\* down 26.9%**
  - Revenue up 2.7% despite 9.7% lower shipments
  - Gross margin 34.7%, down 1.0 pt.
  - SG&A up
  - Restructuring charge of \$46.8 million
  - Operating margin of 12.7%, down 5.1 pts.
- **Financial Services segment operating income up 20.8%**
- **24.1% effective tax rate, down compared to last year due to tax law changes**

*\*As of 1/1/18 Accounting Standards Update 2017-07 was adopted which resulted in the classification of certain retirement plan costs in non-operating income. Prior periods have been recast to reflect the new presentation.*



# WORLDWIDE RETAIL SALES



	<u>Q1 '18</u>	
	<u>Motorcycles</u>	<u>Vs. prior year</u>
<b>Worldwide</b>	<b>51,086</b>	<b>(7.2)%</b>
<b>U.S.</b>	<b>29,309</b>	<b>(12.0)%</b>
<b>International</b>	<b>21,777</b>	<b>0.2%</b>

Source: Dealer reported data

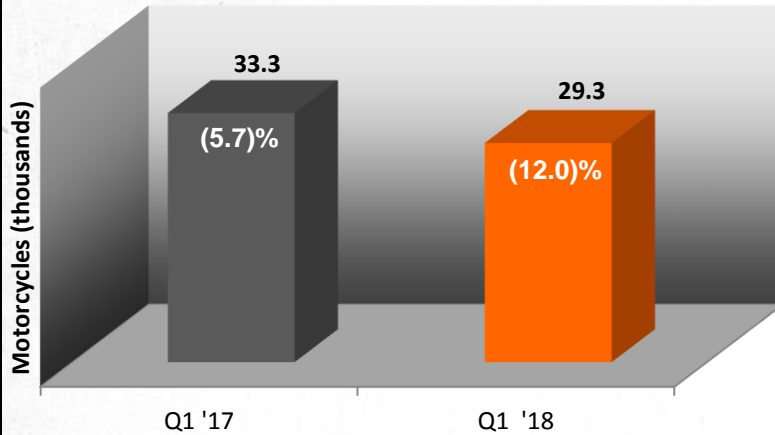
- **U.S. new retail sales down**
  - Ongoing industry new motorcycle sales weakness
  - Market share down 0.9 pts. to 50.4%
- **International new retail sales up slightly**
  - Strong in EMEA and Latin America
  - Soft in Asia Pacific and Canada



# U.S. RETAIL SALES

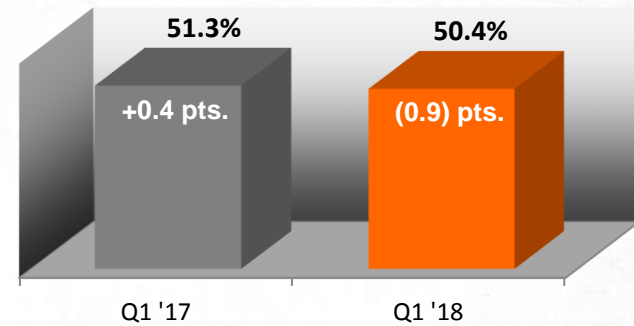


## H-D U.S. NEW RETAIL MOTORCYCLE SALES



- **Q1 retail sales impacted by**
  - **Weak industry behind soft used bike prices**
    - Used H-D pricing up yr./yr.
  - **Constrained availability**

## H-D U.S. NEW 601+cc RETAIL MARKET SHARE\*



- Q1 market share down on limited availability and a highly competitive market

## H-D U.S. NEW RETAIL MOTORCYCLE INVENTORY

- Committed to aggressively manage supply in line with demand
  - Delivering intended results
  - Dealer inventory down ~9,100 motorcycles vs. Q1 '17
  - Continue to expect 2018 year-end U.S. retail inventory will be flat to year-end 2017

\* Source: Motorcycle Industry Council



# INTERNATIONAL RETAIL SALES



## H-D INTERNATIONAL NEW RETAIL MOTORCYCLE SALES

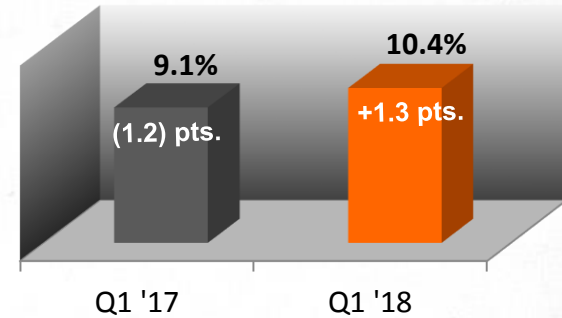
Vs. prior year

**Q1**

<b>International</b>	<b>0.2%</b>
- EMEA	6.8%
<i>Strong results across most of Europe</i>	
- Asia Pacific	(7.8)%
<i>Continued softness in Japan and Australia</i>	
- Latin America	7.0%
<i>Brazil and Mexico up</i>	
- Canada	(11.9)%

RETAIL SALES

## H-D EUROPE 601+cc MARKET SHARE\*



SHARE

- Market share gain behind sales of new Softail motorcycles

## INTERNATIONAL GROWTH

**Objective:** Grow international business to 50% of annual volume by 2027

**Strategy:** Grow reach and impact

- Expand dealer network - Plan to add 150 to 200 new dealerships between 2016-2020
- **7 opened in Q1**
- Target competitive riders; focus on conversion
- Brand awareness through apparel
- Thailand operations to lower pricing in certain markets (reduce tariffs)

OPPORTUNITY

\* Source: Association des Constructeurs Europeens de Motocycles (ACEM)



# SHIPMENTS & MIX



## SHIPMENTS MOTORCYCLES SEGMENT

	<u>Q1 '18</u>	<u>vs. PY</u>
<b>Total</b>	<b>63,944</b>	<b>(9.7)%</b>
<b>Touring</b>	48.3%	7.3 pts.
<b>Cruiser*</b>	33.7%	(1.8) pts.
<b>Street / Sportster®</b>	<u>18.0%</u> 100.0%	(5.5) pts.

\* Includes Softail and CVO

- Q1 shipments down 6,887 motorcycles yr./yr.; in line with guidance
- Touring up significantly as we constrained Touring shipments in Q1 2017 to balance inventory



# REVENUE



## REVENUE\*

### MOTORCYCLES SEGMENT

(\$ millions)

	<u>Q1 '18</u>	<u>vs. PY</u>
<b>Motorcycle</b>	\$1,121.7	3.5%
<b>P&amp;A</b>	169.1	0.6
<b>General Merchandise</b>	56.6	1.4
<b>Licensing</b>	8.4	(9.9)
<b>Other</b>	<u>8.1</u>	(31.0)
<b>Total Revenue</b>	<b>\$1,363.9</b>	<b>2.7%</b>

- Motorcycles Segment revenue up 2.7% despite a 9.7% decrease in motorcycle shipments
- Average motorcycle revenue per unit yr./yr. increased behind favorable mix, favorable currency exchange and higher pricing

\* As of 1/1/2018 Accounting Standards Update 2014-09 was adopted which has shifted some revenue between line items and licensing is now a separate line item. Prior year has been recast for comparative purposes.





# GROSS MARGIN



## GROSS MARGIN MOTORCYCLES SEGMENT (\$ millions)

	<b>Q1</b>
<b>2017 Gross Margin</b>	<b>\$474.8</b>
% of revenue	35.7%
- Volume	(43.5)
- Pricing net of cost	8.8
- Mix	36.4
- Currency	15.5
- Raw materials	(4.2)
- Manufacturing / other*	(14.0)
<b>2018 Gross Margin</b>	<b>\$473.8</b>
% of revenue	34.7%

\* Includes \$0.7M of temporary inefficiencies related to the manufacturing optimization initiative

- **Motorcycles segment gross margin % of revenue impacted by:**
  - Mix – favorable motorcycle family mix
  - Currency – favorable due to weaker U.S. dollar
  - Raw materials – unfavorable on higher steel and aluminum costs
  - Manufacturing expense – unfavorable behind lower absorption and higher depreciation



# OPERATING MARGIN



## OPERATING MARGIN MOTORCYCLES SEGMENT (\$ millions)

	<b><u>Q1</u></b>
<b>2017 Operating Income</b>	<b>\$236.5</b>
% of revenue	17.8%
- Gross Margin	(1.1)
- SG&A	(15.8)
- Restructuring	<u>(46.8)</u>
<b>2018 Operating Income</b>	<b>\$172.8</b>
% of revenue	12.7%

- **Motorcycles segment operating margin down compared to prior year**
  - SG&A up behind higher marketing and product development investments
  - Restructuring charge driven by severance and accelerated depreciation



## OPERATING INCOME FINANCIAL SERVICES SEGMENT (\$ millions)

	<u>Q1</u>
<b>2017 Operating Income</b>	<b>\$52.7</b>
- Net interest income	(1.9)
- Provision for retail motorcycle loan losses	14.2
- Provision for wholesale loan losses	(0.6)
- Operating expenses	(2.4)
- All other	<u>1.6</u>
<b>2018 Operating Income</b>	<b>\$63.6</b>

- Financial Services operating income was higher driven by a lower provision for retail loan losses



## 2018 FINANCIAL SERVICES SEGMENT

### OPERATIONS

#### Originations

*New and used H-D retail motorcycle loans*

Q1 **\$650.5M** (8.3)% vs. Q1 '17

*YTD approximately 80%-85% prime*

#### Market share

*U.S. H-D new retail motorcycle sales financed*

Q1 **58.6%** (4.3) pts. vs. Q1 '17

#### Finance receivables outstanding

*End of Q1 2018*

Retail **\$6.06B**

Wholesale **1.25B**

Total **\$7.31B** (0.2)% vs. Q1 '17

### LIQUIDITY

*(Millions)  
End of Q1 2018*

**Cash & equivalents** **\$350.5**

#### Availability

Bank Credit Facilities **\$503.0**

Asset-Backed Conduits **618.7**

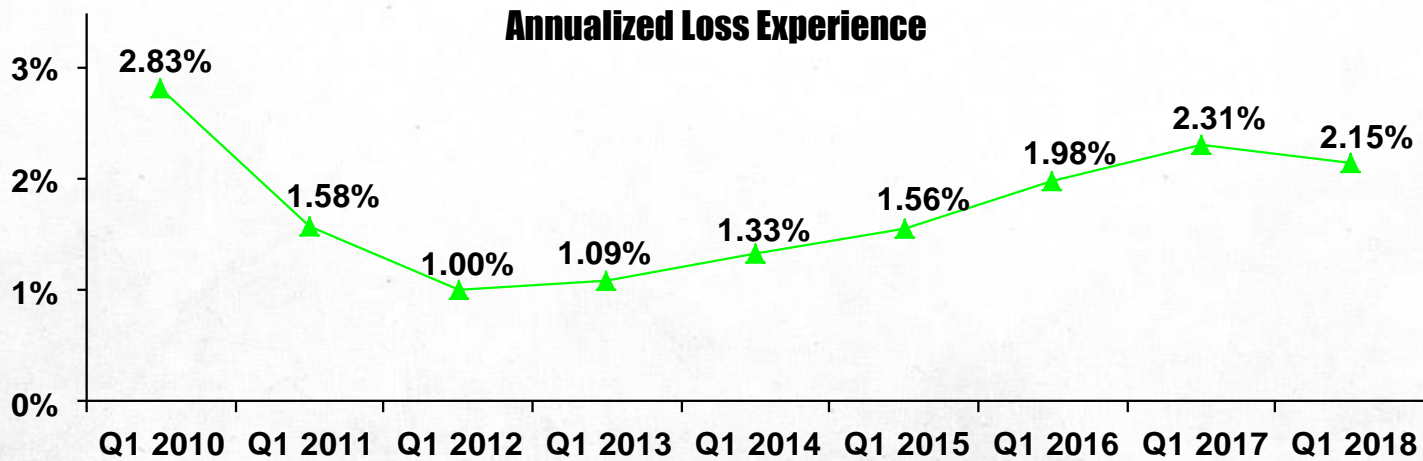
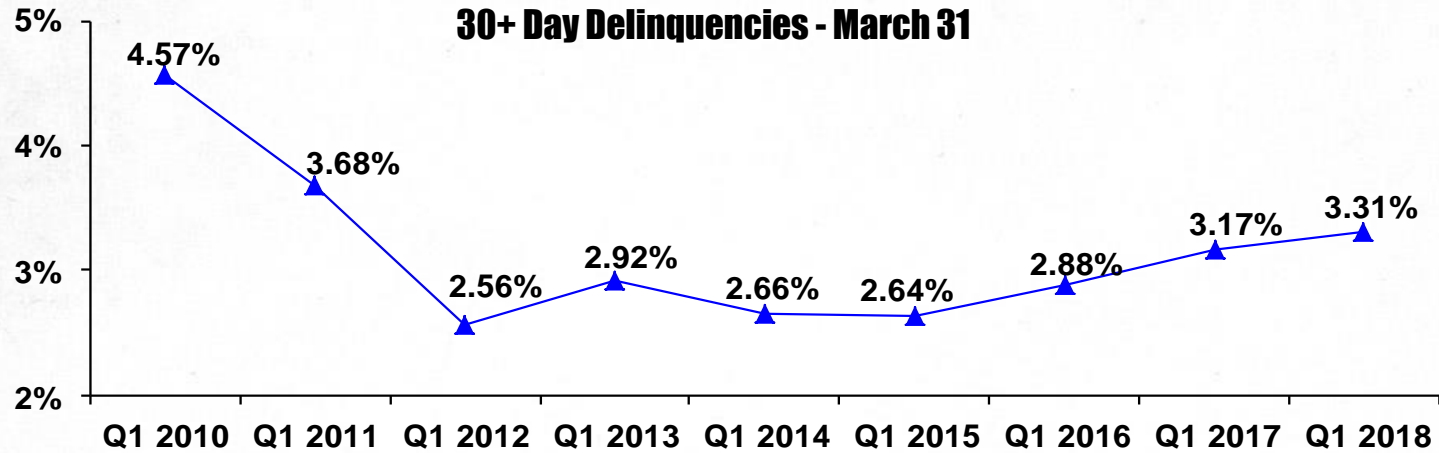
**Total Availability** **\$1,121.7**

#### Other

HDFS paid H-D, Inc. a dividend of \$110 million in Q1



## RETAIL MOTORCYCLE LOAN PERFORMANCE





# HARLEY-DAVIDSON, INC.



## Q1 2018 HARLEY-DAVIDSON, INC. VS. PY

- **Cash & marketable securities** - \$753.5 million vs. \$844.7 million
- **Operating cash flow** - \$191.6 million vs. \$159.9 million
- **Capital spending** - \$28.4 million vs. \$24.0 million
- **Depreciation/amortization expense** - \$62.5 million vs. \$54.9 million
- **Tax rate** – 24.1% vs. 34.5%
  - Impact of new tax legislation

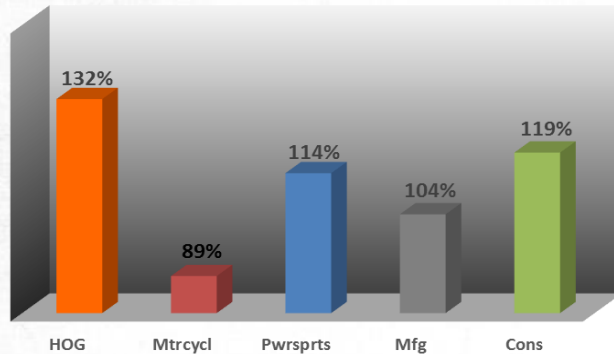


# CASH GENERATION/RETURNS

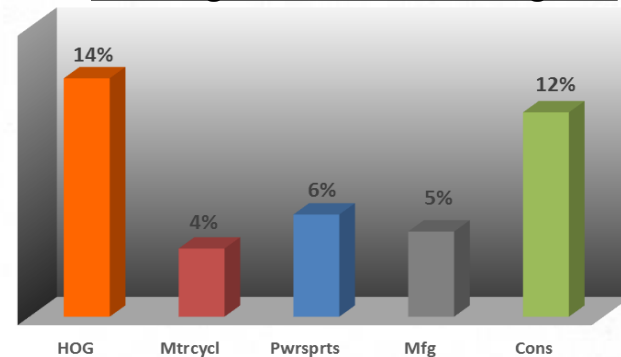


## Harley-Davidson leads in cash generation across multiple industries and consistently returned cash to our shareholders (2015-2017)

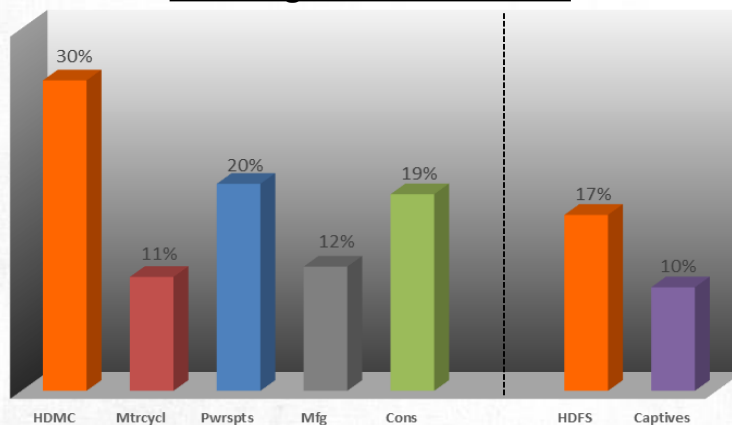
**3-Yr. Avg. Free Cash Flow Conversion<sup>(1)(2)</sup>**



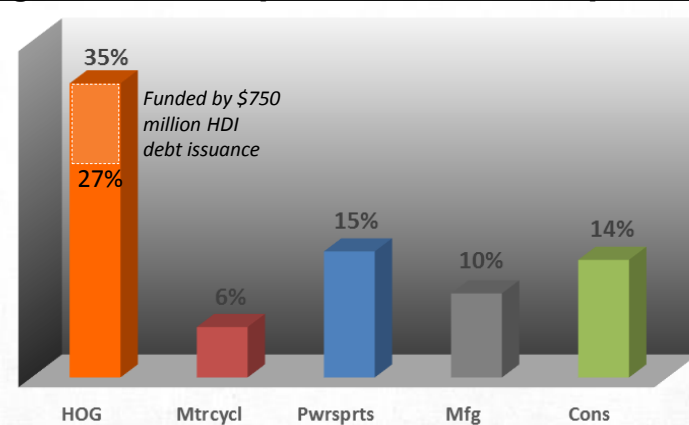
**3-Yr. Avg. Free Cash Flow Margin<sup>(1)(2)</sup>**



**3-Yr. Avg. ROIC and ROE<sup>(1)(3)</sup>**



**3-Yr. Avg. Cumulative Capital Return/Market Capitalization<sup>(1)(4)</sup>**



<sup>(1)</sup>Three year average is based on 2015-2017 calendar year information using the average for key companies in respective industries or segments. Source: Company filings, Bloomberg (benchmark companies' income adjusted as appropriate for comparability). <sup>(2)</sup> Free Cash Flow (FCF) is defined as net cash provided by operating activities less capital expenditures. Free Cash Flow Margin defined FCF divided by revenue. Free Cash Flow Conversion defined as FCF divided by net income. Free Cash Flow is a non-GAAP measure. See slides 28-30 for information on Non-GAAP measures. <sup>(3)</sup>Return on invested capital (ROIC) is defined as earnings before interest and taxes (EBIT) after tax divided by (debt plus book value of equity). EBIT after tax for HDMC is equivalent to HDMC operating income after tax which is a non-GAAP measure. Return on equity (ROE) is defined as FinCo operating income after tax divided by book value of equity. FinCo operating income after tax is equivalent to HDF5 operating income after tax which is a non-GAAP measure. Calculations for all companies assume a tax rate of 35% for comparability. See slides 28-30 for information on Non-GAAP measures. <sup>(4)</sup> Calculated by adding 2015, 2016 and 2017 dividends plus repurchase, dividing that sum individually by 2015, 2016 and 2017 year-end market capitalizations resulting in three separate quotients, and then averaging the three quotients.



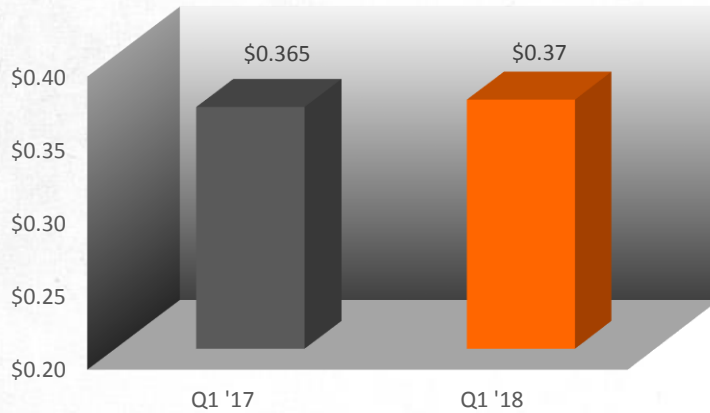
# SHAREHOLDER RETURNS



Harley-Davidson has consistently returned cash to our shareholders

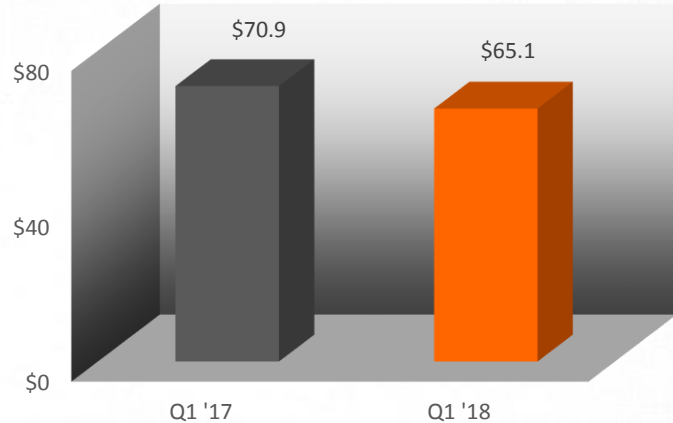
## Dividends Per Share

Year-over-year

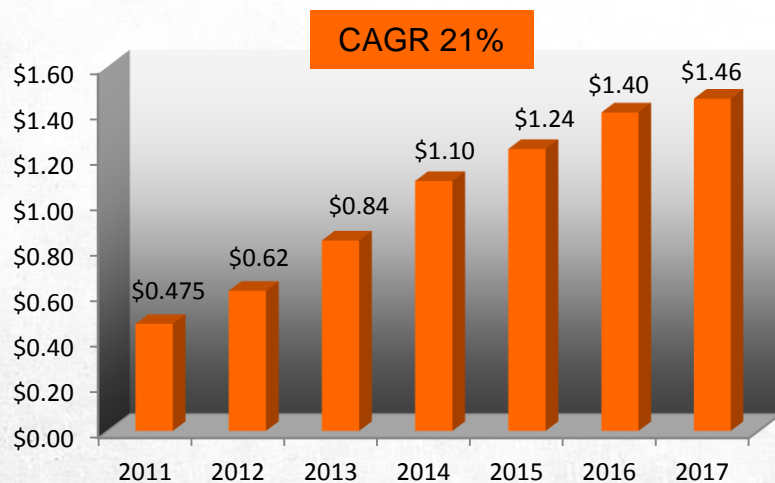


## Discretionary Share Repurchases

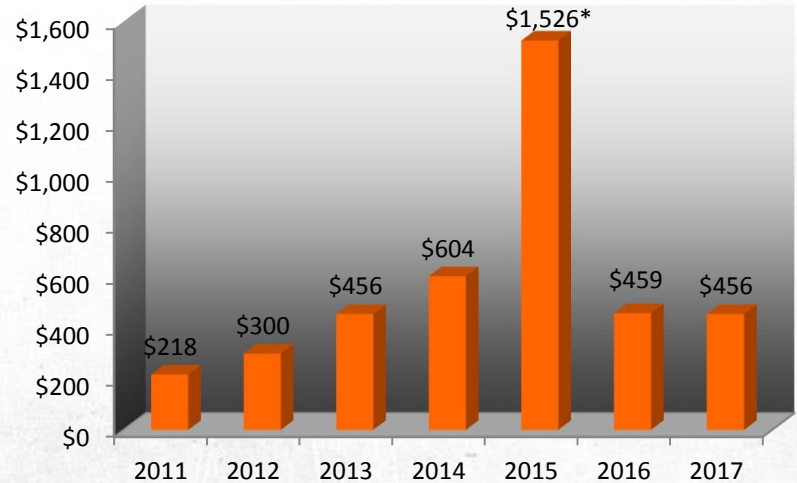
Millions



Multi-Year



Millions



\*Funded by \$750 million HDI debt issuance





# MANUFACTURING OPTIMIZATION



## Manufacturing Optimization Summary as of 4/24/18

*\$ Millions (Estimated)*

	2018	2019	2020	Total
<i>Temporary Inefficiencies</i>	<b>\$20-\$25</b>	<b>\$15-\$20</b>	-	<b>\$35-\$45</b>
<i>Restructuring</i>	<b>\$100-\$115</b>	<b>\$35-\$40</b>	-	<b>\$135-\$155</b>
<b>Total Costs</b>	<b>\$120-\$140</b>	<b>\$50-\$60</b>	-	<b>\$170-\$200</b>
<i>% Cash</i>	<i>Approx. 70%</i>	<i>Approx. 75%</i>	<i>NA</i>	<i>Approx. 70%</i>

- Q1 2018 restructuring \$46.8 million; temporary inefficiencies \$0.7 million

	2018	2019	2020	Annual Ongoing
<b>Annual Cash Savings</b>	-	<b>\$25-30</b>	<b>\$45-\$50</b>	<b>\$65-\$75</b>



# GUIDANCE



## 2018 EXPECTATIONS

as of April 24, 2018

<b>Motorcycles and Related Products segment</b>	Motorcycle shipments	231,000 to 236,000 <i>Q2: 67,500 to 72,500</i>
	Gross margin %	<i>Down yr./yr.</i> <i>(~flat excluding mfg optimization)</i>
	SG&A	<i>Up yr./yr.</i> <i>(~flat as a percent of revenue)</i>
	Operating margin %	9.5% to 10.5% <i>(~flat excluding mfg optimization)</i>
<b>Financial Services segment</b>	HDFS operating income	<i>Flat to down modestly</i>
<b>Harley-Davidson, Inc.</b>	Capital expenditures	\$250 million - \$270 million <i>(Including \$50 million of mfg optimization)</i>
	Effective tax rate	23.5% to 25.0%



## BUILDING THE NEXT GENERATION OF HARLEY-DAVIDSON RIDERS GLOBALLY

*Disciplined to our strategies*



UNITED STATES

Grow Ridership  
Grow Share *AND* Profit



INTERNATIONAL

Grow Reach and Impact  
Grow Share *AND* Profit



Nail the Fundamentals  
to Compete and Win

*Focused investments,  
strong returns  
to grow the company for the long-term*



# NON-GAAP MEASURES



This presentation includes financial measures that have not been calculated in accordance with U.S. generally accepted accounting principles (GAAP), and are therefore referred to as non-GAAP financial measures. The non-GAAP measures listed below are intended to be considered by users as supplemental information to their equivalent GAAP measures, to aid investors in better understanding the company's financial results. The company believes that these non-GAAP measures provide useful perspective on underlying business results and trends, and a means to assess period-over-period results. These non-GAAP measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. These non-GAAP measures may not be the same as similarly titled measures used by other companies due to possible differences in method and in items or events being adjusted.

The following non-GAAP measures related to earnings exclude restructuring expense and the cost of temporary inefficiencies incurred in connection with the company's manufacturing optimization plan:

- Net income excluding manufacturing optimization costs
- Diluted earnings per share excluding manufacturing optimization costs

The following non-GAAP measures are used as inputs into performance measures that allow for a comparison to the performance of industry competitors:

- HDI free cash flow
- HDMC operating income after tax
- HDFS operating income after tax

A reconciliation of these non-GAAP measures to the comparable GAAP measures follows.



# RECONCILIATION OF GAAP TO NON-GAAP AMOUNTS



This presentation contains non-GAAP measures related to earnings that exclude the restructuring expenses and the cost of temporary inefficiencies incurred in connection with the company's manufacturing optimization plan. Reconciliations of non-GAAP amounts to reported GAAP amounts are included below.

	Three months ended April 1, 2018
<u>Net income excluding manufacturing optimization costs</u>	
Net income (GAAP)	\$ 174,763
Restructuring expense and cost of temporary inefficiencies	47,574
Tax effect of adjustments <sup>(1)</sup>	<u>(11,537)</u>
Adjustments net of tax	<u>36,037</u>
Adjusted net income (Non-GAAP)	<u>\$ 210,800</u>
<u>Diluted earnings per share excluding manufacturing optimization costs</u>	
Diluted earnings per share (GAAP)	\$ 1.03
Restructuring expense and cost of temporary inefficiencies, per share	<u>0.21</u>
Adjusted diluted earnings per share (Non-GAAP)	<u>\$ 1.24</u>
Weighted average diluted shares outstanding	169,174

<sup>(1)</sup> The income tax effect of adjustments has been computed using the company's effective income tax rate excluding discrete items.



# RECONCILIATION OF GAAP TO NON-GAAP AMOUNTS



This presentation contains performance measures calculated using non-GAAP amounts as inputs. These performance measures include: "3-yr. Avg. Free Cash Flow Conversion", "3-yr. Avg. Free Cash Flow Margin", "3-Yr. Avg. ROIC and ROE". Reconciliations of non-GAAP amounts to reported GAAP amounts are included below.

	Twelve-months Ended <u>12/31/2017</u>	Twelve-months Ended <u>12/31/2016</u>	Twelve-months Ended <u>12/31/2015</u>
<u>HDI Free cash flow (FCF)</u>			
Net cash provided by operating activities (GAAP)	\$ 1,005,061	\$ 1,174,339	\$ 1,100,118
Less: Capital expenditures (GAAP)	<u>206,294</u>	<u>256,263</u>	<u>259,974</u>
FCF (Non-GAAP)	\$ 798,767	\$ 918,076	\$ 840,144
<u>HDMC operating income after tax</u>			
HDMC operating income (GAAP)	\$ 624,326	\$ 781,625	\$ 884,041
Less: Income taxes(ii)	<u>218,514</u>	<u>273,569</u>	<u>309,414</u>
HDMC Operating income after tax (Non-GAAP)	\$ 405,812	\$ 508,056	\$ 574,627
<u>HDFS operating income after tax</u>			
HDFS operating income (GAAP)	\$ 267,139	\$ 267,206	\$ 271,654
Less: Income taxes(ii)	<u>93,499</u>	<u>93,522</u>	<u>95,079</u>
HDFS operating income after tax (Non-GAAP)	\$ 173,640	\$ 173,684	\$ 176,575

(ii) Income taxes calculated using a 35% rate, to be consistent with assumptions used to determine competitor measures.



# FORWARD-LOOKING STATEMENTS



The company intends that certain matters discussed in this release are "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as the company "believes," "anticipates," "expects," "plans," or "estimates" or words of similar meaning. Similarly, statements that describe future plans, objectives, outlooks, targets, guidance or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially, unfavorably or favorably, from those anticipated as of the date of this release. Certain of such risks and uncertainties are described below. Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this release are only made as of the date of this release, and the company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

The company's ability to meet the targets and expectations noted depends upon, among other factors, the company's ability to (i) develop and execute its business strategy, (ii) execute its strategy of growing ridership, globally, (iii) effectively execute its manufacturing optimization initiative within expected costs and timing, (iv) develop and introduce products, services and experiences that are successful in the marketplace, (v) manage the impact that new or adjusted tariffs may have on the cost of raw materials and components and our ability to sell product internationally, (vi) manage the impact that prices for and supply of used motorcycles may have on its business, including on retail sales of new motorcycles, (vii) balance production volumes for its new motorcycles with consumer demand, including in circumstances where competitors may be supplying new motorcycles to the market in excess of demand at reduced prices, (viii) manage through changes in general economic and business conditions, including changing capital, credit and retail markets, and the changing political environment, (ix) manage risks that arise through expanding international manufacturing, operations and sales, (x) successfully execute the company's manufacturing strategy, including its flexible production strategy, (xi) prevent and detect any issues with its motorcycles or any associated manufacturing processes to avoid delays in new model launches, recall campaigns, regulatory agency investigations, increased warranty costs or litigation and adverse effects on its reputation and brand strength, and carry out any product programs or recalls within expected costs and timing,

Cont.



# FORWARD-LOOKING STATEMENTS



(xii) continue to manage the relationships and agreements that the company has with its labor unions to help drive long-term competitiveness, (xiii) accurately estimate and adjust to fluctuations in foreign currency exchange rates, interest rates and commodity prices, (xiv) manage the credit quality, the loan servicing and collection activities, and the recovery rates of HDFS' loan portfolio, (xv) retain and attract talented employees, (xvi) prevent a cybersecurity breach involving consumer, employee, dealer, supplier, or company data and respond to evolving regulatory requirements regarding data security, (xvii) continue to develop the capabilities of its distributors and dealers and manage the risks that its independent dealers may have difficulty obtaining capital and managing through changing economic conditions and consumer demand, (xviii) adjust to tax reform, healthcare inflation and reform and pension reform, and successfully estimate the impact of any such reform on the company's business, (xix) manage through the effects inconsistent and unpredictable weather patterns may have on retail sales of motorcycles, (xx) manage supply chain issues, including quality issues and any unexpected interruptions or price increases caused by raw material shortages or natural disasters, (xxi) implement and manage enterprise-wide information technology systems, including systems at its manufacturing facilities, (xxii) manage changes and prepare for requirements in legislative and regulatory environments for its products, services and operations, (xxiii) manage its exposure to product liability claims and commercial or contractual disputes, and (xxiv) successfully access the capital and/or credit markets on terms (including interest rates) that are acceptable to the company and within its expectations.

In addition, the company could experience delays or disruptions in its operations as a result of work stoppages, strikes, natural causes, terrorism or other factors. Other factors are described in risk factors that the company has disclosed in documents previously filed with the Securities and Exchange Commission.

The company's ability to sell its motorcycles and related products and services and to meet its financial expectations also depends on the ability of the company's independent dealers to sell its motorcycles and related products and services to retail customers. The company depends on the capability and financial capacity of its independent dealers and distributors to develop and implement effective retail sales plans to create demand for the motorcycles and related products and services they purchase from the company. In addition, the company's independent dealers and distributors may experience difficulties in operating their businesses and selling Harley-Davidson motorcycles and related products and services as a result of weather, economic conditions or other factors.