



2016 Harley-Davidson Softail® Fat Boy® S

Harley-Davidson, Inc.

2015 Third Quarter Update

October 20, 2015



Harley-Davidson, Inc. 2015 Third Quarter Update

This presentation supports the quarterly conference call

Conference call participants:

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

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 release 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.



2015 Third Quarter Business Perspectives

Matt Levatich, President & CEO, Harley-Davidson, Inc.



Q3 2015 Overview



- Challenging marketplace & increased competition
- Took action to drive demand
- Moving forward:
 - Apply what we learned
 - Refine investments
 - Leverage & maximize strengths



Objectives



- Lead in every market
- Grow the sport of motorcycling in the U.S.
 - Grow number of U.S. core customers and grow U.S. outreach customers at a faster rate
- Grow U.S. retail sales and grow international retail sales at a faster rate
 - Target to grow international dealer network by 150 to 200 new dealerships by 2020
- Grow revenue and grow earnings faster than revenue through 2020
- Outperform the S&P 500



Incremental Demand-Driving Investments



Investment in customer-facing marketing: +65% versus 2015

Investment in product development: +35% versus 2015

Focus areas:

- Increase product and brand awareness
- Grow new ridership in the U.S.
- Increase and enhance brand access
- Accelerate the cadence and impact of new products



Product & Brand Awareness



2016 Harley-Davidson Iron 883™, Street™ 750 and Softail Slim® S



Grow New Ridership in the U.S.



- More than 220,000 riders trained worldwide since 2010
- Rider training +25 percent to date in 2015 vs. 2014
- Objective to more than double the number of riders trained annually through Riding Academy to 100,000 globally by 2020, with the majority in the U.S.



Increase & Enhance Brand Access



- Grow international dealer network
- New retail formats for urban centers and urban tastes
- Expand eCommerce to new markets



Harley-Davidson.com/Store



Accelerate Cadence & Impact of New Products



2016 Harley-Davidson Road Glide® Ultra





Dial up our strengths

Increase our reach and impact



Market leadership



2015 Third Quarter Financial Results

John Olin, Senior Vice President & CFO, Harley-Davidson, Inc.



Q3 2015 Vs. Q3 2014 Results

Revenue

\$1.32

Billion

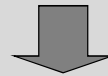


1.2%

Net Income

\$140.3

Million



6.5%

EPS

\$0.69



Flat

Earnings impacted by:

- Motorcycles Segment operating income decreased 2.2%
 - Revenue up 0.9% on 5.5% higher shipments offset by 5.2% unfavorable currency exchange
 - Strong gross margin percent of 34.6%
 - Slightly higher yr./yr. SG&A spending
 - Slightly lower operating margin percent
- Financial Services Segment operating income down 6.4% yr./yr.
- Higher corporate interest expense behind recapitalization



Motorcycle Retail Sales



Worldwide Harley-Davidson Retail Sales

	<u>Vs. PY</u> Q3 '15	<u>Vs. PY</u> YTD
Worldwide	(1.4)%	(1.4)%
U.S.	(2.5)%	(1.3)%
International	0.9%	(1.5)%

- Q3 worldwide retail sales of 72,178
 - Strong sales of new models – *Softail “S” models, Road Glide Ultra, Forty-Eight and Iron 883*
 - Q3 U.S. retail sales down behind intense competition, lapping Rushmore launch enthusiasm and limited availability
 - Q3 international sales up driven by Asia Pacific and EMEA
- Q3 retail sales short of expectations
 - Reducing full-year shipment guidance to 265,000 – 270,000
 - Committed to protecting premium brand



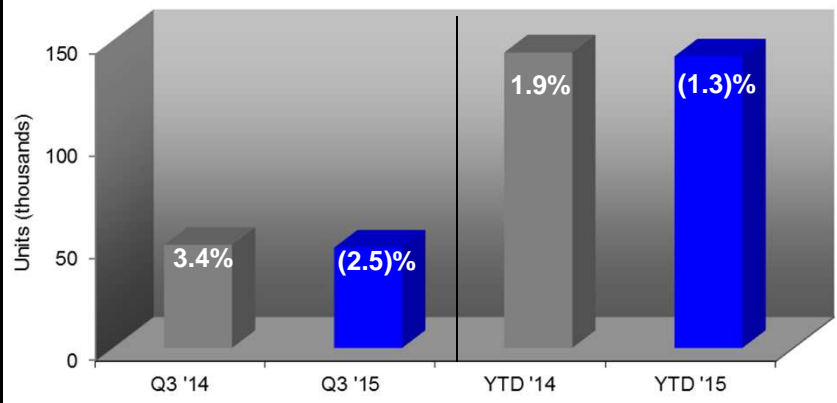
Motorcycle Retail Sales



U.S. Harley-Davidson

SALES

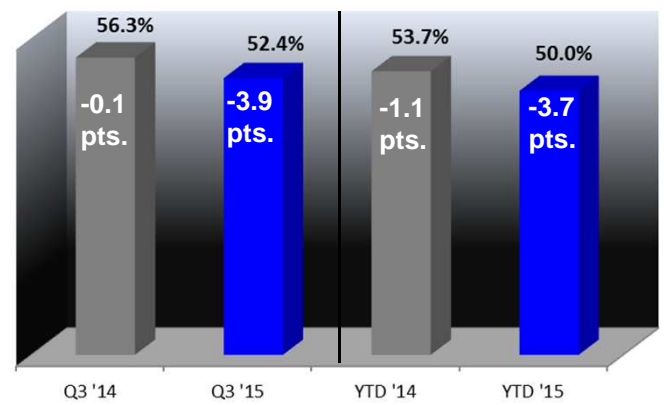
H-D U.S. New Retail Motorcycle Sales



- **Q3 retail sales impacted by:**
 - Continued intense competition
 - Lapping enthusiasm of Rushmore launch
 - Limited availability of certain Cruiser, Touring and Street models
- **Market response actions launched late Q2 were effective, but not sufficient**
- **2016 motorcycles launched**
 - New models in high demand, low availability

SHARE

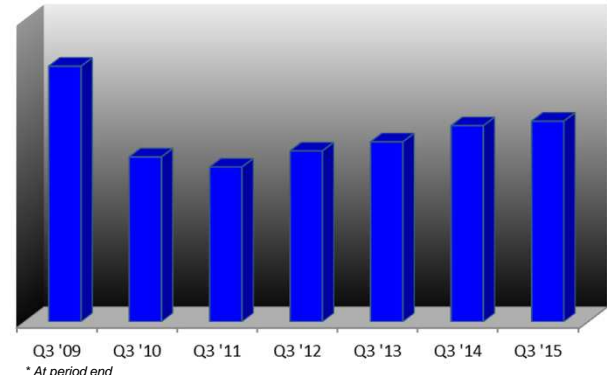
H-D U.S. New 601+CC Retail Market Share



- Ongoing, aggressive price discounting and new product introductions by competitors

INVENTORY

H-D U.S. New Retail Motorcycle Inventory* (Units)



- Up approximately 850 motorcycles yr./yr.

Motorcycles and Related Products Segment



Motorcycle Retail Sales



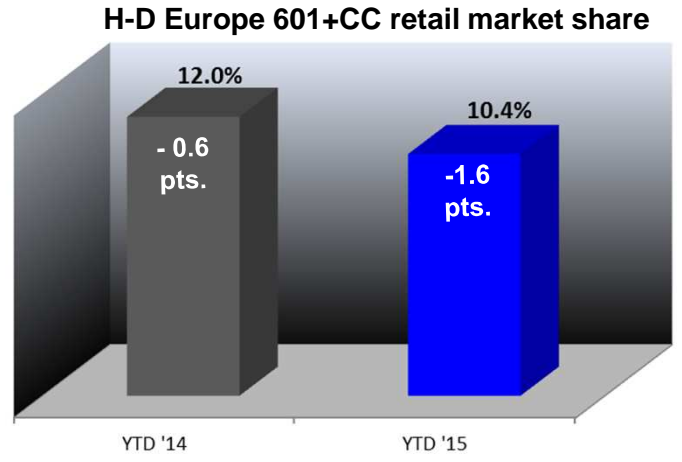
International Harley-Davidson

SALES

	Vs. PY Q3 '15	Vs. PY YTD
International	0.9%	(1.5)%
- EMEA Region	2.4%	(5.1)%
- Asia Pacific Region	5.1%	6.9%
- Latin America Region	(11.5)%	(5.1)%
- Canada	(1.7)%	(3.9)%

- **EMEA** - Modest growth behind market response actions despite headwinds from:
 - Impact of low-priced models by competition
 - Currency-driven declines in some markets
- **AP** - Growth across region despite limited availability of Street motorcycles
- **Latin America** – Weak Brazil, strong Mexico
- **Canada** – Successful transition of distribution to H-D

SHARE



- YTD share down behind the impact of low-priced models by the competition (outside the Cruiser and Touring segments)

OPPORTUNITY

International Growth

We expect to grow international retail sales at a faster rate than the U.S. over time

- Focus on dealer profitability and delivery of Harley-Davidson Customer Experience (HDCX)
- Add 150 to 200 new dealers; primarily in emerging markets
- Increase investment in product development

Motorcycles and Related Products Segment



Shipment & Mix



Harley-Davidson Motorcycle Shipments

	<u>Q3 2015</u>	<u>Vs. PY</u>
Total	53,472	5.5%
Touring	21,994	(4.0) <i>pts.</i>
Cruiser*	18,405	5.3 <i>pts.</i>
Street/Sportster®	13,073	(1.3) <i>pts.</i>

* Includes Dyna, Softail, V-Rod and CVO platforms

- Shipments in Q3 2015 were up 2,802 motorcycles yr./yr.
 - Slightly below guidance range of 54,000 to 59,000 motorcycles
 - Cruiser mix up behind MY 2016 focus on Cruiser models
- In Q3 2015, 43.7% of motorcycle shipments were international



Revenue



Revenue Motorcycles Segment (*\$ Millions*)

	<u>Q3 2015</u>	<u>% change</u>
Motorcycle	\$812.4	(0.4)%
P&A	252.2	5.2%
General Merchandise	69.0	(0.4)%
Other	<u>6.7</u>	8.4%
Total Revenue	\$1,140.3	0.9%

- Motorcycles segment revenue was up \$9.8 million in Q3 2015 compared to Q3 2014 driven by:
 - 5.5% higher motorcycle shipments
 - Unfavorable currency exchange – revenue down 5.2%
- Average motorcycle revenue per unit year/year decreased \$899 behind unfavorable currency exchange and product mix, partially off-set by higher pricing



Gross Margin



Gross Margin Motorcycles Segment (\$ Millions)

	<u>Q3</u>	<u>YTD</u>
2014 Gross Margin	\$394.6	\$1,710.9
<i>% of revenue</i>	34.9%	37.7%
- Volume	7.6	(46.8)
- Pricing net of cost	27.0	61.6
- Mix	(1.4)	(8.8)
- Currency	(29.9)	(105.4)
- Raw materials	6.2	12.6
- Manufacturing	(10.1)	7.4
2015 Gross Margin	\$394.0	\$1,631.5
<i>% of revenue</i>	34.6%	37.9%

- Motorcycles segment gross margin in Q3 was flat to prior year



Operating Margin



Operating Margin Motorcycles Segment (\$ Millions)

	<u>Q3</u>	<u>YTD</u>
2014 Operating Income	\$146.3	\$967.3
<i>Operating Margin (% of revenue)</i>	12.9%	21.3%
- Gross Margin	(0.6)	(79.4)
- SG&A	<u>(2.6)</u>	<u>(18.8)</u>
2015 Operating Income	\$143.1	\$869.1
<i>Operating Margin (% of revenue)</i>	12.5%	20.2%

- Motorcycles segment operating income was down \$3.2 million or 2.2% in Q3 compared to prior year
 - SG&A includes impact of new Canadian distribution operations



Operating Margin
Financial Services Segment
(\$ Millions)

	<u>Q3</u>	<u>YTD</u>
2014 Operating Income	\$77.8	\$215.4
- Net interest income	4.3	13.8
- Provision for retail motorcycle loan losses	(4.5)	(10.4)
- Provision for wholesale loan losses	(1.0)	(0.2)
- Operating expenses	(4.2)	(5.2)
- All other	<u>0.4</u>	<u>5.9</u>
2015 Operating Income	\$72.8	\$219.3

- Financial Services operating income in Q3 was lower due to increased provision for credit losses and higher operating expenses, partially offset by higher net interest income



Q3 2015 Financial Services Segment

Operations

▪ Originations

New and used H-D retail motorcycle loans

- \$984.8 million +14.3% vs. Q3 2014

- Approximately 80% prime YTD

▪ Share

U.S. H-D new retail motorcycle sales

- 69.3% +9.6 pts. vs. Q3 2014

▪ Finance receivables outstanding

Retail \$ 6.19 billion

Wholesale \$ 1.03 billion

Total \$ 7.22 billion +6.4% vs. Q3 2014

Liquidity

(Millions)

▪ Cash & Equivalents

\$405.2

▪ Availability

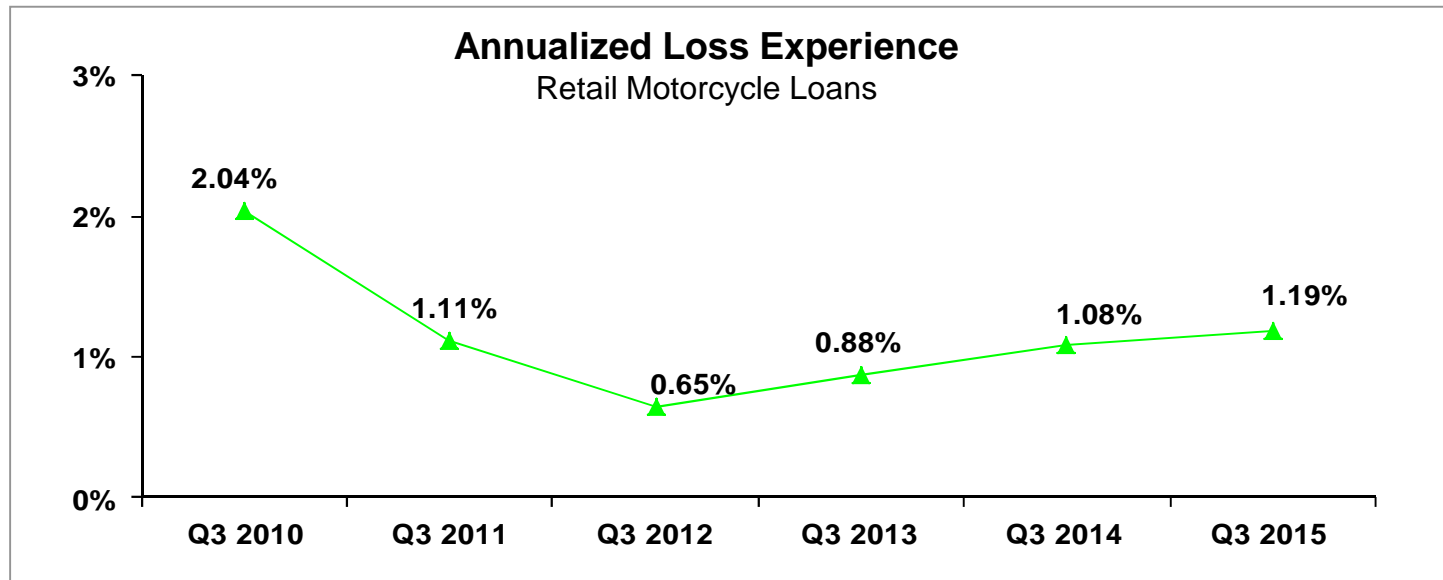
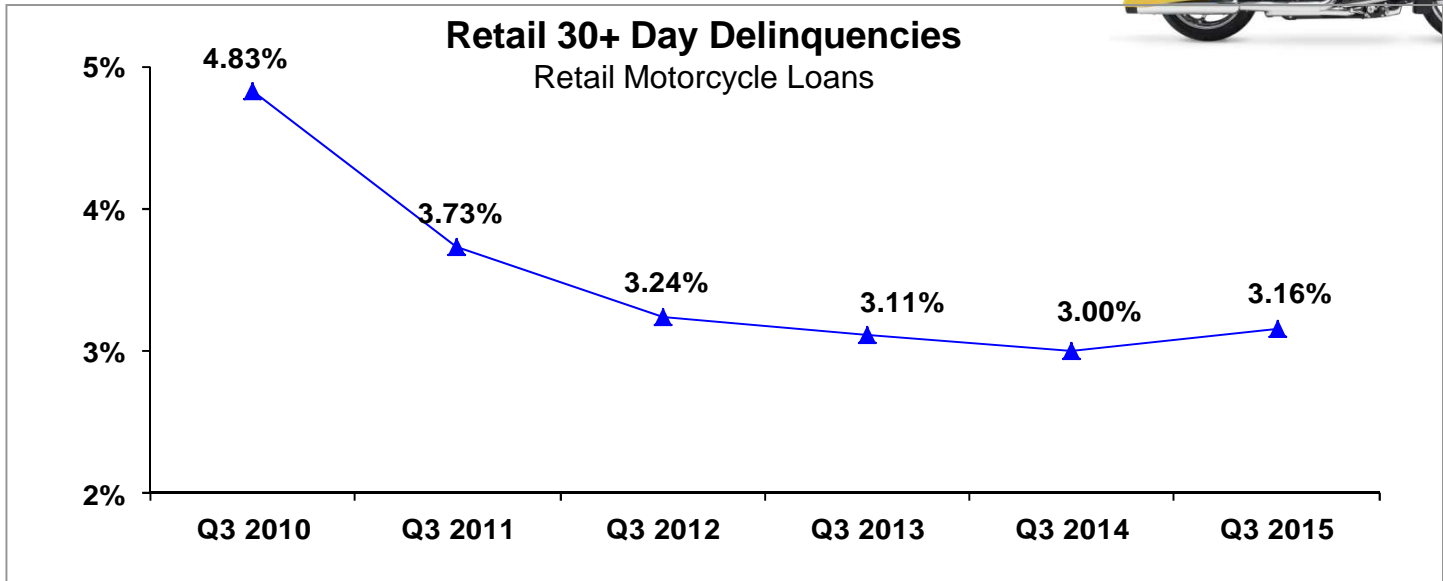
Bank Credit Facilities \$360.0

Asset-Backed Conduit \$600.0

Total Availability \$960.0



HDFS





Q3 2015 Harley-Davidson, Inc.

- **Cash & Marketable Securities at 9/27/15** - \$1.42 billion vs. \$1.04 billion at 9/28/14
- **Operating cash flow YTD** – \$1.02 billion vs. \$966.9 million in 2014
 - Lower net wholesale lending and lower working capital, partially offset by lower net income
- **Capital spending YTD** - \$139.1 million vs. \$120.3 million in 2014
- **Depreciation expense YTD** - \$142.0 million vs. \$130.7 million in 2014
- **Tax rate YTD** - 34.8% vs. 34.9 % in 2014

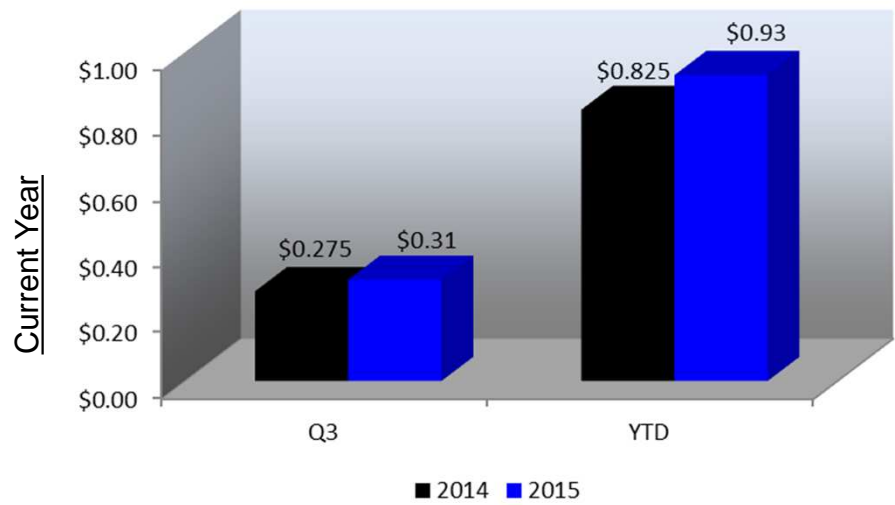


Shareholder Value

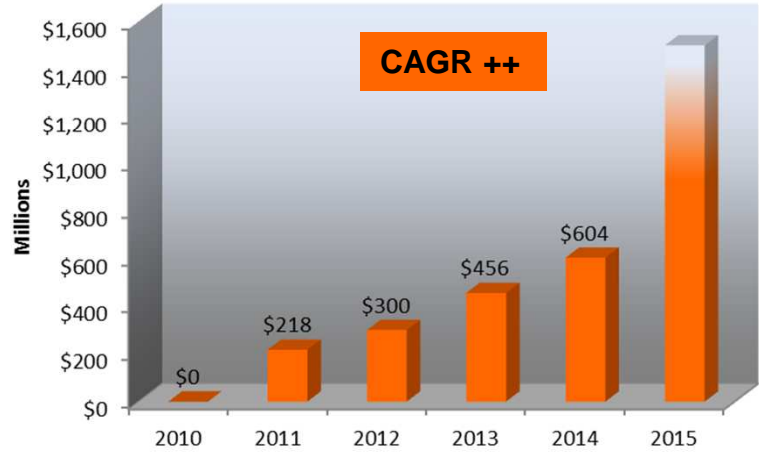
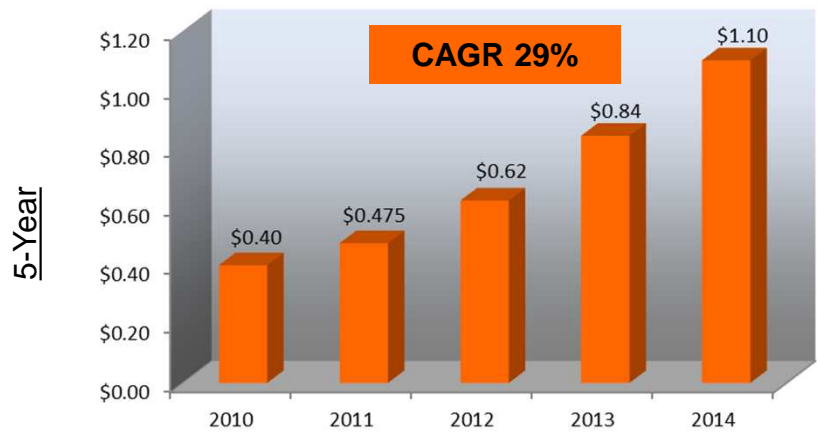
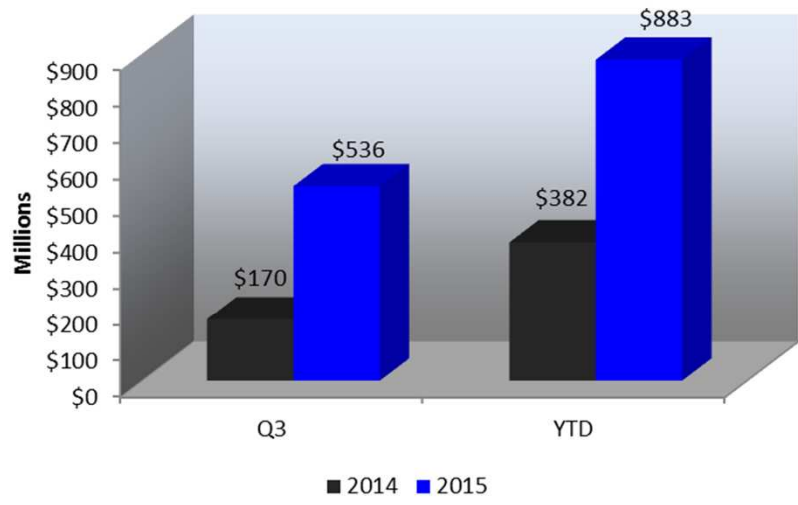


Harley-Davidson consistently returns value to our shareholders

Dividends Per Share



Discretionary Share Repurchases





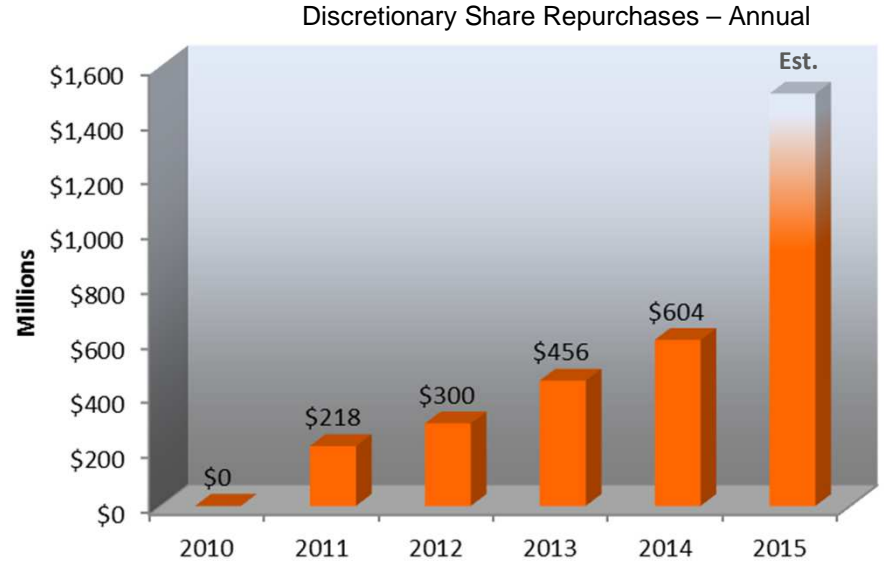
Shareholder Value



Harley-Davidson consistently returns value to our shareholders

June 2015 Recapitalization Plan

- Incurred \$750 million of long-term debt in Q3
 - \$450 million 10-yr. notes at 3.5% coupon
 - \$300 million 30-yr. notes at 4.625% coupon
- Proceeds to be used to repurchase shares during 2H 2015 in addition to previously planned repurchases
- Expect to be slightly accretive to 2015 EPS. Expect 2016 EPS to reflect full benefit of repurchases





Guidance



2015 Expectations

as of Oct. 20, 2015

Motorcycles and related products segment	Motorcycle shipments	265,000 – 270,000 [Q4 47,000 – 52,000]
	Gross margin %	<i>Up modestly year/year</i>
	SG&A	<i>Up year/year – total spend and percent of revenue</i>
	One-time charges (Q4)	<i>Approximately \$30-\$35 million</i>
	Operating margin %	16% – 17%
Financial services segment	HDFS operating income	<i>Up modestly year/year</i>
Harley-Davidson, Inc.	Capital expenditures	<i>\$240 - \$260 million</i>
	Effective tax rate	<i>Approximately 35.0%</i>

This guidance includes the impact of the Canadian distributor transaction. As previously indicated, the company expects the financial impact to be dilutive to 2015 earnings per share by approximately \$0.04, \$0.02 of which was incurred in Q3.



Harley-Davidson



Grow reach and impact with customers

- *Increase product and brand awareness*
- *Grow new ridership in the U.S.*
- *Increase and enhance brand access*
- *Accelerate the cadence and impact of new products*

Consistently return value to shareholders

Strong margins • Strong returns



2016 Harley-Davidson® Forty-Eight® Motorcycle



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 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) execute its business strategy, including making new investments to drive demand for its products for the costs and on the timing that are within expectations, (ii) manage through changes in general economic conditions, including changing capital, credit and retail markets, and political events, (iii) accurately estimate and adjust to fluctuations in foreign currency exchange rates, interest rates and commodity prices, (iv) 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, (v) execute its marketing strategy of appealing to and growing sales to multi-generational and multi-cultural customers worldwide in an increasingly competitive marketplace, (vi) develop and introduce products, services and experiences that are successful in the marketplace, (vii) 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, (viii) successfully access the capital and/or credit markets on terms (including interest rates) that are acceptable to the company and within its expectations,

(Cont.)



Forward-Looking Statements



(vix) effect repurchases of its common stock at share prices that are within its expectations, (x) complete the transition to the new direct distribution model in Canada on the timing and for the costs that are within its expectations, (xi) prevent a cybersecurity breach involving digital consumer, employee or dealer personal data, (xii) manage the impact that prices for and supply of used motorcycles may have on retail sales of new motorcycles, (xiii) manage risks that arise through expanding international manufacturing, operations and sales, (xiv) manage through the effects inconsistent and unpredictable weather patterns may have on retail sales of motorcycles, (xv) manage changes and prepare for requirements in legislative and regulatory environments for its products, services and operations, (xvi) manage supply chain issues, including quality issues and any unexpected interruptions or price increases caused by raw material shortages or natural disasters, (xvii) detect any issues with its motorcycles or any associated manufacturing processes to avoid delays in new model launches, recall campaigns, increased warranty costs or litigation, ((xviii) implement and manage enterprise-wide information technology solutions, including solutions at its manufacturing facilities, (xix) continue to realize production efficiencies at its production facilities and manage operating costs including materials, labor and overhead, (xx) execute its flexible production strategy, (xxi) continue to manage the relationships and agreements that it has with its labor unions to help drive long-term competitiveness, (xxii) adjust to healthcare inflation and reform, pension reform and tax changes, (xxiii) retain and attract talented employees, and (xxiv) manage the credit quality, the loan servicing and collection activities, and the recovery rates of HDFS' loan portfolio.

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.