Prepared Comments, Earnings Conference Call – Fourth Quarter and Full-Year 2018

Shannon Burns

Good morning everyone.

You can access the slides supporting this call at investor.Harley-Davidson.com. Click the 'earnings materials' box in the center of the page. Adjacent to that link, you can find our More Roads to Harley-Davidson plan support materials.

Our comments will include 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 call.

Joining me this morning, are President and CEO Matt Levatich and CFO John Olin.

Matt Levatich

In July we announced the More Roads to Harley-Davidson plan – an acceleration of our strategy to build the next generation of Harley-Davidson riders, grow motorcycling and return our business to growth through 2022. During 2018 we met or exceeded all stated plan milestones for the year. Our execution is on-track and we are energized that we're getting new and different people, riders and non-riders, to stand up and take notice of Harley-Davidson.

We are equally energized by our current riders who are deeply engaged in the brand and tell us they too are excited at the direction we are headed. It's clear that for riders today and Harley-Davidson riders of tomorrow, the groundwork for an exciting future is being built in real time.

Our plan to step-up our strategic efforts was reinforced throughout 2018 as the industry in the U.S. and certain developed international markets continued to be challenging. While most of 2018 played-out largely as we expected, the declining industry performance in the fourth quarter prompted key business decisions including pulling back on shipments to drive even lower than planned year-end inventory. We also took further belt-tightening restructuring actions in addition to our planned cost savings related to optimizing our U.S. manufacturing footprint. Our efforts to transition U.S. production to our expanded operations in York remain on-track and our 2018 program costs were lower than originally planned.

Through our actions and keen focus on working capital, we delivered improved year-over-year earnings and cash from operations and importantly, we maintained our ability to invest in the future. We dug deeper and found ways to go faster while continuing to deliver strong cash to our shareholders.

The More Roads to Harley-Davidson plan addresses the challenges of today and the opportunities ahead of us -- and in 2018 we made significant progress across each of the three growth catalysts: new products, broader access and stronger dealers.

When it comes to **New Products**, our 2019 motorcycles are hands down our best product offering ever – demonstrating clear commitment to the passions and preferences of our current riders. During 2018 we launched new models and debuted new rider confidence, safety, performance and infotainment features.

Our commitment to lead in the electrification of motorcycling is also clear. In November, our first electric Harley-Davidson stole the show when it made its European debut at the Milan motorcycle show. Already this year, we provided a first glimpse of our broader electric portfolio at CES which drove 2.6 million video views across social channels with the largest audience being 25-34-year-olds. Our statement at CES garnered over 4,500 media mentions on Harley's innovation, technological advancements and bold leadership stance.

Even before the first LiveWire is delivered, we are reaping the strategic value of this extraordinary motorcycle. The buzz is helping build interest and relevance in Harley-Davidson among a new audience and redefining the global perception of our brand. As THE halo product in our future portfolio of electric products, LiveWire is already doing what it's intended to do –its value to our brand is captivating and inspiring new people about what's possible from Harley-Davidson and why riding is worth a look. The positioning and pricing reflects the quality, capability and value of this incredible motorcycle. It's a serious, high-performance and highly innovative motorcycle – a thoroughbred — the most thrilling motorcycle I have ever ridden. LiveWire is not only igniting passions at the highest echelon of motorcyclists, it is captivating a vast audience who will be inspired to imagine – and discover – what is possible Harley-Davidson -- and that is invaluable; that's what a halo is all about.

When it comes to **Broader Access**. We are accelerating our progress to grow reach and relevance. This growth catalyst is all about helping us cast a much wider net than we do today by aligning our efforts in an integrated way, so we can attract new and different consumers, increase value for these consumers and meet people where they are and how they want to engage.

By example: in line with our plans to reach more urban dwellers, especially in Asia, 23 branded Harley-Davidson apparel stores were opened in 2018. These stores, in heavy foot traffic areas, offer a unique line of branded apparel which we know is one of the first and easiest ways people "try us on" and begin their journey with us. In fact, our sample survey tells us over 75 percent of shoppers say it's their first visit to any Harley-Davidson store and over 60 percent are under 34 years old.

In 2018 we also launched eCommerce in China via TMall, one of the largest eCommerce platforms in the world. We see tremendous long-term opportunity in China and will continue to invest in proven activities that drive awareness, interest and sales.

In the U.S., we expanded our reach in a big way with the launch of a Harley-Davidson branded storefront on Amazon.com. Sales were strong and initial data indicates that the majority of people purchasing our products on Amazon are new to the brand. We also enhanced our own eCommerce store on H-D.com and exceeded our milestone for the year with 6 percent of General Merchandise sales through H-D.com in 2018. Full year total eCommerce sales were up 32 percent.

With these efforts, we are building an integrated multi-channel retail experience that today's consumers expect and providing new consumers an inspiring and convenient way to connect with and shop for Harley-Davidson products.

In an environment of rapidly increasing customer expectations which we are meeting with an expanded portfolio of products and services, the motor company and our dealers must be prepared. Dealers are a critical component to our success as they bring the spirit of Harley-Davidson motorcycling to life each and every day. That's why **Stronger Dealers is one of our growth catalysts**. It. emphasizes dealer capabilities and puts in place increased support and incentives under a performance framework. Part of this work includes creating conditions for growth through consolidation, scale and investment for every willing dealer.

Stronger Dealers means optimizing our network composition, providing more meaningful support tailored to individual dealers' needs and expanding our international footprint. In 2018, 56 international dealerships were opened.

Underpinning all our efforts globally is the topline strategy to build the next generation of Harley-Davidson riders through 2027. We set 10-year objectives knowing this would be a long march to change the way people think about motorcycling. It requires our very best efforts, significant change, and it requires time. More Roads is our plan to accelerate our progress and it includes clear deliverables through 2022.

Our capabilities in building and retaining new riders are improving. We continued the momentum we started in 2017 and ended 2018 with over 52,000 more Harley-Davidson riders in the U.S.

All positive signs, but more is needed.

Our marketing investments engaged new and existing riders in 2018:

- Riding Academy sales conversion was up 2.2 percentage points over last year
- We drove relevance and interest through our activations with celebrities and social media influencers whose content and activity generated equivalent traditional media value that was up over 80 percent.
- Thousands of Sportster and Street purchasers were offered the Freedom Promise, an incentive to trade-up to a new motorcycle, and
- Existing riders demonstrated their increased engagement by logging 45 million miles into our Ride365 app, a 137 percent increase over last year. Nothing sells riding like riding, and keeping existing owners engaged is key to growing our business.

Looking forward, our efforts will intensify. We are on track with our new middleweight motorcycles planned to launch in 2020. The Pan America Adventure Touring and Streetfighter motorcycles are being put through the paces on all kinds of terrain and are demonstrating power, strength and competitiveness. The immense talent and capabilities of our design and engineering team continue to boldly expand how the look, sound and feel of Harley-Davidson motorcycles drive appeal with new types of people.

Focusing now on 2019, we know market challenges will persist and we're meeting them head-on with drive, a clarity of purpose and a solid plan. Our More Roads plan leverages our many strengths and is our call to action as industry leaders.

- In the U.S., it commands us to increase the relevance of and the participation in motorcycling
- Our plan recognizes and addresses changing global consumer preferences toward more accessible motorcycles and a growing interest and demand for the ease, power and thrill of electric, and

- More Roads recognizes the tremendous international opportunities that we believe will drive international sales to become at least 50 percent of our annual sales volume in the not so distant future.

We will continue to lead with passion and focus, to disrupt the status quo and ignite a cultural movement for motorcycling, inspiring new people AND our current riders to join us all along the way. Thank you for continuing to ride with us.

John Olin

Our fourth quarter financial results were impacted by;

- First, our decision to reduce shipments in an effort to lower worldwide retail inventories, as well as a result of slightly lower-than-expected retail sales in our international markets;
- Next, we booked two voluntary recalls during the quarter; and
- Finally, we recorded an additional restructuring charge in our efforts to aggressively manage the company's costs

In the face of ongoing retail sales headwinds in the U.S., we remain focused and disciplined on tightening U.S. retail inventory, aggressively managing costs and driving improved cash from operations. In fact, in 2018 we increased operating cash by over $200 million, a 20% increase over prior year.

The summary of our Q4 results is on slide 10.

In the fourth quarter, revenue was down behind lower shipments. Motorcycle operating income was impacted by lower shipments, $19.4 million of restructuring charges, higher year-over-year SG&A driven by two recalls and the impact of incremental tariffs. Financial Services operating income was down slightly. Consolidated net income was largely flat to prior year due to lower operating income, offset by the benefit of considerably lower taxes. EPS for the quarter was $0.00. When excluding restructuring plan costs and the impact of incremental tariffs, EPS was $0.17.

We remain focused on delivering strong margins and returns over the long-term.

On slide 11, worldwide retail sales of new Harley-Davidson motorcycles in Q4 were down 6.7 percent versus prior year.

In the U.S., Q4 retail sales were down versus prior year driven by significant declines in the U.S. industry and slight market share declines.

International retail sales were down modestly in Q4 driven by year-over-year declines in certain developed markets, partially offset by continued growth in emerging markets.

While we expect our business to remain under pressure in 2019 driven by continuing challenges in the U.S. motorcycle industry, we intend to introduce exciting new products and add innovation that customers value on our new motorcycles. We also expect to aggressively manage supply and execute marketing efforts to encourage trial and increase conversion to sale.

Through 2022, our More Roads to Harley-Davidson Plan is designed to build the proper foundation and drive the right fundamentals to help steer the U.S. industry back to health and drive significant growth across our international markets.

Let’s take a closer look at the U.S. on slide 12.

Retail sales were down 10.1 percent versus the prior year quarter. While the U.S. retail sales decline is very disappointing, the decline was in line with our expectations.

The U.S. industry was down 8.4 percent in the quarter. We believe the industry was down largely because of soft used bike prices and a relative shift in rider preferences toward smaller motorcycles.

Looking at used bikes— prices remain at historically low levels compared to new; however, we are encouraged as we continue to see positive momentum in used bike pricing. During Q4, pricing services such as NADA and Black Book published higher values for Harley-Davidson motorcycles, while prices were slightly lower at auction. Additionally, for the sixth consecutive quarter, we saw rising prices of used Harley-Davidson bikes in our dealer network.

Used Harley-Davidson motorcycle sales were up through November. Our share of combined new and used motorcycle registrations was up through November and has been up for the last 9 consecutive years. We believe used sales are also an indicator of brand health and provide prospects for future new bikes sales.

2018 full-year share of new bike registrations was 49.7 percent, down 1.0 percentage points. Our U.S. market share reflects the adverse impact of a highly competitive marketplace and relatively strong growth in segments which we do not currently compete.

In the segments where we do compete – the Touring and Cruiser segments which represent approximately 70 percent of the 601+cc market -- our market share was up 0.8 percentage points on a full year basis.

During the quarter, we pulled back on shipments of new bikes into the channel. This resulted in year-end U.S. retail inventory decreasing approximately 350 motorcycles over the prior year. We believe this market discipline is important in maintaining customer and dealer value and will ultimately result in stronger retail sales of new motorcycles.

On slide 13, International retail sales were down 2.6 percent in the fourth quarter, slightly below our expectations. On a full-year basis, international sales were up slightly.

During Q4, emerging markets retail sales were up 18.7 percent driven double-digit growth in several markets including China, Brazil and India.

Retail sales in developed international markets were down in the fourth quarter, resulting primarily from ongoing weakness in Japan and Australia. During 2018, these two markets experienced contracting industry sales and competitive new product introductions in segments outside of Touring and Cruising. Retail sales were also down modestly in western Europe driven by weak consumer confidence in France and the U.K.

Our full-year market share in Europe was 10.3 percent, up 0.5 percentage points versus the prior year.

As the detail in our More Roads plan reinforces, we remain confident in, and committed to, the great potential that international markets offer to Harley-Davidson. We believe our brand, products and distribution will drive sustainable growth in international markets.

On slide 14, wholesale motorcycle shipments were down in the quarter and on a full-year basis. We came in under our full-year shipment guidance as a result of our decision to reduce retail inventory from planned levels in both the U.S. and international markets, and on lower-than-expected international retail sales.

Compared to last year's fourth quarter, Street/Sportster shipments as a percent of the total were up behind an improved retail sales rate, offset by lower Cruiser mix as we lapped last year's initial sell-in of our new Softail motorcycles.

On slide 15, revenue for the Motorcycles segment was down 8.7 percent in the fourth quarter behind a 7.9 percent decrease in year-over-year motorcycle shipments.

Revenue during the quarter benefited from a $230 increase in the average motorcycle revenue per bike. This increase was driven by higher year-over-year pricing and favorable mix, partially offset by unfavorable foreign currency exchange.

Both P&A and General Merchandise sales lagged retail motorcycle sales growth in the fourth quarter, due in large part to the timing of our fiscal calendar that had one less week versus last year's calendar. In addition, General Merchandise was down as it lapped last year's strong sell-in of our 115th anniversary product.

Full year revenue was up 1.1 percent despite shipments being down 5.3 percent. We believe this demonstrates the resilience of our company and brand in the face of challenging markets.

On slide 16, gross margin in Q4 was down as a result of lower shipments, unfavorable manufacturing expense and higher raw material costs, partially offset by higher pricing and favorable currency.

The financial impact of currency was favorable by $4.0 million during the fourth quarter. Q4 foreign currency exchange gains were partially offset by a stronger U.S. dollar which adversely impacted revenue by about 1 ½ percent.

Raw material costs were higher during the quarter behind increased steel and aluminum prices.

Finally, manufacturing was unfavorable versus prior year driven by the impact of incremental tariffs, lower absorption on reduced production and shipments and temporary inefficiencies related to our Manufacturing Optimization. Q4 tariff costs increased by $13.4 million driven by higher EU and China tariffs. The full-year impact of incremental tariffs was $23.7 million.

On slide 17, operating margin as a percent of revenue for Q4 was lower compared to last year driven by lower gross margin, higher SG&A and restructuring expense.

SG&A was adversely impacted by two voluntary recalls booked in the fourth quarter. The first was the $35 million clutch recall on certain Touring and Softail bikes, which we discussed last quarter. The second was a brake recall on our Street motorcycles, for which we recorded a $20 million charge. We believe that limited parts availability for repairing our Street motorcycles will adversely impact our Q1 2019 retail sales by approximately 2,500 motorcycles, primarily in our international markets. We do not believe that these recalls will have a meaningful impact on our full-year retail sales.

Restructuring charges totaled $19.4 million in the fourth quarter, including ongoing manufacturing optimization of $15.5 million and an additional $3.9 million restructuring charge related to additional cost reduction efforts.

Profitability and strong cash flow remain a key focus. It is our objective to further leverage our established capabilities to continue to drive profit, cash flow and top-quartile ROIC into the future.

The Financial Services' Q4 operating income, shown on slide 18, was slightly lower compared to prior year.

Net interest income was up $4.4 million due to higher year-over-year receivables.

In Q4 there was a reporting change in which our Harley-Davidson Dealer Systems business moved from the Motorcycle segment to the Financial Services segment. Harley-Davidson Dealer Systems provides dealer management system software and services to the majority of our U.S. dealers. Under the leadership of HDFS, this business will leverage HDFS' key competencies related to managing dealer facing systems and servicing the U.S. dealer network.

During 2019, we expect this reporting change will increase both Financial Services' revenue and operating expense by between $10 to $13 million, while having only a modest impact on operating income.

HDFS' operational results are on slide 19.

Q4 originations were up 8.0 percent versus prior year driven by increased used motorcycle sales in the dealer network and a higher HDFS market share of new motorcycle sales.

Market share was 69.5 percent, up a very strong 9.6 percentage points during the quarter driven by competitive U.S. retail rates and HDFS' continued commitment to full credit spectrum lending.

At the quarter's end, there was $659.2 million of cash and cash equivalents at HDFS and $1.0 billion of liquidity available through bank credit and conduit facilities. During 2018, HDFS paid dividends of $235 million to Harley-Davidson, Inc.

On slide 20, the 30-day delinquency rate for retail motorcycle loan receivables on our year-end balance sheet was 4.12 percent, or 9 basis points lower than Q4 2017.

The annual retail credit loss rate for receivables on our balance sheet was 1.76 percent, or 14 basis points lower than 2017.

HDFS continues to maintain a robust liquidity position and contributed strong profitability to the Company.

The remaining Harley-Davidson, Inc. financial results are summarized on slide 21.

Our year-end cash and marketable securities balance was up $526.3 million over prior year in anticipation of paying off a $600 million MTN which matured on January 15th.

Year-to-date operating cash flow was up over $200 million or 20 percent from last year driven by lower working capital as we remain very focused and diligent on our use of operating cash.

Our effective tax rate was 22.6 percent in 2018, which was considerably lower than last year largely due to the impact of the Tax Cuts and Jobs Act. In addition, the fourth quarter of 2018 benefitted from lapping last year's write-down of $53 million of deferred tax assets related to the 2017 tax act.

And finally, regarding liquidity, the company has, and intends to continue to maintain a minimum of 12 months of projected liquidity needs in cash and/or committed credit facilities.

Harley-Davidson's full-year financial results are highlighted on slide 22.

Revenue, Net Income and EPS were all up in 2018 despite lower shipments, $106.3 million in charges related to our restructuring plan costs, $23.7 million due to the impact of incremental tariffs and increased SG&A behind higher recall costs. EPS for the year was $3.19, and when excluding restructuring plan costs and the impact of incremental tariffs, EPS was $3.78.

We believe the charts on slide 23 demonstrate that we benchmark very well against various peer groups in our ability to generate and return cash to our shareholders for the period of 2015 to 2017.

One of the 5 objectives guiding our business strategies and execution through 2027 is to deliver superior return on invested capital as measured by Motor Company ROIC in the top quartile of the S&P 500, and by a best-in-class return on equity at HDFS. Harley-Davidson is a leader in ROIC at the Motor Company and ROE at HDFS and is a clear leader in our ability to generate and return cash to our shareholders.

Slide 24 illustrates our recent history of returning cash to our shareholders.

In the fourth quarter of 2018, we paid a quarterly dividend of $0.37 per share and repurchased $194.2 million of our stock.

Driving superior value for all our stakeholders is our top priority. After investing in our business, we intend to return excess cash to our shareholders in the form of increasing dividends and share repurchases.

Slide 25 is the summary of our multi-year manufacturing optimization initiative.

We now expect total program costs to be between $152 to $162 million versus our most recent estimate of $155 to $185 million. We are also lowering our capital estimate to $65 million versus our most recent estimate of $75 million. We continue to expect our Manufacturing Optimization to yield ongoing cash savings of $65 to $75 million.

In Q1, we expect Manufacturing Optimization costs of approximately $20 million.

We believe these investments have very attractive returns. When completed, we expect this initiative will simplify our manufacturing footprint, provide focus in our operational investments, and improve gross margin by roughly 1¼ percentage points.

Moving on to 2019 guidance on slide 26.

We expect the declines in the U.S. industry to continue into 2019, albeit at a more tempered pace than in 2018; and we expect international retail sales growth. As a result, in 2019, we expect to ship between 217 and 222,000 motorcycles which is down approximately 3 to 5 percent versus prior year.

During 2019, we expect retail sales to be positively impacted by:

1) focused investment in our strategy to increase global ridership and strengthen our dealer network,
2) Model year 2019 and 2020 motorcycles, and
3) Continued expansion of the international dealer network

However, we expect these positives to be more than offset by strong headwinds, including:

1) A weak U.S. new bike industry,
2) A relative shift in U.S. rider preference toward smaller motorcycles, and
3) A marketplace crowded with highly competitive promotions, incentives and discounts

In 2019, we will continue to aggressively manage supply in line with demand, and plan for U.S. year-end inventory to be down versus 2018.

We expect gross margin as a percent of revenue to be lower than prior year driven by a significant increase in incremental tariffs, lower volumes and unfavorable mix, partially offset by aggressive cost reductions, including the benefit of $25 to $30 million of Manufacturing Optimization savings.

During 2019, we expect incremental tariff costs to be approximately $100 to $120 million. These costs include EU and China tariffs on our products shipped from the U.S., as well as U.S. tariffs on certain items coming from international markets. This estimate excludes metals cost resulting from the U.S. steel and aluminum tariffs, but we do expect higher metals cost which are included in our gross margin guidance. We intend to mitigate the impact of incremental EU and China tariffs by year-end.

Our plant in Thailand came on-line in Q3 2018. As we explained when we announced this project in 2017, we intend to utilize it to make more of our products accessible to customers in targeted international markets, including our China and ASEAN markets. As our operations in Thailand ramp up, we expect to realize manufacturing efficiencies and to lower our costs of motorcycles produced there to serve other international markets.

Looking at SG&A, we expect SG&A to be lower in 2019 behind aggressive cost management and lapping 2018 recall costs. For 2019, we have reallocated a substantial amount of our SG&A spending to invest in our More Roads plan to drive future growth.

For 2019, the Motorcycles segment operating income is expected to be between 8.0 and 9.0 percent. Excluding the impact of incremental tariffs and Manufacturing Optimization costs, we expect operating margin as a percent of revenue to be largely flat to 2018.

We are very focused on improving operating margin. In line with our plans, we expect motorcycle segment Operating Income in 2020 to improve by approximately $170 to $200 million versus 2019 as we complete of our Manufacturing Optimization and continue to address tariff impacts on our business.

We expect Financial Services operating income in 2019 to be down compared to 2018 driven by a higher cost of debt and higher depreciation of our investment in a new loan management system which went live on January 1st.

Capital expenditures in 2019 are expected to be between $225 to $245 million, which includes approximately $20 million to support Manufacturing Optimization.

We expect our full year effective tax rate will be approximately 24 to 25 percent.

As we look forward to the first quarter, we expect to ship between 53 and 58,000 motorcycles, which is down approximately 9 to 17 percent. Segment operating margin as a percent of revenue is expected to be down approximately 6 percentage points from Q1 2018. We expect first quarter will be adversely affected by incremental tariffs, unfavorable mix, lost absorption on lower shipments and unfavorable currency, partially offset by lower year-over-year restructuring costs.

Despite the challenges we faced in 2018, Harley-Davidson demonstrated it's incredible resilience by growing revenue and profits, delivering significantly higher year-over-year operating cash and returning $628 million to our shareholders through dividends and share repurchases.

As we look beyond 2018, we are prepared for an extremely dynamic and highly competitive global motorcycle market. We will continue to focus our investments, deliver strong returns to our shareholders and drive growth for the company for the long term.

Shannon Burns

Thanks everyone.

The audio and slides for today's call will be available at Harley-Davidson.com. Or, for the audio, call (855) 859-2056 or (404) 537-3406 until February 12th. The ID is 1474809.

We appreciate your investment in Harley-Davidson.