



2016 Harley-Davidson Low Rider S

Harley-Davidson, Inc.

2015 Fourth Quarter Update

January 28, 2016



Harley-Davidson, Inc. 2015 Fourth Quarter Update

This presentation supports the quarterly conference call

Conference call participants:

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



2015 Fourth Quarter Financial Results

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

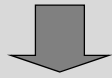


Q4 2015 vs. Q4 2014 Results

Revenue

\$1.18

Billion



1.6%

Net Income

\$42.2

Million



43.3%

EPS

\$0.22



37.1%

Earnings impacted by:

- Motorcycles Segment operating income down \$29.5 million
 - Revenue down 2.3% on unfavorable mix and currency exchange, partially offset by higher shipments
 - Strong gross margin percent of 31.9%, up 1.4 pts. vs. PY
 - Higher yr./yr. SG&A spending behind reorganization charges
 - Lower operating margin percent
- Financial Services Segment operating income down 2.5% yr./yr.
- Higher corporate interest expense behind recapitalization



Motorcycle Retail Sales



Worldwide Harley-Davidson Retail Sales

	Vs. PY Q4 '15	Vs. PY FY '15
Worldwide	(0.6)%	(1.3)%
U.S.	(3.4)%	(1.7)%
International	3.1%	(0.5)%

- Q4 Harley-Davidson motorcycle retail sales of 46,857
 - Strong sales of new models – *Softail S models, Road Glide Ultra, Forty-Eight and Iron 883*
 - Q4 U.S. retail sales down behind intense competition and macro-economic challenges
 - Q4 international sales up driven by Asia Pacific and Canada
- Redirecting ~\$70 million toward customer-facing marketing and product development starting in 2016



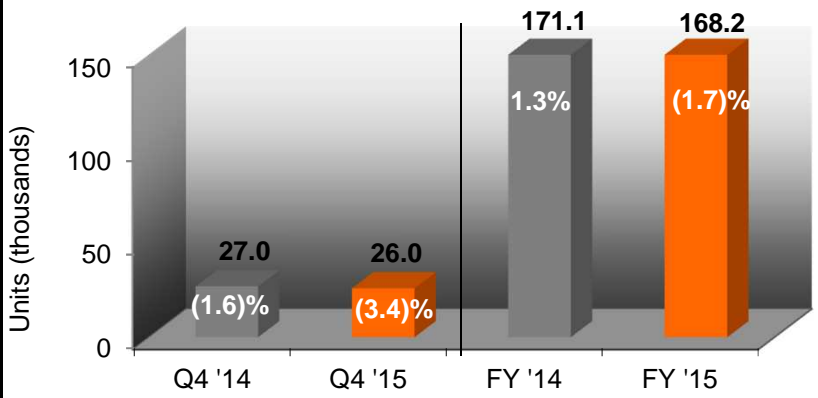
Motorcycle Retail Sales



U.S. Harley-Davidson

SALES

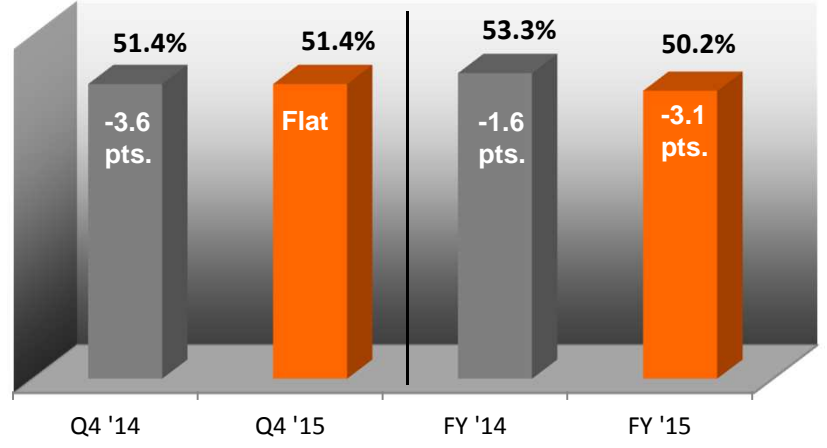
H-D U.S. New Retail Motorcycle Sales



- **Q4 retail sales adversely impacted by:**
 - Continued intense competition
 - Macro-economic challenges
- **MY 2016 motorcycles strong**
 - New models in high demand
 - Q4 Cruiser retail sales up behind S models
 - Two new Cruiser models introduced Jan. 27
 - Low Rider S
 - CVO Pro Street Breakout
- **Retail sales to Riding Academy graduates up in Q4 yr./yr.**

SHARE

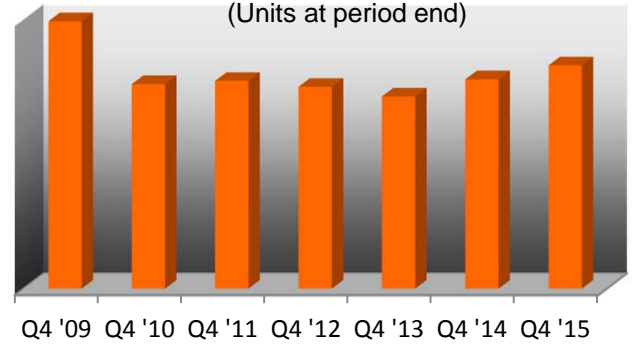
H-D U.S. New 601+CC Retail Market Share



- Q4 market share flat to PY as we lapped the onset of increased competitiveness in late Q4 2014

INVENTORY

H-D U.S. New Retail Motorcycle Inventory (Units at period end)



- Up approximately 2,600 motorcycles yr./yr. behind dealer fill of incremental models

6 Motorcycles and Related Products Segment



Motorcycle Retail Sales



International Harley-Davidson

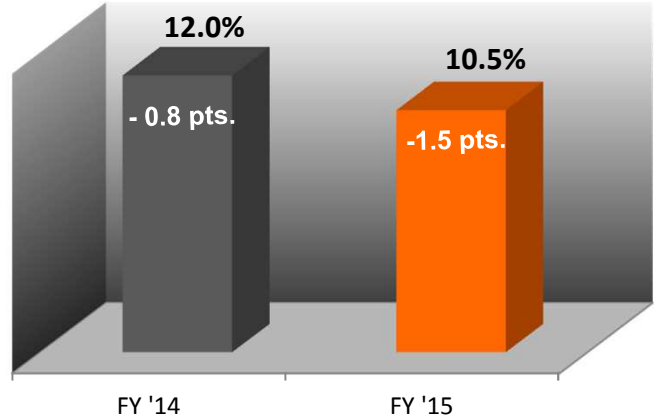
SALES

	Vs. PY Q4 '15	Vs. PY FY '15
International	3.1%	(0.5)%
- EMEA Region	(1.7)%	(4.5)%
- Asia Pacific Region	8.2%	7.3%
- Latin America	(1.5)%	(4.1)%
- Canada	12.3%	(2.0)%

- **EMEA** - Modest Q4 decline driven by:
 - Impact of low-priced models by competition
 - Lapping strong comp of +8.7% Q4 '14
- **AP** - Robust growth in emerging markets, partially offset by softness in Japan
- **Latin America** – Weak Brazil, strong Mexico
- **Canada** – Successful transition to direct distribution

SHARE

H-D Europe New 601+CC Retail Market Share



- FY share down behind the impact of low-priced models by the competition (not in Cruiser and Touring segments)

OPPORTUNITY

International Growth

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

- Enhance brand access – Plan to add 150 to 200 new intl. dealerships through 2020 primarily in emerging markets
 - 40 dealerships added in 2015
- Focus on dealer profitability and delivery of Harley-Davidson Customer Experience (HDCX)
- Invest in product development and awareness



Shipment & Mix



Shipments Motorcycles Segment

	<u>Q4 2015</u>	<u>Vs. PY</u>	<u>FY 2015</u>	<u>Vs. PY</u>
Total	48,149	2.1%	266,382	(1.6)%
Touring	40.3%	(7.1) pts.	43.1%	(2.1) pts.
Cruiser*	36.2%	3.7 pts.	33.5%	(0.3) pts.
Street / Sportster®	<u>23.5%</u>	3.4 pts.	<u>23.4%</u>	2.4 pts.
	100.0%		100.0%	

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

- Shipments in Q4 2015 were up 992 motorcycles yr./yr.
 - Within guidance range of 47,000 to 52,000 motorcycles
 - Cruiser and Sportster mix up behind MY 2016 motorcycle investments
 - 40.2% of motorcycle shipments were international



Revenue



Revenue Motorcycles Segment (\$ Millions)

	<u>Q4 2015</u>	<u>% change</u>	<u>FY 2015</u>	<u>% change</u>
Motorcycle	\$751.4	(4.2)%	\$4,127.7	(5.9)%
P&A	169.7	2.5%	862.6	(1.4)%
General Merchandise	79.4	5.7%	292.3	2.6%
Other	<u>6.6</u>	10.6%	<u>26.1</u>	18.6%
Total Revenue	\$1,007.1	(2.3)%	\$5,308.7	(4.7)%

- Motorcycles segment revenue was down \$24.1 million in Q4 2015 compared to Q4 2014 driven by:
 - Unfavorable mix
 - Unfavorable currency exchange – adverse impact to revenue of 3.8%
 - Partially offset by 2.1% higher motorcycle shipments

- Average motorcycle revenue per unit year/year decreased \$1,031 in Q4 behind unfavorable product mix and currency exchange, partially off-set by higher pricing



Gross Margin



Gross Margin Motorcycles Segment (\$ Millions)

	<u>Q4</u>	<u>FY</u>
2014 Gross Margin	\$314.2	\$2,025.1
<i>% of revenue</i>	<i>30.5%</i>	<i>36.4%</i>
- Volume	16.5	(30.2)
- Pricing net of cost	10.9	72.4
- Mix	(20.9)	(29.7)
- Currency	(15.3)	(120.8)
- Raw materials	6.0	18.7
- Manufacturing	<u>9.5</u>	<u>17.0</u>
2015 Gross Margin	\$320.9	\$1,952.5
<i>% of revenue</i>	<i>31.9%</i>	<i>36.8%</i>

- Motorcycles segment gross margin:
 - Q4 up \$6.7 million or 2.1%
 - Full year down \$72.6 million or 3.6%



Operating Margin



Operating Margin Motorcycles Segment (\$ Millions)

	<u>Q4</u>	<u>FY</u>
2014 Operating Income	\$35.9	\$1,003.1
<i>% of revenue</i>	3.5%	18.0%
- Gross Margin	6.7	(72.6)
- SG&A	<u>(36.2)</u>	<u>(55.0)</u>
2015 Operating Income	\$6.4	\$875.5
<i>% of revenue</i>	0.6%	16.5%

- Q4 Motorcycles segment operating income was down \$29.5 million compared to prior year
 - Q4 Yr/Yr SG&A higher due to reorganization costs and the impact of new Canadian distribution operations



Operating Margin
Financial Services Segment
(\$ Millions)

	<u>Q4</u>	<u>YTD</u>
2014 Operating Income	\$62.4	\$277.8
- Net interest income	9.3	23.1
- Provision for retail motorcycle loan losses	(7.8)	(18.2)
- Provision for wholesale loan losses	(1.6)	(1.8)
- Operating expenses	(0.3)	(5.6)
- All other	<u>(1.1)</u>	<u>4.9</u>
2015 Operating Income	\$60.9	\$280.2

- Financial Services operating income in Q4 was lower due to increased provision for loan losses, partially offset by higher net interest income



2015 Financial Services Segment

Operations

■ Originations

New and used H-D retail motorcycle loans

- Q4 \$483.2 million - 1.7% vs. Q4 2014
- FY \$3.17 billion + 6.9% vs. FY 2014
- YTD Approximately 80% prime

■ Share

U.S. H-D new retail motorcycle sales

- Q4 58.4% + 0.2 pts. vs. Q4 2014
- FY 62.2% + 5.4 pts. vs. FY 2014

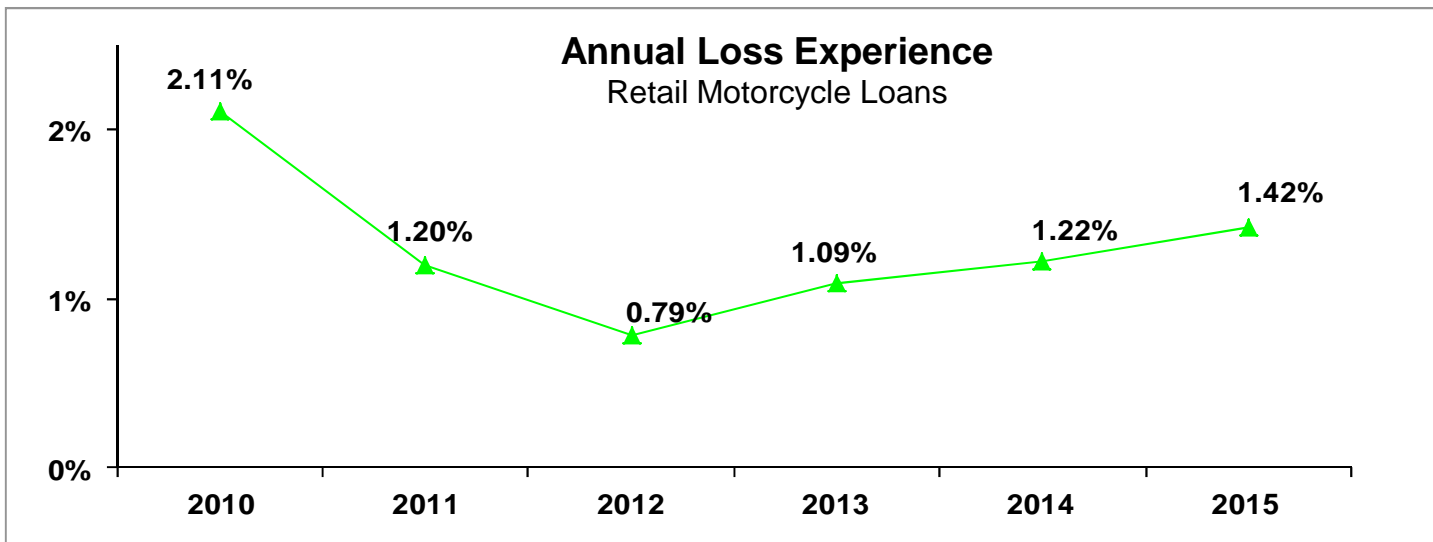
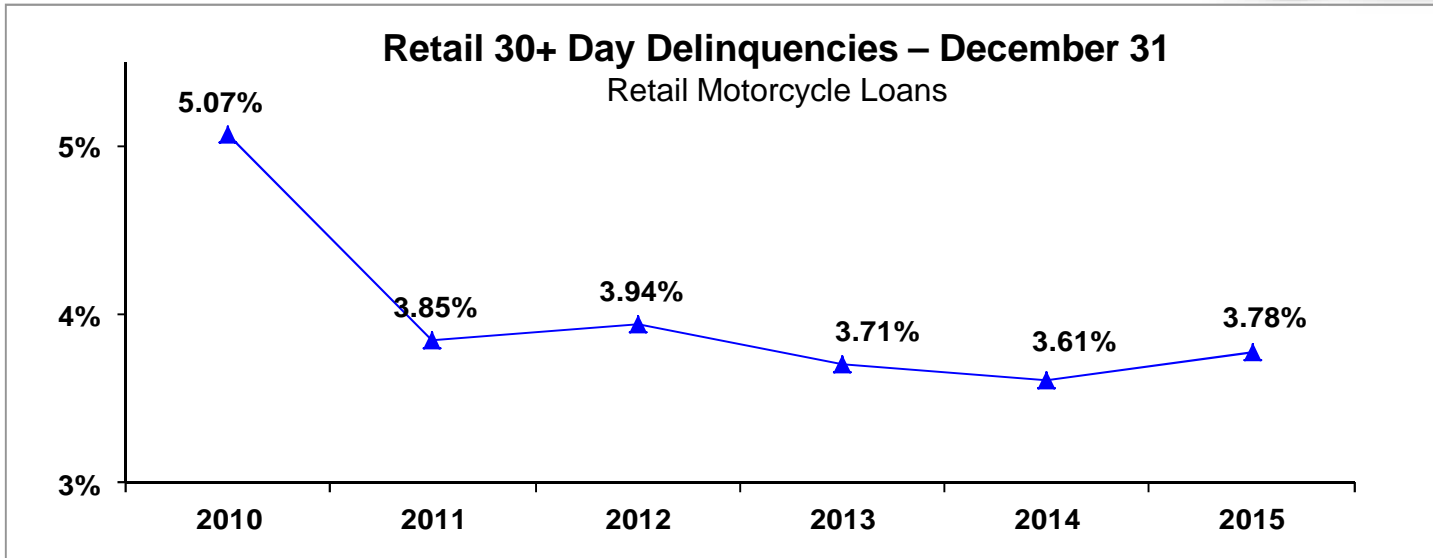
■ Finance receivables outstanding

Retail	\$ 5.99 billion	
Wholesale	<u>\$ 1.02 billion</u>	
Total	\$ 7.01 billion	+ 6.9% vs. FY 2014

Liquidity

*As of YE 2015
(Millions)*

- **Cash & Equivalents** \$321.8
- **Availability**
 - Bank Credit Facilities \$148.0
 - Asset-Backed Conduit \$600.0
 - Total Availability** **\$748.0**
- **Issued \$1.2B MTN Q1 '16**
- **\$140 million dividend from HDFS to H-D, Inc. Q1 '16**





2015 Harley-Davidson, Inc.

- **Cash & Marketable Securities at end of 2015** - \$767.4 million vs. \$964.0 million YE 2014
- **Operating cash flow 2015** – \$1.10 billion vs. \$1.15 billion in 2014
 - Lower net income and increased wholesale lending, partially offset by favorable working capital
- **Capital spending 2015** – \$260.0 million vs. \$232.3 million in 2014
- **Depreciation expense 2015** – \$198.1 million vs. \$179.3 million in 2014
- **Tax rate 2015** – 34.6% vs. 34.2% in 2014

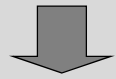


FY 2015 vs. FY 2014 Results

Revenue

\$6.0

Billion



3.7%

Net Income

\$752.2

Million



10.9%

EPS

\$3.69



4.9%

Earnings impacted by:

- Motorcycles Segment operating income decreased 12.7%
 - Revenue down 4.7% on lower shipments and unfavorable currency exchange
 - Strong gross margin percent of 36.8%, up 0.4 pts. vs. PY
 - Higher yr./yr. SG&A spending behind reorganization charges and product recall expenses
 - Lower operating margin percent of 16.5%
- Financial Services Segment operating income up 0.9% yr./yr.
- Higher corporate interest expense behind recapitalization

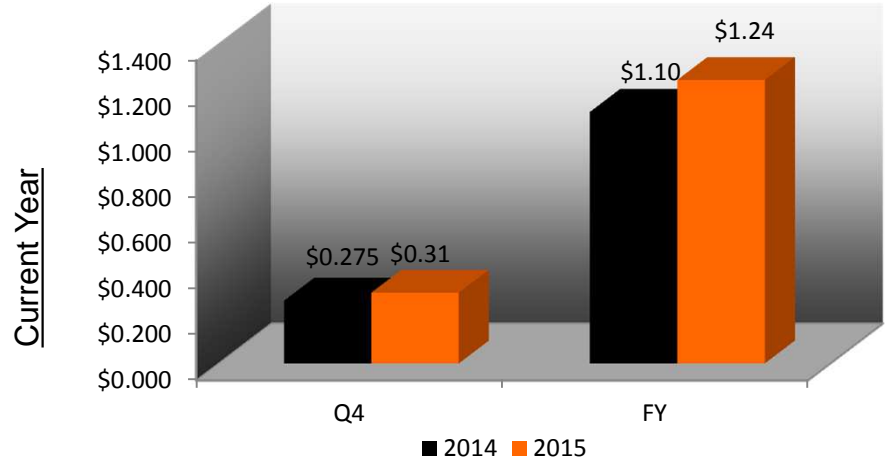


Shareholder Value

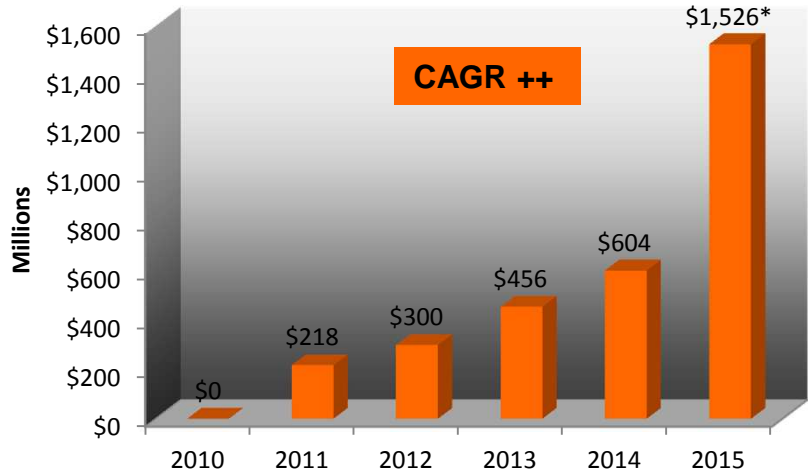
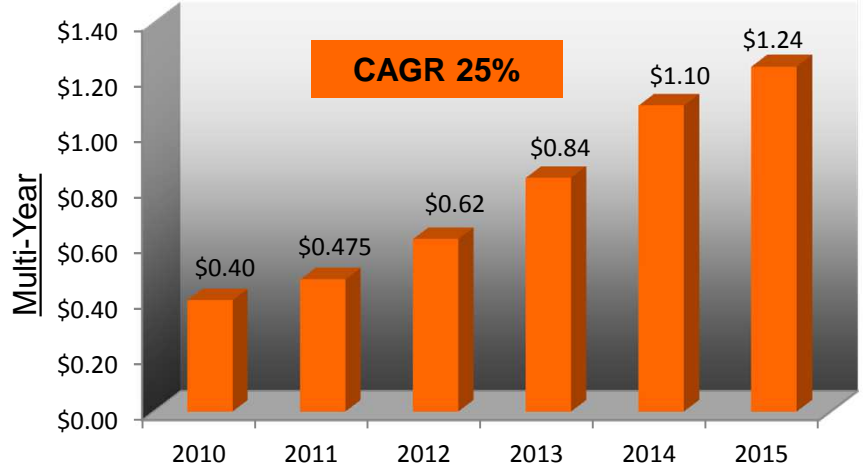
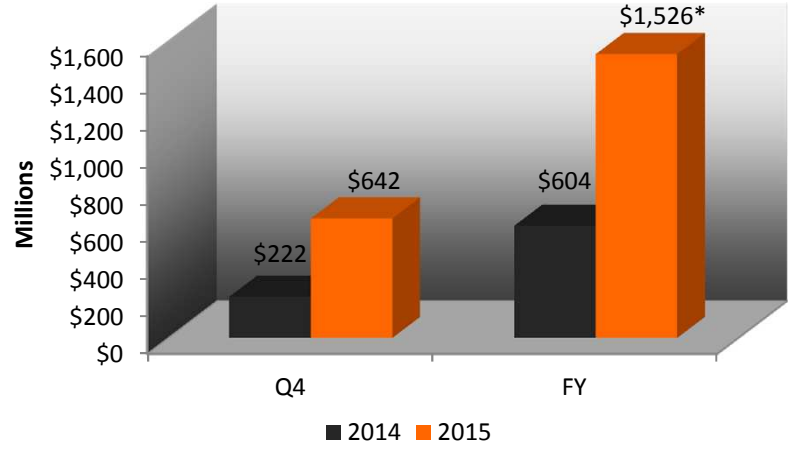


Harley-Davidson consistently returns value to our shareholders

Dividends Per Share



Discretionary Share Repurchases



* \$750 million funded by debt issuance in 2015



Guidance



Motorcycles and related products segment	Motorcycle shipments	269,000 – 274,000 <i>[Q1 78,000 – 83,000]</i>
	Gross margin %	<i>Down year/year</i>
	SG&A	<i>Flat to up modestly year/year – Down as a percent of revenue</i>
	Operating margin %	16% – 17%
Financial services segment	HDFS operating income	<i>Down modestly year/year</i>
Harley-Davidson, Inc.	Capital expenditures	\$255 - \$275 million
	Effective tax rate	<i>Approximately 34.5%</i>



Harley-Davidson



Grow reach and impact with customers

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*

Consistently return value to shareholders

Strong margins • Strong returns



2016 Harley-Davidson® Fat Boy S Motorcycle



Business Perspectives

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



Macro Context



- Challenging, competitive 2015 environment
- Ongoing headwinds in 2016
- Leverage unique brand power and reach



Objectives



1. Lead in every market
2. 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
3. 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
4. Grow revenue and grow earnings faster than revenue through 2020
5. Outperform the S&P 500



Demand-Driving Investments



Focus areas:

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



Demand-Driving Investments



Demo Rides

- 100,000 Test Rides in EMEA - 2015
- Expand demos in more markets – 2016

Riding Academy

- Extend Learn to Ride for Free program - 2016
- Increase U.S. dealer points by 18%; increase U.S. graduates by 35% - 2016
- Expand internationally in 2016

International Dealership Growth

- 40 dealerships added in 2015
- Add 150-200 dealerships by 2020



S-Series Motorcycles



2016 Harley-Davidson Softail Slim[®] S (top) and Softail[®] Fat Boy[®] S



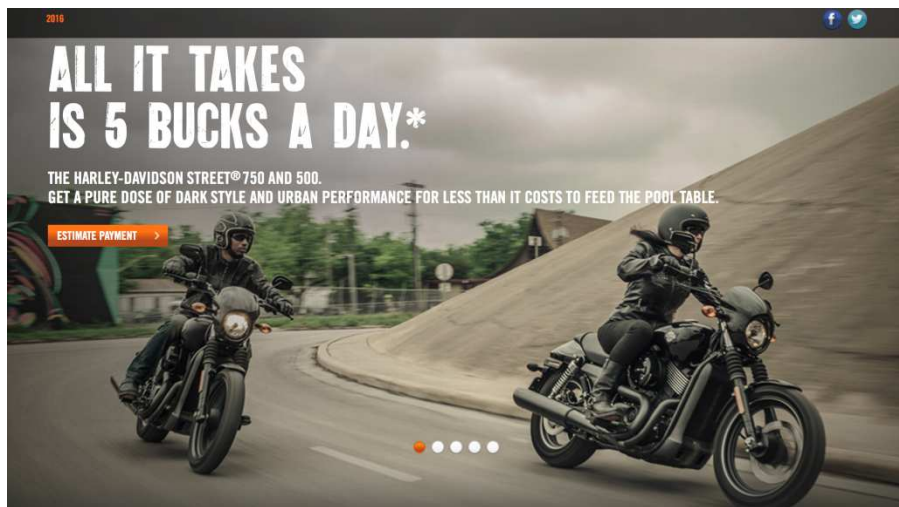
Just Announced - Two new cruisers



2016 Harley-Davidson Low Rider® S (top) and CVO™ Pro Street Breakout® - expected in dealerships in Spring 2016



Grow Reach



Outreach

- ~7% CAGR to Outreach customers over last 5 years
- #1 in US sales to African Americans, Hispanics, Women, Young Adults
- Sell more motorcycles to Young Adults today than to Boomers when they were Young Adults
- Accelerate the cadence and impact of new products
- Street 750 and 500 new-to-brand success



2016 and Beyond



Drive Demand
Increase Impact
Further Broaden Appeal



Forward-Looking Statements



The company intends that certain matters discussed in this presentation 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 presentation. 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 presentation are only made as of the date of this presentation, 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, (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) 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, (v) prevent a cybersecurity breach involving consumer, employee, dealer, supplier, or company data and respond to evolving regulatory requirements regarding data security, (vi) drive demand by executing its marketing strategy of appealing to and growing sales to multi-generational and multi-cultural customers worldwide in an increasingly competitive marketplace, (vii) develop and introduce products, services and experiences that are successful in the marketplace, (viii) manage risks that arise through expanding international manufacturing, operations and sales, (ix) manage through the effects inconsistent and unpredictable weather patterns may have on retail sales of motorcycles, (x) 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, (xi) manage the impact that prices for and supply of used motorcycles may have on retail sales of new motorcycles,

Continued



Forward-Looking Statements



(xii) manage changes and prepare for requirements in legislative and regulatory environments for its products, services and operations, (xiii) manage supply chain issues, including quality issues and any unexpected interruptions or price increases caused by raw material shortages or natural disasters, (xiv) prevent and 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 and adverse effects on its reputation and brand strength, (xv) manage its exposure to product liability claims and commercial or contractual disputes, (xvi) implement and manage enterprise-wide information technology solutions, including solutions at its manufacturing facilities, (xvii) execute its flexible production strategy, (xviii) adjust to healthcare inflation and reform, pension reform and tax changes, (xix) retain and attract talented employees, (xx) successfully access the capital and/or credit markets on terms (including interest rates) that are acceptable to the company and within its expectations, (xxi) manage the credit quality, the loan servicing and collection activities, and the recovery rates of HDFS' loan portfolio, and (xxii) continue to manage the relationships and agreements that the company has with its labor unions to help drive long-term competitiveness.

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.

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