

## Amy Giuffre

You can access the slides supporting this call at [investor.Harley-Davidson.com](http://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

Our third quarter results were in line with our plans, and we delivered the numerous highlights noted in our release including another quarter of improved international retail sales growth and increased year-over-year earnings per share. We are managing our business with resilience in a challenging time in our history; taking stock of our strengths and better leveraging them for a more promising road ahead. Throughout this year, we have been focused on the following:

- Driving demand for a richer mix of products amidst tough U.S. industry conditions yielding year-to-date revenue growth in the face of declining new unit sales.
- Managing our cost structure and shifting how we think and how we work to liberate investment, and focus the enterprise on value creation.
- Adapting to trade policy burdens on our business, and
- Laying the ground work to revitalize motorcycling in the U.S. and around the globe for generations to come

The unveiling of our More Roads to Harley-Davidson accelerated plan for growth has been very well-received and will be the focus of my remarks this morning.

The plan is designed to accelerate our strategy to build the next generation of riders globally by delivering new products, creating broader access, and strengthening our dealers. We intend to drive revenue growth and expand operating margins, and we

have challenged ourselves to fund this strategic shift while keeping our current investment & return profile and capital allocation strategy intact through 2022.

In our discussions with stakeholders, we are often asked: “When will the U.S. industry return to growth?” and “Why the More Roads plan now?”.

The answer to both questions lies in the fundamentals of our industry and the opportunities to leverage the company’s strengths more aggressively. It is clear there is a fundamental issue with the U.S. industry, and increased ridership is key to returning to growth. Our headline goal to build the next generation of riders is being amplified with our More Roads plan. It addresses the industry challenges today and into the future, while unlocking significant international opportunity for the business and brand. It is a plan for growth and value creation, and it was born from a top to bottom assessment of our business. We have a realistic view of challenges we face and how to unlock opportunities where future growth lies.

We have been putting the rider first in all our thinking and all that we do. We see the global consumer needs and interests are shifting. We know we must lead the industry with bold actions to change our trajectory and boost the global industry at large. We will better leverage our vast capabilities and competitive firepower – strengths in product development, manufacturing, our brand and our great dealer network – while building new capabilities such as a delivering a multi-channel retail experience, leading in electric mobility and engaging urban dwellers and youth more meaningfully.

Through More Roads, we plan to strengthen our existing business and enable sustainable growth with the next generation of riders through 2022. It will take time - it is not a quick-fix. While we have made a promising start, there is much to do; our resolve is ever-increasing. We have established financial and non-financial milestones to hold ourselves accountable to the work we must do to execute our plan, and we will report on our progress along the way.

Our stakeholders have also asked us, “Are you abandoning who you are and your traditional customers?”.

The answer is – **absolutely not**. Our plan is *Harley-Davidson* through and through, and we maintain our commitment to delivering the products and experiences our customers expect from us. This plan is everything we have ever been, plus more. It’s true that this plan will redefine the existing boundaries of our brand and we’ll reach more customers through new types of products and channels. We’ll secure the legacy of Harley-Davidson freedom for generations to come by executing our plan in a way that honors and rewards our extraordinarily loyal and passionate customer base and reinforces all we stand for as a brand and as a company.

Our plan is both ambitious and achievable. We aim to build the next generation of Harley-Davidson riders by leveraging three growth catalysts: *new products, broader access* and *stronger dealers*. At the time we announced the More Roads plan, some initiatives were already underway, and we have made strong progress through September. I'd like to spend a few minutes reviewing some highlights.

First, **New Products**. In early 2017 we shared our objectives including a goal to launch 100 new, high-impact products by 2027. Since 2012 we have more than doubled our product development investment and have built significant product innovation and speed-to-market capabilities. In our More Roads plan, we are very transparent about the segments we will compete in, including products that keep current riders engaged by extending our leadership in Cruiser and Grand American Touring. We will introduce products that unlock new market segments and inspire a new generation of riders to join motorcycling. We will also competitively participate in large and growing global segments like Streetfighter and Adventure Touring, plus we will define a new category with a full portfolio of EV products from LiveWire to an array of lightweight urban bikes.

In the market spaces in which we lead, our 2019 models up'd the ante. For 2019 the Milwaukee-Eight 107 has been further leveraged and is now available on additional models as a 114 and 117. And we once again raised the bar in infotainment and trike innovation.

In August we started conducting EV Readiness seminars with our dealers. Already, hundreds of U.S. dealers have raised their hands to be among the first EV-ready dealers. We are energized by the great enthusiasm among our dealers who also want Harley-Davidson to define and lead two-wheeled electrification.

We recently announced plans to establish a satellite product development center to support our future product portfolio. We're calling it H-D LiveWire Labs. It's located in Silicon Valley - the hub for high-tech innovation and scientific development, especially around technology critical to EV leadership. We've already hired some extremely talented people who will augment the tremendous team at the Willie G. Davidson product development center in Milwaukee.

Second, we said we would **broaden access** to our brand and products and reach more customers. Our research shows that our brand appeal is universal, but access is narrowly focused. So, we are committed to building an integrated, multi-channel customer experience for the Harley-Davidson customers of today and tomorrow. We'll meet consumers where they are and how they want to engage, whether online or in-store. And we've already taken a nice step forward -- our brand and select

products are now accessible through a Harley-Davidson branded Amazon storefront. Amazon offers unrivaled access to hundreds of millions of potential new customers. And just as we are doing with our motorcycle product objectives, this new channel plays a role in us reaching ‘the next generation’, and building stronger customer relationships through a premium, multi-channel experience.

**And third, we said we, and our dealers would grow stronger** by driving a performance framework to improve dealer financial strength and the Harley-Davidson customer experience.

Our dealer network is a clear advantage today and will continue to be the hub of our customer experience going forward. Dealers need the capabilities, drive and support to meet new customer demands and rapidly evolving retail expectations. Our enhanced approach to dealer network management allows the best-performing and most entrepreneurial retail partners to drive network innovation and success for themselves and Harley-Davidson with exceptional customer experience at the core.

We have made initial progress on this front as well, by implementing new support and incentive programs and frameworks for dealers to bring clarity and urgency to the effort. Replacing underperforming dealers and upskilling the network is key, as is continuing to add more international dealers.

In all of this, it’s easy for product to take the spotlight. We have many exciting products in-store – but I will continue to emphasize the strong linkage between the three growth catalysts. New products will require broader access and stronger dealers to realize the full potential for the business. For example, stronger dealers will be necessary when we drive new types of customers into the dealerships through new products and broader access initiatives. We cannot achieve a single one without the others, lockstep progress in all of these areas matters both in the near-term and in the achievement of our objectives over time.

It is clear this is a time when bold actions are needed to assure our future. We are operating from a position of strength and the team is fired up by this work and our plans.

We are shifting our focus to accelerate our plan for growth and we are showing up differently as a company. It’s reflected in our products and the steps we have taken to build on our strengths while we grow new capabilities. This plan is not a short-term fix for what is a fundamental issue in the U.S. industry. It IS a way to optimize in the near-term and create domestic and international opportunities to provide sustainable growth over time.

In summary, we are demonstrating our resilience in real time in a dynamic world and driving value in every decision we make - intensifying our focus on improving the strength and prospects of our business for the long-term through accelerating our strategic actions. I am proud of our team – employees, dealers and suppliers and I want to thank our loyal and passionate riders who we all work tirelessly to serve. Thank you to our investors, as well.

## John Olin

Our third quarter financial results were in line with our plans. In the face of ongoing retail sales headwinds in the U.S., we remained focused on reducing U.S. retail inventory, reducing costs and investing in our strategy to drive value for our riders, dealers and shareholders.

The summary of our Q3 results is on slide 11.

In the third quarter, revenue was up behind increased shipments. Compared to last year, we shipped more bikes during the quarter as we continued to balance the timing of shipments throughout the year – which resulted in lower overall retail inventory and a significantly improved level of current model year motorcycles.

Motorcycle operating income was up as a result of higher shipments and favorable mix, partially offset by a \$14.8 million restructuring charge, increased SG&A and the impact of higher year-over-year tariffs. Financial Services operating income was up 8.7 percent. Consolidated net income was up 66.9 percent due to higher operating income and the benefit of a considerably lower tax rate. EPS for the quarter was \$0.68, which was up 70.0 percent versus the prior year. When excluding manufacturing optimization costs, EPS was \$0.78.

We remain focused on delivering strong margins and strong returns over the long-term, despite near-term headwinds.

On slide 12, worldwide retail sales of new Harley-Davidson motorcycles in Q3 were down 7.8 percent versus prior year.

International retail sales were up behind strong sales in Europe and our emerging markets.

In the U.S., Q3 retail sales were down versus prior year driven by steep industry declines in the U.S. and lower market share.

Through 9 months, worldwide retail sales were down 5.9 percent driven by the U.S. industry decline of 8.7 percent. Despite the very weak U.S. industry performance, we continue to expect to meet our full-year shipment guidance; however, we now believe we will likely finish toward the low end of our guidance range.

Let's take a closer look at the U.S. on slide 13.

U.S. retail sales were down 13.3 percent in the third quarter against strong headwinds from the weak U.S. industry which was down 9.8 percent.

We believe the industry sales of new motorcycles continued to be adversely impacted by soft used bike prices, partially offset by less severe hurricane impacts compared to Q3 2017. We believe hurricane Florence had a nominal impact on our Q3 retail sales.

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 Q3, used Harley-Davidson prices at auction were up versus prior year. We continued to see pricing services such as NADA and Black Book publish higher values for Harley-Davidson motorcycles in the third quarter. Additionally, for the fifth consecutive quarter, we saw rising prices of used Harley-Davidson bikes in our dealer network.

Used Harley-Davidson motorcycle sales were up through August. And, our share of combined new and used motorcycle registrations was up through August 2018 after having been up for the last 9 consecutive full years. We believe used sales are a strong indicator of our healthy brand fundamentals and provide prospects for future new bikes sales.

Our share of new bike registrations in Q3 was 50.9 percent, down 2.2 percentage points. Our U.S. market share reflects the adverse impact of relatively strong growth in segments in which we do not currently compete.

In the segments which we compete – the Touring and Cruiser segments - which represent approximately 70 percent of the 601+cc market -- our market share was up slightly during the quarter and was up 1.0 percentage points on a year-to-date basis.

We continued to carefully manage the flow of new bikes into the channel which resulted in Q3 quarter-end retail inventory in the U.S. decreasing approximately 2,200 motorcycles over the prior year. Combined with last year's Q3 reduction of 12,200 motorcycles, retail inventory at the end of Q3 has been reduced over 14,400 units over the last two years.

The performance of the overall 601+cc industry continued to be disappointing . We expect the U.S. industry to remain challenged into 2019 and we will continue to proactively address the weak U.S. industry:

In the near-term, we are introducing exciting new products and adding innovation that customers value on our new motorcycles. We also continue to aggressively manage supply and execute marketing efforts to encourage trial and increase conversion to sale.

In the mid-to-long term, we are accelerating our strategy to build the next generation of Harley-Davidson riders. Through 2022, our More Roads to Harley-Davidson plan is aimed at stabilizing our core business as we grow more riders globally. We are building the proper foundation and driving the right fundamentals to help steer the industry back to growth.

On slide 14, International retail sales were up 2.6 percent in the third quarter. We were pleased to see the growth trajectory in our international markets strengthen for the third consecutive quarter.

Emerging markets retail sales were up 17.5 percent during the quarter versus prior year. We experienced double-digit growth in several markets including China, Brazil and Mexico.

Retail sales in developed markets were down 2.5 percent during the quarter. Retail sales grew 3.0 percent in western Europe driven by strong sales of our new Softail motorcycles. Retail sales in Japan and Australia continued to be weak in Q3 behind contracting industry sales and competitive new product introductions in segments outside of Touring and Cruiser. We continue to drive demand in these markets through marketing programs with a significant focus on national test ride campaigns.

Our market share through September in Europe was 10.4 percent, up 0.8 percentage points versus the prior year.

Finally, we continued to expand our international dealer network and added 9 new dealers during the quarter.

As our More Roads to Harley-Davidson plan reinforces, we remain confident in and committed to the great potential that international markets offer to Harley-Davidson. This plan supports the strength of our brand, products and distribution to drive sustainable growth in international markets.

On slide 15, wholesale motorcycle shipments were up in the quarter, and were near the mid-point of our shipment guidance range.

Mix in Q3 reflects a more normal shipment mix of our Touring bikes compared to a very low shipment mix in the prior year period.

On slide 16, revenue for the Motorcycles segment was up 16.8 percent in the third quarter behind a 16.7 percent increase in year-over-year motorcycle shipments.

Revenue during the quarter benefited from a \$1,535 increase in the average motorcycle revenue per bike. This increase was driven by a richer product mix and higher year-over-year pricing, partially offset by unfavorable foreign currency exchange.

Wholesale and MSRP weighted average pricing of our new model year 2019 motorcycles increased approximately 2½ percent. Adjusting for the cost of the new content, pricing net of costs increased approximately 1½ percentage points expressed as a percent of revenue.

P&A revenue decline was in line with new motorcycle retail sales decline during the quarter. General Merchandise revenue was down as it lapped last year's strong sell-in of our 115<sup>th</sup> anniversary product.

We were pleased to see a very profitable mix of products again in the third quarter. We are working to grow our business and remain focused on our approach to optimize profitability and maximize brand value.

On slide 17, gross margin in Q3 was up as a result of higher shipments, strong mix and higher pricing, partially offset by unfavorable currency and higher raw materials costs.

Q3 mix favorability was driven by higher shipment mix of our Touring motorcycles. In the fourth quarter, we expect mix to be largely flat as we lap a higher than normal mix of Touring shipments in last year's fourth quarter.

The financial impact of currency was unfavorable by \$7.4 million during the third quarter. A stronger U.S. dollar adversely impacted revenue by 1.3 percent. This adverse impact was partially offset by foreign currency exchange gains.

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



Finally, manufacturing was slightly favorable versus prior year driven by increased absorption on higher production and shipments, offset by higher year-over-year tariffs and temporary inefficiencies related to our Manufacturing Optimization. Tariff costs increased by \$9.9 million driven by higher EU tariffs. During the quarter, approximately 60 percent of our shipments to EU dealers included tariffs at the increased rate.

Our expectations for the impact of recently enacted tariffs includes incremental costs of approximately \$15 to \$20 million for steel and aluminum and approximately \$25 million for EU tariffs. Additionally, China increased its tariffs on imported motorcycles produced in the U.S. by 25 percentage points, and the U.S. has increased tariffs for certain products imported from China. We believe this will increase our 2018 costs by approximately \$3 million. In total, we now expect to incur approximately \$43 to \$48 million of increased costs related to tariffs during 2018.

On slide 18, operating margin as a percent of revenue for Q3 was 5.8 percent, up 4.0 percentage points compared to last year. Operating margin was favorably impacted by higher gross margin, partially offset by higher SG&A spending and a \$14.8 million restructuring charge related to our manufacturing optimization.

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.

HDFS' Q3 operating income, shown on slide 19, increased 8.7 percent compared to last year behind a favorable provision for loan losses and higher net interest income, partially offset by higher operating expenses.

The provision for retail motorcycle loan losses was favorable by \$7.3 million driven by lower credit losses and a reduction in the reserve rate compared to a rising reserve rate in Q3 2017.

Net interest income was up \$3.7 million due to higher receivables and lower year-over-year borrowing costs. HDFS' cost of funds was lower in the third quarter despite rising market interest rates as \$877 million of 6.8 percent MTNs matured in the second quarter.

HDFS' operational results are on slide 20.

Q3 originations were up 9.3 percent versus prior year despite lower new retail sales in the U.S. Originations were up primarily on increased used motorcycle sales in the dealer network.

Market share was 67.9 percent, up a very strong 9.3 percentage points during the quarter driven by low rate finance offers.

At the end of the quarter, there was \$350.3 million of cash and cash equivalents at HDFS and \$806.1 million of liquidity available through bank credit and conduit facilities.

On slide 21, the 30-day delinquency rate for retail motorcycle loan receivables on our balance sheet at the end of September was 3.60 percent or 12 basis points lower than Q3 2017.

The annualized retail credit loss rate for receivables on our balance sheet was 1.55 percent, or 18 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 22.

Year-to-date operating cash flow was up \$173.5 million, or 18.3 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 23.1 percent year-to-date, which was considerably lower than last year largely due to the impact of the Tax Cuts and Jobs Act. In addition, the third quarter benefitted from a release of tax reserves and a true-up 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.

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 the 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 third quarter of 2018, we paid a quarterly dividend of \$0.37 per share and repurchased \$84.5 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.

On slide 25, is the summary of our multi-year manufacturing optimization initiative.

During the third quarter, we incurred \$14.8 million of restructuring expense driven primarily by accelerated depreciation. We also incurred \$6.2 million in related temporary inefficiencies.

Through the third quarter, we are tracking favorably to our planned costs, and as a result, we are reducing the expected total cost by \$15 million. We now expect total program costs to be between \$155 to \$185 million. The expected 2018 and 2019 allocation is noted on the slide.

We continue to expect to invest approximately \$75 million of capital and expect annual ongoing cash savings of between \$65 and \$75 million after 2020.

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 approximately 1¼ percentage points.

Moving on to guidance on slide 26.

We are confirming our expectations for 2018 except for financial services operating income, capital spending and the effective tax rate.

Motorcycle shipments in the fourth quarter are expected to be approximately 45,800 to 50,800, down approximately 3 percent to up approximately 8 percent compared to prior year.

Note that, in line with our plans, shipments in the first half of this year were down 10.5 percent versus 2017 – significantly constraining U.S. dealer retail inventory. Q3 shipments were up double digits as we lapped last year's significant Q3 shipment and inventory reduction compared to Q3 2016. Through the first 9 months of 2018, shipments were down 4.7 percent and tracked to our full-year expectation of shipments being down approximately 2 to 4 percent. Our 2018 shipment cadence has resulted in lower dealer

inventory throughout the selling season and significantly improved mix of new versus carry-over motorcycle inventory. We continue to expect U.S. dealer retail inventory to be flat at year-end compared to last year, and international dealer inventory is expected to increase behind a growing dealer network and increasing sales momentum.

Our guidance adjustments are as follows:

We now expect HDFS operating income to be up compared to 2017.

We are reducing our full year capital spending estimated range by \$20 million as a result of a strong focus on cash flow and asset efficiency. We now expect 2018 capital spending to be approximately \$230 to \$250 million.

And, we now expect our full year effective tax rate will be between 22½ and 24.0 percent.

Just yesterday, we notified our dealers of a voluntary safety recall that we authorized for a hydraulic clutch assembly on all model year 2017 and 2018 Touring, Trike and CVO Touring models and also on certain 2017 Softail models. This voluntary recall includes approximately 238,300 motorcycles and we estimate the cost to be approximately \$35 million. The charge will occur in the fourth quarter.

We continue to expect operating margin as a percent of revenue to be between 9 and 10 percent; however, given the expected net cost of this recall, we believe our full-year operating margin will likely finish at the low end of the range.

Recalls are frustrating for us, and for all of our stakeholders, however the safety of our riders is our highest priority. We, along with our dealers are committed to addressing this issue and continuing to provide customers with the quality experience and service they expect.

To wrap up, we will continue to:

- Drive premium value for our riders, dealers and our brand
- Relentlessly focus on our long-term objectives
- Be disciplined in our management of motorcycle supply, and
- Amplify our cost management efforts

We will continue to focus our investments, deliver strong returns to our shareholders and drive growth for the company for the long term.

Amy Giuffre

The audio and slides for today's call will be available at [Harley-Davidson.com](http://Harley-Davidson.com). Or, for the audio, call (855) 859-2056 or (404) 537-3406 until November 6th. The ID is 2262819.