



ADP! AALTO
DISRUPTION
PARTNERS

FULL SPEED AHEAD!

A presentation to the CEO of Harley Davidson
1/10/2019

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Executive Summary

How to Maintain Harley Davidson's Competitive Advantage in an Industry Faced with Disruptive Forces?

Introduce Line of Electric Motorcycles: E-Volution by Harley Davidson

Implement a Charging Station Platform for Electric Vehicles: E-Fuel by Harley Davidson

Seek Growth Through Extensive Marketing and Manufacturing in China

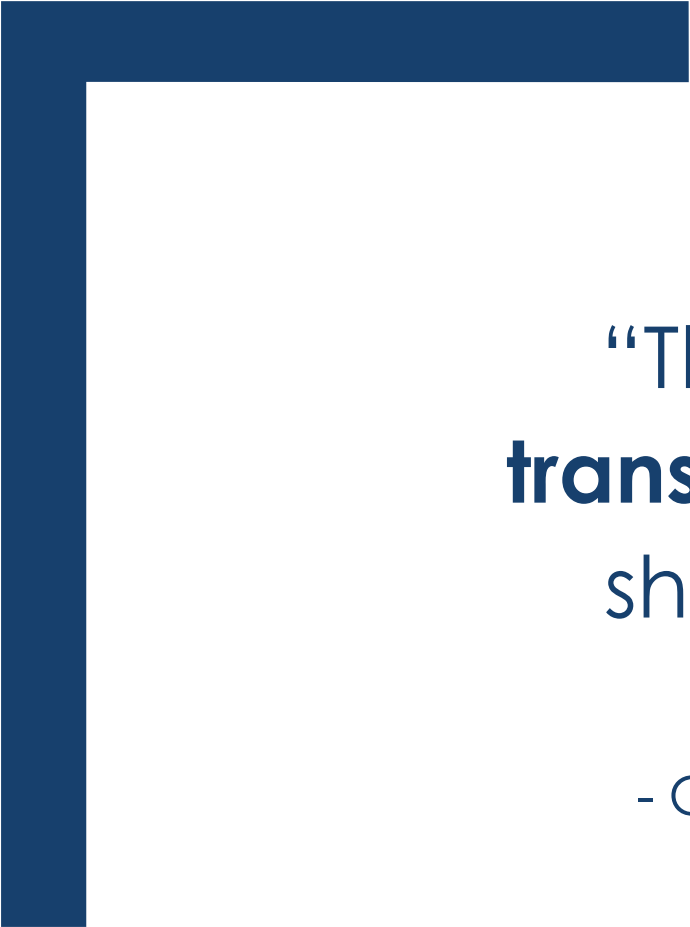
Become an International Market Leader by Implementing Disruptive Technologies and Leveraging Prestigious Brand-Image

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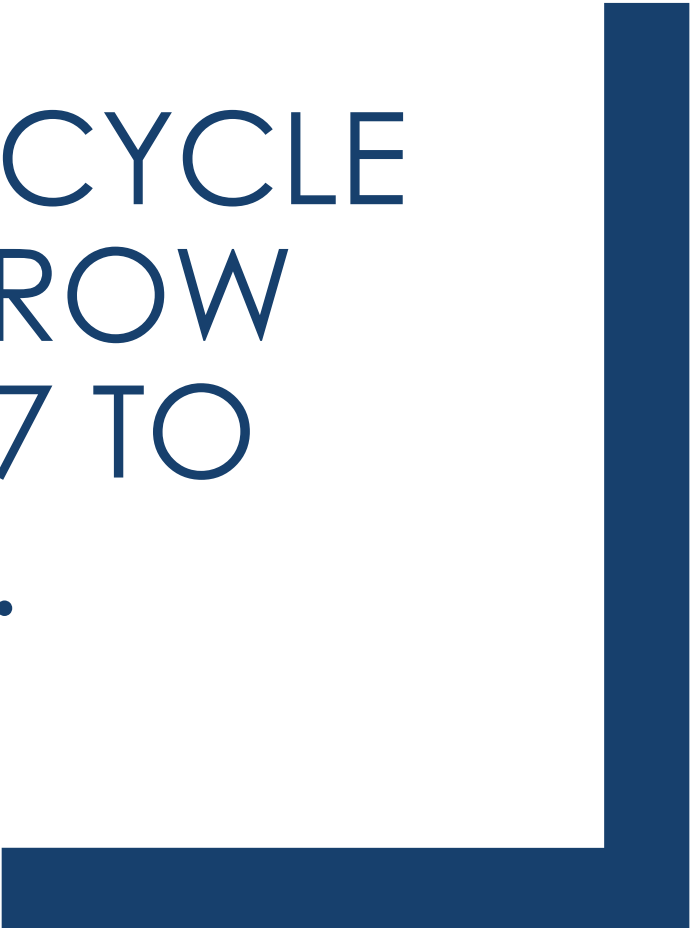





“The industry is entering a **transition phase** where quality should override quantity”

- Chiaki Kato, President Honda Motors





THE GLOBAL MOTORCYCLE
AND MOPED TO GROW
FROM **\$73B** IN 2017 TO
\$120B BY 2020.

External Analysis

Macro Trends

Technological **Innovations** are disrupting the motorcycle market – electric and autonomous vehicles

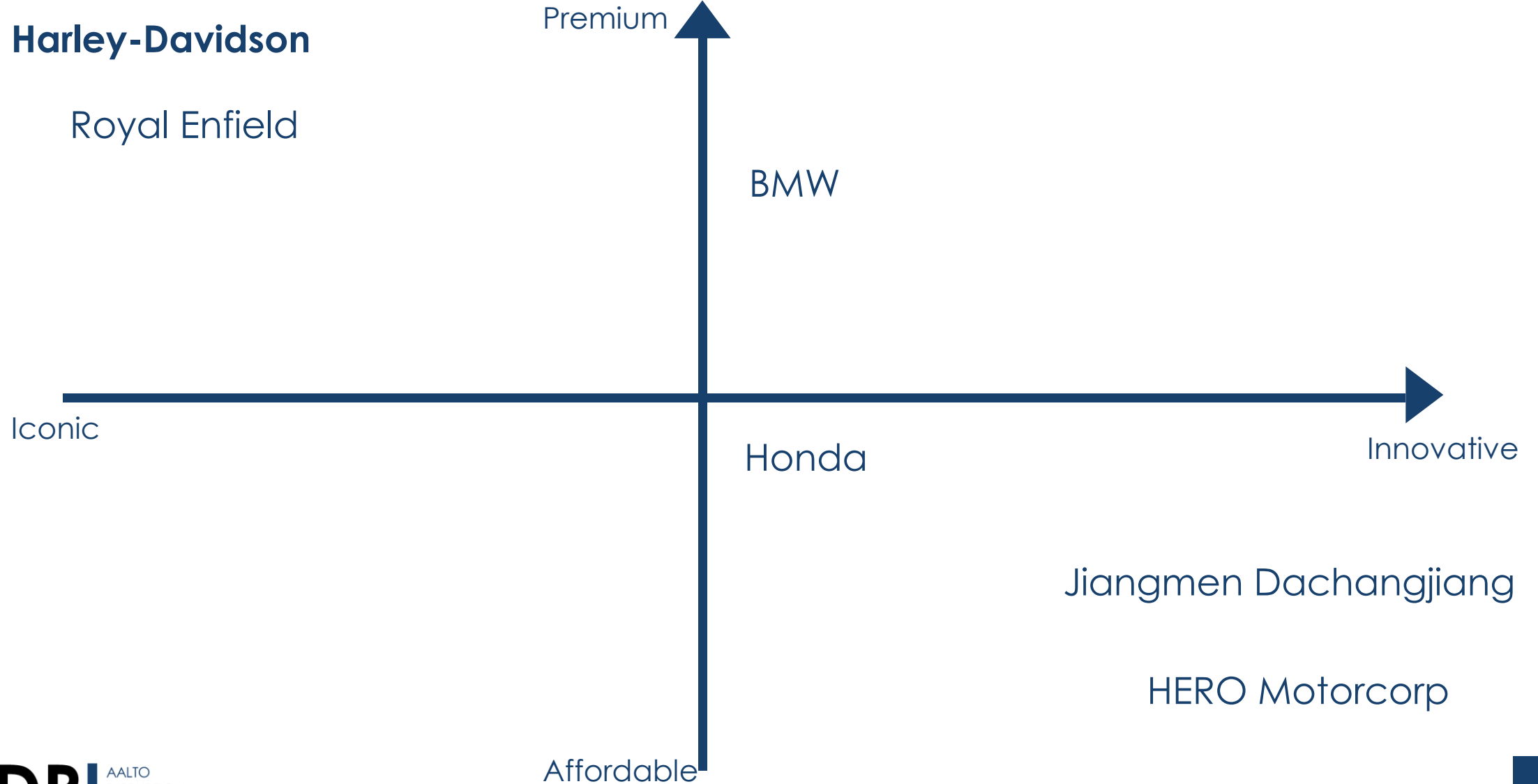
Political forces are shaping the global competition – tariffs and emission regulations

Attitudes toward fossil-fuel powered motorcycles are changing

The market for motorcycles is **disrupted** by technological, political & attitude changes

External Analysis

Competitive Landscape



External Analysis

Competitor Actions - Japan

Japanese Motorcycle Manufacturers have Embarked on Plans focusing on **Electric Vehicles, Advanced Technology & Ride Sharing**

Honda has partnered with ride-hailing company **Grab**, and technology company **Panasonic**

Japanese companies believe in focusing on **technological disruptions & sharing economy**

External Analysis

Competitor Actions - India

Indian manufacturer Royal Enfield and HERO Motorcorp Have announced global expansion plans in South America and Africa

Royal Enfield and Hero Plan to **Enter** the Electrical Vehicle Market

Royal Enfield plans to compete with Harley Davidson in N.A. & Europe with a more affordable product

Indian Companies believe in a **growing** market & emerge of **electronic vehicles**

External Analysis

Competitor Actions - BMW

BMW has decided to focus on India, introducing a sub 500cc motorcycle

An electronic scooter introduced in 2014 coupled with a plan for a ride-sharing platform

BMW is optimistic about the future of the industry, focusing on smart vehicles with technological innovations and a non-gasoline power source

BMW believes in a **growing market** through technological **disruptions**

Internal Analysis Core Customer Segment

Experienced
Motorcycle Rider

+35 years



Financially
Successful

Appreciates Large
& Powerful
Motorcycles

Seeks Experiences

Johnny

Seeks Experiences

Internal Analysis

Challenges Ahead

Owning a Harley Davidson is more than owning a transportation device

Harley Davidson has been the gold standard for large, powerful, premium motorcycles

Decreasing sales due to retirement of core customer base, lack of demand for HD, as well as currency and oil price changes

Harley Davidson must find **new ways** to appeal to **target market** & grow its **customer base**

“Harley Davidson does **not sell** motorcycles, but offers 50-year old accountants the feeling of people looking at them and feeling **scared**”

Internal Analysis

Your 10-Year Plan

Ambitious 10-Year

- 1 **Expand** in the U.S. – Harley riders to 2M by 2027
- 2 Bring 100 “**high-impact**” motorcycles to the market
- 3 Grow **international** business to 50% of annual volume
- 4 Improving **return** on invested capital to top 25% in S&P 500
- 5 Grow the business in an environmentally conscious and **sustainable** way

Becoming the **number 1** in the motorcycle industry in a sustainable way

Key Issue:

How can Harley Davidson **leverage** its key competencies and brand image with **emerging** technological, political and attitude-related disruptions?

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Strategic Alternatives Decision Criteria

Your Overall Objectives in the 10-Year Plan:

Boosting Growth in a Challenging Future

Strengthen the company's **global** presence

Develop new and **innovative** Product Lines

Increase **ridership** & sales

Focus on **sustainable** and environmentally-friendly growth

Strategic Alternatives

3 Decisions to be Made

1

Future of Motorcycles

Combustion Engines or
Electronic Vehicles

2

Strategic Business Model

How to stay competitive in the
long-term?

3

Geographical Market

Northern or Southern America?
Europe?
Asia?

Strategic Alternatives

3 Decisions to be Made

1

Future of Motorcycles

Combustion Engines or **Electronic Vehicles**

Acquire a Company to get Access to the required Know-How

2

Strategic Business Model

How to stay competitive in the long-term?

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Geographical Market

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Europe?
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Strategic Alternatives

3 Decisions to be Made

“Kick it up a Gear”

Pursue the Current Business Model focusing on EVs

“Sharing the Journey”

Entering the Ride-Sharing Business for EVs

“Full-Speed ahead”

Transforming the Way Transportation Works

Strategic Alternatives

3 Decisions to be Made

“Kick it up a Gear”

Pursue the Current Business Model focusing on EVs

“Sharing the Journey”

Entering the Ride-Sharing Business for EVs

“Full-Speed ahead”

Transforming the Way Transportation Works

- New **Brand**: “E-Volution by Harley”
- New **Focus**: > Upper-Middle Class
- New **Service**: “E-Fuel”

Strategic Alternatives

3 Decisions to be Made

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Strategic Alternatives

3 Decisions to be Made

1

Northern America

2

Southern America

3

Europe

4

Asia

Strategic Alternatives

3 Decisions to be Made

1

Northern America

2

Southern America

3

Europe

4

Asia

- Rapidly Growing Middle-Class
 - Political Actions for Environment
- Low-Cost, but High-Tech

Strategic Alternatives

How does it relate to your goals?

Transforming the Way Transportation Works – first in China, then for the World

Strengthen the company's **global** presence



Develop new and **innovative** Product Lines



Increase **ridership** & sales



Focus on **sustainable** and environmentally-friendly growth



Boosting Growth in a Challenging Future



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Implementation Acquisition of ZERO Motorcycles

Why ZERO Motorcycles?

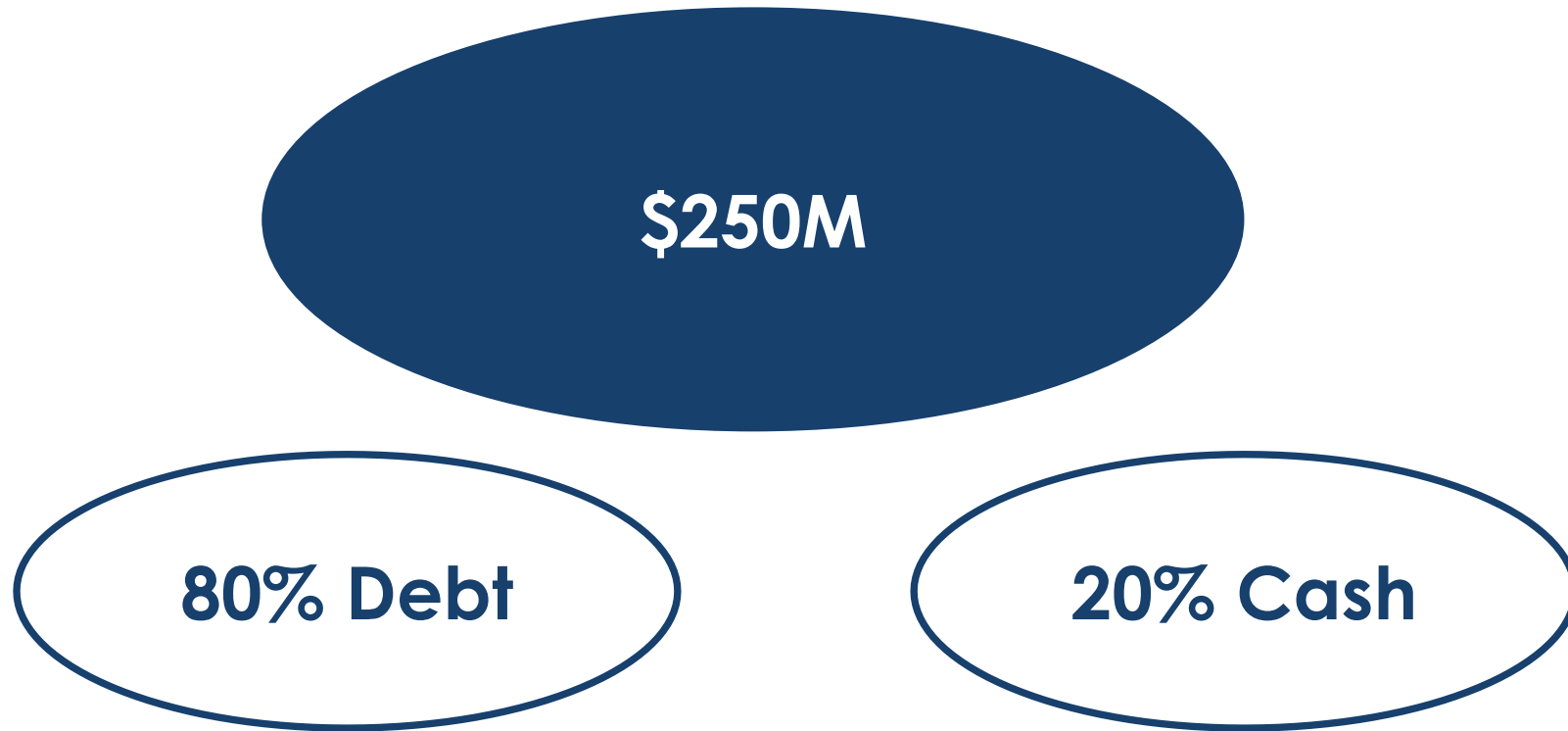
- **Established** company based in US
- **Strong** knowledge of EV-tech
(Harley needs this tech)
- **Cheaper** to buy EV-tech than build it in-house

Why Electronic Vehicles?

- **Countries around world have announced plans to be fully electric by 2030/2050**

Acquire the needed EV-tech from ZERO to boost EV-sales

Implementation Acquisition of ZERO Motorcycles



Implementation Manufacturing – in China

Why China – Shenzhen?

- Focusing sales on China, because of increased buying power of customers
- Avoid tariffs
- Shenzhen is China's Silicon Valley

Why Close Manufacturing in Australia?

- Not a focus region anymore

Focus E-Volution Sales and Manufacturing in China

Implementation Manufacturing – in China

Costs

\$200M by 2020

Savings

\$65-75M a year

Implementation

Creating the E-Fuel Platform

Drivers can locate closest electric charging station with that platform

- **New E-Volution Motorcycles have this platform integrated**
 - 1.) Create 50 charging hubs on your own
 - 2.) Partner with local energy companies
 - 3.) Private owners of charging points can share those as well

Implementation

Creating the E-Fuel Platform

Do it in-house

Hire 30 Employees in total
(\$80k per year per employee = \$24M p.a.)

Implementation Markets

China

- Add new dealerships in China
- Focus primarily on Tier 1 Cities
- Focus mostly on E-Volution Bike
- Get partnerships with local energy companies

Europe & U.S.

- Focus on traditional HD products
- After successful launch in China, introduce E-Fuel Platform & E-Volution Bike in Europe & U.S.

Main focus of E-Volution in China

Implementation Marketing

MAKE IT COOL!

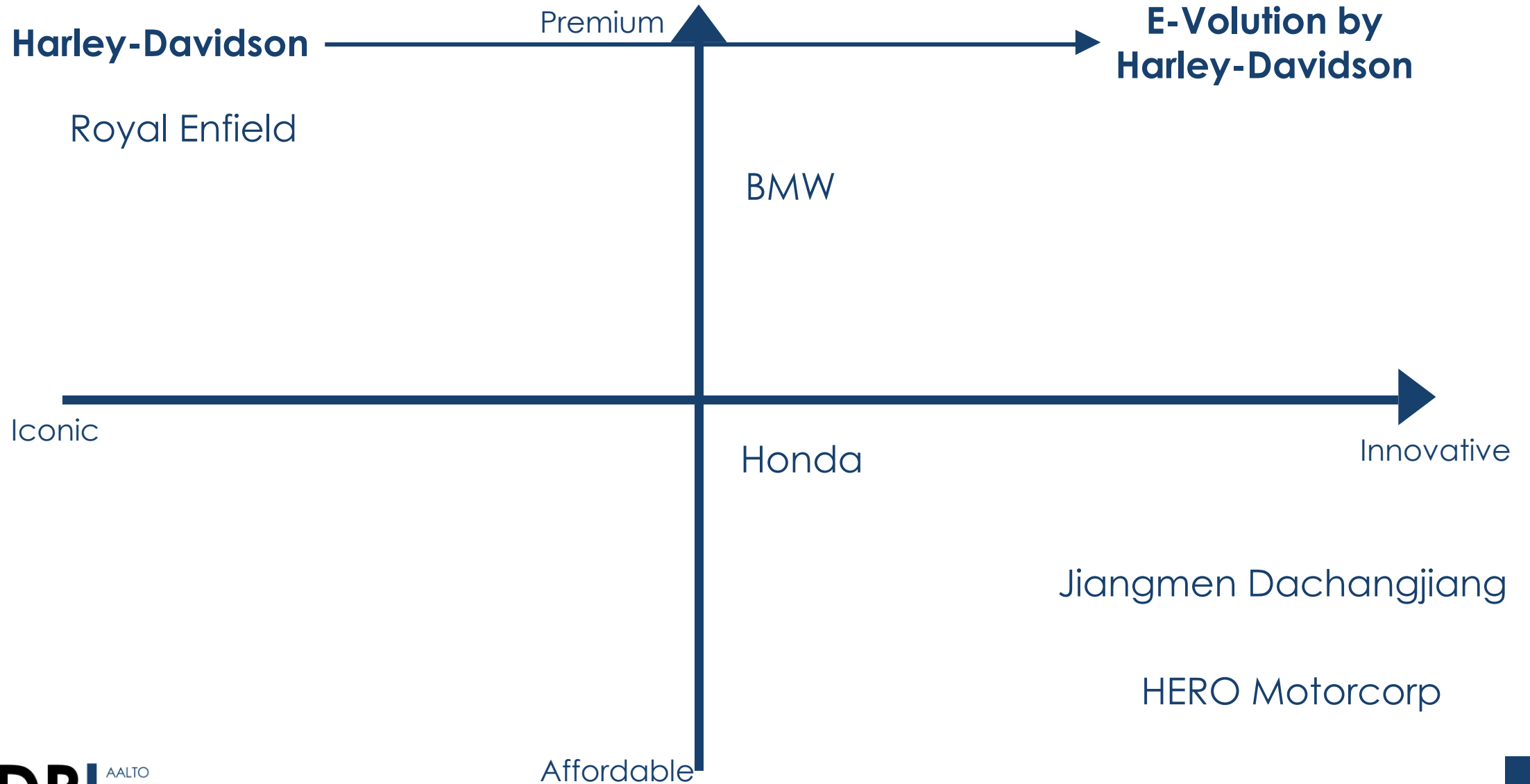
E-Volution by Harley Davidson

E-Fuel by Harley Davidson

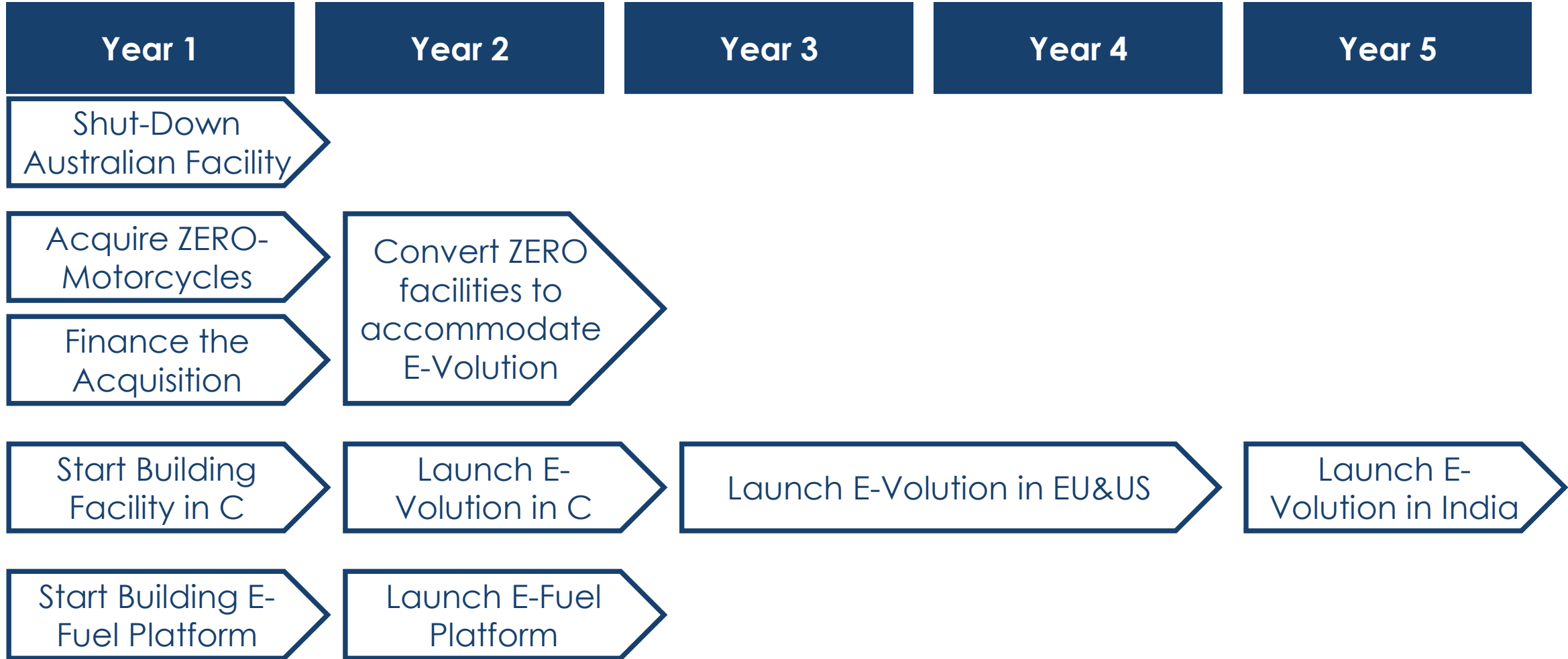
- Reallocate Marketing Budget to E-Volution and E-Fuel
- Increase Marketing Budget by \$80M p.a.
- Communication has to be coherent

Sell Experiences!

Implementation Marketing - Positioning



Implementation Timeline



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Financials

Current Financial Situation

	2017	2018	2019	2020	2021	2022
Revenue:						
Motorcycles	3825.2	3952.0	4083.0	4218.3	4358.1	4502.6
Parts & Accessories	804.4	831.1	858.6	887.1	916.5	946.8
General Merchandise	262.8	271.5	280.5	289.8	299.4	309.3
Financial Services	732.2	756.5	781.5	807.4	834.2	861.9
Other	22.7	23.5	24.2	25.0	25.9	26.7
Total Revenue	5647.2	5834.4	6027.8	6227.5	6433.9	6647.2
Cost of Revenue	3441.9	3656.0	3773.8	3895.6	3956.4	4086.4
Gross Profit	2205.3	2178.4	2253.9	2331.9	2477.5	2560.8
Operating Expenses						
Sales, General and Administrative	1181.6	1193.4	1205.4	1217.4	1229.6	1241.9
Restructuring, Merger and Acquisition	0.0	200.0	200.0	200.0	0.0	0.0
Other operating expenses	132.4	133.7	135.1	136.4	137.8	139.2
Total operating expenses	1314.0	1527.1	1540.4	1553.8	1367.4	1381.0
Operating Income	891.3	651.3	713.5	778.1	1110.2	1179.8
Interest Expense	31.0	31.3	31.6	31.9	32.3	32.6
Other Income (expense)	3.6	3.6	3.7	3.7	3.7	3.8
Income before Taxes	856.7	616.3	678.2	742.5	1074.2	1143.4
Net Income	521.8	369.8	406.9	445.5	644.5	686.1

Assumptions:

Revenue Growth: **3%**

Cost of Revenue: **60% of sales**

Tariffs: **~\$100 million/year**

Restructuring: **\$200 million/year for 3 years**

Other Costs Growth: **1%**

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Financials

Full Speed Ahead – Key costs

- Acquisition Zero Motorcycles \$250 million (80% debt)
- E-Fuel Platform \$24 million/year
- Additional Marketing \$80 million/year
- Restructuring \$200 million/year until 2020, thereafter savings of \$65 million /year

Financials

Full Speed Ahead

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Net Income	521.8	200.7	411.9	476.5	703.6	775.5

Assumptions:

Revenue Growth: **5%**

Cost of Revenue: **60% of sales**

Tariffs: **~\$50 million/year**

Restructuring: **\$200 million/year for 3 years, after that \$65 million/year savings**

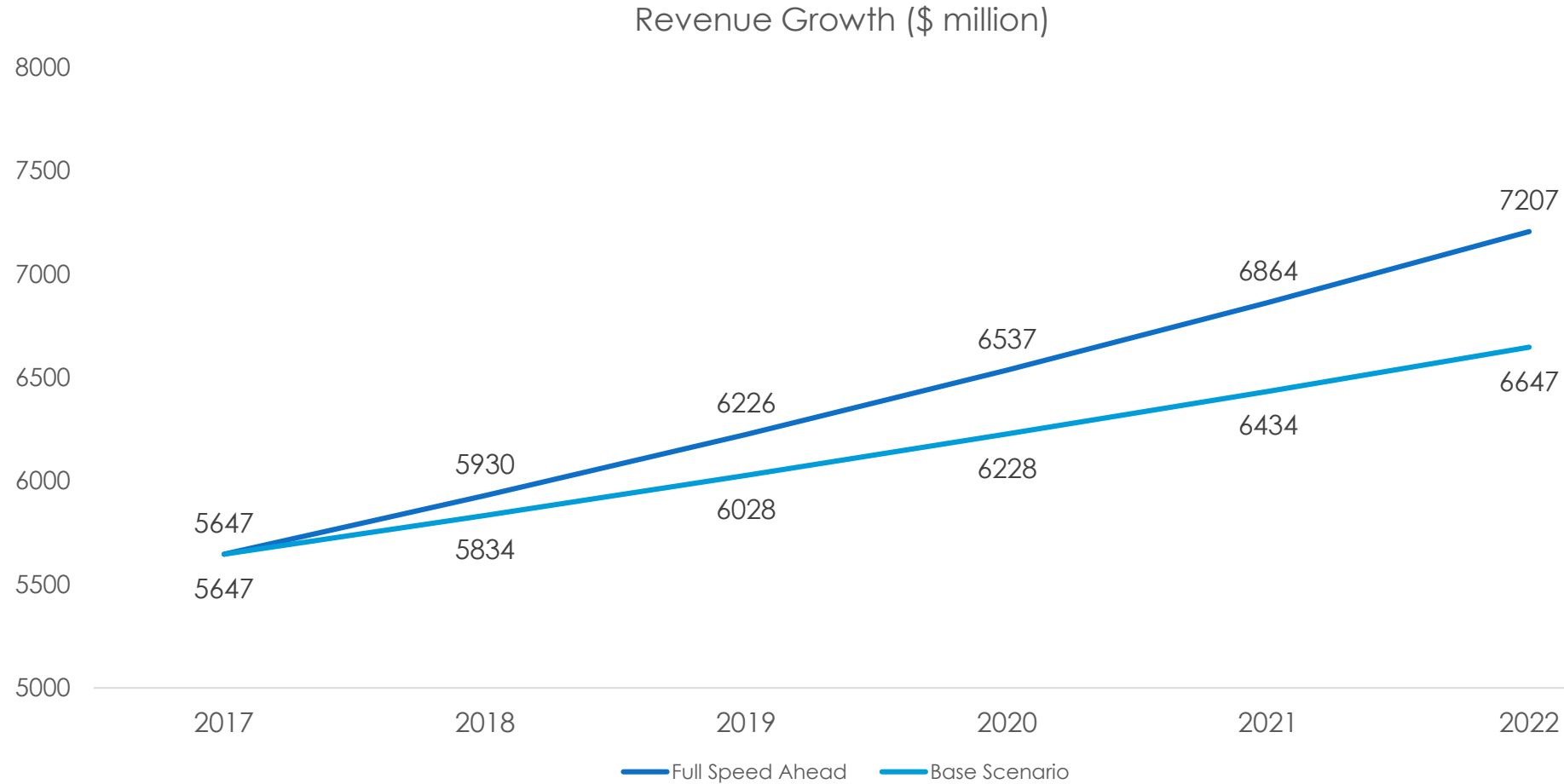
Other Costs Growth: **1%**

Additional Costs:

- **\$80 million/year for marketing**
- **\$25 million/year for platform**
- **\$15 million/year interest expenses**

Financials

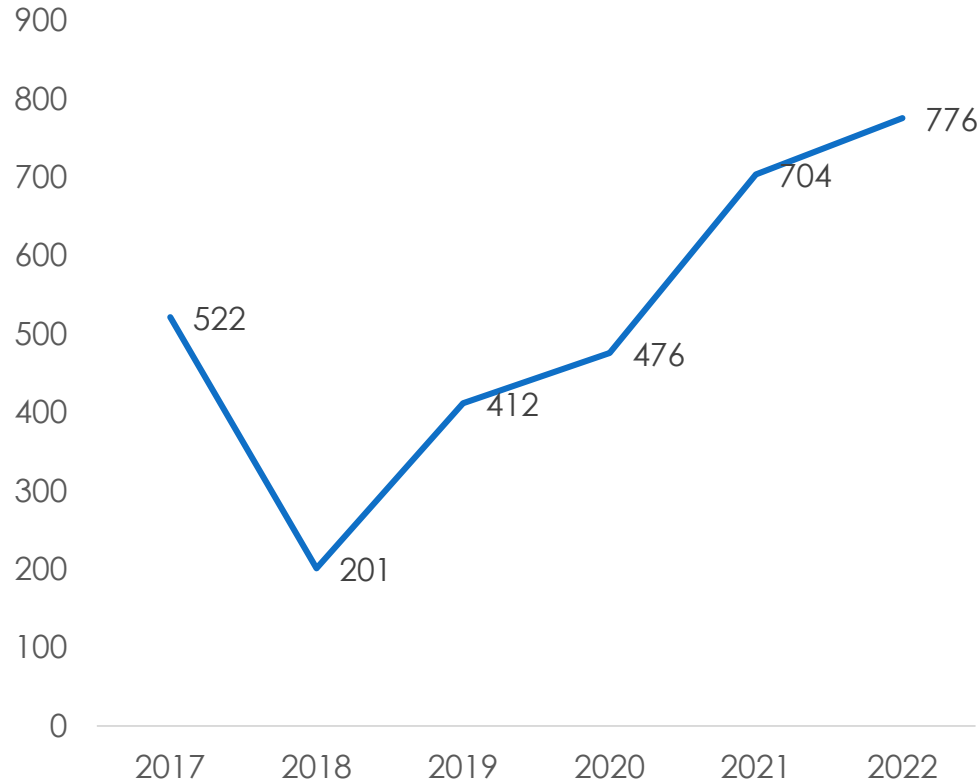
Full Speed Ahead outperforms



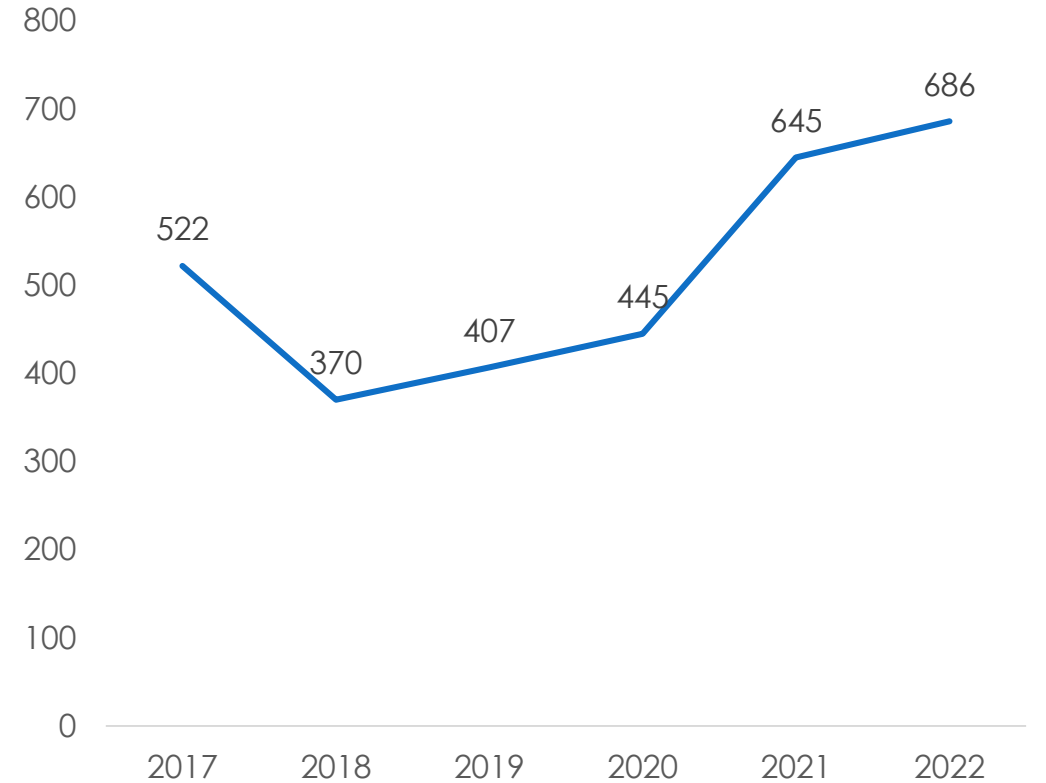
Financials

Full Speed Ahead outperforms

Net Income - Full Speed Ahead (\$ million)



Net Income - Base Scenario (\$ million)



Financials

International Sales

	2017	2018	2019	2020	2021	2022
US	147,972	152,411	156,983	161,693	166,544	171,540
Europe	39,773	41,762	43,850	46,042	48,344	50,762
EMEA - Other	5,162	5,420	5,691	5,976	6,274	6,588
Total EMEA	44,935	47,182	49,541	52,018	54,619	57,350
Japan	9,506	9,981	10,480	11,004	11,555	12,132
Asia - Pacific	20,842	23,968	27,564	31,698	36,453	41,921
Total Asia Pacific	30,348	33,950	38,044	42,702	48,007	54,053
Latin America	9,452	9,830	10,223	10,632	11,058	11,500
Canada	10,081	10,484	10,904	11,340	11,793	12,265
Total International Retail Sales	94,816	101,446	108,712	116,692	125,477	135,168
Total Worldwide Retail Sales	242,788	253,857	265,695	278,385	292,021	306,708
Average Price	15,755	15,822	15,873	15,907	15,922	15,918
Share of International Sales	39.1%	40.0%	40.9%	41.9%	43.0%	44.1%
Total Revenue	\$3.8B	\$4.0B	\$4.2B	\$4.4B	\$4.6B	\$4.9B

Risks & Mitigation

Risk	Probability	Impact	Mitigation
Losing Brand Image	Medium	High	<ul style="list-style-type: none">- Start Evolution sales in China- “Cool” communication
Low market share in China	Medium	Medium	<ul style="list-style-type: none">- Focusing on larger bikes and differentiation
Lack of competency in EV	Low	High	<ul style="list-style-type: none">- Acquire Zero Motorcycles- Leverage Strategic Partnership with Alta Motors

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Implement a Charging Station Platform for Electric Vehicles: E-Fuel by Harley Davidson

Seek Growth Through Extensive Marketing and Manufacturing in China

Become an International Market Leader by Implementing Disruptive Technologies and Leveraging Prestigious Brand-Image