FULL SPEED AHEAD!

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

Matti Karjalainen
Patrick Timmer
Lauri Hanninen
Tommi Bergstrom
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
Content

- External & Internal Analysis
- Strategic Alternatives
- Implementation
- Financials & Risk Analysis
Content

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- Financials & Risk Analysis
“The industry is entering a transition phase where quality should override quantity”

- Chiaki Kato, President Honda Motors
The global motorcycle and moped market is expected 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

Harley-Davidson
Royal Enfield

Premium

Iconic

Innovative

Honda

Affordable

BMW

Jiangmen Dachangjiang
HERO Motorcorp
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**
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

Appreciates Large & Powerful Motorcycles

+35 years

Financially Successful

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?
Content

External & Internal Analysis

Strategic Alternatives

Implementation

Financials & Risk Analysis
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?

3. Geographical Market
   Northern or Southern America? Europe? Asia?
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

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?
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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**
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

$250M

80% Debt  20% Cash
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

Harley-Davidson
Royal Enfield

BMW
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Premium

Innovative

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Implementation Timeline

Year 1
- Shut-Down Australian Facility
- Acquire ZERO-Motorcycles
- Finance the Acquisition
- Start Building Facility in C
- Start Building E-Fuel Platform

Year 2
- Convert ZERO facilities to accommodate E-Volution
- Launch E-Volution in C
- Launch E-Fuel Platform

Year 3
- Launch E-Volution in EU&US

Year 4
- Launch E-Volution in India
# Financials

## Current Financial Situation

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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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<td>1172.7</td>
<td>1292.6</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td><strong>521.8</strong></td>
<td><strong>200.7</strong></td>
<td><strong>411.9</strong></td>
<td><strong>476.5</strong></td>
<td><strong>703.6</strong></td>
<td><strong>775.5</strong></td>
</tr>
</tbody>
</table>

### 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)

2017 2018 2019 2020 2021 2022
522 201 412 476 704 776

Net Income – Base Scenario ($ million)

2017 2018 2019 2020 2021 2022
522 370 407 445 645 686
# Financials

## International Sales

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

## Share of International Sales

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Revenue</strong></td>
<td>39.1%</td>
<td>40.0%</td>
<td>40.9%</td>
<td>41.9%</td>
<td>43.0%</td>
<td>44.1%</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$3.8B</td>
<td>$4.08</td>
<td>$4.28</td>
<td>$4.48</td>
<td>$4.68</td>
<td>$4.98</td>
</tr>
<tr>
<td>Risk</td>
<td>Probability</td>
<td>Impact</td>
<td>Mitigation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-------------</td>
<td>--------</td>
<td>-----------------------------------------------------------------------------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Losing Brand Image</td>
<td>Medium</td>
<td>High</td>
<td>- Start Evolution sales in China</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- “Cool” communication</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low market share in China</td>
<td>Medium</td>
<td>Medium</td>
<td>- Focusing on larger bikes and differentiation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of competency in EV</td>
<td>Low</td>
<td>High</td>
<td>- Acquire Zero Motorcycles</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Leverage Strategic Partnership with Alta Motors</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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