

EVALUATION OF HARLEY DAVIDSON, INC.

FINANCE 284

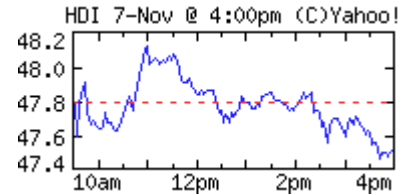
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Summary Page

HARLEY-DAVIDSON (NYSE:HDI) Quote data by Reuters

Edit

Last Trade:	47.51	Day's Range:	47.43 - 48.16
Trade Time:	Nov 7	52wk Range:	35.01 - 54.36
Change:	↓0.28 (0.59%)	Volume:	1,309,700
Prev Close:	47.79	Avg Vol (3m):	1,818,272
Open:	47.81	Market Cap:	14.38B
Bid:	N/A	P/E (ttm):	19.84
Ask:	N/A	EPS (ttm):	2.395
1y Target Est:	56.17	Div & Yield:	0.16 (0.33%)



[1d](#) [5d](#) [3m](#) [6m](#) [1y](#) [2y](#) [5y](#) [max](#)

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RECOMMENDATION OF HARLEY DAVIDSON, INC.

Harley-Davison has a great product with a loyal brand following. The Harley-Davison bike has become an American icon, which foreign competitors can not match despite years of trying. In addition, H-D is a financially healthy company with minimal debt and they've continued to improve operating performance regardless of the economic climate. Based on these factors, as well as favorable valuations from the DDM model we feel that the company should be rated a "Buy".

Harley-Davison will be a good addition to our portfolio given the conservative nature and objectives of the Graduate Fund. We recommend purchasing 200 shares of H-D stock at a price at market price. We believe that 200 shares is proper given the fact that the stock has risen in recent months and is no longer significantly undervalued. However, we believe the stock has some upside potential and is good long-term investment. No stock in the Graduate Fund is significantly correlated with Harley-Davison.

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I. Executive Summary

Harley-Davison(NYSE:HDI) has a great product with a loyal brand following. The Harley-Davison bike has become an American icon, which foreign competitors can not match despite years of trying. In addition, H-D is a financially healthy company with minimal debt and they've continued to improve operating performance regardless of the economic climate. Based on these factors, as well as favorable valuations from the DDM model we feel that the company should be rated a "Buy".

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II. Management

Excellent Corporate Governance has been a long standing business practice at Harley-Davidson, because it makes good business sense. The Harley-Davidson Management and Board of Directors is composed of accomplished leaders from a range of industries who meet regularly to review Company objectives and plan for future growth. These individuals draw on their diverse backgrounds and experiences. They are proud Harley-Davidson enthusiasts, and they work to ensure that the decisions made by Harley-Davidson promote fairness, financial transparency and accountability to all our shareholders

Jeffrey Bleustein Chairman and CEO

In December 1998, Mr. Bleustein was elected Chairman of the Board of the Harley Davidson, Inc. He has served as President and Chief Executive Officer of the Company and Chief Executive Officer of the Motor Company since June 1997. Mr. Bleustein served as President and Chief Operating Officer of the Motor Company from 1993 to May 2001. He was Executive Vice President of the Company from 1991 to June 1997. He is also a director of Brunswick Corporation.

John Hevey President and COO of Buell Motorcycle Company

Mr. Hevey became the President and Chief Operating Officer of Buell Motorcycle Company in January 2001 prior to that he served as Vice President, General Manager Asia/Pacific and Latin America Regions of the Motor Company since January 1998.

From June 1997 to December 1997, Mr. Hevey served as General Manager Asia/Pacific and Latin America of the Motor Company.

Donna Zarcone
President and COO, Harley-Davidson Financial Services, Inc.

Ms. Zarcone has served as President and Chief Operating Officer of Harley Davidson Financial Service since August 1998. From June 1994 to August 1998, Ms. Zarcone served as Vice President and Chief Financial Officer of Harley Davidson Financial Service.

James McCaslin
President and COO, Harley-Davidson Motor Company.

Mr. McCaslin joined Harley-Davidson Motor Company in 1992 as Vice President and General Manager, York Operations. He was appointed Vice President, Continuous Improvement in 1997. In 1999, he became Vice President, Dealer Services and in 2001 he was named President and COO of Harley-Davidson Motor Company. He has a Bachelor of Science degree in Industrial Engineering from General Motors Institute and a Master of Science in Industrial Engineering from Virginia Polytech. He also attended the Advanced Management program at Harvard University.

Major Holders

The Major insider and institutional holders of Harley Davidson Inc. is depicted in the table below:

BREAKDOWN	
% of Shares Held by All Insider and 5% Owners:	0%
% of Shares Held by Institutional & Mutual Fund Owners:	72%
% of Float Held by Institutional & Mutual Fund Owners:	72%
Number of Institutions Holding Shares:	10

Financing Arrangements

For all those individuals that are interested in owning a Harley-Davidson motorcycle, but do not have the cash to buy it outright, the Company offers a financing plan that allows the individual to pay for the motorcycle over a period of time. The Company offers a flexible repayment option and specialized financing for all credit types. The buyer's local Harley Davidson dealer will customize the financing arrangements based on the buyer's needs.

BRAND LOYALTY

Harley Davidson Inc., has had a long standing tradition of nurturing relationships with customers – of connecting with them on a personal level. This has led customers to view Harley Davidson Inc., not only as a company, but also as a family to whom they are very loyal. Harley Davidson as an example of company with a loyal brand following and their customers assist in future sales through customer-based marketing. This type of

marketing is achieved through positive word of mouth about the brand among riders. The fact that many Harley-Davidson garments are worn on biking excursions further increase brand equity and loyalty. This loyalty is exhibited through its various groups and organizations such as the Harley Owners Group (H.O.G).

Harley Owners Group (H.O.G).

Harley-Davidson established the Harley Owners Group in 1983 in response to a growing desire by Harley riders for an organized way to share their passion and show their pride. By 1985, 49 local chapters had sprouted around the country, with a total membership of 60,000. Rapid growth continued into the 1990s, and in 1991 H.O.G. officially went international, with the first official European H.O.G. Rally in Cheltenham, England. Worldwide membership numbered 151,600, with 685 local chapters.

As the '90s continued, H.O.G. hysteria spread into Asia, including new chapters in Singapore and Kuala Lumpur, Malaysia. By 1999, worldwide membership had hit the half-million mark, and the number of local chapters totaled 1,157. Today, more than 650,000 members make H.O.G. the largest factory-sponsored motorcycle organization in the world, and it shows absolutely no signs of slowing down.

III. Recent Important News

Oct. 15, 2003

Harley Davidson Inc. announced third quarter earnings per share were 62 cents, a 14.8 percent increase compared with last year's 54 cents. Revenue was \$1.134 billion, almost the same compared to last year's \$1.135 billion.

Oct. 23, 2003

www.StocksAtBottom.com believes that Harley Davidson will resume its upward price shortly and experience high cash flow. They expect HDI to have generated over \$2 billion of cash, and less than \$600 million will be used for capital equipment expenditures. They forecast the target price for Harley Davidson is \$60.

Oct. 15, 2003

Harley Davidson downgraded by prudential. William Lerner of Prudential downgraded Harley to "neutral" from overweight". He explained in a note to investors that both shipments and revenue came up short of his expectations.

Aug. 27, 2003

Harley Davidson introduced its year 2004 motorcycle model, including a completely redesigned XL Sportster family and a new VRSCB V-Rod power cruiser, which complements the VRSCA V-Rod. These new models will begin shipping to dealers in

September. 30, 2003

Two of the country's most prominent adventure tour operators, EagleRider and Suntrek, announced that they have joined forces in a new program that will offer Harley-Davidson motorcycles in Suntrek's new 2004 tour catalog.

Also the fund manager from T. Rowe Price likes motorcycle manufacturer Harley-Davidson ([HDI: news](#), [chart](#), [profile](#)), which he says is a better buy now that shares of this American icon have fallen from the mid-50s.

"Their revenue and earnings continue to be strong, and they have great free cash flow," he said. "Harley had been trading at an expensive valuation, but now it appears reasonably priced."

IV. Key Strategies

Harley Davidson has always been known for its differentiated products that have continuously stood out from the norm. This has a lot to do with strategies Harley uses to promote its products and services.

Some of the key strategies used throughout 2003 was the promotion of its 100th Anniversary Special Edition Motorcycles and the worldwide Open Road Tour used to advertise their current production line.

The stunning 2003 model 100th Anniversary Harley-Davidson motorcycles, which feature rich new paint schemes and special 100th Anniversary identification has been an instant success. Every 2003 motorcycle in the line-up has been designated a 100th Anniversary model. The company has extended the model year to 14 months to give even more customers the opportunity to own a piece of Harley-Davidson history.

The Anniversary celebrations began back in late 2002 as the Open Road Tour made its way to Atlanta, Baltimore, Los Angeles, Toronto and Dallas/Fort Worth. The festivities then traveled overseas to Sydney, Tokyo, Barcelona and Hamburg. Billed as the world's largest rolling birthday party, the Open Road Tour brought the Harley-Davidson experience full throttle to riders and enthusiasts around the world. Receiving worldwide exposure at minimal advertising costs, the Open Road Tour has been a complete success, thus allowing Harley's unique and differentiated products to be seen up close around the world.

Additionally, Harley-Davidson established the Harley Owners Group (HOG) in 1983 in response to a growing desire by Harley riders for an organized way to share their passion and show their pride. By 1985, 49 local chapters had sprouted around the

country, with a total membership of 60,000. Now in 2003, the promotion of the 100th Anniversary has allowed the membership to include over 1200 chapters and close to 800,000 members. HOG has played a major role in the success of the 100th Anniversary celebration. This one of a kind, unique strategy which started 20 years ago by Harley and its members, has grown tremendously and will continue to play an important role in the future success of the company. Strategies such as these implemented by internal management and carried out by dedicated customers and members are one of the most precious assets a company can ever dream of. That is the Harley way!!

Furthermore, the key strategies relating to the distribution channels have allowed Harley-Davidson the world-wide exposure needed to market its product with tremendous success and demand that has always seemed to exceed supply. To date, there are more than 1300 independent dealers worldwide. Over 630 are within the United States alone.

Recognizing that to grow sales will take more than just an increase in capacity, the company's aim has been to add 20-30 dealers per year to grow the dealer network, with an increase of roughly 5-10 domestically and the balance internationally. In addition to its dedicated dealer network, the company also uses smaller, occasionally temporary retail outlets in high-traffic areas, such as airports, to sell accessory products like apparel, collectibles, and licensed products. This gives Harley the additional exposure needed without having to spend millions on other forms of advertising. In order to effectively analyze Harley Davidson, we wanted to present a breakdown of the different price ranges offered based on the current list of the five classes of heavyweight motorcycles produced under the Harley Davidson name.

Price Ranges of Harley Davidson Motorcycles

2002 Shipments = 263,653 (+12.5% from 2001)

Sportster	Price	Touring	Price
883R-XL	\$6,795	Road King	\$16,215
883-XLH	\$5,975	Road King-CL	\$17,405
883 Hugger	\$6,435	Road Glide	\$17,450
883 Custom	\$7,075	Electra Glide	\$14,710
1200-XLH	\$8,255	Electra Glide-CL	\$16,765
1200 Custom	\$9,425	Ultra Classic	\$19,760
1200 Sport	\$8,960		

Shipments = 51,171 (+0.7% from 2001)
19% = a range of \$ 5,975 -to- \$9,425

Shipments = 70, 713 (+8.1% from 2001)
27% = a range of \$14, 710 -to- \$19,760

Dyna Glide	Price	Softail	Price
Low Rider	\$15,185	Deuce	\$16,965
Super Glide	\$12,255	Night Train	\$15,425
Wide Glide	\$16,310	Standard	\$13,625
Super Glide-SP	\$14,275	Fat Boy	\$16,195
Super Glide-T-SP	\$15,370	Springer	\$16,395
		Heritage Springer	\$17,795
		Heritage Softail	\$16,695
VRSCA			
V-ROD	\$18,695		

Dyna Glide, Softail and VRSCA combined shipments =141,769 (+19.9 % from 2001)
These groups with a combined price range of \$12,255 -to- \$18,695 = 54% of units sold

The prices reflected above represent the starting prices before additional custom features which are available on all motorcycles, are added on. Certain custom features can tack on thousands of extra dollars onto the current price. The overall prices can range from as little as \$5,975 to more than \$25,000.

Since Harley Davidson does have such a loyal customer base, most owners of H-D products seem to come back for another somewhere down the road. For example, with regards to the 2002 purchasers:

- 42% owned Harley-Davidson motorcycles previously.

- 30% came over to H-D from a competitor's motorcycle.
- 28% were new to motorcycling or haven't owned a motorcycle for 5 years.

Most Harley loyalists will keep their current ride for 5 to 10 years before considering a replacement. The reason for this is simply the book value of Harley Davidson motorcycles has always been known to keep a relatively high resale value so there is no need to necessarily sell it off a year or two after purchase. Most loyalists do not use it on a daily basis so it becomes more like a collector's item rather than means for everyday transportation. Of course there is that very dedicated sector out there that simply collects more than one Harley for show only. These individuals have been known to hold up to a half dozen and use them more for bragging rights than anything else.

Harley-Davidson Financial Services, Inc. is engaged in the business of financing and servicing wholesale inventory receivables and consumer retail installment sales contracts (primarily motorcycles and non-commercial aircraft). Additionally, HDFS is an agency for certain unaffiliated insurance carriers providing property/casualty insurance and extended service contracts to motorcycle owners. HDFS conducts business in the United States, Canada and Europe.

Harley's main strategy relating to HDFS is to allow customers to have the option of one stop shopping and allow everything to be done by Harley Davidson itself. This is a major strategy for Harley and allows for greater sales and convenience for all involved. Once the client has chosen a motorcycle to purchase, he can instantly receive insurance and financing based on credit history. Harley Davidson does offer its clients a very favorable rate, which pretty much seals the deal. Additionally, below is a list of

everything that can be included within the motorcycle loan. This will make the entire process quick and easy, so Harley loyalists are riding instead of waiting.

- MotorClothes apparel.
- Parts and accessories
- Harley Davidson Extended Service Plan
- Harley Davidson Cycle Insurance
- Payment Protection Plan
- Finance Protection Plan.

By allowing customers to finance these items within their loans, it saves them the time of additional hassles down the road. This would obviously make for a very satisfied customer and a future loyalist of Harley Davidson.

V. Industry Analysis

The recreational vehicle industry is one that is particularly fragile. Companies in this industry can be at the mercy of such an unpredictable economic factor as the weather (such as Polaris Industries, which sells both snowmobiles and water craft). And while other companies in this industry may perform rain or shine, all companies are sensitive to the whim of the consumer. Generally speaking, this industry is nearing the end of the growth stage of its life cycle. Companies are beginning to control their market shares and high growth rates are more difficult to find. We predict that the next ten years will see the maturity of the industry, evidenced most prominently by the reduction of growth rates (for example, we predict Harley-Davidson's net sales growth rate to shrink from 21.63% in 2002 to just over 7.5% in 2012).

External Trends- Government - Recent years have seen a dramatic increase in state regulations concerning public land use, allowable amounts of noise, age and other restrictions put on recreational vehicles, as well as state regulations concerning emissions. The amount of public land available for use can be an important determinant in consumer decision making concerning recreational vehicles (especially off-road and water-sports vehicles). Some states have started programs to ban recreational vehicles from certain areas. This creates a damper on demand for the consumers that live near those public areas, and potentially harms the industry. Currently, there are no national standards for recreational vehicles regarding noise, age, or pollution emissions (although, as described above, they have been proposed). Each state (and, in some cases, each city) can impose its own standards in these areas. This patchwork of regulation creates

problems for manufacturers who have to decide whether to manufacture only products that would pass the most stringent state regulations, to manufacture slightly different products for sale and use in different states, or to ignore certain state markets where the cost of modifying the product to obey the laws of the state would be prohibitive.

While regulations are certainly an important consideration for any purchaser of a recreational vehicle, many of these regulations are less likely to affect Harley-Davidson purchasers than customers of other firms in this sector. Harley-Davidson motorcycles are generally driven on the highways or back-roads, and do not generally fall under the guise of the aforementioned regulations. Even if there are potential problems with a regulation (helmet or noise limit laws, for example), we do not expect any decrease in the production or demand of Harley-Davidson motorcycles.

External Trends Social - Social factors are among the most important of the non-economic factors affecting the recreational vehicle industry. This is an industry that combines a high degree of brand loyalty with products that are often used in social settings. Motorcycle enthusiasts are among the most loyal customers in the market. Harley-Davidson reports that 660,000 owners of its motorcycles have formed chapters of the Harley Owners Group (HOGs) throughout the country. Many of these individuals sport Harley-Davidson apparel, and in some cases, tattoos - perhaps the ultimate expression of customer loyalty.

External Trends Demographics - The demographics of America are clearly changing and the recreational vehicle industry needs to be prepared for the effects that change will bring. The most important change is the new age distribution of the population. The so-called Baby Boom generation (people born between 1946 and 1964) has driven the

increase in consumer spending throughout much of the past thirty years. However, as this group ages, the recreational vehicles industry has to be weary of the possibility that this group will no longer be as interested in recreation. The aging of the Baby Boomers is going to cause a dramatic increase in the percentage of the population that is at or near retirement age. Indeed, as this generation shifts its spending focus toward retirement, Harley-Davidson will need to identify and cultivate a new market to replace former customers who have lost the enthusiasm or the ability to ride a motorcycle.

External Factors Demand - Most of the companies within this industry produce products that will be used directly by the consumer. The exceptions to this rule produce products for use by customer-service institutions. However, this does not necessarily mean that the customer has a great deal of power. As described earlier, there is a heavy emphasis on brand names and a great deal of brand loyalty for many companies within this industry. This leads to repeat customers, and not a great deal of switching. Additionally, several of the companies in this industry control their level of output to ensure that the market never becomes saturated. This combination of loyalty by consumers and a limited amount of production by the companies allows for the companies to ensure that their products remain in high demand.

External Factors- Supply - The recreational vehicle industry is not especially concentrated at the present time. Many of the companies competing in this industry can count their competitors on one hand. However, this may be in part because of the barriers to entry for this industry. For example, if a company wanted to compete with Harley-Davidson, not only would they have to come up with several billion dollars in capital and a high caliber distribution network, they would also have to establish themselves as an

important piece of Americana. This is something that Harley has done over the past 100 years, and it can not easily be duplicated. One major concern for most companies in this industry is the volatile price of inputs. Those companies that use a great deal of steel are going to be hurt by the U.S. restrictions put on the import of that product, which serve to raise its cost. Additionally, all of these companies are sensitive to the price of oil rising, both in the shipping of parts and finished products throughout the country, as well as using petroleum based products in production. The price of oil has risen over \$8 per barrel over the last four months due to concerns over the Venezuelan oil workers strike and the war with Iraq, although most of the increase has been given back.

The following table details the industry registration statistics :

Motorcycle Industry Registration Statistics
(UNITS)

U.S. and Canada	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
651+cc Volume	246,214	297,849	365,399	422,787	474,955
H-D Volume	116,110	142,042	163,136	185,571	220,143
Buell Volume	3,333	4,022	4,306	2,695	3,023
HDI Total Volume	119,443	146,064	167,442	188,266	223,166
% Change 651+cc Volume	19.9%	21.0%	22.7%	15.7%	12.3%
% Change HDI Total Volume	18.0%	22.3%	14.6%	12.4%	18.5%
HDI Market Share	48.5%	49.0%	45.8%	44.5%	47.0%
Europe	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
651+cc Volume	270,212	306,748	293,424	293,554	303,483
H-D Volume	15,650	17,836	19,870	19,563	20,140
Buell Volume	1,600	2,079	1,912	2,171	1,808
HDI Total Volume	17,250	19,915	21,782	21,734	21,948
% Change 651+cc Volume	8.0%	13.5%	-4.3%	.044%	3.4%
% Change HDI Total Volume	7.4%	15.4%	9.4%	-0.22%	1.0%
HDI Market Share	6.4%	6.5%	7.4%	7.4%	7.2%

NOTE: Total HDI volume includes Portugal. Total 651+cc volume does NOT include Portugal

Japan and Australia	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
651+cc Volume	69,222	63,097	62,667	62,069	63,857
H-D Volume	10,273	11,642	12,213	12,662	13,602
Buell Volume	532	701	658	651	739
HDI Total Volume	10,805	12,343	12,871	13,313	14,341
% Change 651+cc Volume	17.6%	-8.8%	-0.7%	-0.95%	2.9%
% Change HDI Total Volume	6.9%	14.2%	4.3%	3.4%	7.7%
HDI Market Share	15.6%	19.6%	20.5%	21.4%	22.5%
Total	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
651+cc Volume	585,648	667,694	721,490	778,410	842,295
H-D Volume	142,033	171,520	195,219	217,796	253,885
Buell Volume	5,465	6,802	6,876	5,517	5,570
HDI Total Volume	147,498	178,322	202,095	223,313	259,455
% Change 651+cc Volume	13.8%	14.0%	8.1%	7.9%	8.2%
% Change HDI Total Volume	15.8%	20.9%	13.3%	10.5%	16.2%
HDI Market Share	25.2%	26.7%	28.0%	28.7%	30.8%

VI. Market Share Analysis

For the last 15 years, the Company has led the industry in domestic (United States) unit sales of heavyweight motorcycles. Competition in the motorcycle industry consists of only a handful of producers worldwide. The Japanese producers Honda, Yamaha, Kawasaki, and Suzuki are producing a full line of motorcycles ranging from scooters to heavyweights, and together control the largest share of the market. Their wide product line though has also created some customer complaints to them (especially true for Honda and Kawasaki) for low quality service. This significantly decreased their market shares. Japanese companies' success began with copying other products, but evolved to depend on innovative designs and technology. Harley Davidson is producing heavyweight motorcycles emphasizing good quality product and after sales service, thereby building up brand loyalty. Honda is the largest company in terms of size, financial backing, and reputation. It is offering the widest selection of styles, classes and sizes within the heavyweight category. This wide product line hurts Honda since salespeople have limited knowledge of each product. Kawasaki's products include a full line of motorcycles, all terrain vehicles, jet skis and other. It is the leader in super bikes manufacturing but US legislation is limiting the number of sports bikes to be imported because of safety reasons. Yamaha produces Harley clones but lacks Harley's image. Being a market follower, Yamaha is to face many problems. BMW is famous of producing quality products but its high prices hold it from expanding sales. Although motorcycles are sold internationally, 3 main geographic markets comprise the bulk of motorcycle sales North America, Asia, and Europe. The largest is the North American

Market (USA and Canada account for about 60% of this market) accounting for 60% of worldwide motorcycle sales. With the baby generation aging, opportunities exist for the penetration of new markets. The Japanese market accounting for a great chunk of the Asian Market is an untapped one for foreign manufacturers. Government regulations and trade policies make it difficult for foreign manufacturers to enter though. Most Asians consider motorcycles as a basic means of transportation. Major target areas include China, Korea, Taiwan and Vietnam. The European Market is another market with great potentials since Europeans have a higher disposable income and enjoy a higher standard of living. Eastern Europe is not offering a good deal mainly because of its unstable political and economic environment. To succeed in these markets, firms are to modify products to meet local needs, provide after sales service, expand distribution networks, create strong customer.

The following table details the market share by region:

North American Market Share

Harley-Davidson	46.40%
Honda	20.20%
Suzuki	9.80%
Yamaha	9.30%
Kawasaki	7.10%
BMW	2.50%
Other	4.60%

European Market Share

Honda	21.00%
Yamaha	17.70%
BMW	15.10%
Suzuki	14.80%
Kawasaki	8.50%
Harley-Davidson	6.60%
Ducati	5.70%
Triumph	3.50%
Other	7.00%

Asia/Pacific Market Share

Harley-Davidson	21.30%
Honda	19.10%
Kawasaki	15.80%
Yamaha	13.60%
Suzuki	10.10%
BMW	7.30%
Ducati	6.90%
Other	5.90%

VII. Financial Details

Ratios

In order to better understand Harley-Davidson, one must look at its key ratios and current financial performance. A comparison against the #1, 2, and 3 motorcycle manufacturers was also reviewed. The below ratios are consistent with key metrics used in the Company's industry.

Balances in 000's

HARLEY-DAVIDSON	2002	2001	2000	1999	1998	Honda	Yamaha	Suzuki
Current Ratio								
<u>Current Assets</u>	2,066,586	1,665,264	1,297,264	948,994	844,863	27,471,452	3,040,921	7,047,150
Current Liabilities	990,052	716,110	497,743	518,154	468,515	26,053,222	2,951,974	5,630,973
Current Ratio	2.09	2.33	2.61	1.83	1.80	1.05	1.03	1.25

Although Harley-Davidson's Current Ratio has deteriorated the past three years, it's still much stronger than its competitors.

The primary reason for the decrease is due to increase in short-term commercial paper issued to support operations.

The Company has begun to invest in marketable securities beginning in 2001 in order to maximize returns on liquid assets.

The Company generated 779 M in cash flows from Operations in 2002.

Days Sales in A/R

<u>360 / {Sales}</u>	4,090,970	3,406,786	2,943,346	2,452,939	2,063,956	66,514,188	8,453,765	16,815,738
A/R Beg of Year + A/R End of Year/2	869,865	702,217	585,915	508,209	469,393	3,741,057	1,057,168	1,418,042
Days Sales in A/R	76.55	74.20	71.66	74.59	81.87	20.25	45.02	30.36

The Company's Days Sales in A/R is higher than competitors primarily because the Company's balances include financing loans to dealers and customers

The competitors data does not segregate financing loans.

Excluding these financing loans Days Sales in A/R would have been approximately 10 days in 2002.

The Days Sales in A/R has increased over the past three years due to slowing collections on financed receivables.

HARLEY-DAVIDSON	2002	2001	2000	1999	1998	Honda	Yamaha	Suzuki
Days Sales in Inventory								
$\frac{360}{\{\text{Cost of Sales}\}}$	2,673,129	2,253,815	1,979,572	1,617,253	1,373,286	45,142,642	6,064,077	12,427,604
Invty Beg of Year + Invty End of Year/2	199,636	186,523	180,274	162,116	136,546	5,825,205	1,320,004	2,254,645
Days Sales in Inventory	26.89	29.79	32.78	36.09	35.79	46.45	78.36	65.31

The Company's Days Sales in Inventory has improved over the past 4 years and is favorable compared to competitors.

Demand for their products were particularly strong in 2002 as a result of their 100 year anniversary.

Debt To Equity

Total Liabilities	1,628,302	1,362,212	1,030,750	950,998	890,298	42,150,308	4,330,002	7,418,425
Shareholders' Equity	2,232,915	1,756,283	1,405,655	1,161,080	1,029,911	21,942,384	1,503,180	5,409,891
Debt To Equity	73%	78%	73%	82%	86%	192%	288%	137%

The Company has had improved Debt to Equity ratios and is very favorable compared to competitors.

Harley-Davidson only has \$30M in Senior Subordinated Notes outstanding.

Return on Common Equity

Net Income-Preferred Dividends	580,217	437,746	347,713	267,201	213,500	3,560,068	213,231	258,864
Average Common Shareholders' Equity	1,994,599	1,580,969	1,283,368	1,095,496	928,290	21,709,674	1,434,092	5,291,602
Return on Common Equity	29.09%	27.69%	27.09%	24.39%	23.00%	16.40%	14.87%	4.89%

The Company provides a solid return to shareholders. Harley-Davidson increased its dividends paid per share in 2002 to \$.14/share and repurchased approximately 1.1 million shares in 2002.

Through Q3 2003, the ratio deteriorated to 23.2%--the Company should consider repurchasing shares or substantially increasing dividends to coincide with continued growth.

HARLEY-DAVIDSON	2002	2001	2000	1999	1998	Honda	Yamaha	Suzuki
Gross Profit %								
<u>Sales-Cost of Sales</u>	1,417,841	1,152,971	963,774	835,686	690,670	21,371,546	2,389,680	4,388,135
Sales	4,090,970	3,406,786	2,943,346	2,452,939	2,063,956	66,514,188	8,453,765	16,815,738
Gross Profit %	34.66%	33.84%	32.74%	34.07%	33.46%	32.13%	28.27%	26.10%

Harley-Davidson's gross profit percentage increased over the past three years and is favorable compared to competitors.

Increasing margins in 2002 were driven by price increases and increase in parts and accessories sales, which are higher margin products.

Net Profit %								
<u>Net Income</u>	580,217	437,746	347,713	267,201	213,500	3,560,068	213,231	258,864
Sales	4,090,970	3,406,786	2,943,346	2,452,939	2,063,956	66,514,188	8,453,765	16,815,738
Net Profit %	14.18%	12.85%	11.81%	10.89%	10.34%	5.35%	2.52%	1.54%

Harley-Davidson's Net Profit margin has improved the past five years due to improved gross margins and lower operating costs relative to sales.

The Company has been able to control overall costs despite improved revenue.

The Net Profit Margin is significantly better than its competitors.

The Company recently released Third Quarter results. Here are some comparisons made to prior year.

SELECTED INTERIM RESULTS

	YTD 3Q 2003	YTD 3Q 2003	\$ Change YTD 2003 V 2002	% Change YTD 2003 V 2002	Comments
Total Revenues	3,466,204	3,064,438	401,766	13.11%	See Below.
Gross Profit	1,249,540	1,047,215			
Gross Profit %	36.05%	34.17%		1.88%	Price Increases and favorable product mix primarily due to sales of higher priced motorcycles.
Operating and Corp. Expenses	513,212	478,571			
Expenses % of Revenue	14.81%	15.62%		-0.81%	While expenses increased overall, the percentage decreased due to higher sales prices, favorable mix on sales of products. Generally, the Company is able to monitor and control expenses.
Financing Income	134,036	78,870			
Financing Income % of Revenue	3.87%	2.57%		1.29%	Market place acceptance of financing initiatives resulting in higher installment loans and continued low interest rates making financing attractive.
Net Profit Margin	578,498	429,356			
Net Profit Margin %	16.69%	14.01%		2.68%	Higher Margins and higher financing income.
Analysis of Revenue by Segment					
H-D Motorcycles	2,676,196	2,340,759	335,437	14.33%	Price Increases and strong demand-total Motorcycle Shipments in 2003 was 214,091 compared to 197,683
Buell Motorcycles	55,985	45,426	10,559	23.24%	Price Increases and higher demand (primarily through first six months of 2003).
Parts and Accessories	571,809	499,273	72,536	14.53%	Sales of 100 year anniversary products (primarily through first six months of 2003), but also benefits from increase in motorcycle shipments.
General Merchandise	160,658	176,715	-16,057	-9.09%	Strong Results in particularly in the 3rd and 4th quarters of 2002 generated from 100 year anniversary sales caused unfavorable comparisons in 2003.
Other	1,556	2,265	-709	-31.30%	Immaterial/Not Meaningful
Total Revenue	3,466,204	3,064,438	401,766	13.11%	

Overall, Harley-Davidson has had strong history of improving financial performance especially compared to competitors. While sales momentum from the 100 year anniversary has subsided in the third quarter, the Company is able to achieve improved margins, control overall expenses and generate substantial cash from operations.

VIII. Valuation

Dividend Discount Model (DDM) - Forecasted Scenarios

In order to estimate Harley-Davidson's stock price using the DDM, we used two different scenarios: apply ten year historical averages and derived what we felt was a more likely case.

Calculation of Data

We calculated the present value of dividends rate using the Capital Asset Pricing Model (CAPM) with the following parameters:

CAPM	Risk Free Rate	Beta	Market Return	Risk Free Rate
9.81	3.375	1.144	9	3.375

Beta was obtained from Yahoo Finance, the **Market Return** was calculated by taking an average of the monthly prices of the S&P 500 over the past 10 years, the **Risk Free Rate of Interest** represents the 5 year T-Note rate from Bloomberg.com. We used a five-year risk free rate to reflect the expected holding period of Harley-Davidson within the Investment Fund. The results yielded a **CAPM rate of 9.81%**.

Next, the P/E High and Low for Harley-Davidson was obtained for the past 10 years from historical prices and S&P Market Insight.

P/E	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	10-Year Average
Hi	21	29	38	44	36	33	28	26	20	22	30
Low	14	22	22	25	24	18	15	14	15	16	19
10-Year Average											24

Next, we obtained historical financial information for Harley-Davidson over the past 10 years in order to calculate revenue growth rates, expenses as a percent of revenue, and weighted average common shares growth rates. We assumed a 35% tax rate for our scenarios which is reasonable based on a ten year average of 34.99%. The 1999-2002 information was obtained from the 2002 Annual Report, while the 1994-1998 information was obtained from the 1998 10-K (5 year data). Our results are as follows:

	2003 (estimated)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Sales Growth	13.0%	21.6%	15.7%	18.5%	18.8%	17.1%	15.1%	13.4%	-12.4%	26.6%	10.1%
Expenses as Percentage of Revenue	74.52%	78.35%	79.98%	81.13%	82.85%	83.71%	84.32%	85.13%	86.97%	89.49%	94.54%
EPS Denominator-WAVG CS O/S	300,604	302,196	301,894	302,359	305,371	305,000	302,730	301,869	299,947	304,444	297,125
EPS Denominator Growth Rate	-0.53%	0.10%	-0.15%	-0.99%	0.12%	0.75%	0.29%	0.64%	-1.48%	2.46%	4.96%
Operating Profit Margin	25.48%	21.65%	20.02%	18.87%	17.15%	16.29%	15.68%	14.87%	13.03%	10.51%	5.46%
Gross Margin	36.05%	34.66%	35.08%	34.09%	34.07%	33.46%	33.26%	32.01%	30.46%	27.34%	27.69%

From these calculations we were able to derive the following:

2003 DATA-USE THROUGH TERMINAL PERIOD	
SALES GROWTH	14.47%
EXPENSES AS A PERCENT OF REVENUE <1>	80.00%
ASSUMED CORP TAX RATE	35%
EPS DENOMINATOR-WAVG CS O/S <2>	300,604
EPS DENOMINATOR GROWTH RATE <2>	0.00%
P/E AVERAGE, PAST 10 YEARS	24

<1> The 10 year average expense % is 84.65%. This is unrealistic to use in our model given that percentage has not been that high since 1996 and the percentage have decreased in the past 10 years. Therefore, 80% was used in order to reflect a better estimate of expenses.

<2> The EPS denominator has essentially not changed in the past 10 years. The 10 year average is 302,294. Therefore, we assumed a constant EPS denominator in our model.

Base Scenario

In this scenario, we are simply assuming that HDI will continue growth as per the past 10-year trends have illustrated. This results in a current stock price of \$70. We make changes to this scenario which can be viewed in the Alternate on the following page.

DCF Valuation Spreadsheet-Base Case Scenario

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Terminal Value
eps growth						-7.3%	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%	
eps	0.875	1.15	1.45	1.92	2.55	2.36	2.70	3.09	3.54	4.05	4.64	5.31	6.08	
Actuals:														
payout ratio	10.00%	8.70%	8.28%	7.29%	6.02%									
dividend	0.0875	0.1	0.12	0.14	0.15									
Estimates:														
growth						-10.2%	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%	
payout ratio						6.02%	6.02%	6.02%	6.02%	6.02%	6.02%	6.02%	6.02%	
dividend						0.138	0.158	0.180	0.207	0.236	0.271	0.310	0.355	170.827
PV Factor:						0.9107	0.8293	0.7552	0.6878	0.6260	0.5704	0.5194	0.4730	0.4730
using 9.81% (CAPM)														
Pvalue						\$0.1294	\$0.13	\$0.14	\$0.15	\$0.15	\$0.16	\$0.17	\$0.17	\$69.00

Total Present Value
70.20348

Terminal Value Calculation

2011 eps est	6.08
Assumed P/E end 2011	24
Target Price	145.88

The above scenario is probably unrealistic because the P/E is rather high and the growth rate remains constant.

Alternate Scenario

Here we have made changes to the base scenario by gradually reducing revenues, and increasing expenses (see below for explanation) and reducing the P/E value to an end **P/E of 19** in 2011. 19 represents the average P/E low over the past 10 years and is more indicative of a mature company. This results in a present value stock price of \$50.24.

DCF Valuation Spreadsheet-

Alternate

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Terminal Value
eps growth						14.4%	11.7%	11.2%	10.7%	9.6%	8.6%	7.6%	6.5%	
eps	0.875	1.15	1.45	1.92	2.55	2.91	3.26	3.62	4.01	4.39	4.77	5.13	5.47	
Actuals:														
payout ratio	10.00%	8.70%	8.28%	7.29%	6.09%									
dividend	0.0875	0.10	0.12	0.14	0.155									
Estimates:														
growth						8.1%	7.5%	6.9%	6.5%	6.1%	5.7%	5.4%	5.2%	
payout ratio						5.75%	5.53%	5.32%	5.12%	4.95%	4.82%	4.72%	4.66%	
dividend						0.1675	0.1800	0.1925	0.2050	0.2175	0.2300	0.2425	0.2550	103.89
PV Factor:														
using 9.81% (CAPM)						0.911	0.829	0.755	0.688	0.626	0.570	0.519	0.473	0.473
Pvalue						\$0.1525	\$0.15	\$0.15	\$0.14	\$0.14	\$0.13	\$0.13	\$0.12	\$49.14

Total Present Value

50.24

Terminal Value Calculation

2011	
eps est	5.47
Assumed P/E end 2011	19
Target Price	103.894

The above model was developed using various revenue and expense assumptions :

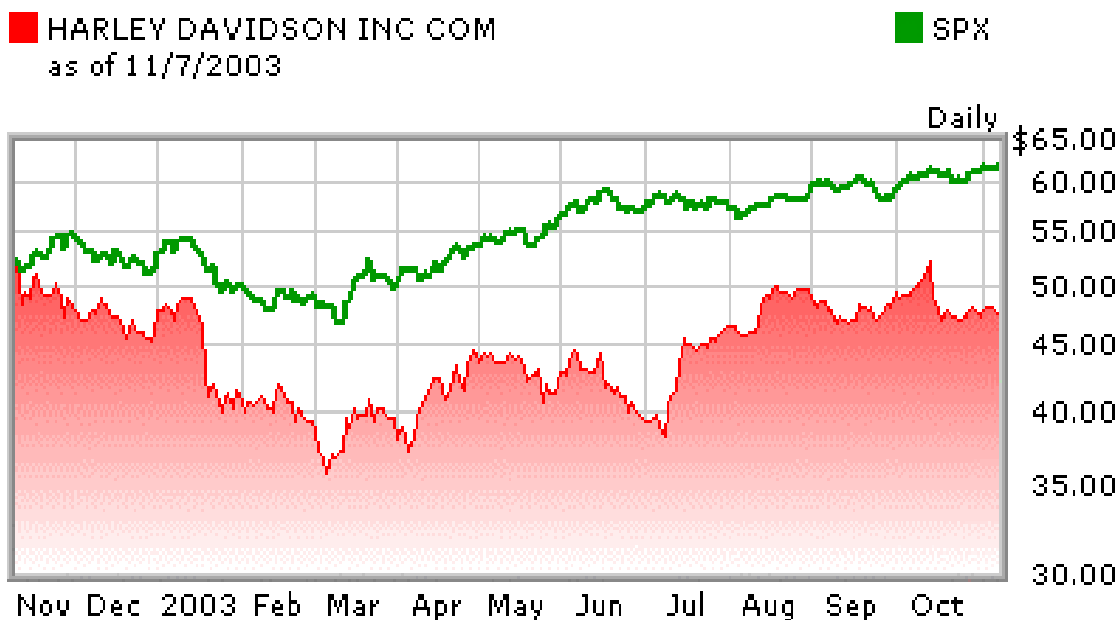
	2004	2005-2007	2008-2011
Revenue Growth	Ten year average 14.47% growth (similar to 2003).	Decrease by 0.5% per year	Decrease by 1.0% per year
Expense Growth	None-same % as 2003	Increase by 0.5% per year	Increase by 0.5% per year

The above model assumes that H-D's products will gradually mature over an extended period in the future resulting in higher costs (due to increased marketing costs and the increasing difficulties of passing on price increases) and decreased sales as the first wave of baby boomers turns 60. Their customers are getting older—the company notes that the median age of their customers in 1987 was 34.7 but increased to 46.0 in 2002. This decline in growth/profitability will happen rather slowly, yet gradually. The Harley-Davidson brand is very strong and their financial performance has been stellar. Therefore, It's extremely unlikely that a decline will happen rapidly.

Overall, Harley-Davidson is undervalued even using the \$50.24 stock price derived from the more conservative model above. When taking into account the first model the stock price should be even higher than that.

IX. Stock Performance and Technical Analysis

The stock price of HDI has bounced back off its low support level of roughly \$35 and is currently in the \$47 range. Compared to the S&P 500, HDI is currently underperforming its benchmark, however it continues to narrow the spread as well. If our anticipation and forecasts are correct, HDI will surpass the S&P 500 in mid 2004.



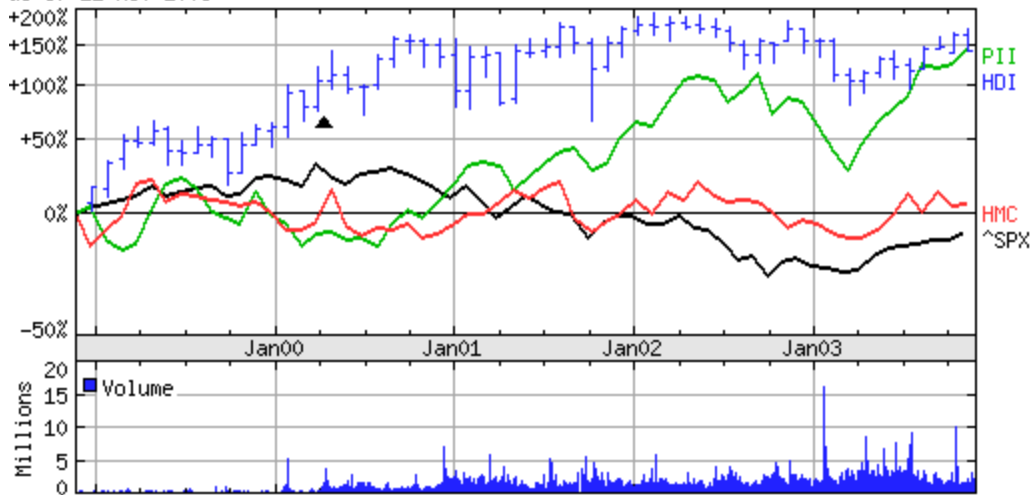
As a comparison, the additional chart below shows the performance of HDI to some of its major competitors. We have only included Polaris Industries (PII) and Honda Motor Corp. (HMC). Even though HDI has underperformed its competitors listed, it has certainly outperformed them in overall growth and market share. A better comparison can be seen throughout our report by acknowledging the current market share of HDI worldwide.



It should be noted that Harley-Davidson's stock has been outperforming the S&P over the past 5 years. We expect to hold this stock in the Portfolio for the next 3 to 5 years, so we anticipate H-D will be a good long-term addition.

S&P 500 INDEX (STANDARD & POOR)
as of 21-Nov-2003

Splits: ▼



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X. Correlation with Current Portfolio

STOCK	CORRELATION COEFFICIENT
DELL	0.4149
FRX	0.1371
GD	0.2392
KSS	0.4336
PEP	0.2435
WMT	0.4671
C	0.4908

The correlation was calculated by obtaining the stock price returns of Harley-Davidson Inc. and the other stocks in the portfolio from November 6, 2000 to November 5, 2003. We chose to use a three year stock performance comparison to compare performance in both bull and bear markets. From the correlation table, we can see that Citigroup has the highest correlation with Harley-Davidson and the lowest correlation with FRX.

XI. Risk Management and Risk Factors

Harley-Davidson Inc. is subject to various types of risks that directly affect the growth and operations of the companies in this sector. The following talks about some major risks areas in the company.

Currency Risk:

The Company sells its products internationally and in certain markets, it denominates those sales in the local currency of the foreign country. The Company's most significant foreign denominated sales are in the Euro. The Euro's exchange rate to the U.S dollars went up by 18% in 2002. As a result, the Company's earnings are affected by fluctuations in the value of the U.S. dollar relative to certain foreign currencies. The Company utilizes foreign currency contracts to mitigate the effect of these fluctuations on earnings.

Interest Rate Risk:

The outlook for interest rates has important implications for Harley-Davidson Financial Services' earnings. Interest rates influence how much money the HDFS can make. For this reason, the HDFS is concerned with Federal Reserve policy and its influence on interest rates. In June 2003, the Fed has cut the federal funds target rate 13 times since January 2001 by a total of 5.5 percentage points to the lowest level in more than 40 years. HDFS utilizes interest rate swaps to reduce the impact of fluctuations in interest rates.

Legal Risk:

The Company is subject to lawsuits and other claims related to environmental, product and other matters.

- Harley-Davidson has a lawsuit against them for the defects in the twin cam 88 engines. They are still in the process of the lawsuit in the Wisconsin Supreme Court. Therefore, the company spends a lot of money in the process of the lawsuit.
- The Company is involved with government agencies in various environmental matters, including a matter involving the clean up of soil and groundwater contamination at its York, Pennsylvania facility. The Company estimates that its share of the future Response Costs at the York facility will be approximately \$7.9 million.

Economic Risk:

- Unemployment Rate
High unemployment will cause a slowdown in consumer spending, so consumers are less likely to buy a new motorcycle.
- Consumer Confidence
The confidence report has indicated that there is still a relatively low consumer sentiment, which may be proof that there is a delay in the up start of consumer and commercial spending.

Other Risks:

- Terrorism Risk: The September 11, 2001 terrorist attack impacted the company's retail activities slowdown in areas around New York City and Washington D.C.

- Operation Risk: Company could experience delays in the operation of manufacturing facilities as a result of work stoppages, difficulty with suppliers.
- Production Risk: Company could increase the productivity in its facilities to meet the customer demand or company could sell all of the Harley-Davidson motorcycles it plans to product.
- Credit Risk: HDFS is engaged in the business of financing and servicing wholesale inventory receivables and consumer retail installment sales contracts. It would suffer some loan will default on repayments linked to the obligation.
- Natural causes: A natural disaster (earthquake, hurricane, etc.) which could impact the company's factory and retail stores.

XIII. Investment Decision and Conclusion

In conclusion, we believe Harley-Davidson has a great product with a loyal brand following. The Harley-Davidson bike has become an American icon, which foreign competitors can not match despite years of trying. In addition, H-D is a financially healthy company with minimal debt and they've continued to improve operating performance regardless of the economic climate. Based on these factors, as well as favorable valuations from the DDM model we feel that the company should be rated a "Buy".

Harley-Davidson will be a good addition to our portfolio given the conservative nature and objectives of the Graduate Fund. We recommend purchasing 200 shares of H-D stock at a price at market price. We believe that 200 shares is proper given the fact that the stock has risen in recent months and is no longer significantly undervalued. However, we believe the stock has some upside potential and is good long-term investment. No stock in the Graduate Fund is significantly correlated with Harley-Davidson.

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