

Harley Net Falls 2.5% on U.S. Sales; Job Cuts Planned (Update6)
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(Adds analyst's comment in eighth paragraph.)

By Alan Ohnsman and Bill Koenig

April 17 (Bloomberg) -- Harley-Davidson Inc., the biggest U.S. motorcycle maker, said first-quarter profit fell 2.5 percent and predicted full-year earnings will decline as much as 20 percent as U.S. sales drop.

The Milwaukee-based company also said it will eliminate jobs and close plants temporarily to reduce shipments to dealers.

The 105-year-old motorcycle company is grappling with a slowdown in consumer spending amid tighter credit and a faltering economy, which has eroded demand for its premium bikes that can sell for more than \$30,000 when customized with chrome and leather accessories.

In January, Harley forecast profit per share for the year to rise as much as 7 percent.

The motorcycle maker fell 78 cents, or 2.1 percent, to \$36.01 at 2:05 p.m. in New York Stock Exchange composite trading. The stock dropped 21 percent this year through yesterday.

"They are at the epicenter of a perfect storm: higher energy prices, weak consumer spending and unfavorable credit conditions for consumers," said Richard DeKaser, chief economist at National City Corp. in Cleveland. Harley's product "is a discretionary item," he said.

Net income in the latest quarter was \$187.6 million, or 79 cents a share, compared with \$192.3 million, or 74 cents, a year earlier, Harley said today in a statement. The 2008 per-share figure is higher because of company stock repurchases.

Revenue rose 11 percent to \$1.31 billion.

'Hold' Recommendation

"This was worse than we expected given the comparison for last year," said analyst Robin Diedrich at Edward Jones & Co. in St. Louis. She has a "hold" recommendation on the shares and doesn't own any.

A strike at the York, Pennsylvania, plant in 2007's first quarter trimmed earnings in the year-earlier period by eliminating four weeks of production of Fat Boy and other pricey cruisers.

Harley said it will implement temporary plant closings, in addition to shedding 370 unionized workers. The motorcycle maker also plans to eliminate 360 non-production jobs, or about 10 percent of non-union staff in its North American operations, Chief Financial Officer Thomas Bergmann said in a conference call today.

The plan to eliminate a combined 730 jobs represents the biggest employment reduction since Harley first sold stock to the public in 1986.

'Primary Cuts'

While some cuts will come through attrition and early retirement, most "are primary cuts," Chief Executive Officer Jim Ziemer said in an interview.

About 80 percent of the assembly worker jobs to be eliminated will occur at the York factory.

Harley will reduce shipments to dealers by as many as 27,000 motorcycles this year. The company said it expects to deliver 76,000 to 80,000 bikes this quarter.

U.S. retail sales of Harley motorcycles fell 13 percent in the quarter, Ziemer said on conference call. Harley is reducing shipments to dealers because of 'U.S. retail trends and uncertainty about the future of the economy,' he said.

'There's no sign of when things may turn around.'

A drop in the dollar's value, which made Harley products less costly in international markets, helped prevent a bigger decline, analysts said before the results were announced.

International retail sales rose 17 percent, led by gains in Canada, Asia-Pacific markets and Latin America, the company said.

Growth Overseas

Motorcycles produced for sale abroad grew to a record 33.5 percent of total shipments last quarter, up from 26.4 percent a year ago, Ziemer said. 'Growth in international markets will continue to outpace the U.S. for the foreseeable future,' he said.

Ziemer said 2008 profit will fall to \$3 to \$3.18 a share. Harley plans total 2008 motorcycle deliveries of 303,500 to 307,500, the company said. The company earned \$3.74 a share in 2007.

'The real silver lining is that the things affecting the company are related to the economy, not its business,' said fund manager Jeffrey Malcom at Towson, Maryland-based Horan Capital Management LLC. Horan holds 383,948 Harley shares as part of a \$500 million equity portfolio.

'The stock has already been taken to the woodshed,' Malcom said. 'I'm comfortable that three, four, five years down the road the U.S. economy will have rebounded, which will benefit the company.'

The first-quarter earnings topped analysts' estimates. Harley was expected to earn 77 cents a share, the average of 17 analyst estimates compiled by Bloomberg.

Harley repurchased 2.6 million common shares at a cost of \$100.1 million during the first quarter, the company said. Harley had 236.5 million shares outstanding as of March 30.

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