

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549  
FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended: December 31, 2020**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

Commission file number 1-9183

**Harley-Davidson, Inc.**

(Exact name of registrant as specified in its charter)

**Wisconsin**

(State of organization)

**39-1382325**

(I.R.S. Employer Identification No.)

**3700 West Juneau Avenue**

**Milwaukee**

**Wisconsin**

**53208**

(Address of principal executive offices)

(Zip code)

**Registrant's telephone number, including area code: (414) 342-4680**

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class                     | Trading Symbol | Name of each exchange on which registered |
|---|----------------|---|
| Common Stock Par value, \$.01 per share | HOG            | New York Stock Exchange                   |

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act

Large accelerated filer

Accelerated filer

Emerging growth company

Non-accelerated filer

Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal controls over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Aggregate market value of the voting stock held by non-affiliates of the registrant at June 28, 2020: 3,468,117,883

Number of shares of the registrant's common stock outstanding at January 31, 2021: 153,313,450 shares

**Documents Incorporated by Reference**

Part III of this report incorporates information by reference from registrant's Proxy Statement for the annual meeting of its shareholders to be held on May 20, 2021

Harley-Davidson, Inc.  
Form 10-K  
For The Year Ended December 31, 2020

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## PART I

### (1) Note regarding forward-looking statements

The Company intends that certain matters discussed in this report are “forward-looking statements” intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such by reference to this footnote or because the context of the statement will include words such as the Company “believes,” “anticipates,” “expects,” “plans,” “may,” “will,” “estimates,” “targets,” “intend,” or words of similar meaning. Similarly, statements that describe or refer to future expectations, future plans, strategies, objectives, outlooks, targets, guidance, commitments or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially, unfavorably or favorably, from those anticipated as of the date of this report. Certain of such risks and uncertainties are described in close proximity to such statements or elsewhere in this report, including under the caption *Item 1A. Risk Factors* and under the Cautionary Statements section in *Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations*. Shareholders, potential investors and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included under the Overview and Guidance sections in *Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations* are only made as of February 2, 2021 and the remaining forward-looking statements in this report are made as of the date indicated or, if a date is not indicated, as of the date of the filing of this report (February 23, 2021), and the Company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

### **Item 1. Business**

#### **General**

Harley-Davidson Motor Company was founded in 1903. Harley-Davidson, Inc. was incorporated in 1981, at which time it purchased the Harley-Davidson® motorcycle business from AMF Incorporated in a management buyout. In 1986, Harley-Davidson, Inc. became publicly held. Harley-Davidson, Inc. is the parent company of the group of companies referred to as Harley-Davidson Motor Company (HDMC) and Harley-Davidson Financial Services (HDFS). Unless the context otherwise requires, all references to the “Company” include Harley-Davidson, Inc. and all of its subsidiaries. The Company operates in two segments: Motorcycles and Related Products (Motorcycles) and Financial Services. The Company’s reportable segments are strategic business units that offer different products and services and are managed separately based on the fundamental differences in their operations.

#### **Strategy<sup>(1)</sup>**

During 2020, the Company executed a set of actions, referred to as The Rewire. The Rewire was a critical overhaul of the Company’s business to set the Company on a new course and provide a solid foundation to execute its new 2021-2025 strategic plan, The Hardwire. The Rewire is discussed further under *Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations*.

The Hardwire is the Company’s 2021-2025 strategic plan guided by its mission and vision, which the Company introduced on February 2, 2021. The plan targets long-term profitable growth through focused efforts that extend and strengthen the brand and drive value for its shareholders. The Company’s ambition is to enhance its position as the most desirable motorcycle brand in the world. Desirability is a motivating force driven by emotion. Harley-Davidson has long been associated with igniting desirability, and it is embedded in its vision; it is at the heart of its mission and it is part of its 118-year legacy. To drive desirability, the Company will:

- Design, engineer and advance the most desirable motorcycles in the world - reflected in quality, innovation, and craftsmanship
- Build a lifestyle brand valued for the emotion reflected in every product and experience for riders and non-riders alike
- Focus on customers, delivering adventure and freedom for the soul

The Hardwire strategic priorities are as follows:

*Profit focus: Investing in its strongest motorcycle segments* – Harley-Davidson plans to invest significant time and resources on strengthening and growing its leadership positions in its strongest, most profitable motorcycle segments: Touring, large Cruiser and Trike.

*Selective expansion and redefinition: To win in attractive motorcycle segments and markets* – The Company plans to selectively expand into and within motorcycle segments, focusing on product segments that are profitable and aligned with the Company's product and brand capabilities, such as Adventure Touring and middleweight Cruiser.

The Company plans to focus on approximately 50 global markets that matter most to its future growth. This includes the following priority markets: United States, DACH (Germany, Austria, and Switzerland), Japan, China, Canada, France, United Kingdom, Italy, Australia, and New Zealand. The Company will also continue to test further avenues for desirable long-term growth such as premium low displacement motorcycles.

*Lead in Electric: Investing in leading the electric motorcycle market* – Electric motorcycles are important to Harley-Davidson's future and it is committed to and passionate about leading the electric motorcycle market. The focus will be on technology development, with an approach to product and go-to-market actions that reflect the expectations of the targeted customer to deliver the most desirable electric motorcycles in the world.

*Growth beyond bikes: Expanding complementary businesses and engaging beyond product* – Harley-Davidson creates products, services and experiences that inspire its customers to discover adventure, find freedom for the soul and live the Harley-Davidson lifestyle. The Company's Parts & Accessories, General Merchandise and Financial Services businesses are all important pillars of the Company's future success as a global lifestyle brand. Through The Hardwire, the Company plans to grow the profitability of these businesses through refreshed product and program offerings, stronger execution and additional digital and in-dealership purchase opportunities.

*Customer experience: Growing our connection with riders and non-riders* – The Hardwire puts customers at the forefront of the Company's products, experiences and investments – from the rider who may dream of motorcycling or just learned to ride, all the way to riders who are deeply passionate about and invested in the Harley-Davidson lifestyle. The Company recognizes the different needs and expectations of its customers and is creating touchpoints tailored to individual needs. Powered by integrated data, the goal is to seamlessly engage with customers, creating a meaningful, unique and personalized experience with Harley-Davidson each and every time.

*Inclusive Stakeholder Capitalism: Prioritizing people, planet and profit* – The Company strives to deliver long-term value to all stakeholders – people (employees, independent dealers, customers, suppliers, investors, and society), planet, and profit. Inclusive Stakeholder Management is the unifying theme for how the Company will help drive additional shareholder value for its investors.

The Hardwire financial targets are as follows:

- Mid single-digit revenue growth from 2021 through 2025 in the Motorcycles segment, with solid growth expectations for Motorcycles, Parts & Accessories and General Merchandise.
- Steady improvement in Motorcycles segment operating margin compared to 2019 (most recent comparable year) through 2025 driven by increased efficiencies across operations and leverage within selling, general and engineering expenses, as the Company maintains a lean cost structure. This includes anticipated continued investments in the business and brand.
- Double-digit growth in Financial Services segment operating income from 2021 through 2025 behind growth in the Motorcycles segment and optimization of the Company's digital platform.
- Low double-digit diluted earnings per share growth from 2021 through 2025.
- Capital investments between \$190 million to \$250 million annually.

Cash allocation priorities are first to fund growth through The Hardwire initiatives, then to reward shareholders through dividends.

The Hardwire replaces the Company's previous long-term strategy and objectives and the previously disclosed More Roads to Harley-Davidson plan.

## Motorcycles and Related Products Segment

The Motorcycles segment consists of HDMC which designs, manufactures and sells Harley-Davidson motorcycles as well as motorcycle parts, accessories, general merchandise and services. The Motorcycles segment conducts business on a global basis, with sales in the United States (U.S.), Canada, Europe/Middle East/Africa (EMEA), Asia Pacific, and Latin America. The Company's products are sold to retail customers primarily through a network of independent dealers. Independent dealerships generally stock and sell the Company's motorcycles, Parts & Accessories (P&A), General Merchandise, licensed products, and perform services on Harley-Davidson motorcycles.

Independent Harley-Davidson dealers are located worldwide. Independent dealership points by geographic location as of December 31, 2020 were as follows:

|                               | U.S. | Canada | EMEA | Asia Pacific | Latin America | Total |
|-------------------------------|------|--------|------|--------------|---------------|-------|
| Independent dealership points | 630  | 51     | 369  | 282          | 47            | 1,379 |

The Company also distributes its motorcycles through a third-party distributor in India. The distributor sells the Company's products through independent Harley-Davidson dealers, included in the table above, and their own existing dealer network.

P&A and General Merchandise are also retailed through eCommerce channels in certain markets. In the U.S., the Company operates an eCommerce site that offers products sold through participating authorized U.S. independent Harley-Davidson dealers. In select international markets, the Company utilizes third-party eCommerce websites.

Motorcycles segment revenue by product line as a percent of total revenue for the last three fiscal years was as follows:

|                             | 2020    | 2019    | 2018    |
|-----------------------------|---------|---------|---------|
| Motorcycles                 | 72.0 %  | 77.4 %  | 78.1 %  |
| Parts & Accessories         | 20.2 %  | 15.6 %  | 15.2 %  |
| General Merchandise         | 5.7 %   | 5.2 %   | 4.9 %   |
| Licensing                   | 0.9 %   | 0.8 %   | 0.8 %   |
| Other products and services | 1.2 %   | 1.0 %   | 1.0 %   |
|                             | 100.0 % | 100.0 % | 100.0 % |

*Motorcycles* – Harley-Davidson offers both internal combustion and electric powered motorcycles. The Company's internal combustion engines generally have displacements that are greater than 600 cubic centimeters (cc), up to a maximum displacement of approximately 1900cc and electric motors with kilowatt (kW) peak power equivalents greater than 600cc.

The motorcycle industry is comprised of the following segments:

- Cruiser – emphasizes styling, customization and casual riding
- Touring – emphasizes rider comfort and load capacity and incorporates features such as fairings and luggage compartments ideal for long rides, including the Company's three-wheeled Trike models
- Standard – a basic motorcycle typically featuring upright seating for one or two passengers
- Sportbike – incorporates racing technology and performance and aerodynamic styling and riding position
- Dual – designed with the capability for use on-road as well as for some off-road recreational use, including Adventure Touring

The Company's lineup of motorcycles offered through 2020 competes primarily in the cruiser and touring segments. Beginning in 2021, the Company is expanding into Adventure Touring with its new Pan America™ motorcycle.

Competition in the motorcycle industry is based upon a number of factors including product capabilities and features, styling, price, quality, reliability, warranty, availability of financing, and quality of the dealer networks that sell the products. The Company believes its motorcycles continue to generally command a premium price at retail relative to competitors' motorcycles. Harley-Davidson motorcycles feature unique styling, customization, innovative design, distinctive sound, superior quality, reliability and include a warranty. The Company also considers the availability of its line of motorcycle Parts & Accessories and General Merchandise, the availability of financing through HDFFS and its global network of independent dealers to be competitive advantages.

*Motorcycle Industry* – Industry data includes on-road motorcycles with internal combustion engines with displacements greater than 600cc and electric motorcycles with kW peak power equivalents greater than 600cc (601+cc). In 2020, approximately 78% of the total annual independent dealer retail sales of new Harley-Davidson motorcycles were sold in the

U.S. and European 601+cc markets. Other significant markets for the Company, based on the Company's 2020 retail sales data, include Japan, Australia and New Zealand, China and Canada.

U.S. retail registration data<sup>(a)(b)</sup> for 601+cc motorcycles was as follows:

|  | 2020    | 2019    | 2018    |
|--|---------|---------|---------|
| Industry new motorcycle registrations        | 241,792 | 252,842 | 263,750 |
| Harley-Davidson new motorcycle registrations | 101,744 | 124,040 | 131,064 |
| Harley-Davidson U.S. market share            | 42.1 %  | 49.1 %  | 49.7 %  |

- (a) Data includes on-road models with internal combustion engines with displacements greater than 600cc's and electric motorcycles with kilowatt (kW) peak power equivalents greater than 600cc's (601+cc). On-road 601+cc models include dual purpose models, three-wheeled motorcycles and autocycles. Registration data for Harley-Davidson Street® 500 motorcycles is not included in this table.
- (b) U.S. industry data is derived from information provided by the Motorcycle Industry Council. This third-party data is subject to revision and update. The retail registration data for Harley-Davidson motorcycles presented in this table will differ from the Harley-Davidson retail sales data presented in *Item 7. Management's Discussion and Analysis and Results of Operations* (Item 7). The Company's source for retail sales data in Item 7 is sales and warranty registrations provided by independent Harley-Davidson dealers as compiled by the Company. The retail sales data in Item 7 includes sales of Harley-Davidson Street® 500 motorcycles which are excluded from this table. In addition, small differences may arise related to the timing of data submissions to the independent sources.

European retail registration data<sup>(a)(b)</sup> for 601+cc motorcycles was as follows:

|  | 2020    | 2019    | 2018    |
|--|---------|---------|---------|
| Industry new motorcycle registrations        | 411,079 | 413,254 | 405,304 |
| Harley-Davidson new motorcycle registrations | 31,547  | 37,619  | 41,004  |
| Harley-Davidson European market share        | 7.7 %   | 9.1 %   | 10.1 %  |

- (a) Data includes on-road models with internal combustion engines with displacements greater than 600cc's and electric motorcycles with kilowatt (kW) peak power equivalents greater than 600cc's (601+cc). On-road 601+cc models include dual purpose models, three-wheeled motorcycles and autocycles. Registration data for Harley-Davidson Street® 500 motorcycles is not included in this table.
- (b) Europe data includes Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom. Industry data is derived from information provided by Management Services Helwig Schmitt GmbH. Prior year registrations have been revised to exclude Greece and Portugal registrations. This third-party data is subject to revision and update. The retail registration data for Harley-Davidson motorcycles presented in this table will differ from the Harley-Davidson retail sales data presented in *Item 7. Management's Discussion and Analysis and Results of Operations* (Item 7). The Company's source for retail sales data in Item 7 is sales and warranty registrations provided by Harley-Davidson dealers as compiled by the Company. The retail sales data in Item 7 includes sales of Harley-Davidson Street® 500 motorcycles which are excluded from this table. In addition, some differences may arise related to the timing of data submissions to the independent sources.

**Parts & Accessories and General Merchandise** – The Company offers a line of Harley-Davidson P&A and General Merchandise. P&A products are comprised of Genuine Motor Parts and Genuine Motor Accessories. Genuine Motor Parts include replacement parts and Genuine Motor Accessories includes mechanical and cosmetic accessories. General Merchandise includes riding gear and apparel, including Genuine MotorClothes®.

**Licensing** – The Company creates reach and awareness of the Harley-Davidson brand among its customers and the non-riding public by licensing the name “Harley-Davidson” and other trademarks owned by the Company for use on a range of products.

**Patents and Trademarks** – The Company strategically manages its portfolio of patents, trade secrets, copyrights, trademarks and other intellectual property.

The Company owns, and continues to obtain, patent rights that relate to its motorcycles and related products and processes for their production. Certain technology-related intellectual property is also protected, where appropriate, by license agreements, confidentiality agreements or other agreements with suppliers, employees and other third parties. The Company diligently protects its intellectual property, including patents and trade secrets, and its rights to innovative and proprietary technologies and designs. This protection, including enforcement, is important as the Company moves forward with investments in new products, designs and technologies. While the Company believes patents are important to its business operations and in the aggregate constitute a valuable asset, the success of the business is not dependent on any one patent or group of patents. The Company's active patent portfolio has an average remaining age of approximately six years. A patent review committee manages the patent strategy and portfolio of the Company.

Trademarks are important to the Company's motorcycle and related products businesses and licensing activities. The Company has a vigorous worldwide program of trademark registration and enforcement to maintain and strengthen the value of the trademarks and prevent the unauthorized use of those trademarks. The HARLEY-DAVIDSON trademark and the Bar and Shield trademark are each highly recognizable to the public and are very valuable assets. Additionally, the Company uses numerous other trademarks, trade names and logos which are registered worldwide. The following are among the Company's trademarks: HARLEY-DAVIDSON, H-D, HARLEY, the Bar & Shield Logo, MOTORCLOTHES, the MotorClothes Logo, the #1 Logo, the Willie G Skull Logo, HARLEY OWNERS GROUP, H.O.G., the H.O.G. Logo, LIVEWIRE, SOFTAIL and SPORTSTER. The HARLEY-DAVIDSON trademark has been used since 1903 and the Bar and Shield trademark since at least 1910. Substantially all of the Company's trademarks are owned by H-D U.S.A., LLC, a subsidiary of the Company, which also manages the Company's global trademark strategy and portfolio.

*Marketing* – The Company's brand, products and the riding experience are marketed to consumers worldwide. Marketing occurs primarily through digital and experiential activities as well as through more traditional promotional and advertising activities. Additionally, the Company's independent dealers engage in a wide range of local marketing and events.

Experiences that build community and connect consumers with the Harley-Davidson brand and with one another have traditionally been at the center of much of the Company's marketing efforts. To develop, engage and retain committed riders, the Company participates in and sponsors motorcycle rallies, racing activities, music festivals and other special events. This includes events sponsored by the Harley Owners Group (H.O.G.®) to build community and connect Harley-Davidson motorcycle riders around the world. These activities help inspire interest in riding, foster motorcycle culture and build a passionate community of Harley-Davidson riders. The COVID-19 pandemic has limited the Company's ability to participate in and sponsor certain events. The Company expects to resume these activities as the COVID-19 pandemic subsides.

*Seasonality* – The seasonality of the Company's wholesale motorcycle shipments generally correlates with the timing of retail sales made by independent dealers. Retail sales generally track closely with regional riding seasons. In addition, during 2020, wholesale shipments and retail sales were impacted by the Company's decision to reset, beginning in 2020, the timing of its annual new model year introduction from the third quarter to the first quarter. As a result of this change, initial shipments of new model year 2021 motorcycles did not occur until the first quarter of 2021.

*Motorcycle Manufacturing* – The majority of the Company's manufacturing processes are performed at facilities located in the U.S. The Company's U.S. manufacturing facilities supply the U.S. market as well as certain international markets. Additionally, the Company operates facilities in Thailand and Brazil. The Company's Thailand facility manufactures motorcycles for certain Asian and European markets. In Brazil, the Company operates a facility that assembles motorcycles from component kits sourced from the Company's U.S. facilities and suppliers. The Company's global manufacturing operations are focused on driving world-class quality and performance. A global manufacturing footprint enables the Company to be close to customers, provide quality products at a competitive price and grow its overall business.

*Raw Materials and Purchased Components* – The Company continues to establish and reinforce long-term, mutually beneficial relationships with its suppliers. Through these collaborative relationships, the Company gains access to technical and commercial resources for application directly to product design, development and manufacturing initiatives. In addition, through a continued focus on collaboration and strong supplier relationships, the Company believes it will be positioned to achieve its strategic objectives and deliver cost and quality improvements over the long-term.<sup>(1)</sup>

The Company's principal raw materials include steel and aluminum castings, forgings, steel sheet and bar. The Company also purchases certain motorcycle components including, but not limited to, electronic fuel injection systems, batteries, tires, seats, electrical components, instruments and wheels. The Company closely monitors the overall viability of its supply base. The Company does not anticipate material difficulties in obtaining raw materials or components.<sup>(1)</sup> The Company is proactively working with its suppliers to limit the risk of interruptions related to the COVID-19 pandemic.

*Regulation* – International, federal, state and local authorities have various environmental control requirements relating to air, water and noise that affect the business and operations of the Company. The Company strives to ensure that its facilities and products comply with all applicable environmental regulations and standards.

The Company's motorcycles and certain other products that are sold in the U.S. are subject to certification by the United States Environmental Protection Agency (EPA) and the California Air Resources Board (CARB) for compliance with applicable emissions and noise standards. Certain Harley-Davidson products are designed to comply with EPA and CARB standards and the Company believes it will comply with future requirements when they go into effect.<sup>(1)</sup> Additionally, certain of the Company's products must comply with the motorcycle emissions, noise and safety standards of Canada, the European Union, Japan, Brazil and certain other foreign markets where they are sold, and the Company believes its products currently comply with those standards. As the Company expects environmental standards to become more stringent over time, the Company will continue to incur research, development and production costs in this area for the foreseeable future.<sup>(1)</sup>

The Company, as a manufacturer of motorcycle products, is subject to the U.S. National Traffic and Motor Vehicle Safety Act, which is administered by the U.S. National Highway Traffic Safety Administration (NHTSA). The Company has certified to NHTSA that certain of its motorcycle products comply fully with all applicable federal motor vehicle safety standards and related regulations. The Company has from time to time initiated certain voluntary recalls. During the three years ending in 2020, the Company accrued \$54.6 million associated with 10 voluntary recalls.

*Employees* – As of December 31, 2020, the Motorcycles segment had approximately 4,600 employees, including approximately 1,800 hourly unionized employees at its U.S. manufacturing facilities, represented with collective bargaining agreements as follows:

- York, Pennsylvania – International Association of Machinist and Aerospace Workers (IAM), agreement will expire on October 15, 2022
- Milwaukee, Wisconsin – United Steelworkers of America (USW) and IAM, agreements will expire on March 31, 2024
- Tomahawk, Wisconsin – USW, agreement will expire on March 31, 2024

## **Financial Services Segment**

The Financial Services segment consists of HDFS which is engaged in the business of financing and servicing wholesale inventory receivables and retail consumer loans, primarily for the purchase of Harley-Davidson motorcycles. HDFS also works with certain unaffiliated insurance companies to provide motorcycle insurance and protection products to motorcycle owners. HDFS conducts business principally in the U.S. and Canada. The Company's independent dealers and their retail customers in EMEA, Asia Pacific and Latin America generally have access to financing through third-party financial institutions, some of which have licensing agreements with HDFS.

*Wholesale Financial Services* – HDFS provides wholesale financial services to U.S. and Canadian independent Harley-Davidson dealers, including floorplan and open account financing of motorcycles and P&A. All U.S. and Canadian independent dealers utilized HDFS' financing programs at some point during 2020.

*Retail Financial Services* – HDFS provides retail financing to consumers, consisting primarily of installment lending for the purchase of new and used Harley-Davidson motorcycles. HDFS' retail financial services are available through most independent Harley-Davidson dealerships in the U.S. and Canada.

*Insurance Services* – HDFS works with certain unaffiliated insurance companies which offer point-of-sale protection products through most independent Harley-Davidson dealers in the U.S. and Canada, including motorcycle insurance, extended service contracts and motorcycle maintenance protection. HDFS also direct-markets motorcycle insurance and extended service contracts to owners of Harley-Davidson motorcycles. In addition, HDFS markets a comprehensive package of business insurance coverages and services to owners of independent Harley-Davidson dealerships.

*Licensing* – HDFS has licensing arrangements with third-party financial institutions that issue credit cards bearing the Harley-Davidson brand in the U.S. and certain international markets. Internationally, HDFS licenses the Harley-Davidson brand to local third-party financial institutions that offer products to the Company's retail customers such as financing and insurance.

*Funding* – The Company believes a diversified and cost-effective funding strategy is important to meet HDFS' goal of providing credit while delivering appropriate returns and profitability. Financial Services operations in 2020 were funded with unsecured debt, unsecured commercial paper, asset-backed commercial paper conduit facilities, committed unsecured bank facilities asset-backed securitizations and deposits.

*Competition* – The Company regards its ability to offer a package of wholesale and retail financial services in the U.S. and Canada as a significant competitive advantage. Competitors in the financial services industry compete for business based largely on price and, to a lesser extent, service. HDFS competes on convenience, service, brand association, dealer relations, industry experience, terms, and price.

In the U.S. and Canada, HDFS financed 67.6% and 42.2% of new Harley-Davidson motorcycles retailed by independent dealers during 2020, respectively, compared to 65.9% and 45.0%, respectively, during 2019. Competitors for retail motorcycle finance business are primarily banks, credit unions and other financial institutions. In the motorcycle insurance business, competition primarily comes from national insurance companies and from insurance agencies serving local or regional markets. For insurance-related products such as extended service contracts, HDFS faces competition from certain regional and national industry participants as well as dealer in-house programs. Competition for the wholesale motorcycle finance business primarily consists of banks and other financial institutions providing wholesale financing to independent Harley-Davidson dealers in their local markets.



*Trademarks* – HDFS uses various trademarks and trade names for its financial services and products, which are licensed from H-D U.S.A., LLC, including HARLEY-DAVIDSON, H-D and the Bar & Shield logo.

*Seasonality* – HDFS experiences seasonal variations in retail financing activities based on the timing of regional riding seasons in the U.S. and Canada. In general, from mid-March through August, retail financing volume is greatest. HDFS wholesale financing volume is affected by inventory levels at independent Harley-Davidson dealers. Independent dealers generally have higher inventory in the first half of the year. As a result, outstanding wholesale finance receivables are generally higher during the same period.

*Regulation* – HDFS operations are generally subject to supervision and regulation by federal and state administrative agencies and various foreign governmental authorities. Many of the requirements imposed by such entities are in place to provide consumer protection as it pertains to the selling and servicing of financial products and services. Therefore, HDFS operations may be subject to limitations imposed by regulations, laws and judicial and/or administrative decisions. In the U.S., for example, applicable laws include the federal Truth-in-Lending Act, Equal Credit Opportunity Act and Fair Credit Reporting Act.

Depending on the specific facts and circumstances involved, non-compliance with these laws may limit the ability of HDFS to collect all or part of the principal or interest on applicable loans, entitling the borrower to rescind the loan or to obtain a refund of amounts previously paid, or could subject HDFS to the payment of damages or penalties and administrative sanctions, including “cease and desist” orders, and could limit the number of loans eligible for HDFS' securitization programs.

The Dodd-Frank Wall Street Reform and Consumer Protection Act granted the federal Consumer Financial Protection Bureau (the Bureau) significant supervisory, enforcement and rule-making authority in the area of consumer financial products and services. Certain actions and regulations of the Bureau will directly impact HDFS and its operations. For example, the Bureau has supervisory authority over non-bank larger participants in the vehicle financing market, which includes a non-bank subsidiary of HDFS.

Such regulatory requirements and associated supervision also could limit the discretion of HDFS in operating its business. Noncompliance with applicable statutes or regulations could result in the suspension or revocation of any charter, license or registration at issue, as well as the imposition of civil fines, criminal penalties and administrative sanctions.

Eaglemark Savings Bank (ESB), a subsidiary of HDFS, is a Nevada state thrift chartered as an Industrial Loan Company. The activities of ESB are governed by federal laws and regulations and State of Nevada banking laws. ESB is subject to examination by the Federal Deposit Insurance Corporation (FDIC) and Nevada state bank examiners. ESB originates retail loans, retains certain of those loans and sells the remaining loans to a non-banking subsidiary of HDFS. This process allows HDFS to offer retail products with many common characteristics across the U.S. and to similarly service loans to U.S. retail customers.

*Employees* – As of December 31, 2020, the Financial Services segment had approximately 550 employees.

## **Human Capital Management**

Under The Rewire, the Company undertook a thorough review of its operating model, resulting in a complete organizational restructuring that resulted in the elimination of approximately 700 positions globally, including the termination of approximately 500 employees. The result is, as of December 31, 2020, a global workforce of approximately 5,200 employees. As part of The Rewire, the Company's Inclusive Stakeholder Management (ISM) team was formed, bringing together personnel focused on key elements of inclusion, sustainability, social impact and future of work. One of the Company's first commitments under ISM was to extend employee ownership to all employees by offering an equity grant to approximately 4,500 employees not otherwise eligible for equity grants, including hourly production workers, in February 2021.

The Company believes that the success of The Hardwire will be realized through the engagement and empowerment of its employees. The Company believes all stakeholders are more successful when they are included. Key areas of focus for the Company include:

*Diversity, Equity and Inclusion (DEI)* – The Company understands that the strength of its brand worldwide requires a diverse and inclusive workforce. The Company is committed to building a more equitable workplace and is revamping talent acquisition, development and recognition practices accordingly. Harley-Davidson's DEI strategy focuses on three core principles: Invite Everyone In, Illuminate the Issues, and Infuse Talent. To create a culture of inclusion and a workplace that supports diversity of background, thought, and perspectives, Business Employee Resource Groups (BERGs) provide opportunities for employees to exchange ideas, influence and deliver programming, grow and develop professionally and

personally, as well as support business initiatives. Currently, the following BERGs have been established and participation is open to all employees: African American, Asian Professionals, Latin American Professionals, LGBTQ+, Military, Women, and Young Professionals. Based on employee provided identity information, 71.4% of the Company's workforce is male, 82.0% is White and 85.3% is U.S. based.

*Health and Safety* – The Company believes that providing and expecting a healthy and safe work environment is vital to our success. It has created a world-class safety program that reduces safety risk by instilling a company-wide safety culture, instituting proactive engineering standards, implementing work-hardening programs, and providing on-site ergonomic resources and medical clinics. This cornerstone of the Company's workplace environment became even more front and center with the onset of the COVID-19 pandemic. Harley-Davidson quickly pivoted the majority of its salaried workforce to predominately remote work in March 2020. The Company's manufacturing facilities largely shut down mid-March through May 2020 resulting in layoffs for hourly workers, in accordance with the Company's collective bargaining agreements. As production resumed, the Company implemented strict protocols following best practice guidance from the Center for Disease Control (CDC) and World Health Organization (WHO), all while exceeding the Company's world class health and safety metrics (2020 OSHA Recordable Rate: 0.3, down 0.3 from 2019).

*Talent and Culture* – The Company launched H-D #1 leadership principles to its global workforce in 2020 to serve as a guide in its cultural journey to become a high-performing organization. The Company is committed to making Harley-Davidson synonymous with highly desirable, inspiring, and engaged workplaces. The Company is evolving its workspaces and work ways, as well as its talent, employee development and retention practices to advance its five-year strategic plan, The Hardwire.

### **Internet Access**

The Company's website address is <http://www.harley-davidson.com>. The Company's website address for investor relations is <http://investor.harley-davidson.com/>.

The Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports, are available on its investor relations website free of charge as soon as reasonably practicable after it electronically files such material with, or furnishes such material to, the United States Securities and Exchange Commission (SEC).

In addition, the Company makes available, through its investor relations website, the following corporate governance materials: (i) the Company's Corporate Governance Policy; (ii) Committee Charters approved by the Company's Board of Directors for the Audit and Finance Committee, Human Resources Committee, Nominating and Corporate Governance Committee and Brand and Sustainability Committee; (iii) the Company's Financial Code of Ethics; (iv) the Company's Code of Business Conduct (the Code of Conduct); (v) the Conflict of Interest Process for Directors, Executive Officers and Other Employees (the Conflict Process); (vi) a list of the Company's Board of Directors; (vii) the Company's Bylaws; (viii) the Company's Environmental and Energy Policy; (ix) the Company's Policy for Managing Disclosure of Material Information; (x) the Company's Supplier Code of Conduct; (xi) the Sustainability Strategy Report; (xii) the California Transparency in Supply Chain Act Disclosure; (xiii) the Statement on Conflict Minerals; (xiv) the Political Engagement and Contributions 2017-2020; and (xv) the Company's Clawback Policy. The Company's Notice of Annual Meeting and Proxy Statement for its 2021 annual meeting of shareholders, which will include information related to the compensation of the Company's named executive officers, will be made available through its investor relations website.

The Company satisfies the disclosure requirements under the Code of Conduct, the Conflict Process and applicable New York Stock Exchange listing requirements regarding waivers of the Code of Conduct or the Conflict Process by disclosing the information in the Company's proxy statement for its annual meeting of shareholders or on its investor relations website. The Company is not including the information contained on or available through any of its websites as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

## Item 1A. Risk Factors

An investment in Harley-Davidson, Inc. involves risks, including those discussed below. These risk factors should be considered carefully before deciding whether to invest in the Company.

### Operational Risks

- **The Company's operations have been and may continue to be disrupted to varying degrees due to the COVID-19 pandemic.** The spread of COVID-19 and the subsequent actions taken to mitigate the spread impacted the Company's operations and ability to carry out its business as usual. The Company closed facilities, including temporarily suspending its global manufacturing starting in March 2020 through May 2020. At the end of April 2020, nearly sixty percent of the Company's global dealer network was temporarily closed due to various federal, state and local government actions that were implemented to attempt to mitigate the public health crisis. The Company's worldwide retail sales of new Harley-Davidson motorcycles were down significantly versus the prior year due to the temporary dealer closures. In addition, the COVID-19 pandemic has disrupted the Company's supply chain, including shortages and shipment delays; limited the ability of the Company's distributors and independent dealers to operate; caused some retail customers to delay their purchase decisions; adversely impacted the ability of the Company's retail credit customers to meet their loan obligations on a timely basis and made collection efforts more difficult; disrupted global capital markets impacting the Company's access to capital, cost of capital, and overall liquidity levels; delayed the Company's new product development efforts; and resulted in the cancellation or adjustments to the scope of riding and similar events that are important to the Company's marketing efforts. While many of actions implemented to mitigate the spread of COVID-19 have been rolled back in certain markets, the continued spread of COVID-19, and the efforts to avoid that, could do the following, each of which could be material: (i) result in further disruptions of the Company's supply chain; (ii) again limit the ability of the Company's distributors and independent dealers to operate, which could impact their ability to purchase and sell the Company's products and meet their loan obligations to the Company; (iii) continue to cause some retail customers to delay their purchase decisions, which could cause a decrease in demand for the Company's product; (iv) continue to adversely impact the ability of the Company's retail credit customers to meet their loan obligations on a timely basis and make collection efforts more difficult; (v) result in further disruption of global capital markets; (vi) continue to delay the Company's new product development efforts; and (vii) cause other unpredictable events.
- **The Company's ability to remain competitive is dependent upon its capability to develop and successfully introduce new, innovative and compliant products.** The motorcycle market continues to change in terms of styling preferences and advances in new technologies, and at the same time, it is subject to increasing regulations related to safety and emissions. The Company must continue to distinguish its products from its competitors' products with unique styling and new technologies that consumers desire. Introducing new models may not lead to the desired result of driving unit sales growth. As the Company incorporates new and different features and technology into its products, the Company must protect its intellectual property from imitators and ensure its products do not infringe the intellectual property of other companies. In addition, these new products must comply with applicable regulations worldwide and satisfy the potential demand for products that produce lower emissions and achieve better fuel economy. The Company must make product advancements to respond to changing consumer preferences and market demands. The Company must also be able to design and manufacture these products and deliver them to a global marketplace in an efficient and timely manner and at prices that are attractive to customers. There can be no assurances that the Company will be successful in these endeavors or that existing and prospective customers will like or want the Company's new products.
- **Increased supply of and/or declining prices for used motorcycles and excess supply of new motorcycles may adversely impact retail sales of new motorcycles by the Company's independent dealers.** The Company has observed that when the supply of used motorcycles increases or the prices for used Harley-Davidson motorcycles decline, there can be reduced demand among retail purchasers for new Harley-Davidson motorcycles (at or near manufacturer's suggested retail prices). Further, the Company and its independent dealers can and do take actions that influence the markets for new and used Harley-Davidson motorcycles. For example, introduction of new motorcycle models with significantly different functionality, technology or other customer satisfiers can result in increased supply of used motorcycles, which could result in declining prices for used motorcycles and prior model-year new motorcycles. Also, while the Company is operating with a remodeled approach to supply and inventory management, that approach may not be effective, or the Company's competitors could choose to supply new motorcycles to the market in excess of demand at reduced prices, which could also have the effect of reducing demand for new Harley-Davidson motorcycles (at or near manufacturer's suggested retail prices). Ultimately, reduced demand among retail purchasers for new Harley-Davidson motorcycles leads to reduced shipments by the Company.

- **The motorcycle industry has become increasingly competitive.** Many of the Company's competitors are more diversified than the Company, and they may compete in all segments of the motorcycle market, other powersports markets and/or the automotive market. Also, the Company's manufacturer's suggested retail price for its motorcycles is generally higher than its competitors, and as price becomes a more important factor for consumers in the markets in which the Company competes, the Company may be at a competitive disadvantage. Furthermore, many competitors headquartered outside the U.S. experience a financial benefit from a strengthening in the U.S. dollar relative to their home currency that can enable them to reduce prices to U.S. consumers. The Company is also subject to policies and actions of the U.S. Securities and Exchange Commission (SEC) and New York Stock Exchange (NYSE). Many major competitors of the Company are not subject to the requirements of the SEC or the NYSE rules. As a result, the Company may be required to disclose certain information that may put the Company at a competitive disadvantage to its principal competitors. In addition, the Company's financial services operations face competition from various banks, insurance companies and other financial institutions that may have access to additional sources of capital at more competitive rates and terms, particularly for borrowers in higher credit tiers. The Company's responses to these competitive pressures, or its failure to adequately address and respond to these competitive pressures, may have a material adverse effect on the Company's business and results of operations.
- **The Company must prevent and detect issues with its products, components purchased from suppliers and its suppliers' manufacturing processes to reduce recall campaigns, warranty costs, litigation, product liability claims, delays in new model launches and regulatory investigations. The Company must also complete any recall campaigns within cost expectations.** The Company must continually improve and adhere to product development and manufacturing processes and ensure that its suppliers and their sub-tier suppliers adhere to product development and manufacturing processes, to ensure high quality products are sold to retail customers. If product designs or manufacturing processes are defective, the Company could experience delays in new model launches, field actions such as product programs and product recalls, inquiries or investigations from regulatory agencies, and warranty claims and product liability claims, which may involve purported class actions. While the Company uses reasonable methods to estimate the cost of warranty, recall and product liabilities and appropriately reflects those in its financial statements, there is a risk the actual costs could exceed estimates and result in damages that are not covered by insurance. Further, selling products with quality issues, the announcement of recalls and the filing of product liability claims (whether or not successful), may also adversely affect the Company's reputation and brand strength with a resulting adverse impact on sales of new products.
- **A cybersecurity breach may adversely affect the Company's reputation, revenue and earnings.** The Company and certain of its third-party service providers and vendors receive, store and transmit digital personal information in connection with the Company's human resources operations, financial services operations, e-commerce, the Harley Owners Group, independent dealer management, mobile applications and other aspects of its business. The Company's information systems, and those of its third-party service providers and vendors, are vulnerable to continually evolving cybersecurity risks. Unauthorized parties have attempted to and may attempt in the future to gain access to these systems or the information the Company and its third-party service providers and vendors maintain and use through fraud or other means of deceiving the Company's employees and third-party service providers and vendors. Hardware, software or applications the Company develops or obtains from third-parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security and/or the Company's operations. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving and may be difficult to anticipate or detect. The Company has implemented and regularly reviews and updates processes and procedures to protect against unauthorized access to or use of secured data and to prevent data loss. However, the ever-evolving threats mean the Company and third-party service providers and vendors must continually evaluate and adapt systems and processes, and there is no guarantee that they will be adequate to safeguard against all data security breaches or misuses of data. The Company has experienced information security attacks, but to date they have not materially compromised the Company's computing environment or resulted in a material impact on the Company's business or operations or the release of confidential information about its employees, customers, dealers, suppliers or other third parties. Any future significant compromise or breach of the Company's data security, whether external or internal, or misuse of customer, employee, dealer, supplier or Company data could result in disruption to the Company's operations, significant costs, lost sales, fines and lawsuits and/or damage to the Company's reputation. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous with new and evolving requirements, compliance could also result in the Company being required to incur additional costs.
- **The Company relies on third-party suppliers to obtain raw materials and provide component parts for use in the manufacture of its motorcycles.** The Company may experience supply problems relating to raw materials and

components such as unfavorable pricing, poor quality or untimely delivery. In certain circumstances, the Company relies on a single supplier to provide the entire requirement of a specific part, and a change in this established supply relationship may cause disruption in the Company's production schedule. In addition, the price and availability of raw materials and component parts from suppliers can be adversely affected by factors outside of the Company's control such as the supply of a necessary raw material, natural disasters or widespread infectious disease like COVID-19. Further, the Company's suppliers may experience difficulty in funding their day-to-day cash flow needs because of tightening credit caused by financial market disruption. In addition, adverse economic conditions and related pressure on select suppliers due to difficulties in the global manufacturing arena could adversely affect their ability to supply the Company. Changes in laws and policies relating to trade and taxation may also adversely impact the Company's foreign suppliers. These supplier risks may have a material adverse effect on the Company's business and results of operations.

- **The Company primarily sells its products at wholesale and must rely to a large extent on a network of independent dealers and distributors to manage the retail distribution of its products.** The Company depends on the capability of its distributors and independent dealers to develop and implement effective retail sales plans to create demand among retail purchasers for the motorcycles and related products and services that the dealers purchase from the Company. If the Company's distributors and independent dealers are not successful in these endeavors, or do not appropriately adapt to the evolving retail landscape, then the Company will be unable to maintain or grow its revenues and meet its financial expectations. Further, distributors and independent dealers may experience difficulty in funding their day-to-day cash flow needs and paying their obligations resulting from adverse business conditions, such as weakened retail sales and tightened credit. If distributors and independent dealers are unsuccessful, they may exit or be forced to exit the business or, in some cases, the Company may seek to terminate relationships with certain distributors and independent dealerships. As a result, the Company could face additional adverse consequences related to the termination of distributor and independent dealer relationships. Additionally, liquidating a former distributor or independent dealer's inventory of new and used motorcycles can add downward pressure on new and used motorcycle prices. Further, the unplanned loss of any of the Company's distributors or independent dealers may lead to inadequate market coverage for retail sales of new motorcycles and for servicing previously sold motorcycles, create negative impressions of the Company with its retail customers, and adversely impact the Company's ability to collect wholesale receivables that are associated with that independent dealer.
- **Weather may impact retail sales by the Company's independent dealers.** The Company has observed that abnormally cold and/or wet conditions in a region, including impacts from hurricanes or unusual storms, could have the effect of reducing demand or changing the timing for purchases of new Harley-Davidson motorcycles. Reduced demand for new Harley-Davidson motorcycles ultimately leads to reduced shipments by the Company.
- **The Company's Motorcycles segment is dependent upon unionized labor.** A substantial portion of the hourly production employees working in the Motorcycles segment are represented by unions and covered by collective bargaining agreements. The Company is currently a party to three collective bargaining agreements with local affiliates of the International Association of Machinists and Aerospace Workers and the United Steelworkers of America. Current collective bargaining agreements with hourly employees in Wisconsin will expire in 2024, and the agreement with employees in Pennsylvania will expire in 2022. There is no certainty that the Company will be successful in negotiating new agreements with these unions that extend beyond the current expiration dates or that these new agreements will be on terms that will allow the Company to be competitive. The Company's decisions regarding opening, closing, expanding, contracting or restructuring its facilities may require changes to existing or new bargaining agreements. Failure to renew agreements when they expire or to establish new collective bargaining agreements on terms acceptable to the Company and the unions could result in the relocation of production facilities, work stoppages or other labor disruptions which may have a material adverse effect on the Company's business and results of operations.
- **The Company incurs substantial costs with respect to employee pension and healthcare benefits.** The Company's cash funding requirements and its estimates of liabilities and expenses for pensions and healthcare benefits for both active and retired employees are based on several factors that are outside the Company's control. These factors include funding requirements of the Pension Protection Act of 2006, the rate used to discount the future estimated liabilities, the rate of return on plan assets, current and projected healthcare costs, healthcare reform or legislation, retirement age and mortality. Changes in these factors can impact the expense, liabilities and cash requirements associated with these benefits which could have a material adverse effect on future results of operations, liquidity or shareholders' equity. In addition, costs associated with these benefits put the Company under significant cost pressure as compared to its competitors that may not bear the costs of similar benefit plans.

- **The Company relies on third parties to perform certain operating and administrative functions for the Company.** Similar to suppliers of raw materials and components, the Company may experience problems with outsourced services, such as unfavorable pricing, untimely delivery of services, or poor quality. Also, these suppliers may experience adverse economic conditions due to difficulties in the global economy that could lead to difficulties supporting the Company's operations. In light of the amount and types of functions that the Company has outsourced, these service provider risks may have a material adverse effect on the Company's business and results of operations.

## Strategic Risks

- **The Company may not be able to successfully execute its short-term and long-term business plans and strategies.** There is no assurance that the Company will be able to execute its business plans and strategies, including the Company's recently announced strategic plan, The Hardwire. The Company's ability to meet the strategic priorities in The Hardwire depends upon, among other factors, the Company's ability to: (i) realize expectations concerning market demand for electric, middleweight, and small-displacement models, which may depend in part on the building of necessary infrastructure for electric models, (ii) develop and introduce products on a timely basis that the market accepts, that enable the Company to generate desired sales levels and that provide the desired financial returns, (iii) successfully carry out its global manufacturing and assembly operations, (iv) effectively implement changes relating to its dealers and distribution methods, (v) accurately analyze, predict and react to changing market conditions, (vi) perform in a manner that enables the Company to benefit from market opportunities while competing against existing and new competitors, and (vii) avoid adverse impacts to its operations and/or demand for its products that may result due to the ongoing COVID-19 pandemic.
- **International sales and operations subject the Company to risks that may have a material adverse effect on its business.** While the Company has narrowed its geographic reach on an international basis, international operations and sales remain an important part of the Company's strategy. There is no assurance that the Company will succeed with its new approach to international markets which includes focusing on high potential markets, and exiting or reducing its presence in remaining markets. Further, international operations and sales are subject to various risks, including political and economic instability, local labor market conditions, the imposition of foreign tariffs and other trade barriers, the impact of foreign government laws and regulations and U.S. laws and regulations that apply to international operations, the effects of income and withholding taxes, governmental expropriation and differences in business practices. The Company may incur increased costs and experience delays or disruptions in product deliveries and payments in connection with international operations and sales that could cause loss of revenues and earnings. Unfavorable changes in the political, regulatory and business climate could have a material adverse effect on the Company's net sales, financial condition, profitability and cash flows. Business practices that may be accepted in other countries can violate U.S. or other laws that apply to the Company. Violations of laws that apply to the Company's foreign operations, such as the U.S. Foreign Corrupt Practices Act, could result in severe criminal or civil sanctions, could disrupt the Company's business and result in an adverse effect on the Company's reputation, business and results of operations.
- **The Company's success depends upon the continued strength of the Harley-Davidson brand.** The Company believes that the Harley-Davidson brand has significantly contributed to the success of its business and that maintaining and enhancing the brand is critical to expanding its customer base. Failure to protect the brand from infringers or to grow the value of the Harley-Davidson brand may have a material adverse effect on the Company's business and results of operations.
- **The timing of a launch of a premium low displacement motorcycle for the China market is uncertain.** The Company has identified China as a priority geographic market, and its objectives include launching a premium low displacement motorcycle for the China market. In 2019, the Company announced a collaboration with Zhejiang Qianjiang Motorcycle Co., Ltd. to support the launch of a smaller, more accessible Harley-Davidson motorcycle planned for the China market in 2020. To date, the Company has not launched a premium low displacement motorcycle through this collaboration. If this collaboration is not productive, although the Company believes it could collaborate with others, there is no assurance that would be the case. If the Company is not able to launch a premium low displacement motorcycle for the China market, that would adversely affect its growth plans for China.
- **The Company continues to explore and consider the details related to its electric motorcycle strategy and its ultimate approach may expose the Company to risks.** The Company is focusing its electric strategy through a separate division with a dedicated leadership team. While the objective is to allow for greater flexibility in product development and in the creation of an innovative go-to-market strategy for its electric motorcycles, there is no assurance that the Company will be able to create a successful electric motorcycle strategy or successfully execute it.

## Financial Risks

- **The financial services operations are exposed to credit risk on its retail and wholesale finance receivables.** Credit risk is the risk of loss arising from a failure by a customer, including the Company's independent dealers, to meet the terms of any contract with the Company's financial services operations. Credit losses are influenced by general business and economic conditions, including unemployment rates, bankruptcy filings and other factors that negatively affect household incomes, as well as contract terms and customer credit profiles. Credit losses are also influenced by the markets for new and used motorcycles, and the Company and its independent dealers can and do take actions that impact those markets. For example, the introduction of new models by the Company that represent significant upgrades on previous models may result in increased supply or decreased demand in the market for used Harley-Davidson branded motorcycles, including those motorcycles that serve as collateral or security for credit that HDFS has extended. This in turn could adversely impact the prices at which repossessed motorcycles may be sold, which may lead to increased credit losses for HDFS. Negative changes in general business, economic or market factors may have an additional adverse impact on the Company's financial services credit losses and future earnings. The Company believes HDFS' retail credit losses may continue to increase over time due to changing consumer credit behavior, HDFS' efforts to increase prudently structured loan approvals to sub-prime borrowers, and new financing programs that may result in different loan performance than our existing programs.
- **The Company is exposed to market risk from changes in foreign currency exchange rates, commodity prices and interest rates.** The Company sells its products globally and in most markets outside the U.S. those sales are made in the foreign country's local currency. As a result, a weakening in those foreign currencies relative to the U.S. dollar can adversely affect the Company's revenue and margin, and cause volatility in its results of operations. Furthermore, many competitors headquartered outside the U.S. experience a financial benefit from a strengthening in the U.S. dollar relative to their home currency that can enable them to reduce prices to U.S. consumers. The Company is also subject to risks associated with changes in prices of commodities. Earnings from the Company's financial services business are affected by changes in interest rates. Although the Company uses derivative financial instruments to some extent attempt to manage a portion of its exposure to foreign currency exchange rates, commodity prices, and interest rate risks, the Company does not attempt to manage its entire expected exposure, and these derivative financial instruments generally do not extend beyond one year and may expose the Company to credit risk in the event of counterparty default to the derivative financial instruments. There can be no assurance that in the future the Company will successfully manage these risks.
- **The financial services operations are highly dependent on accessing capital markets to fund operations at competitive interest rates, the Company's access to capital and its cost of capital are highly dependent upon its credit ratings, and any negative credit rating actions will adversely affect its earnings and results of operations.** Liquidity is essential to the Company's financial services business. Disruptions in financial markets may cause lenders and institutional investors to reduce or cease to loan money to borrowers, including financial institutions. The Company's financial services operations may be negatively affected by difficulty in raising capital in the long-term and short-term capital markets. These negative consequences may in turn adversely affect the Company's business and results of operations in various ways, including through higher costs of capital and reduced funds available through its financial services operations to provide loans to independent dealers and their retail customers. Additionally, the ability of the Company and its financial services operations to access unsecured capital markets is influenced by their short-term and long-term credit ratings. If the Company's credit ratings are downgraded or its ratings outlook is negatively changed, then the Company's cost of borrowing could increase, which may result in reduced earnings and reduced interest margins, and the Company's access to capital may be disrupted or impaired.

## Legal, Regulatory & Compliance Risks

- **Changes in trade policies, including the imposition of tariffs, their enforcement and downstream consequences, may have a material adverse impact on our business, results of operations and outlook.** Tariffs and/or other developments with respect to trade policies, trade agreements and government regulations could have a material adverse impact on the Company's business, financial condition and results of operations. Without limitation, (i) tariffs currently in place, (ii) the imposition by the U.S. government of new tariffs on imports to the U.S. and/or (iii) the imposition by foreign countries of tariffs on U.S. products could materially increase: (a) the cost of Harley-Davidson products that the Company is offering for sale in relevant countries, (b) the cost of certain products that the Company sources from foreign manufacturers and (c) the prices of certain raw materials that the Company utilizes. The Company may not be able to pass such increased costs on to distributors, independent dealers or their customers, and the Company may not be able to secure sources of certain products and materials that are not subject to tariffs on a timely basis. Such developments could have a material adverse impact on the Company's business, financial condition and results of operations. As an example, in 2018, the European Union (EU) placed an

incremental tariff on motorcycles imported into the EU from the U.S., which is scheduled to increase effective June 1, 2021. In addition, the U.S. government imposed increased tariffs on imports from China (Section 301 tariffs), which has resulted in higher costs for components and products sourced from China. The ongoing impact of these tariffs will depend on future trade discussions between the U.S. and China or the Company's ability to avoid or offset these costs should the tariffs remain in place.

- **The Company must comply with governmental laws and regulations that are subject to change and involve significant costs.** The Company's sales and operations in areas outside the U.S. may be subject to foreign laws, regulations and the legal systems of foreign courts or tribunals. These laws and policies governing operations of foreign-based companies may result in increased costs or restrictions on the ability of the Company to sell its products in certain countries. U.S. laws and policies affecting foreign trade and taxation may also adversely affect the Company's international sales operations.

The Company's U.S. sales and operations are subject to governmental policies and regulatory actions of agencies of the United States Government, including the United States Environmental Protection Agency (EPA), SEC, National Highway Traffic Safety Administration, U.S. Department of Labor and Federal Trade Commission. In addition, the Company's sales and operations are also subject to laws and actions of state legislatures and other local regulators, including independent dealer statutes and licensing laws. Changes in regulations, changes in interpretations of regulations by governmental agencies, or the imposition of additional regulations may have a material adverse effect on the Company's business and results of operations.

*Tax* – The Company is subject to income and non-income based taxes in the U.S. federal and state jurisdictions and in various foreign jurisdictions. Significant judgment is required in determining the Company's worldwide income tax liabilities and other tax liabilities including the impact of the 2017 Tax Cuts and Jobs Act (2017 Tax Act). The Company believes that it complies with applicable tax laws. If the governing tax authorities have a different interpretation of the applicable laws or if there is a change in tax laws, the Company's financial condition and/or results of operations may be adversely affected. To the extent there are considerable changes to tax laws, the Company may need to readjust its tax strategy, and may not be able to take full advantage of such changes.

*Environmental* – The majority of the Company's motorcycle products use internal combustion engines. These motorcycle products are subject to statutory and regulatory requirements governing emissions and noise, including standards imposed by the EPA, state regulatory agencies, such as the California Air Resources Board and regulatory agencies in certain foreign countries where the Company's motorcycle products are sold. The Company is also subject to statutory and regulatory requirements governing emissions and noise in the conduct of the Company's manufacturing operations. Any significant change to the regulatory requirements governing emissions and noise may substantially increase the cost of manufacturing the Company's products. If the Company fails to meet existing or new requirements, then the Company may be unable to produce and sell certain products or may be subject to fines or penalties.

Further, in response to concerns about global climate changes and related changes in consumer preferences, the Company is likely to face greater regulatory and customer pressure to develop products that generate less emissions. This will require the Company to spend additional funds on research, product development and implementation costs, and subject the Company to the risk that the Company's competitors may respond to these pressures in a manner that gives them a competitive advantage.

*Financial Services* – The Company's financial services operations are governed by a wide range of U.S. federal and state and foreign laws that regulate financial and lending institutions, and financial services activities. In the U.S. for example, these laws include the federal Truth-in-Lending Act, Equal Credit Opportunity Act and Fair Credit Reporting Act. The financial services operations originate the majority of its consumer loans through its subsidiary, Eaglemark Savings Bank, a Nevada state thrift chartered as an Industrial Loan Company. U.S. federal and state bodies may in the future impose additional laws, regulation and supervision over the financial services industry.

Violations of, or non-compliance with, relevant laws and regulations may limit the ability of HDFFS to collect all or part of the principal or interest on applicable loans, may entitle the borrower to rescind the loan or obtain a refund of amounts previously paid, could subject HDFFS to payment of damages, civil fines, or criminal penalties and administrative sanctions and could limit the number of loans eligible for HDFFS securitizations programs. Such regulatory requirements and associated supervision also could limit the discretion of HDFFS in operating its business, such as through the suspension or revocation of any charter, license or registration at issue, as well as the imposition of administrative sanctions, including "cease and desist" orders. The Company cannot assure that the applicable laws or regulations will not be amended or construed in ways that are adverse to HDFFS, that new laws and regulations will



not be adopted in the future, or that laws and regulations will not attempt to limit the interest rates or convenience fees charged by HDFFS, any of which may adversely affect the business of HDFFS or its results of operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) is a sweeping piece of legislation impacting financial services and the full effect continues to evolve as regulations that are intended to implement the Dodd-Frank Act are adopted, and the text of the Dodd-Frank Act is analyzed by stakeholders and the courts. The Dodd-Frank Act also created the Consumer Financial Protection Bureau (the Bureau). The Bureau has significant enforcement and rule-making authority in the area of consumer financial products and services. The direction that the Bureau will take, the regulations it will adopt, and its interpretation of existing laws and regulations are all elements that are not yet fully known and subject to change. Compliance may be costly and could affect operating results as the implementation of new forms, processes, procedures and controls and infrastructure may be required. Compliance may create operational constraints and place limits on pricing. Failure to comply, as well as changes to laws and regulations, or the imposition of additional laws and regulations, could affect HDFFS' earnings, limit its access to capital, limit the number of loans eligible for HDFFS securitization programs and have a material adverse effect on HDFFS' business and results of operations. The Bureau also has supervisory authority over certain non-bank larger participants in the vehicle financing market, which includes a non-bank subsidiary of HDFFS, allowing the Bureau to conduct comprehensive and rigorous on-site examinations that could result in enforcement actions, fines, changes to processes and procedures, product-related changes or consumer refunds, or other actions.

- **The Company's operations may be affected by greenhouse emissions and climate change and related regulations.** Climate change is receiving increasing attention worldwide. Many scientists, legislators and others attribute climate change to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions. The U.S. Congress has previously considered and may in the future implement restrictions on greenhouse gas emissions. In addition, several U.S. states, including states where the Company has manufacturing facilities, have previously considered and may in the future implement greenhouse gas registration and reduction programs. Energy security and availability and its related costs affect all aspects of the Company's manufacturing operations in the U.S., including the Company's supply chain. The Company's manufacturing facilities use energy, including electricity and natural gas, and certain of the Company's facilities emit amounts of greenhouse gas that may be affected by these legislative and regulatory efforts. Greenhouse gas regulation could increase the price of the electricity the Company purchases, increase costs for use of natural gas, potentially restrict access to or the use of natural gas, require the Company to purchase allowances to offset the Company's own emissions or result in an overall increase in costs of raw materials, any one of which could increase the Company's costs, reduce competitiveness in a global economy or otherwise negatively affect the Company's business, operations or financial results. Many of the Company's suppliers face similar circumstances. Physical risks to the Company's business operations as identified by the Intergovernmental Panel on Climate Change and other expert bodies include scenarios such as sea level rise, extreme weather conditions and resource shortages. Extreme weather may disrupt the production and supply of component parts or other items such as natural gas, a fuel necessary for the manufacture of motorcycles and their components. Supply disruptions would raise market rates and jeopardize the continuity of motorcycle production.
- **Regulations related to materials that the Company purchases to use in its products could cause the Company to incur additional expenses and may have other adverse consequences.** Laws or regulations impacting the Company's supply chain, such as the UK Modern Slavery Act, could affect the sourcing and availability of some of the raw materials that the Company uses in the manufacturing of its products. The Company's supply chain is complex, and if it is not able to fully understand its supply chain, then the Company may face reputational challenges with customers, investors or others and other adverse consequences. For example, many countries in which the Company distributes its products are introducing regulations that require knowledge and disclosure of virtually all materials and chemicals in the Company's products. Accordingly, the Company could incur significant costs related to the process of complying with these laws, including potential difficulty or added costs in satisfying the disclosure requirements.

## General Risks

- **Changes in general economic and business conditions, tightening of credit and retail markets, political events or other factors may adversely impact independent dealers' retail sales.** The motorcycle industry is impacted by general economic conditions over which motorcycle manufacturers have little control. These factors can weaken the retail environment and lead to weaker demand for discretionary purchases such as motorcycles. Weakened economic conditions in certain business sectors and geographic areas can also result in reduced demand for the Company's products. Tightening of credit can limit the availability of funds from financial institutions and other lenders and sources of capital which could adversely affect the ability of retail consumers to obtain loans for the

purchase of motorcycles from lenders, including HDFS. Should general economic conditions or motorcycle industry demand decline, the Company's results of operations and financial condition may be substantially adversely affected. The motorcycle industry can also be affected by political conditions and other factors over which motorcycle manufacturers have little control.

- **The Company is and may in the future become subject to legal proceedings and commercial or contractual disputes.** The uncertainty associated with substantial unresolved claims and lawsuits may harm the Company's business, financial condition, reputation and brand. The defense of the lawsuits may result in the expenditures of significant financial resources and the diversion of management's time and attention away from business operations. In addition, although the Company is unable to determine the amount, if any, that it may be required to pay in connection with the resolution of the lawsuits by settlement or otherwise, any such payment may have a material adverse effect on the Company's business and results of operations. Refer to *Note 16 of the Notes to Consolidated financial statements* for a discussion of certain legal proceedings in which the Company is involved.

The Company disclaims any obligation to update these risk factors or any other forward-looking statements. The Company assumes no obligation, and specifically disclaims any such obligation, to update these risk factors or any other forward-looking statements to reflect actual results, changes in assumptions or other factors affecting such forward-looking statements.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

A summary of the principal operating properties of the Company as of December 31, 2020 is as follows:

| Type of Facility                        | Location            | Status |
|---|---------------------|--------|
| <b>Motorcycle and Related Products:</b> |                     |        |
| Corporate office                        | Milwaukee, WI       | Owned  |
| Product development center              | Wauwatosa, WI       | Owned  |
| Manufacturing <sup>(a)</sup>            | Menomonee Falls, WI | Owned  |
| Manufacturing <sup>(b)</sup>            | Tomahawk, WI        | Owned  |
| Manufacturing <sup>(c)</sup>            | York, PA            | Owned  |
| Manufacturing <sup>(d)</sup>            | Rayong, Thailand    | Owned  |
| Manufacturing <sup>(e)</sup>            | Manaus, Brazil      | Leased |
| <b>Financial Services:</b>              |                     |        |
| Corporate office                        | Chicago, IL         | Leased |
| Wholesale and retail operations office  | Plano, TX           | Leased |
| Retail operations office <sup>(f)</sup> |                     |        |

(a) Motorcycle powertrain production

(b) Production and painting of motorcycle component parts

(c) Motorcycle parts fabrication, painting and assembly

(d) Motorcycle production for certain Asian and European markets

(e) Assembly of select models for the Brazilian market

(f) HDFS completed a sale of its Carson City, NV facility in December 2020 and plans to move retail operations to Reno, NV in April 2021

#### **Item 3. Legal Proceedings**

Refer to *Note 16 of the Notes to Consolidated financial statements* for a discussion of certain legal proceedings in which the Company is involved.

#### **Item 4. Mine Safety Disclosures**

Not Applicable.

## PART II

### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Harley-Davidson, Inc. common stock is traded on the New York Stock Exchange under the trading symbol HOG. As of January 31, 2021, there were 66,959 shareholders of record of Harley-Davidson, Inc. common stock.

The Company's share repurchases, which consisted of shares of common stock that employees surrendered to satisfy withholding taxes in connection with the vesting of restricted stock units were as follows during the quarter ended December 31, 2020:

| 2020 Fiscal Month          | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|----------------------------|----------------------------------|------------------------------|--|--|
| September 28 to November 1 | 738                              | \$ 24                        | 738  | 18,246,721   |
| November 2 to November 29  | 556                              | \$ 33                        | 556  | 18,246,721   |
| November 30 to December 31 | 1,849                            | \$ 40                        | 1,849  | 18,246,721   |
|                            | <u>3,143</u>                     | <u>\$ 35</u>                 | <u>3,143</u>   |  |

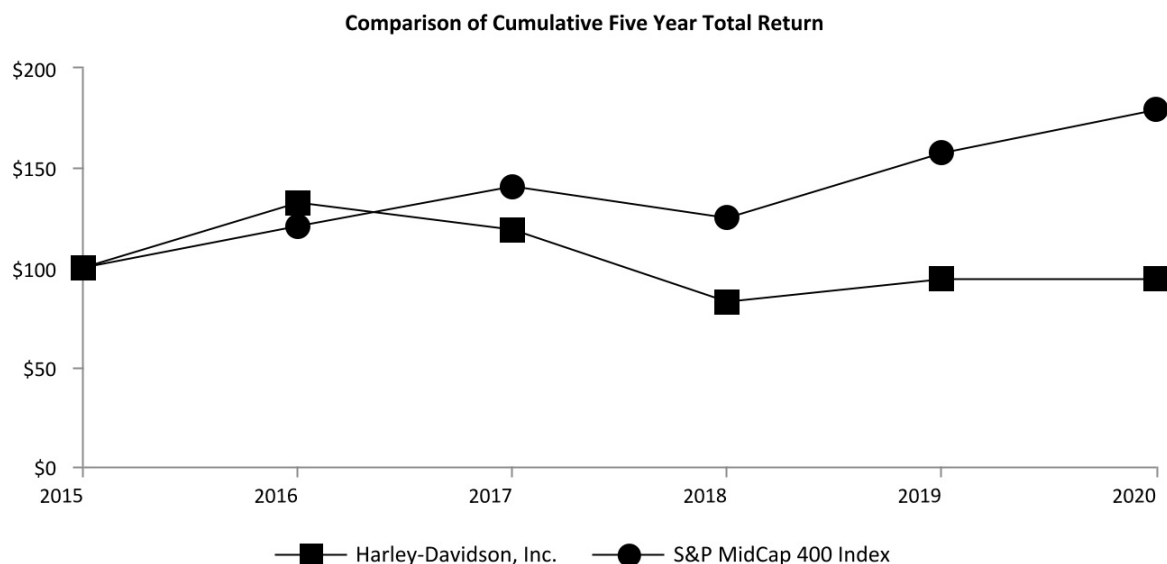
In February 2018, the Company's Board of Directors authorized the Company to repurchase up to 15.0 million shares of its common stock on a discretionary basis with no dollar limit or expiration date. In February 2020, the Company's Board of Directors authorized the Company to repurchase up to 10.0 million additional shares of its common stock on a discretionary basis with no dollar limit or expiration date. As of December 31, 2020, 18.2 million shares remained under these authorizations. The Company repurchased no shares on a discretionary basis during the quarter ended December 31, 2020.

Under the share repurchase authorization, the Company's common stock may be purchased through any one or more of a Rule 10b5-1 trading plan and discretionary purchases on the open market, block trades, accelerated share repurchases or privately negotiated transactions. The number of shares repurchased, if any, and the timing of repurchases will depend on a number of factors, including share price, trading volume and general market conditions, as well as on working capital requirements, general business conditions and other factors. The repurchase authority has no expiration date but may be suspended, modified or discontinued at any time.

The Harley-Davidson, Inc. 2020 Incentive Stock Plan and predecessor stock plans permit participants to satisfy all or a portion of the statutory federal, state, and local withholding tax obligations arising in connection with plan awards by electing to (a) have the Company withhold shares otherwise issuable under the award, (b) tender back shares received in connection with such award or (c) deliver other previously owned shares, in each case having a value equal to the amount to be withheld. During the fourth quarter of 2020, the Company acquired 3,143 shares of common stock that employees presented to the Company to satisfy withholding taxes in connection with the vesting of restricted stock units.

*Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters* within *Part III* of this Annual Report contains certain information relating to the Company's equity compensation plans.

The following information in this Item 5 is not deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates it by reference into such a filing: the SEC requires the Company to include a line graph presentation comparing cumulative five year common stock returns with a broad-based stock index and either a nationally recognized industry index or an index of peer companies selected by the Company. The Company has chosen to use the Standard & Poor’s (S&P) MidCap 400 Index as the broad-based index. The S&P MidCap 400 Index was chosen as the Company does not believe any other published industry or line-of-business index adequately represents the current operations of the Company. The graph assumes a beginning investment of \$100 on December 31, 2015 and that all dividends are reinvested.



|                       | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   |
|-----------------------|--------|--------|--------|--------|--------|--------|
| Harley-Davidson, Inc. | \$ 100 | \$ 132 | \$ 119 | \$ 83  | \$ 94  | \$ 94  |
| S&P MidCap 400 Index  | \$ 100 | \$ 121 | \$ 140 | \$ 125 | \$ 157 | \$ 179 |

**Item 6. Selected Financial Data**

Not Applicable.

**Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

Harley-Davidson, Inc. is the parent company of Harley-Davidson Motor Company (HDMC) and Harley-Davidson Financial Services (HDFS). Unless the context otherwise requires, all references to the “Company” include Harley-Davidson, Inc. and all its subsidiaries. The Company operates in two segments: Motorcycles and Related Products (Motorcycles) and Financial Services.

The “% Change” figures included in the “Results of Operations” section were calculated using unrounded dollar amounts and may differ from calculations using the rounded dollar amounts presented. Certain “% Change” deemed not meaningful (NM) have been excluded.

**(1) Note Regarding Forward-Looking Statements**

The Company intends that certain matters discussed in this report are “forward-looking statements” intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such by reference to this footnote or because the context of the statement will include words such as the Company “believes,” “anticipates,” “expects,” “plans,” “may,” “will,” “estimates,” “targets,” “intend” or words of similar meaning. Similarly, statements that describe or refer to future expectations, future plans, strategies, objectives, outlooks, targets, guidance, commitments or goals are also forward-looking statements. Such forward-

looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially, unfavorably or favorably, from those anticipated as of the date of this report. Certain of such risks and uncertainties are described in close proximity to such statements or elsewhere in this report, including in *Item 1A. Risk Factors* and under the “Cautionary Statements” section in this Item 7. Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in the “Overview” and “Guidance” sections in this Item 7 are only made as of February 2, 2021 and the remaining forward-looking statements in this report are only made as of the date of the filing of this report (February 23, 2021), and the Company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

#### **Overview<sup>(1)</sup>**

The Company’s net income for 2020 was \$1.3 million, or \$0.01 per diluted share, compared to \$423.6 million, or \$2.68 per diluted share in 2019 on lower operating income in both the Motorcycles and Financial Services segments.

The Motorcycles segment reported an operating loss of \$186.1 million in 2020 down \$475.7 million from operating income of \$289.6 million in 2019. The decline in operating income was due primarily to a 32.1% decrease in wholesale motorcycle shipments, a less favorable product mix and higher restructuring expenses, partially offset by reduced selling, administrative and engineering expenses.

Operating income from the Financial Services segment in 2020 was down \$70.2 million or 26.4% compared to 2019 due primarily to an increase in the provision for credit losses, higher interest expense and restructuring charges. The provision for credit losses was higher due to negative economic conditions during 2020 and also reflects the continued impact of the 2020 adoption of a new accounting standard related to the recognition of expected credit losses. The new standard requires recognition of full lifetime expected credit losses upon initial recognition of a financial instrument carried at amortized cost, replacing the prior, incurred loss methodology. The Company adopted the new accounting standard on January 1, 2020 using a modified retrospective approach. As a result, prior period results were not restated.

Worldwide independent dealer retail sales of new Harley-Davidson motorcycles decreased 17.4% in 2020 compared to 2019. Retail sales were adversely impacted primarily in the first half of 2020, by a temporary suspension of the Company’s manufacturing operations, from mid-March through May 2020, and independent dealer closures related to the COVID-19 pandemic. The Company believes retail sales in the second half of 2020, compared to prior year, were adversely impacted by the Company’s decision to reset its new model year launch timing, beginning in 2020, from the third quarter to the first quarter. In addition, the Company believes lower dealer inventory levels related to its new approach to supply and inventory management also resulted in lower retail sales during the second half of 2020 compared to the same period last year.

#### **COVID-19 Pandemic Response and Recovery Actions<sup>(1)</sup>**

*Cash Preservation* – During 2020, the Company delivered on its previously disclosed plans to reduce planned capital and planned non-capital spending to preserve approximately \$250 million of cash in 2020. The spending reductions exclude the impact of restructuring charges as discussed further under “Restructuring Plan Costs and Savings”. Also, during 2020, the Company suspended discretionary share repurchases and reduced its cash dividend to \$0.02 per share for the second, third and fourth quarters of 2020.

*Liquidity* – At the end 2020, the Company had \$4.7 billion of available liquidity through cash, cash equivalents and availability under its credit and conduit facilities. Liquidity is discussed in more detail under “Liquidity and Capital Resources”.

*Supporting Dealers and Riders* – The Company’s response and recovery plans have included supporting global dealers and customers. HDFS continues to work with qualified retail borrowers who have been impacted by the COVID-19 pandemic by offering short-term adjustments to payment due dates. These temporary extensions do not affect the associated interest rate or loan term. At the end of 2020, the volume of payment extensions on eligible retail loans declined, but has not yet returned to pre-COVID-19 pandemic levels. The Company continues to grant payment extensions to customers in accordance with its policies.

*Community Strength* – The Company continues to proactively manage through the COVID-19 pandemic and has implemented robust protocols to keep workers safe in its manufacturing facilities. Most non-production workers continue to work remotely in light of the COVID-19 pandemic.

The full impact of the COVID-19 pandemic on future results depends on future developments, such as the ultimate duration and scope of the pandemic, the success of vaccination programs, and its impact on the Company’s customers, independent dealers, distributors, and suppliers. While the Company’s manufacturing operations were temporarily suspended and subsequently resumed in 2020, COVID-19 pandemic related impacts and disruptions could occur in the future. Future

impacts and disruptions could have an adverse effect on production, supply chains, distribution, and demand for the Company's products. Refer to *Item 1A. Risk Factors* for additional information regarding the potential impact of the COVID-19 pandemic on the Company.

## **The Rewire**

During 2020, the Company executed a set of actions, referred to as The Rewire. The Rewire was a critical overhaul of the Company's business to set the Company on a new course and provide a solid foundation to execute its 2021-2025 strategic plan, The Hardwire. Key elements of The Rewire included the following:

*New operating model with reduced complexity and increased speed* – The Company implemented a new operating model to eliminate duplication and complexity across its global operations resulting in fewer positions across the Company's global operations and annual ongoing savings as discussed further under "Restructuring Plan Costs and Savings".

*Reset global business and focus on high-potential markets* – The Company plans to concentrate on approximately 50 markets primarily in North America, Europe and parts of Asia Pacific that represent a high percentage of the Company's expected volume and growth potential.

*Refined motorcycle line-up and high-impact product launches* – The Company streamlined its planned product portfolio, changed its model year launch timing and go-to-market practices for maximum impact and success.

*Growth through Parts & Accessories (P&A) and General Merchandise (GM)* – P&A and GM are now organized around dedicated leaders with strategies poised for new growth as the Company invests in new channel strategies and better product assortments.

*Protecting value* – The Company is operating with a new approach to supply and inventory management, with a focus on a strong independent dealer network to better preserve the value and desirability of Harley-Davidson motorcycles for customers. The Company believes a strong network of profitable dealers is essential to delivering the most desirable Harley-Davidson experience. The Company reduced its global dealer network during 2020 and continues work to optimize its network of independent dealers to strengthen priority markets and provide and improve the customer experience.

## **The Hardwire<sup>(1)</sup>**

The Hardwire is the Company's 2021-2025 strategic plan guided by its mission and vision, which the Company introduced on February 2, 2021. The plan targets long-term profitable growth through focused efforts that extend and strengthen the brand and drive value for all stakeholders. The Company's ambition is to enhance its position as the most desirable motorcycle brand in the world. Desirability is a motivating force driven by emotion. Refer to *Item 1. Business* for more details on The Hardwire strategic plan and financial targets.

## **Guidance<sup>(1)</sup>**

On February 2, 2021, the Company announced the following guidance for 2021. During 2021, the first year of The Hardwire, the Company expects to continue to manage through the ongoing uncertainties brought on by the COVID-19 pandemic and its impact on revenue and its supply chain. The Company's guidance for 2021 is as follows:

- Motorcycles segment revenue growth, compared to 2020, between 20% and 25%
- Motorcycles segment operating margin as a percent of revenue of 5% to 7%, which includes approximately \$115 million of gross annual cost savings resulting from 2020 restructuring actions
- Approximately \$20 million of restructuring expense
- Financial Services operating income growth, compared to 2020, between 10% and 15%
- Capital expenditures between \$190 and \$220 million

## Restructuring Plan Costs and Savings<sup>(1)</sup>

During 2020, the Company initiated certain restructuring activities as part of The Rewire including a workforce reduction, the termination of certain current and future products, facility changes, optimizing its global independent dealer network, exiting certain international markets, and discontinuing its sales and manufacturing operations in India. These actions included restructuring expenses related to employee termination costs, contract termination costs and non-current asset adjustments. The workforce reduction resulted in the elimination of approximately 700 positions globally, including the termination of approximately 500 employees. In addition, the India action will result in the termination of approximately 70 employees. The Company incurred \$130 million of restructuring expense in connection with these actions during 2020. The Company expects to incur total restructuring expenses for these actions of approximately \$150 million, including approximately \$20 million in 2021. The Company's total estimated restructuring expense is down from its previous estimate of \$169 million. The Company continues to expect ongoing gross savings resulting from these restructuring activities of approximately \$115 million. Refer to *Note 3 of the Notes to Consolidated financial statements* for additional information regarding the Company's restructuring expenses.

## Results of Operations 2020 Compared to 2019

### Consolidated Results

| (in thousands, except earnings per share)                     | 2020            | 2019              | (Decrease)<br>Increase | % Change       |
|---|-----------------|-------------------|------------------------|----------------|
| Operating (loss) income from Motorcycles and Related Products | \$ (186,122)    | \$ 289,620        | \$ (475,742)           | NM             |
| Operating income from Financial Services                      | 195,801         | 265,988           | (70,187)               | (26.4)         |
| Operating income  | 9,679           | 555,608           | (545,929)              | (98.3)         |
| Other (expense) income, net                                   | (1,848)         | 16,514            | (18,362)               | NM             |
| Investment income   | 7,560           | 16,371            | (8,811)                | (53.8)         |
| Interest expense  | 31,121          | 31,078            | 43                     | 0.1            |
| (Loss) income before income taxes                             | (15,730)        | 557,415           | (573,145)              | NM             |
| Income tax (benefit) provision                                | (17,028)        | 133,780           | (150,808)              | NM             |
| Net income  | <u>\$ 1,298</u> | <u>\$ 423,635</u> | <u>\$ (422,337)</u>    | <u>(99.7)%</u> |
| Diluted earnings per share                                    | <u>\$ 0.01</u>  | <u>\$ 2.68</u>    | <u>\$ (2.67)</u>       | <u>(99.6)%</u> |

The Company reported operating income of \$9.7 million in 2020 compared to \$555.6 million in 2019. The Motorcycles segment incurred a \$186.1 million operating loss in 2020, a decline from operating income of \$289.6 million in 2019. Operating income from the Financial Services segment decreased \$70.2 million, or 26.4%, compared to 2019. Refer to the Motorcycles and Related Products Segment and Financial Services Segment discussions for a more detailed analysis of the factors affecting operating results.

Other (expense) income in 2020 was impacted by lower non-operating income related to the Company's defined benefit plans. Investment income decreased in 2020 as compared to 2019 driven by lower income from investments in marketable securities.

The Company's effective income tax rate for 2020 was a 108.3% benefit compared to a 24.0% expense for 2019. The Company recorded an income tax benefit during 2020 due to a pre-tax loss and discrete income tax benefits related primarily to favorable tax audit settlements with taxing authorities during the year.

Diluted earnings per share was \$0.01 in 2020 compared to \$2.68 in 2019. Diluted earnings per share were adversely impacted by the decrease in net income, but benefited from lower diluted weighted average shares outstanding. Diluted weighted average shares outstanding decreased from 157.8 million in 2019 to 153.9 million in 2020 driven by the Company's discretionary repurchases of common stock during 2019. Refer to "Liquidity and Capital Resources" for additional information concerning the Company's share repurchase activity.

## Motorcycle Retail Sales and Registration Data

### Harley-Davidson Motorcycle Retail Sales<sup>(a)</sup>

Retail unit sales of new Harley-Davidson motorcycles were as follows:

|                                  | 2020    | 2019    | Decrease | % Change |
|----------------------------------|---------|---------|----------|----------|
| United States                    | 103,650 | 125,960 | (22,310) | (17.7)%  |
| Canada                           | 6,477   | 8,946   | (2,469)  | (27.6)   |
| Total North America              | 110,127 | 134,906 | (24,779) | (18.4)   |
| Europe/Middle East/Africa (EMEA) | 36,906  | 44,086  | (7,180)  | (16.3)   |
| Asia Pacific                     | 27,220  | 29,513  | (2,293)  | (7.8)    |
| Latin America                    | 5,995   | 9,768   | (3,773)  | (38.6)   |
| Total worldwide retail sales     | 180,248 | 218,273 | (38,025) | (17.4)%  |

(a) Data source for retail sales figures shown above is new sales warranty and registration information provided by Harley-Davidson dealers and compiled by the Company. The Company must rely on information that its independent dealers supply concerning new retail sales, and the Company does not regularly verify the information that its independent dealers supply. This information is subject to revision.

During 2020, primarily in the first half of the year, retail sales of new Harley-Davidson motorcycles were adversely impacted by the COVID-19 pandemic which resulted in the temporary closure of the Company's manufacturing facilities and the temporary closure of many of its independent dealerships.

Retail sales in the second half of 2020 were adversely impacted by lower retail inventory as the Company continued to aggressively manage the supply of its motorcycles into the independent dealer network under its new supply and inventory management approach. The Company's approach to supply and inventory management is focused on profitable and desirable volume aimed at helping drive retail pricing to preserve the value and desirability of Harley-Davidson motorcycles for customers. Under this approach, the Company will continue to aggressively manage the supply of new motorcycles into the independent dealer network. At the end of 2020, independent dealer retail inventory of new Harley-Davidson motorcycles was down approximately 64% or 24,000 units in the U.S. and approximately 59% worldwide compared to the end of 2019.

The Company's decision to reset its annual new model year launch from August to early in the first quarter also impacted retail sales in 2020. Previously, the Company launched its new model year motorcycles in the third quarter with new product available in U.S. markets in August, followed by international markets as product was distributed globally. While the Company believes the initial shift from August has adversely impacted year-over-year retail sales comparisons, it believes an early-year launch better aligns with the seasonality of retail demand allowing products a full riding season to sell and minimizes aged inventory and floor plan costs that might accumulate during the off season.

The Company's U.S. market share of new 601+cc motorcycles for 2020 was 42.1%, down 7.0 percentage points compared to 2019 (Source: Motorcycle Industry Council). The Company's U.S. market share fell on weaker retail sales performance relative to the industry, as well as stronger performance in segments outside of the Company's Touring and Cruiser segments.

The Company's European market share of new 601+cc motorcycles for 2020 was 7.7%, down 1.4 percentage points compared to 2019 (Source: Management Services Helwig Schmitt GmbH).



## Motorcycle Registration Data - 601+cc<sup>(a)</sup>

Industry retail registration data for new motorcycles was as follows:

|                              | 2020    | 2019    | Decrease | % Change |
|------------------------------|---------|---------|----------|----------|
| United States <sup>(b)</sup> | 241,792 | 252,842 | (11,050) | (4.4)%   |
| Europe <sup>(c)</sup>        | 411,079 | 413,254 | (2,175)  | (0.5)%   |

- (a) Data includes on-road models with internal combustion engines with displacements greater than 600cc's and electric motorcycles with kilowatt peak power equivalents greater than 600cc's (601+cc). On-road 601+cc models include dual purpose models, three-wheeled motorcycles and autocycles. Registration data for Harley-Davidson Street® 500 motorcycles is not included in this table.
- (b) United States industry data is derived from information provided by Motorcycle Industry Council. This third-party data is subject to revision and update.
- (c) Europe data includes Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom. Industry data is derived from information provided by Management Services Helwig Schmitt GmbH. Prior year registrations have been revised to exclude Greece and Portugal registrations. This third-party data is subject to revision and update.

## Motorcycles and Related Products Segment

### Motorcycle Unit Shipments

Wholesale Harley-Davidson motorcycle unit shipments were as follows:

|   | 2020           |                | 2019           |                | Unit<br>Decrease | Unit<br>% Change |
|---|----------------|----------------|----------------|----------------|------------------|------------------|
|   | Units          | Mix %          | Units          | Mix %          |                  |                  |
| <b>Motorcycle Units:</b>                |                |                |                |                |                  |                  |
| United States                           | 79,731         | 54.9 %         | 124,326        | 58.1 %         | (44,595)         | (35.9)%          |
| International                           | 65,515         | 45.1 %         | 89,613         | 41.9 %         | (24,098)         | (26.9)           |
|   | <u>145,246</u> | <u>100.0 %</u> | <u>213,939</u> | <u>100.0 %</u> | <u>(68,693)</u>  | <u>(32.1)%</u>   |
| <b>Motorcycle Units:</b>                |                |                |                |                |                  |                  |
| Touring motorcycle units                | 56,067         | 38.6 %         | 91,018         | 42.5 %         | (34,951)         | (38.4)%          |
| Cruiser motorcycle units <sup>(a)</sup> | 55,229         | 38.0 %         | 76,052         | 35.6 %         | (20,823)         | (27.4)           |
| Sportster® / Street motorcycle units    | 33,950         | 23.4 %         | 46,869         | 21.9 %         | (12,919)         | (27.6)           |
|   | <u>145,246</u> | <u>100.0 %</u> | <u>213,939</u> | <u>100.0 %</u> | <u>(68,693)</u>  | <u>(32.1)%</u>   |

- (a) Includes Softail®, CVO™, and LiveWire™

During 2020, Harley-Davidson motorcycle shipments were down 32.1% from 2019 reflecting the impact of the temporary suspension of the Company's global manufacturing operations and the temporary closure of independent dealers in the first half of 2020 resulting from the COVID-19 pandemic. In addition, the Company's new approach to supply and inventory management and the change in new model year launch timing adversely impacted wholesale shipments compared to 2019. The mix of Touring motorcycles shipped during 2020 decreased as a percent of total shipments while the mix of Cruiser and Sportster/Street motorcycles increased compared to 2019.

## Segment Results

Condensed statements of operations for the Motorcycles segment were as follows (in thousands):

|                                  | 2020             | 2019             | (Decrease)<br>Increase | %<br>Change   |
|----------------------------------|------------------|------------------|------------------------|---------------|
| <b>Revenue:</b>                  |                  |                  |                        |               |
| Motorcycles                      | \$ 2,350,407     | \$ 3,538,269     | \$ (1,187,862)         | (33.6)%       |
| Parts & Accessories              | 659,634          | 713,400          | (53,766)               | (7.5)         |
| General Merchandise              | 186,068          | 237,566          | (51,498)               | (21.7)        |
| Licensing                        | 29,750           | 35,917           | (6,167)                | (17.2)        |
| Other                            | 38,195           | 47,526           | (9,331)                | (19.6)        |
|                                  | <u>3,264,054</u> | <u>4,572,678</u> | <u>(1,308,624)</u>     | <u>(28.6)</u> |
| Cost of goods sold               | 2,435,745        | 3,229,798        | (794,053)              | (24.6)        |
| Gross profit                     | 828,309          | 1,342,880        | (514,571)              | (38.3)        |
| <b>Operating expenses:</b>       |                  |                  |                        |               |
| Selling & administrative expense | 697,483          | 808,415          | (110,932)              | (13.7)        |
| Engineering expense              | 197,838          | 212,492          | (14,654)               | (6.9)         |
| Restructuring expense            | 119,110          | 32,353           | 86,757                 | 268.2         |
|                                  | <u>1,014,431</u> | <u>1,053,260</u> | <u>(38,829)</u>        | <u>(3.7)</u>  |
| Operating (loss) income          | \$ (186,122)     | \$ 289,620       | \$ (475,742)           | NM            |
| Operating margin                 | (5.7)%           | 6.3 %            | (12.0) pts.            |               |

The estimated impacts of the significant factors affecting the comparability of revenue, cost of goods sold and gross profit from 2019 to 2020 were as follows (in millions):

|   | Revenue        | Cost of Goods Sold | Gross Profit |
|---|----------------|--------------------|--------------|
| 2019  | \$ 4,573       | \$ 3,230           | \$ 1,343     |
| Volume                                      | (1,282)        | (832)              | (450)        |
| Price, net of related costs                 | 55             | 7                  | 48           |
| Foreign currency exchange rates and hedging | (11)           | 23                 | (34)         |
| Shipment mix                                | (71)           | (7)                | (64)         |
| Raw material prices                         | —              | (10)               | 10           |
| Manufacturing and other costs               | —              | 25                 | (25)         |
|   | <u>(1,309)</u> | <u>(794)</u>       | <u>(515)</u> |
| 2020  | \$ 3,264       | \$ 2,436           | \$ 828       |

The following factors affected the comparability of net revenue, cost of goods sold and gross profit from 2019 to 2020:

- The decrease in volume was due to lower wholesale motorcycle shipments and lower P&A and General Merchandise sales.
- During 2020, revenue benefited from higher wholesale prices for motorcycles and lower sales incentives. The positive impact on revenue was partially offset by increased costs related to additional content added to motorcycles shipped in 2020 as compared to the prior year.
- Revenue was adversely impacted by weaker foreign currency exchange rates relative to the U.S. dollar. In addition, unfavorable net foreign currency losses associated with hedging and balance sheet remeasurements also reduced gross profit in 2020 as compared to the prior year.
- Changes in the shipment mix between motorcycle families had an adverse impact on gross profit during 2020 as compared to 2019. Additionally, unfavorable mix within P&A contributed to the impact.
- Manufacturing and other costs were adversely impacted by a higher fixed cost per unit on lower production volumes. This unfavorable impact was partially offset by lower incremental tariff costs and the absence of temporary inefficiencies related to the manufacturing restructuring activities in 2019. Incremental tariff costs (incremental European Union (EU) and China tariffs imposed beginning in 2018 on the Company's products shipped from the U.S. and incremental U.S. tariffs imposed beginning in 2018 on certain items imported from China) were \$24.5 million in 2020 compared to \$97.9 million in 2019. The Company began to wholesale motorcycles sourced from its Thailand facility in the EU during the second quarter of 2020 which reduced the cost of tariffs incurred through the majority of 2020.

Operating expenses were lower in 2020 compared to 2019 due primarily to lower employee related cost on reduced headcount, reduced incentive-based compensation cost and lower discretionary spending as the Company aggressively managed costs, including its efforts to reduce planned non-capital spending as part of its COVID-19 pandemic response and recovery actions. The decrease was partially offset by an increase in restructuring expense. Refer to *Note 3 of the Notes to Consolidated financial statements* for additional information regarding the Company's restructuring expenses.

## Financial Services Segment

### Segment Results

Condensed statements of operations for the Financial Services segment were as follows (in thousands):

|                              | 2020       | 2019       | Increase<br>(Decrease) | % Change |
|------------------------------|------------|------------|------------------------|----------|
| Interest income              | \$ 682,517 | \$ 678,205 | \$ 4,312               | 0.6 %    |
| Other income                 | 107,806    | 110,906    | (3,100)                | (2.8)    |
| Financial Services revenue   | 790,323    | 789,111    | 1,212                  | 0.2      |
| Financial Services expenses: |            |            |                        |          |
| Interest expense             | 246,447    | 210,438    | 36,009                 | 17.1     |
| Provision for credit losses  | 181,870    | 134,536    | 47,334                 | 35.2     |
| Operating expenses           | 155,306    | 178,149    | (22,843)               | (12.8)   |
| Restructuring expense        | 10,899     | —          | 10,899                 | 100.0    |
|                              | 594,522    | 523,123    | 71,399                 | 13.6     |
| Operating income             | \$ 195,801 | \$ 265,988 | \$ (70,187)            | (26.4)%  |

Interest income was favorable in 2020 compared to 2019 due to a higher average retail yield, partially offset by lower average outstanding finance receivables. Other income decreased in 2020 compared to 2019 due in part to lower investment income. Interest expense increased due to higher average outstanding debt, partially offset by a lower cost of funds.

The provision for credit losses increased \$47.3 million compared to 2019 primarily due to unfavorable economic conditions during 2020, partially offset by favorable 2020 retail credit loss performance. The provision for credit losses was up significantly as compared to 2019 driven by the impact of the COVID-19 pandemic on the U.S. economy and the Company's outlook on future economic conditions. The Company believes that there is significant uncertainty surrounding future economic outcomes. As such, the Company considered various third-party economic forecast scenarios and applied a probability-weighting to those economic forecast scenarios. At the end of 2020, the Company's outlook on economic conditions included a heavy emphasis on pessimistic economic trend assumptions as the COVID-19 pandemic continued to restrain the U.S. economy. The Company will continue to monitor economic trends and conditions. The Company's expectations surrounding its economic forecasts may change in future periods as additional information becomes available.

The 30-day delinquency rate for retail motorcycle loans at December 31, 2020 decreased to 3.18% from 4.39% at December 31, 2019. The improved delinquency rate was primarily driven by a high volume of short-term COVID-19 pandemic related extensions during the second quarter of 2020 and into the first part of the third quarter of 2020 on eligible retail loans to help customers get through financial difficulties associated with the pandemic. Through the remainder of 2020, the volume of payment extensions on eligible retail loans declined but has not yet returned to pre-COVID-19 pandemic levels. The Company continues to grant payment extensions to customers in accordance with its policies. Annual losses on the Company's retail motorcycle loans were 1.38% during 2020 compared to 2.00% in 2019. The favorable retail credit loss performance was due to lower delinquencies driven by the COVID-19 pandemic related loan payment extensions earlier in the year as well as improved used motorcycle values at auction due to a limited supply of new and used motorcycles.

The allowance for credit losses at December 31, 2020 was determined in accordance with Accounting Standards Update (ASU) No. 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13), a new accounting standard the Company adopted on January 1, 2020 that requires recognition of full lifetime expected credit losses upon initial recognition of a financial instrument, replacing the prior, incurred loss methodology. The Company adopted the new accounting standard using a modified retrospective approach. As a result, prior period results were not restated.

Operating expenses decreased \$22.8 million compared to 2019 as the Company aggressively managed costs, including its efforts to reduce planned non-capital spending as part of its COVID-19 pandemic response and recovery actions.

Additionally, the Financial Services segment incurred restructuring expense of \$10.9 million in 2020. Refer to *Note 3 of the Notes to Consolidated financial statements* for additional information regarding the Company's restructuring expenses.

Changes in the allowance for credit losses on finance receivables were as follows (in thousands):

|  | 2020              | 2019              |
|--|-------------------|-------------------|
| Balance, beginning of period                             | \$ 198,581        | \$ 189,885        |
| Cumulative effect of change in accounting <sup>(a)</sup> | 100,604           | —                 |
| Provision for credit losses                              | 181,870           | 134,536           |
| Charge-offs, net of recoveries                           | (90,119)          | (125,840)         |
| Balance, end of period                                   | <u>\$ 390,936</u> | <u>\$ 198,581</u> |

(a) On January 1, 2020, the Company adopted ASU 2016-13 and increased the allowance for loan loss through retained earnings, net of income taxes, to establish an allowance that represents expected lifetime credit losses on the finance receivable portfolios at date of adoption.

At December 31, 2020, the allowance for credit losses on finance receivables was \$371.7 million for retail receivables and \$19.2 million for wholesale receivables. At December 31, 2019, the allowance for credit losses on finance receivables was \$188.5 million for retail receivables and \$10.1 million for wholesale receivables.

Refer to *Note 7 of the Notes to Consolidated financial statements* for further discussion regarding the Company's allowance for credit losses on finance receivables.

### Results of Operations 2019 Compared to 2018

Refer to *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* of the Company's Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 19, 2020 for a detailed discussion of the results of operations for 2019 compared to 2018 and liquidity and capital resources for 2019 compared to 2018.

### Other Matters

#### New Accounting Standards Not Yet Adopted

Refer to *Note 1 of the Notes to Consolidated financial statements* for a discussion of new accounting standards that will become effective for the Company in 2021 and 2022.

#### Critical Accounting Estimates

The Company's financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. Management believes that the following are some of the more critical judgment areas in the application of accounting policies that currently affect the Company's financial condition and results of operations. Management has discussed the development and selection of these critical accounting estimates with the Audit and Finance Committee of the Company's Board of Directors.

*Allowance for Credit Losses on Retail Finance Receivables* – On January 1, 2020, the Company adopted ASU 2016-13, which requires an entity to recognize expected lifetime losses on finance receivables upon origination. The allowance for credit losses on retail finance receivables as of December 31, 2020 represents the Company's estimate of lifetime losses for its retail finance receivables. Prior to the adoption of ASU 2016-13, the Company maintained an allowance for credit losses on retail finance receivables based on the Company's estimate of probable losses inherent in the retail finance receivable portfolio as of the balance sheet date.

The retail portfolio primarily consists of a large number of small balance, homogeneous finance receivables. The Company performs a collective evaluation of the adequacy of the retail allowance for credit losses. For periods after January 1, 2020, the Company utilizes a vintage-based loss forecast methodology that includes decompositions for probability of default, exposure at default, attrition rate, and recovery balance rate. Reasonable and supportable economic forecasts for a two-year period are incorporated into the methodology to reflect the estimated impact of changes in future economic conditions, such as unemployment rates, household obligations or other relevant factors, over the expected life of the retail portfolio. For periods beyond the Company's reasonable and supportable forecasts, the Company reverts to its average historical loss experience for a three-year period using a mean-reversion process. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, or term as well as other relevant factors. For periods prior to January 1, 2020, the Company performed a periodic and

systematic collective evaluation of the adequacy of the retail allowance for credit losses. The Company utilized loss forecast models which considered a variety of factors including, but not limited to, historical loss trends, origination or vintage analysis, known and inherent risks in the portfolio, the value of the underlying collateral, recovery rates and current economic conditions.

Refer to *Note 7 of the Notes to Consolidated financial statements* for further discussion regarding the Company's allowance for credit losses on finance receivables.

*Product Warranty and Recalls* – Estimated warranty costs are recorded at the time of sale and are based on a combination of historical claim cost data and other known factors that may affect future warranty claims. The estimated costs associated with voluntary recalls are recorded when the liability is both probable and estimable. The accrued cost of a recall is based on an estimate of the cost to repair each affected motorcycle and the number of motorcycles expected to be repaired based on historical data concerning the percentage of affected customers that take advantage of recall offers. In the case of both warranty and recall costs, as actual experience becomes available it is used to update the accruals.

The factors affecting actual warranty and recall costs can be volatile. As a result, actual warranty claims experience and recall costs may differ from estimates, which could lead to material changes in the Company's accrued warranty and recall costs. The Company's warranty and recall liabilities are discussed further in *Note 14 of the Notes to Consolidated financial statements*.

*Pensions and Other Postretirement Healthcare Benefits* – The Company has a defined benefit pension plan and postretirement healthcare benefit plans, which cover certain eligible employees and retirees of the Motorcycles segment. The Company also has unfunded supplemental employee retirement plan agreements (SERPA) with certain employees.

U.S. Generally Accepted Accounting Principles (GAAP) requires that companies recognize in their consolidated balance sheets a liability for defined benefit pension and postretirement plans that are underfunded or an asset for defined benefit pension and postretirement benefit plans that are overfunded.

Pension, SERPA and postretirement healthcare obligations and costs are calculated through actuarial valuations. The valuation of benefit obligations and net periodic benefit costs relies on key assumptions including discount rates, mortality, long-term expected return on plan assets, future compensation and healthcare cost trend rates.

The Company determines its discount rate assumptions by referencing high-quality long-term bond rates that are matched to the duration of its benefit obligations. Based on this analysis, the Company decreased the weighted-average discount rate for pension and SERPA obligations from 3.49% as of December 31, 2019 to 2.62% as of December 31, 2020. The Company decreased the weighted-average discount rate for postretirement healthcare obligations from 3.26% as of December 31, 2019 to 2.11% as of December 31, 2020. The Company determines its healthcare trend assumption for the postretirement healthcare obligation by considering factors such as estimated healthcare inflation, the utilization of healthcare benefits and changes in the health of plan participants. Based on the Company's assessment of this data as of December 31, 2020, the Company set its healthcare cost trend rate at 7.00% as of December 31, 2020. The Company expects the healthcare cost trend rate to reach its ultimate rate of 5.00% by 2029.<sup>(1)</sup> These assumption changes were reflected immediately in the benefit obligation and will be amortized into net periodic benefit costs over future periods.

Plan assets are measured at fair value and are subject to market volatility. In estimating the expected return on plan assets, the Company considers the historical returns on plan assets, adjusted to reflect the current view of the long-term investment market.

Changes in the funded status of defined benefit pension and postretirement benefit plans resulting from the difference between assumptions and actual results are initially recognized in other comprehensive income (loss) and amortized to expense over future periods. Sensitivity to changes in major assumptions used in the pension and postretirement healthcare obligations and costs was as follows (in thousands):

|  | Amounts based on current assumptions | Impact of a 1% decrease in the discount rate | Impact of a 1% increase in the healthcare cost trend rate | Impact of a 1% decrease in the expected return on assets |
|--|--------------------------------------|--|---|--|
| <b>2020 Net periodic benefit cost:</b> |                                      |  |   |  |
| Pension and SERPA                      | \$ 33,016                            | \$ 31,108                                    | n/a   | \$ 20,164  |
| Postretirement healthcare              | \$ 5,393                             | \$ (843)                                     | \$ 435  | \$ 1,985   |
| <b>2020 Benefit obligations:</b>       |                                      |  |   |  |
| Pension and SERPA                      | \$ 2,390,435                         | \$ 393,880                                   | n/a   | n/a  |
| Postretirement healthcare              | \$ 315,245                           | \$ 28,651                                    | \$ 8,295  | n/a  |

The amounts based on current assumptions above exclude the impact of settlements, curtailments and special early retirement benefits. This information should not be viewed as predictive of future amounts. The analysis of the impact of a 1% change in the table above does not take into account the cost related to special termination benefits. The calculations of pension, SERPA and postretirement healthcare obligations and costs are based on many factors in addition to those discussed here. This information should be considered in combination with the information provided in *Note 15 of the Notes to Consolidated financial statements*.

**Income Taxes** – The Company accounts for income taxes in accordance with *Accounting Standards Codification Topic 740, Income Taxes* (Topic 740). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and other loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company reviews its deferred income tax asset valuation allowances on a quarterly basis or whenever events or changes in circumstances indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or consolidated group recording the net deferred income tax asset is considered, along with any positive or negative evidence including tax law changes. Since future financial results and tax law may differ from previous estimates, periodic adjustments to the Company's valuation allowances may be necessary.

The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. These tax laws and regulations are complex and significant judgment is required in determining the Company's worldwide provision for income taxes and recording the related deferred tax assets and liabilities.

In the ordinary course of the Company's business, there are transactions and calculations where the ultimate tax determination is uncertain. Accruals for unrecognized tax benefits are provided for in accordance with the requirements of Topic 740. An unrecognized tax benefit represents the difference between the recognition of benefits related to items for income tax reporting purposes and financial reporting purposes. The unrecognized tax benefit is included within *Other long-term liabilities* on the *Consolidated balance sheets*. The Company has a liability for interest and penalties on exposure items, if applicable, which is recorded as a component of the overall income tax provision. The Company is regularly audited by tax authorities as a normal course of business. Although the outcome of tax audits is always uncertain, the Company believes that it has appropriate support for the positions taken on its tax returns and that its annual tax provision includes amounts sufficient to pay any assessments<sup>(1)</sup>. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

Refer to *Note 4 of the Notes to Consolidated financial statements* for further discussion regarding the Company's income taxes.

## Commitments and Contingencies

The Company is subject to lawsuits and other claims related to environmental, product and other matters. In determining costs to accrue related to these items, the Company carefully analyzes cases and considers the likelihood of adverse judgments or outcomes, as well as the potential range of possible loss. Any amounts accrued for these matters are monitored on an ongoing basis and are updated based on new developments or new information as it becomes available for each matter. Refer to *Note 16 of the Notes to Consolidated financial statements* for a discussion of the Company's commitments and contingencies.

## Liquidity and Capital Resources

The Company's response to the COVID-19 pandemic included actions to preserve cash and secure additional liquidity. During 2020, the Company delivered on its previously disclosed plans to reduce planned capital and non-capital spending to preserve approximately \$250 million of cash in 2020 (excludes the impact of cash restructuring charges). In addition, the Company suspended all discretionary share repurchases and reduced its cash dividend to \$.02 per share in the second, third and fourth quarters of 2020. Going forward, the Company believes the Motorcycles segment operations will continue to be primarily funded through cash flows generated by operations.<sup>(1)</sup> The Company expects the Financial Services segment operations to continue to be funded with unsecured debt, unsecured commercial paper, asset-backed commercial paper conduit facilities, committed unsecured bank facilities, asset-backed securitizations and deposits.<sup>(1)</sup>

Through The Hardwire, the Company expects its business model to generate cash that will allow it to invest in the business and brand, fund The Hardwire initiatives, and return value to shareholders.<sup>(1)</sup> The Company's cash allocation priorities are first to fund growth through The Hardwire initiatives, then to reward shareholders through dividends. The Company's Board of Directors approved a 2021 first quarter dividend of \$.15 per share. At this time, significant discretionary share repurchases are not planned as the Company prioritizes cash for these top two priorities.<sup>(1)</sup>

The Company's strategy is to maintain a minimum of twelve months of its projected liquidity needs through a combination of cash and cash equivalents and availability under its credit facilities. The Company's cash and cash equivalents and availability under its credit and conduit facilities at December 31, 2020 were as follows (in thousands):

|  |    |                  |
|--|----|------------------|
| Cash and cash equivalents  | \$ | 3,257,203        |
| Availability under credit and conduit facilities:                      |    |                  |
| Credit facilities  |    | 750,726          |
| Asset-backed U.S. commercial paper conduit facility <sup>(a)</sup>     |    | 600,000          |
| Asset-backed Canadian commercial paper conduit facility <sup>(a)</sup> |    | 55,980           |
|  | \$ | <u>4,663,909</u> |

(a) Includes facilities expiring in the next 12 months which the Company expects to renew prior to expiration.<sup>(1)</sup>

To access the debt capital markets, the Company relies on credit rating agencies to assign short-term and long-term credit ratings. Generally, lower credit ratings result in higher borrowing costs and reduced access to debt capital markets. A credit rating agency may change or withdraw the Company's ratings based on its assessment of the Company's current and future ability to meet interest and principal repayment obligations. The Company's short-term debt ratings affect its ability to issue unsecured commercial paper. The Company's short- and long-term debt ratings as of December 31, 2020 were as follows:

|                   | Short-Term | Long-Term | Outlook  |
|-------------------|------------|-----------|----------|
| Moody's           | P3         | Baa3      | Stable   |
| Standard & Poor's | A2         | BBB       | Negative |
| Fitch             | F2         | A-        | Negative |

The Company recognizes that it must continue to monitor and adjust its business to changes in the lending environment. The Company intends to continue with a diversified funding profile through a combination of short-term and long-term funding vehicles and to pursue a variety of sources to obtain cost-effective funding.<sup>(1)</sup> The Financial Services operations could be negatively affected by higher costs of funding and increased difficulty of raising, or potential unsuccessful efforts to raise, funding in the short-term and long-term capital markets.<sup>(1)</sup> These negative consequences could in turn adversely affect the Company's business and results of operations in various ways, including through higher costs of capital, reduced funds available through its Financial Services operations to provide loans to independent dealers and their retail customers, and dilution to existing shareholders through the use of alternative sources of capital.

## Cash Flow Activity

Cash flow activities for the years ended December 31, were as follows (in thousands):

|   | 2020                | 2019                |
|---|---------------------|---------------------|
| Net cash provided by operating activities                                     | \$ 1,177,890        | \$ 868,272          |
| Net cash used by investing activities   | (66,783)            | (508,126)           |
| Net cash provided (used) by financing activities                              | 1,373,983           | (712,223)           |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | 18,712              | (2,305)             |
| Net increase (decrease) in cash, cash equivalents and restricted cash         | <u>\$ 2,503,802</u> | <u>\$ (354,382)</u> |

## Operating Activities

The increase in operating cash flow in 2020 compared to 2019 was primarily due to favorable changes in working capital, led by a decline in accounts receivable and inventory levels as well as favorable cash flows from decreased wholesale financing activity due to lower loan originations.

The Company continues to expect that it will generate sufficient cash inflows from operations to fund its ongoing operating cash requirements including those related to existing contractual commitments. The Company's purchase orders for inventory used in manufacturing generally do not become firm commitments until 90 days prior to expected delivery. The Company's material contractual operating cash commitments at December 31, 2020 relate to leases, retirement plan obligations and income taxes. The Company's long-term lease obligations and future payments are discussed further in *Note 10 of the Notes to Consolidated financial statements*. The Company's expected future contributions and benefit payments related to its defined benefit retirement plans are discussed further in *Note 15 of the Notes to Consolidated financial statements*. As described in *Note 4 of the Notes to Consolidated financial statements*, the Company has a liability for unrecognized tax benefits of \$50.6 million and related accrued interest and penalties of \$25.5 million as of December 31, 2020. The Company cannot reasonably estimate the period of cash settlement for either the liability for unrecognized tax benefits or accrued interest and penalties.

## Investing Activities

The Company's most significant investing activities consist of capital expenditures and retail finance receivable originations and collections. Capital expenditures were \$131.1 million and \$181.4 million during 2020 and 2019, respectively. The Company's 2021 plan includes estimated capital expenditures between \$190 to \$220 million, all of which the Company expects to fund with net cash flow generated by operations.<sup>(1)</sup>

Net cash outflows for finance receivables in 2020, which consisted primarily of retail finance receivables, were \$390.4 million lower than in 2019 primarily due to lower retail motorcycle loan originations during 2020. The Company funds its finance receivables net lending activity through the issuance of debt, discussed in "Financing Activities" below.

## Financing Activities

The Company's financing activities consist primarily of dividend payments, share repurchases and debt activities.

The Company paid dividends of \$0.44 per share totaling \$68.1 million during 2020 and \$1.50 per share totaling \$237.2 million during 2019.

Cash outflows for share repurchases were \$8.0 million and \$296.5 million for 2020 and 2019, respectively. In the first quarter of 2020, the Company suspended discretionary share repurchases; as a result, there were no discretionary share repurchases in 2020. Discretionary share repurchases during the year ended December 31, 2019 were \$286.7 million or 8.2 million shares. Share repurchases of common stock that employees surrendered to satisfy withholding taxes in connection with the vesting of restricted stock units were \$8.0 million or 0.3 million shares and \$9.8 million or 0.3 million shares during the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020, there were 18.2 million shares remaining on a board-approved share repurchase authorization.



Financing cash flows related to debt and deposit activities resulted in net cash inflows/(outflows) of \$1.45 billion and \$(182.1) million for 2020 and 2019, respectively. The Company's total outstanding debt and deposits consisted of the following as of December 31, (in thousands):

|   | 2020                | 2019                |
|---|---------------------|---------------------|
| <b>Outstanding debt:</b>                                |                     |                     |
| Unsecured commercial paper                              | \$ 1,014,274        | \$ 571,995          |
| Asset-backed Canadian commercial paper conduit facility | 116,678             | 114,693             |
| Asset-backed U.S. commercial paper conduit facilities   | 402,205             | 490,427             |
| Asset-backed securitization debt, net                   | 1,791,956           | 764,392             |
| Medium-term notes, net                                  | 4,917,714           | 4,760,127           |
| Senior notes, net                                       | 743,977             | 743,296             |
|   | <u>\$ 8,986,804</u> | <u>\$ 7,444,930</u> |
| <b>Deposits</b>   | <b>\$ 79,965</b>    | <b>\$ —</b>         |

Refer to *Note 11 of the Notes to Consolidated financial statements* for a summary of future principal payments on debt obligations.

*Deposits* – During 2020, HDFFS began offering brokered certificates of deposit to customers indirectly through contractual arrangements with third-party banks and/or securities brokerage firms through its bank subsidiary. At December 31, 2020, the Company had \$80.0 million, net of fees, of short-term interest-bearing brokered certificates of deposit outstanding. Each separate brokered certificate of deposit is issued under a master certificate and, as such, all outstanding brokered certificates of deposit are considered below the Federal Deposit Insurance Corporation (FDIC) insurance coverage limits.

*Credit Facilities* – In April 2020, the Company entered into a \$707.5 million five-year credit facility to replace the \$765.0 million five-year credit facility that was due to mature in April 2021. The new five-year credit facility matures in April 2025. The Company also amended its \$780.0 million five-year credit facility to \$707.5 million with no change to the maturity date of April 2023. The Company also had a \$195.0 million 364-day credit facility which was due to mature in May 2020. In April 2020, the Company extended the maturity date of this credit facility to August 2020; however, this facility was terminated on May 18, 2020. At the time of termination, there were no outstanding borrowings under this 364-day credit facility. On June 1, 2020, the Company entered into a new \$350.0 million 364-day credit facility, and on June 4, 2020, the Company borrowed \$150.0 million under this facility. On December 9, 2020, the Company amended this facility to allow for the early repayment of the \$150.0 million borrowing, which was repaid in full on this date, along with the related interest. The five-year credit facilities (together, the Global Credit Facilities), as well as the \$350.0 million 364-day credit facility, bear interest at variable rates, which may be adjusted upward or downward depending on certain criteria, such as credit ratings. The Global Credit Facilities and the \$350.0 million 364-day credit facility also require the Company to pay a fee based on the average daily unused portion of the aggregate commitments. The Global Credit Facilities are committed facilities primarily used to support the Company's unsecured commercial paper program.

*Unsecured Commercial Paper* – Subject to limitations, the Company could issue unsecured commercial paper of up to \$1.42 billion as of December 31, 2020 supported by the Global Credit Facilities. Outstanding unsecured commercial paper may not exceed the unused portion of the Global Credit Facilities. Maturities may range up to 365 days from the issuance date. The Company intends to repay unsecured commercial paper as it matures with additional unsecured commercial paper or through other means, such as borrowing under the Global Credit Facilities or the \$350.0 million 364-day credit facility, borrowing under its asset-backed U.S. commercial paper conduit facilities or through the use of operating cash flow and cash on hand.<sup>(1)</sup>

*Medium-Term Notes* – The Company has the following unsecured medium-term notes issued and outstanding at December 31, 2020 (in thousands):

| Principal Amount         | Rate          | Issue Date    | Maturity Date |
|--------------------------|---------------|---------------|---------------|
| \$600,000                | 2.85%         | January 2016  | January 2021  |
| \$450,000                | LIBOR + 0.94% | November 2018 | March 2021    |
| \$350,000                | 3.55%         | May 2018      | May 2021      |
| \$550,000                | 4.05%         | February 2019 | February 2022 |
| \$400,000                | 2.55%         | June 2017     | June 2022     |
| \$350,000                | 3.35%         | February 2018 | February 2023 |
| \$797,206 <sup>(a)</sup> | 4.94%         | May 2020      | May 2023      |
| \$735,882 <sup>(b)</sup> | 3.14%         | November 2019 | November 2024 |
| \$700,000                | 3.35%         | June 2020     | June 2025     |

(a) Euro denominated €650.0 million par value remeasured to U.S. dollar at December 31, 2020

(b) Euro denominated €600.0 million par value remeasured to U.S. dollar at December 31, 2020

The fixed-rate U.S. dollar-denominated medium-term notes provide for semi-annual interest payments, the fixed-rate foreign currency-denominated medium-term notes provide for annual interest payments, and the floating-rate medium-term notes provide for quarterly interest payments. Principal on the medium-term notes is due at maturity. Unamortized discounts and debt issuance costs on the medium-term notes reduced the outstanding balance by \$15.4 million and \$12.8 million at December 31, 2020 and 2019, respectively.

*Senior Notes* – In July 2015, the Company issued \$750.0 million of unsecured senior notes in an underwritten offering. The senior notes provide for semi-annual interest payments and principal due at maturity. \$450.0 million of the senior notes mature in July 2025 and have an interest rate of 3.50%, and \$300.0 million of the senior notes mature in July 2045 and have an interest rate of 4.625%. The Company used the proceeds from the debt to repurchase shares of its common stock in 2015.

*On-Balance Sheet Asset-Backed Canadian Commercial Paper Conduit Facility* – The Company has a revolving facility agreement (Canadian Conduit) with a Canadian bank-sponsored asset-backed commercial paper conduit. Under the agreement, the Canadian Conduit is contractually committed, at the Company's option, to purchase from the Company eligible Canadian retail motorcycle finance receivables for proceeds up to C\$220.0 million. The transferred assets are restricted as collateral for the payment of the associated debt. The terms for this facility provide for interest on the outstanding principal based on prevailing market interest rates plus a specified margin. The Canadian Conduit also provides for a program fee and an unused commitment fee based on the unused portion of the total aggregate commitment of C\$220.0 million. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the Canadian Conduit, any outstanding principal will continue to be reduced monthly through available collections. The expected remaining term of the related receivables is approximately 4 years. Unless earlier terminated or extended by mutual agreement between the Company and the lenders, as of December 31, 2020, the Canadian Conduit has an expiration date of June 25, 2021.

In 2020, the Company transferred \$77.9 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$61.6 million. In 2019, the Company transferred \$28.2 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$23.4 million.

*On-Balance Sheet Asset-Backed U.S. Commercial Paper Conduit Facilities VIE* – Until November 25, 2020, the Company had two separate agreements with third-party bank-sponsored asset-backed U.S. commercial paper conduits, a \$300.0 million revolving facility agreement and a \$600.0 million revolving facility agreement (together, the Former U.S. Conduit Facilities). On November 25, 2020, the Company amended each revolving facility agreement by consolidating the two agreements into one \$900.0 million revolving facility agreement with third-party bank-sponsored asset-backed U.S. commercial paper conduits. Under the revolving facility agreement, the Company may transfer U.S. retail motorcycle finance receivables to an SPE, which in turn may issue debt to those third-party bank-sponsored asset-backed U.S. commercial paper conduits. In addition to the \$900.0 million aggregate commitment, the agreement allows for additional borrowings, at the lender's discretion, of up to \$300.0 million. Availability under the \$900.0 million revolving facility (the U.S. Conduit Facility) is based on, among other things, the amount of eligible U.S. retail motorcycle finance receivables held by the SPE as collateral.

In 2020, the Company transferred \$195.3 million of U.S. retail motorcycle finance receivables to an SPE which, in turn, issued \$163.6 million of debt under the Former U.S. Conduit Facilities. In 2019, the Company transferred \$174.4 million of U.S. retail motorcycle finance receivables to an SPE which, in turn, issued \$154.6 million of debt under the Former U.S. Conduit Facilities.

The terms for this debt provide for interest on the outstanding principal based on prevailing commercial paper rates if funded by a conduit lender through the issuance of commercial paper. If not funded by a conduit lender through the issuance of commercial paper, the terms of the interest are based on LIBOR. In each of these cases, a program fee is assessed based on the outstanding principal. The U.S. Conduit Facility also provides for an unused commitment fee based on the unused portion of the total aggregate commitment. When calculating the unused fee, the aggregate commitment does not include any unused portion of the \$300.0 million additional borrowings allowed. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the U.S. Conduit Facility, any outstanding principal will continue to be reduced monthly through available collections. The expected remaining term of the related receivables held by the SPE is approximately 4 years. Unless earlier terminated or extended by mutual agreement of the Company and the lenders, as of December 31, 2020, the U.S. Conduit Facility has an expiration date of November 19, 2021.

*Asset-Backed Securitization VIEs* – For all of its asset-backed securitization transactions, the Company transfers U.S. retail motorcycle finance receivables to separate VIEs, which in turn issue secured notes with various maturities and interest rates to investors. All of the notes held by the VIEs are secured by future collections of the purchased U.S. retail motorcycle finance receivables. The U.S. retail motorcycle finance receivables included in the asset-backed securitization transactions are not available to pay other obligations or claims of the Company's creditors until the associated debt and other obligations are satisfied. Restricted cash balances held by the VIEs are used only to support the asset-backed securitizations.

The accounting treatment for asset-backed securitizations depends on the terms of the related transaction and the Company's continuing involvement with the VIE. The Company's current outstanding asset-backed securitizations do not meet the criteria to be accounted for as a sale because, in addition to retaining servicing rights, the Company retains a financial interest in the VIE in the form of a debt security. These transactions are treated as secured borrowings. As secured borrowings, the retail motorcycle finance receivables remain on the balance sheet with a corresponding obligation reflected as debt. There is no amortization schedule for the secured notes; however, the debt is reduced monthly as available collections on the related retail motorcycle finance receivables are applied to outstanding principal. The secured notes have various contractual maturities ranging from 2022 to 2028.

In 2020, the Company transferred \$2.42 billion of U.S. retail motorcycle finance receivables to four separate SPEs which, in turn, issued \$2.08 billion, or \$2.06 billion net of discounts and issuance costs, of secured notes through four separate on-balance-sheet asset-backed securitization transactions. In 2019, the Company transferred \$1.12 billion of U.S. retail motorcycle finance receivables to two separate SPEs which, in turn, issued \$1.03 billion, or \$1.02 billion net of discount and issuance costs, of secured notes through two separate on-balance sheet asset-backed securitization transactions.

*Support Agreement* – The Company has a support agreement with HDFFS whereby, if required, the Company agrees to provide HDFFS with financial support to maintain HDFFS' fixed-charge coverage at 1.25 and minimum net worth of \$40.0 million. Support may be provided at the Company's option as capital contributions or loans. Accordingly, certain debt covenants may restrict the Company's ability to withdraw funds from HDFFS outside the normal course of business. No amount has ever been provided to HDFFS under the support agreement.

*Operating and Financial Covenants* – HDFFS and the Company are subject to various operating and financial covenants related to the credit facilities and various operating covenants under the medium-term and senior notes and the U.S. and Canadian asset-backed commercial paper conduit facilities. The more significant covenants are described below.

The operating covenants limit the Company's and HDFFS' ability to:

- Assume or incur certain liens;
- Participate in certain mergers or consolidations; and
- Purchase or hold margin stock.

Under the current financial covenants of the Global Credit Facilities, the ratio of HDFS' consolidated debt, excluding secured debt, to HDFS' consolidated allowance for credit losses on finance receivables plus HDFS' consolidated shareholders' equity, excluding accumulated other comprehensive loss (AOCL), cannot exceed 10.0 to 1.0 as of the end of any fiscal quarter. In addition, the ratio of the Company's consolidated debt to the Company's consolidated debt and consolidated shareholders' equity (where the Company's consolidated debt in each case excludes that of HDFS and its subsidiaries, and the Company's consolidated shareholders' equity excluding AOCL), cannot exceed 0.7 to 1.0 as of the end of any fiscal quarter. No financial covenants are required under the medium-term and senior notes or the U.S. or Canadian asset-backed commercial paper conduit facilities.

At December 31, 2020 and 2019, HDFS and the Company remained in compliance with all of the then existing covenants.

### **Cautionary Statements**

The Company intends that certain matters discussed in this report are "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such by reference to this footnote or because the context of the statement will include words such as the Company "believes," "anticipates," "expects," "plans," "may," "will," "estimates," "targets," "intend" or words of similar meaning. Similarly, statements that describe or refer to future expectations, future plans, strategies, objectives, outlooks, targets, guidance, commitments or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially, unfavorably or favorably, from those anticipated as of the date of this report. Certain of such risks and uncertainties are described below. Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this report are only made as of the date of this report, and the Company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Important factors that could affect future results and cause those results to differ materially from those expressed in the forward-looking statements include, among others, the following: (i) the COVID-19 pandemic, including the length and severity of the pandemic across the globe and the pace of recovery following the pandemic and (ii) the Company's ability to: (a) execute its business plans and strategies, including The Hardwire, successfully execute its remodeled approach to supply and inventory management, and strengthen its existing business while allowing for desirable growth; (b) accurately analyze, predict and react to changing market conditions and successfully adjust to shifting global consumer needs and interests, including successfully implementing a distributor model in fifteen international markets; (c) successfully access the capital and/or credit markets on terms that are acceptable to the Company and within its expectations; (d) successfully carry out its global manufacturing and assembly operations; (e) develop and introduce products, services and experiences on a timely basis that the market accepts, that enable the Company to generate desired sales levels and that provide the desired financial returns, including successfully implementing and executing plans to strengthen and grow its leadership position in Touring, large Cruiser and Trike, and growing its complementary businesses; (f) perform in a manner that enables the Company to benefit from market opportunities while competing against existing and new competitors; (g) prevent, detect, and remediate any issues with its motorcycles or any issues associated with the manufacturing processes to avoid delays in new model launches, recall campaigns, regulatory agency investigations, increased warranty costs or litigation and adverse effects on its reputation and brand strength, and carry out any product programs or recalls within expected costs and timing; (h) manage supply chain issues, including quality issues and any unexpected interruptions or price increases caused by raw material shortages or natural disasters; (i) manage the impact that prices for and supply of used motorcycles may have on its business, including on retail sales of new motorcycles; (j) realize expectations concerning market demand for electric models, which will depend in part on the building of necessary infrastructure; (k) successfully manage and reduce costs throughout the business; (l) manage through changes in general economic and business conditions, including changing capital, credit and retail markets, and the changing political environment; (m) continue to develop the capabilities of its distributors and dealers, effectively implement changes relating to its dealers and distribution methods and manage the risks that its independent dealers may have difficulty obtaining capital and managing through changing economic conditions and consumer demand; (n) develop and maintain a productive relationship with Zhejiang Qianjiang Motorcycle Co., Ltd. and launch related products in a timely manner; (o) develop and maintain a productive relationship with Hero MotoCorp as a distributor and licensee of the Harley-Davidson brand name in India; (p) manage and predict the impact that new or adjusted tariffs may have on the Company's ability to sell products internationally, and the cost of raw materials and components; (q) successfully maintain a manner in which to sell motorcycles in the European Union, China, and the Company's Association of Southeast Asian Nations (ASEAN) countries that does not subject its motorcycles to incremental tariffs; (r) manage its Thailand corporate and manufacturing operation in a manner that allows the Company to avail itself of preferential free trade agreements and duty rates, and sufficiently lower prices of its motorcycles in certain markets; (s) accurately estimate and adjust to fluctuations in foreign currency exchange rates, interest rates and commodity prices; (t) retain and attract talented employees, and eliminate personnel duplication, inefficiencies and complexity throughout the organization; (u) prevent a cybersecurity breach involving

consumer, employee, dealer, supplier, or Company data and respond to evolving regulatory requirements regarding data security; (v) manage the credit quality, the loan servicing and collection activities, and the recovery rates of HDFS' loan portfolio; (w) adjust to tax reform, healthcare inflation and reform and pension reform, and successfully estimate the impact of any such reform on the Company's business; (x) manage through the effects inconsistent and unpredictable weather patterns may have on retail sales of motorcycles; (y) implement and manage enterprise-wide information technology systems, including systems at its manufacturing facilities; (z) manage changes and prepare for requirements in legislative and regulatory environments for its products, services and operations; (aa) manage its exposure to product liability claims and commercial or contractual disputes; (bb) continue to manage the relationships and agreements that the Company has with its labor unions to help drive long-term competitiveness; (cc) accurately predict the margins of its Motorcycles and Related Products segment in light of, among other things, tariffs, the cost associated with product development initiatives and the Company's complex global supply chain; and (dd) successfully develop and launch the pre-owned motorcycle program, Harley-Davidson Certified.

The Company's operations, demand for its products, and its liquidity could be adversely impacted by work stoppages, facility closures, strikes, natural causes, widespread infectious disease, terrorism, or other factors. Other factors are described in *Item 1A. Risk Factors* of this report. Many of these risk factors are impacted by the current changing capital, credit and retail markets and the Company's ability to manage through inconsistent economic conditions.

The Company's ability to sell its motorcycles and related products and services and to meet its financial expectations also depends on the ability of the Company's independent dealers to sell its motorcycles and related products and services to retail customers. The Company depends on the capability and financial capacity of its independent dealers to develop and implement effective retail sales plans to create demand for the motorcycles and related products and services they purchase from the Company. In addition, the Company's independent dealers and distributors may experience difficulties in operating their businesses and selling Harley-Davidson motorcycles and related products and services as a result of weather, economic conditions, the impact of the COVID-19 pandemic, or other factors.

In recent years, HDFS has experienced historically low levels of retail credit losses, but there is no assurance that this will continue. The Company believes that HDFS' retail credit losses may increase over time due to changing consumer credit behavior and HDFS' efforts to increase prudently structured loan approvals to sub-prime borrowers, as well as actions that the Company has taken and could take that impact motorcycle values.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The Company is exposed to market risk from changes in foreign currency exchange rates, commodity prices and interest rates. To reduce such risks, the Company selectively uses derivative financial instruments. All hedging transactions are authorized and executed pursuant to regularly reviewed policies and procedures, which prohibit the use of financial instruments for speculative trading purposes. Sensitivity analysis is used to manage and monitor foreign currency exchange rate and interest rate risks. Further disclosure relating to the fair value of the Company's derivative financial instruments is included in *Note 9 of the Notes to Consolidated financial statements*.

#### **Motorcycles and Related Products Segment**

The Company sells its motorcycles and related products internationally and in most markets those sales are made in the foreign country's local currency. As a result, the Motorcycles segment operating results are affected by fluctuations in the value of the U.S. dollar relative to foreign currencies. The Company's most significant foreign currency exchange rate risk resulting from the sale of motorcycles and related products relates to the Euro, Australian dollar, Japanese yen, Brazilian real, Canadian dollar, Mexican peso, Chinese yuan, Indian rupee, Singapore dollar, Thai baht and Pound sterling. The Company utilizes foreign currency contracts to mitigate the effect of certain currencies' fluctuations on Motorcycles segment operating results. The foreign currency contracts are entered into with banks and allow the Company to exchange currencies at a future date, based on a fixed exchange rate. At December 31, 2020 and 2019, the notional U.S. dollar value of outstanding foreign currency contracts was \$779.4 million and \$654.5 million, respectively. The Company estimates that a uniform 10% weakening in the value of the U.S. dollar relative to the currencies underlying these contracts would result in a decrease in the fair value of the contracts of approximately \$80.2 million and \$65.5 million as of December 31, 2020 and 2019, respectively.

The Company purchases commodities for use in the production of motorcycles. As a result, Motorcycles segment operating income is affected by changes in commodity prices. The Company uses derivative financial instruments on a limited basis to hedge the prices of certain commodities. At December 31, 2020, the notional value of these instruments was \$7.5 million and the fair value was a net asset of \$0.8 million. As of December 31, 2019, the notional value of these instruments was \$8.9 million and the fair value was a net liability of \$0.1 million. The potential decrease in fair value of these contracts from a 10% adverse change in the underlying commodity prices would not be significant.

## Financial Services Segment

The Company has interest rate sensitive financial instruments including finance receivables, debt and interest rate derivative financial instruments. As a result, Financial Services operating income is affected by changes in interest rates. The Company utilizes interest rate swaps and caps to reduce the impact of fluctuations in interest rates on its floating-rate medium-term notes and its asset-backed securitization transactions, respectively. As of December 31, 2020, HDFS had interest rate swaps outstanding with a notional value of \$450.0 million and interest rate caps outstanding with a notional value of \$978.1 million. As of December 31, 2019, HDFS had interest rate swaps outstanding with a notional value of \$900.0 million and interest rate caps with a notional value of \$376.0 million. As of December 31, 2020, HDFS estimates that a 10% decrease in interest rates would not result in a material change to the fair value of the interest rate swap and cap agreements. As of December 31, 2019, HDFS estimated that a 10% decrease in interest rates would result in a decrease in the fair value of the interest rate swap and cap agreements of \$10.2 million.

HDFS has also has short-term commercial paper and debt issued through the commercial paper conduit facilities that is subject to changes in interest rates which it does not hedge. The Company estimates that a one-percentage point increase in the interest rate on commercial paper and debt issued through the commercial paper conduit facilities would increase *Financial Services interest expense* in 2021 by approximately \$15.5 million. This analysis does not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change in interest rates, the Company may take actions to mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis does not account for these impacts.

The Company has foreign denominated medium-term notes. As a result, Financial Services operating income is affected by fluctuations in the value of the U.S. dollar relative to foreign currencies and interest rates. At December 31, 2020, this exposure related to the Euro. The Company utilizes cross-currency swaps to mitigate the effect of the foreign currency exchange rate and interest rate fluctuations related to foreign denominated debt. At December 31, 2020 and 2019, the Company has cross-currency swaps outstanding with a notional value of \$1.4 billion and \$660.8 million, respectively. The Company estimates that a 10% adverse change in the underlying foreign currency exchange rate and interest rate would result in a \$170.6 million and \$76.2 million decrease in the fair value of the swap agreements as of December 31, 2020 and 2019, respectively. The amount as of December 31, 2019 reflects a revision to the amount included in the Company's 2019 Annual Report on Form 10-K.

**Item 8. Consolidated Financial Statements and Supplementary Data**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Harley-Davidson, Inc.

### Opinion on Internal Control over Financial Reporting

We have audited Harley-Davidson, Inc.'s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Harley-Davidson, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Harley-Davidson, Inc. as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and financial statement schedule listed in the Index at item 15(a) and our report dated February 23, 2021 expressed an unqualified opinion thereon.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definitions and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP  
Milwaukee, Wisconsin  
February 23, 2021



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Harley-Davidson, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Harley-Davidson, Inc. (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and financial statement schedule listed in the Index at item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Harley-Davidson, Inc. at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 23, 2021 expressed an unqualified opinion thereon.

### Adoption of ASU 2016-13

As discussed in Note 1 of the consolidated financial statements, the Company changed its method of accounting for credit losses in 2020 due to the adoption of Accounting Standards Update (ASU) No. 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and the related amendments. See below for discussion of our related critical audit matter.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### **Allowance for Credit Losses - Retail Finance Receivables**

*Description of the Matter*

The Company's retail receivable portfolio totaled \$6.3 billion as of December 31, 2020, and the associated allowance for credit losses (ACL) was \$371.7 million. As discussed above and in Notes 1 and 7 to the consolidated financial statements, effective January 1, 2020, the Company adopted ASU 2016-13, Financial Instruments – Credit Losses (ASC 326): Measurement of Credit Losses on Financial Instruments, which requires the Company to recognize expected lifetime losses on finance receivables held at amortized cost, upon origination. Upon adoption, the Company increased its ACL by \$100.6 million and reduced retained earnings net, of deferred taxes, by \$78.2 million through a cumulative-effect adjustment. The Company utilizes a vintage-based loss forecast methodology to measure the expected retail finance receivables credit losses. Economic forecasts for a two-year period are incorporated into the methodology to reflect the estimated impact of changes in future economic conditions. To establish the economic forecasts, management considers various third-party economic forecast scenarios and applies a probability-weighting to those economic forecast scenarios. For periods beyond the Company's incorporated economic forecasts, the Company reverts to its average historical loss experience using a mean-reversion process over a three-year period. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, or term as well as other relevant factors.

Auditing management's estimate of the ACL for retail finance receivables was especially challenging due to the complexity of management's retail receivables loss forecasting models and subjective management assumptions applied in determining the probability-weighting of its economic forecasts.

*How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design, and tested the operating effectiveness of internal controls over the ACL process. These procedures included testing controls over management's review of key assumptions such as the economic forecasts, the development and operation of the ACL models, and the completeness and accuracy of key inputs and assumptions used in the ACL models.

To test the ACL, our audit procedures included, among others, evaluating the Company's loss forecasting models, the economic forecasts prepared by management, and the underlying data used in the models. We involved our internal specialists in evaluating the model methodology and model performance and tested key modeling assumptions. We evaluated management's judgments in probability-weighting different third-party economic forecast scenarios and compared management's economic forecasts to other available information for contrary or corroborative evidence. Additionally, we tested the accuracy of data utilized within the models and re-performed the model calculations for a sample of loans. In addition, we reviewed the Company's historical loss statistics, peer information, and subsequent events and considered whether this information corroborates or contradicts management's measurement of the ACL.

### **Restructuring activities**

*Description of the Matter*

The Company recorded \$130.0 million of restructuring expenses during the year ended December 31, 2020. As discussed in Note 3 to the consolidated financial statements, restructuring activities included a workforce reduction, the termination of certain products, facility changes, optimizing the global independent dealer network, exiting certain international markets, and discontinuing the sales and manufacturing operations in India. These actions resulted in restructuring expenses that included employee termination costs, contract termination costs and non-current asset adjustments. The Company's liability for accrued restructuring expenses was \$23.9 million as of December 31, 2020.

Auditing the Company's restructuring expenses was complex due to the comprehensive scope of the different actions taken which required management to assess the timing of recognition of the costs associated with these actions. In addition, determining the classification and disclosure of restructuring expenses in the consolidated financial statement required the Company to maintain detailed record-keeping of the various restructuring activities.

*How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design, and tested the operating effectiveness of internal controls over the restructuring process. These procedures included testing controls over authorization of the significant restructuring actions, management's review and assessment of the accounting treatment and timing of recognition for significant actions, and the Company's review of the presentation and disclosure of restructuring activities.

To test the restructuring costs and year-end restructuring liability, our audit procedures included, among others, gaining an understanding of approved restructuring actions and evaluating the accounting treatment and timing of recognition for significant actions. In addition, we tested the Company's computation of restructuring expenses and year-end liability, reviewed a sample of contracts and settlement agreements, and tested cash payments made related to the restructuring actions. We also tested the presentation and disclosure of the restructuring expenses in the consolidated financial statements.

/s/ Ernst & Young LLP  
We have served as the Company's auditor since 1982  
Milwaukee, Wisconsin  
February 23, 2021

**HARLEY-DAVIDSON, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Years ended December 31, 2020, 2019 and 2018**  
(In thousands, except per share amounts)

|   | 2020             | 2019              | 2018              |
|---|------------------|-------------------|-------------------|
| <b>Revenue:</b>                                     |                  |                   |                   |
| Motorcycles and Related Products                    | \$ 3,264,054     | \$ 4,572,678      | \$ 4,968,646      |
| Financial Services                                  | 790,323          | 789,111           | 748,229           |
|   | <u>4,054,377</u> | <u>5,361,789</u>  | <u>5,716,875</u>  |
| <b>Costs and expenses:</b>                          |                  |                   |                   |
| Motorcycles and Related Products cost of goods sold | 2,435,745        | 3,229,798         | 3,351,796         |
| Financial Services interest expense                 | 246,447          | 210,438           | 193,187           |
| Financial Services provision for credit losses      | 181,870          | 134,536           | 106,870           |
| Selling, administrative and engineering expense     | 1,050,627        | 1,199,056         | 1,258,098         |
| Restructuring expense                               | 130,009          | 32,353            | 93,401            |
|   | <u>4,044,698</u> | <u>4,806,181</u>  | <u>5,003,352</u>  |
| Operating income                                    | 9,679            | 555,608           | 713,523           |
| Other (expense) income, net                         | (1,848)          | 16,514            | 3,039             |
| Investment income                                   | 7,560            | 16,371            | 951               |
| Interest expense                                    | 31,121           | 31,078            | 30,884            |
| (Loss) income before income taxes                   | (15,730)         | 557,415           | 686,629           |
| Income tax (benefit) provision                      | (17,028)         | 133,780           | 155,178           |
| Net income  | <u>\$ 1,298</u>  | <u>\$ 423,635</u> | <u>\$ 531,451</u> |
| <b>Earnings per share:</b>                          |                  |                   |                   |
| Basic   | \$ 0.01          | \$ 2.70           | \$ 3.21           |
| Diluted   | \$ 0.01          | \$ 2.68           | \$ 3.19           |
| Cash dividends per share                            | \$ 0.44          | \$ 1.50           | \$ 1.48           |

The accompanying notes are integral to the consolidated financial statements.

**HARLEY-DAVIDSON, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**Years ended December 31, 2020, 2019 and 2018**  
(In thousands)

|  | 2020             | 2019              | 2018              |
|--|------------------|-------------------|-------------------|
| Net income                                     | \$ 1,298         | \$ 423,635        | \$ 531,451        |
| Other comprehensive income (loss), net of tax: |                  |                   |                   |
| Foreign currency translation adjustments       | 33,224           | 8,795             | (25,010)          |
| Derivative financial instruments               | (31,530)         | (16,371)          | 20,009            |
| Pension and postretirement benefit plans       | 51,838           | 100,311           | (16,286)          |
|  | <u>53,532</u>    | <u>92,735</u>     | <u>(21,287)</u>   |
| Comprehensive income                           | <u>\$ 54,830</u> | <u>\$ 516,370</u> | <u>\$ 510,164</u> |

The accompanying notes integral part to the consolidated financial statements.

**HARLEY-DAVIDSON, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2020 and 2019  
(In thousands)

|  | 2020                 | 2019                 |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| Current assets:  |                      |                      |
| Cash and cash equivalents  | \$ 3,257,203         | \$ 833,868           |
| Accounts receivable, net   | 143,082              | 259,334              |
| Finance receivables, net of allowance of \$72,632 and \$43,006   | 1,509,539            | 2,272,522            |
| Inventories, net   | 523,497              | 603,571              |
| Restricted cash  | 131,642              | 64,554               |
| Other current assets   | 280,470              | 168,974              |
|  | <u>5,845,433</u>     | <u>4,202,823</u>     |
| Finance receivables, net of allowance of \$318,304 and \$155,575 | 4,933,469            | 5,101,844            |
| Property, plant and equipment, net                               | 743,784              | 847,382              |
| Pension and postretirement assets                                | 95,711               | 56,014               |
| Goodwill   | 65,976               | 64,160               |
| Deferred income taxes  | 158,538              | 101,204              |
| Lease assets   | 45,203               | 61,618               |
| Other long-term assets   | 122,487              | 93,114               |
|  | <u>\$ 12,010,601</u> | <u>\$ 10,528,159</u> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                      |                      |                      |
| Current liabilities:   |                      |                      |
| Accounts payable   | \$ 290,904           | \$ 294,380           |
| Accrued liabilities  | 557,214              | 582,288              |
| Deposits   | 79,965               | —                    |
| Short-term debt  | 1,014,274            | 571,995              |
| Current portion of long-term debt, net                           | 2,039,597            | 1,748,109            |
|  | <u>3,981,954</u>     | <u>3,196,772</u>     |
| Long-term debt, net  | 5,932,933            | 5,124,826            |
| Lease liabilities  | 30,115               | 44,447               |
| Pension and postretirement liabilities                           | 114,206              | 128,651              |
| Deferred income taxes  | 8,607                | 8,135                |
| Other long-term liabilities                                      | 220,001              | 221,329              |
| Commitments and contingencies (Note 16)                          |                      |                      |
| Shareholders' equity:  |                      |                      |
| Preferred stock, none issued                                     | —                    | —                    |
| Common stock (Note 5)  | 1,685                | 1,828                |
| Additional paid-in-capital                                       | 1,507,706            | 1,491,004            |
| Retained earnings  | 1,284,823            | 2,193,997            |
| Accumulated other comprehensive loss                             | (483,417)            | (536,949)            |
| Treasury stock, at cost (Note 5)                                 | (588,012)            | (1,345,881)          |
|  | <u>1,722,785</u>     | <u>1,803,999</u>     |
|  | <u>\$ 12,010,601</u> | <u>\$ 10,528,159</u> |

**HARLEY-DAVIDSON, INC.**  
**CONSOLIDATED BALANCE SHEETS (continued)**  
**December 31, 2020 and 2019**  
(In thousands)

|  | <u>2020</u>  | <u>2019</u>  |
|--|--------------|--------------|
| Balances held by consolidated variable interest entities (Note 12) |              |              |
| Finance receivables, net - current                                 | \$ 530,882   | \$ 291,444   |
| Other assets   | \$ 3,753     | \$ 2,420     |
| Finance receivables, net - non-current                             | \$ 1,889,472 | \$ 1,027,179 |
| Restricted cash - current and non-current                          | \$ 142,892   | \$ 63,812    |
| Current portion of long-term debt, net                             | \$ 608,987   | \$ 317,607   |
| Long-term debt, net  | \$ 1,585,174 | \$ 937,212   |

The accompanying notes are integral to the consolidated financial statements.

**HARLEY-DAVIDSON, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years ended December 31, 2020, 2019 and 2018**  
(In thousands)

|   | 2020                | 2019                | 2018                |
|---|---------------------|---------------------|---------------------|
| Net cash provided by operating activities (Note 6)  | \$ 1,177,890        | \$ 868,272          | \$ 1,205,921        |
| Cash flows from investing activities:   |                     |                     |                     |
| Capital expenditures  | (131,050)           | (181,440)           | (213,516)           |
| Origination of finance receivables  | (3,497,486)         | (3,847,322)         | (3,752,817)         |
| Collections on finance receivables  | 3,540,289           | 3,499,717           | 3,325,669           |
| Purchases of marketable securities  | —                   | —                   | (10,007)            |
| Sales and redemptions of marketable securities  | —                   | 10,007              | —                   |
| Acquisition of business   | —                   | (7,000)             | —                   |
| Other investing activities  | 21,464              | 17,912              | (11,598)            |
| Net cash used by investing activities   | (66,783)            | (508,126)           | (662,269)           |
| Cash flows from financing activities:   |                     |                     |                     |
| Proceeds from issuance of medium-term notes   | 1,396,602           | 1,203,236           | 1,591,828           |
| Repayments of medium-term notes   | (1,400,000)         | (1,350,000)         | (877,488)           |
| Proceeds from securitization debt   | 2,064,450           | 1,021,453           | —                   |
| Repayments of securitization debt   | (1,041,751)         | (353,251)           | (257,869)           |
| Borrowings of asset-backed commercial paper   | 225,187             | 177,950             | 509,742             |
| Repayments of asset-backed commercial paper   | (318,828)           | (318,006)           | (212,729)           |
| Net increase (decrease) in unsecured commercial paper   | 444,380             | (563,453)           | (135,356)           |
| Deposits  | 79,947              | —                   | —                   |
| Dividends paid  | (68,087)            | (237,221)           | (245,810)           |
| Repurchase of common stock  | (8,006)             | (296,520)           | (390,606)           |
| Issuance of common stock under share-based plans  | 89                  | 3,589               | 3,525               |
| Net cash provided (used) by financing activities  | 1,373,983           | (712,223)           | (14,763)            |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash   | 18,712              | (2,305)             | (15,351)            |
| Net increase (decrease) in cash, cash equivalents and restricted cash   | <u>\$ 2,503,802</u> | <u>\$ (354,382)</u> | <u>\$ 513,538</u>   |
| Cash, cash equivalents and restricted cash:   |                     |                     |                     |
| Cash, cash equivalents and restricted cash, beginning of period   | \$ 905,366          | \$ 1,259,748        | \$ 746,210          |
| Net increase (decrease) in cash, cash equivalents and restricted cash   | 2,503,802           | (354,382)           | 513,538             |
| Cash, cash equivalents and restricted cash, end of period   | <u>\$ 3,409,168</u> | <u>\$ 905,366</u>   | <u>\$ 1,259,748</u> |
| Reconciliation of cash, cash equivalents and restricted cash on the Consolidated balance sheets to the Consolidated statements of cash flows: |                     |                     |                     |
| Cash and cash equivalents   | \$ 3,257,203        | \$ 833,868          | \$ 1,203,766        |
| Restricted cash   | 131,642             | 64,554              | 49,275              |
| Restricted cash included in Other long-term assets  | 20,323              | 6,944               | 6,707               |
| Cash, cash equivalents and restricted cash per the Consolidated statements of cash flows  | <u>\$ 3,409,168</u> | <u>\$ 905,366</u>   | <u>\$ 1,259,748</u> |

The accompanying notes are integral to the consolidated financial statements.



**HARLEY-DAVIDSON, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**Years ended December 31, 2020, 2019 and 2018**  
(In thousands, except share amounts)

|  | Common Stock     |          | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury Stock | Total        |
|--|------------------|----------|----------------------------------|----------------------|---|----------------|--------------|
|  | Issued<br>Shares | Balance  |                                  |                      |   |                |              |
| Balance, December 31, 2017                       | 181,286,547      | \$ 1,813 | \$ 1,422,808                     | \$ 1,607,570         | \$ (500,049)                                  | \$ (687,865)   | \$ 1,844,277 |
| Net income                                       | —                | —        | —                                | 531,451              | —   | —              | 531,451      |
| Other comprehensive loss, net of tax (Note 18)   | —                | —        | —                                | —                    | (21,287)                                      | —              | (21,287)     |
| Dividends (\$1.48 per share)                     | —                | —        | —                                | (245,810)            | —   | —              | (245,810)    |
| Repurchase of common stock                       | —                | —        | —                                | —                    | —   | (390,606)      | (390,606)    |
| Share-based compensation                         | 644,678          | 6        | 36,812                           | —                    | —   | 13,082         | 49,900       |
| Cumulative effect of change in accounting        | —                | —        | —                                | 6,024                | —   | —              | 6,024        |
| Reclassification of certain tax effects          | —                | —        | —                                | 108,348              | (108,348)                                     | —              | —            |
| Balance, December 31, 2018                       | 181,931,225      | 1,819    | 1,459,620                        | 2,007,583            | (629,684)                                     | (1,065,389)    | 1,773,949    |
| Net income                                       | —                | —        | —                                | 423,635              | —   | —              | 423,635      |
| Other comprehensive income, net of tax (Note 18) | —                | —        | —                                | —                    | 92,735  | —              | 92,735       |
| Dividends (\$1.50 per share)                     | —                | —        | —                                | (237,221)            | —   | —              | (237,221)    |
| Repurchase of common stock                       | —                | —        | —                                | —                    | —   | (296,520)      | (296,520)    |
| Share-based compensation                         | 885,311          | 9        | 31,384                           | —                    | —   | 16,028         | 47,421       |
| Balance, December 31, 2019                       | 182,816,536      | 1,828    | 1,491,004                        | 2,193,997            | (536,949)                                     | (1,345,881)    | 1,803,999    |
| Net income                                       | —                | —        | —                                | 1,298                | —   | —              | 1,298        |
| Other comprehensive income, net of tax (Note 18) | —                | —        | —                                | —                    | 53,532  | —              | 53,532       |
| Dividends (\$0.44 per share)                     | —                | —        | —                                | (68,087)             | —   | —              | (68,087)     |
| Repurchase of common stock                       | —                | —        | —                                | —                    | —   | (8,006)        | (8,006)      |
| Share-based compensation                         | 686,990          | 7        | 16,702                           | —                    | —   | 1,569          | 18,278       |
| Retirement of treasury stock                     | (15,000,000)     | (150)    | —                                | (764,156)            | —   | 764,306        | —            |
| Cumulative effect of change in accounting        | —                | —        | —                                | (78,229)             | —   | —              | (78,229)     |
| Balance, December 31, 2020                       | 168,503,526      | \$ 1,685 | \$ 1,507,706                     | \$ 1,284,823         | \$ (483,417)                                  | \$ (588,012)   | \$ 1,722,785 |

The accompanying notes are integral to the consolidated financial statements.

**HARLEY-DAVIDSON, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

*Principles of Consolidation and Basis of Presentation* – The consolidated financial statements include the accounts of Harley-Davidson, Inc. and its subsidiaries, all of which are wholly-owned (the Company), including the accounts of the group of companies referred to as Harley-Davidson Motor Company (HDMC) and Harley-Davidson Financial Services (HDFS). In addition, certain variable interest entities (VIEs) related to secured financing are consolidated as the Company is the primary beneficiary. All intercompany accounts and material intercompany transactions have been eliminated.

The Company operates in two reportable segments: Motorcycles and Related Products (Motorcycles) and Financial Services.

Substantially all of the Company's international subsidiaries use their respective local currency as their functional currency. Assets and liabilities of international subsidiaries have been translated at period-end exchange rates, and revenues and expenses have been translated using average exchange rates for the period. Monetary assets and liabilities denominated in a currency that is different from an entity's functional currency are remeasured from the transactional currency to the entity's functional currency on a monthly basis. The aggregate transaction gain/(loss) resulting from foreign currency remeasurements was \$3.8 million, \$18.0 million, and \$(19.9) million for the years ended December 31, 2020, 2019 and 2018, respectively.

*Use of Estimates* – The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires the Company's management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Actual results could differ from those estimates.

During the first quarter of 2020, the outbreak of a novel strain of coronavirus (COVID-19) spread throughout the world, and it was recognized as a pandemic in March 2020. The COVID-19 pandemic has restricted the level of economic activity in the U.S. and around the world and the full extent of its impact is not yet known. The Company's financial results for the period ending December 31, 2020 reflect the impact of the COVID-19 pandemic, the most significant of which relates to the allowance for credit losses as discussed in Note 7.

*Cash and Cash Equivalents* – The Company considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents.

*Accounts Receivable, net* – The Company's motorcycles and related products are sold to independent dealers outside the U.S. and Canada generally on open account and the resulting receivables are included in *Accounts receivable, net* on the *Consolidated balance sheets*. The allowance for doubtful accounts deducted from total accounts receivable was \$3.7 million and \$4.9 million as of December 31, 2020 and 2019, respectively. The Company's evaluation of the allowance for doubtful accounts includes a review to identify non-performing accounts which are evaluated individually. The remaining accounts receivable balances are evaluated in the aggregate based on an aging analysis. The allowance for doubtful accounts is based on factors including past loss experience, the value of collateral, and if applicable, reasonable and supportable economic forecasts. Accounts receivable are written down once management determines that the specific customer does not have the ability to repay the balance in full. The Company's sales of motorcycles and related products in the U.S. and Canada are financed through HDFS by the purchasing independent dealers and the related receivables are included in *Finance receivables, net* on the *Consolidated balance sheets*.

*Inventories, net* – Substantially all inventories located in the U.S. are valued using the last-in, first-out (LIFO) method. Other inventories totaling \$221.9 million and \$326.5 million at December 31, 2020 and 2019, respectively, are valued at the lower of cost or net realizable value using the first-in, first-out (FIFO) method.

*Repossessed Inventory* – Repossessed inventory representing recovered collateral on impaired finance receivables is recorded at the lower of cost or net realizable value through a fair value remeasurement. In the period during which the collateral is repossessed, the related finance receivable is adjusted to the fair value of the collateral through a change to the allowance for credit losses and reclassified to repossessed inventory, included in *Other current assets* on the *Consolidated balance sheets*.

*Property, Plant and Equipment, net* – Property, plant and equipment is recorded at cost, net of accumulated depreciation and amortization. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of each class of property, plant and equipment generally consist of 30 years for buildings, 7 years for building and land improvements, 3 to 10 years for machinery and equipment, and 3 to 7 years for software. Accelerated methods of depreciation are used for income tax purposes.

*Goodwill* – Goodwill represents the excess of acquisition cost over the fair value of the net assets purchased. Goodwill is tested for impairment, based on financial data related to the reporting unit to which it has been assigned, at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and an impairment loss is recognized for the amount by which the carrying amount exceeds the fair value, limited to the total goodwill allocated to the reporting unit. During 2020 and 2019, the Company tested its goodwill balances for impairment and no adjustments were recorded to goodwill as a result of those reviews.

*Long-lived Assets* – The Company periodically evaluates the carrying value of long-lived assets to be held and used when events and circumstances warrant such review. If the carrying value of a long-lived asset is considered impaired, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset for assets to be held and used. The Company also reviews the useful life of its long-lived assets when events and circumstances indicate that the actual useful life may be shorter than originally estimated. In the event that the actual useful life is deemed to be shorter than the original useful life, depreciation is adjusted prospectively so that the remaining book value is depreciated over the revised useful life. Refer to Note 3 for additional details surrounding the Company's restructuring activities impacting long-lived assets.

Asset groups classified as held for sale are measured at the lower of carrying amount or fair value less cost to sell, and a loss is recognized for any initial adjustment required to reduce the carrying amount to the fair value less cost to sell in the period the held for sale criteria are met. The fair value less cost to sell must be assessed each reporting period that the asset group remains classified as held for sale. Gains or losses not previously recognized resulting from the sale of an asset group will be recognized on the date of sale.

*Research and Development Expenses* – Expenditures for research activities relating to product development and improvements are charged against income as incurred and included within *Selling, administrative and engineering expense* on the *Consolidated statements of operations*. Research and development expenses were \$202.4 million, \$216.5 million and \$191.6 million for 2020, 2019 and 2018, respectively.

*Advertising Costs* – The Company expenses the production cost of advertising the first time the advertising takes place within *Selling, administrative and engineering expense*. Advertising costs relate to the Company's efforts to promote its products and brands through the use of media and other means. During 2020, 2019 and 2018, the Company incurred \$134.6 million, \$171.4 million and \$144.3 million in advertising costs, respectively.

*Shipping and Handling Costs* – The Company classifies shipping and handling costs as a component of *Motorcycles and Related Products cost of goods sold*.

## **New Accounting Standards**

### *Accounting Standards Recently Adopted*

In July 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13). ASU 2016-13 changes how a company recognizes expected credit losses on financial instruments carried at amortized cost basis, by requiring recognition of the full lifetime expected credit losses upon initial recognition of the financial instrument. ASU 2016-13 replaced the incurred loss methodology. The Company adopted ASU 2016-13 on January 1, 2020 using a modified retrospective approach for financial instruments measured at amortized cost.

On January 1, 2020, the Company remeasured the allowance for credit losses on financial instruments under the new accounting standard. The difference was recorded as a cumulative effect adjustment to *Retained earnings*, net of income taxes. The initial adoption of ASU 2016-13 did not impact the Company's *Consolidated statements of operations*. The effect of adopting ASU 2016-13 on the Company's *Consolidated balance sheets* was as follows (in thousands):

|   | December 31, 2019 |    | Effect of Adoption |    | January 1, 2020 |
|---|-------------------|----|--------------------|----|-----------------|
| <b>ASSETS</b>   |                   |    |                    |    |                 |
| Finance receivables <sup>(a)</sup>                                | \$ 7,572,947      | \$ | —                  | \$ | 7,572,947       |
| Allowance for credit losses on finance receivables <sup>(a)</sup> | \$ (198,581)      | \$ | (100,604)          | \$ | (299,185)       |
| Deferred income taxes   | \$ 101,204        | \$ | 22,484             | \$ | 123,688         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                       |                   |    |                    |    |                 |
| Accrued liabilities   | \$ 582,288        | \$ | 109                | \$ | 582,397         |
| Retained earnings   | \$ 2,193,997      | \$ | (78,229)           | \$ | 2,115,768       |

(a) Reported as *Finance receivables, net* on the *Consolidated balance sheets*, allocated between current and non-current

**Financial Statement Comparability to Prior Periods** – Beginning in 2020, under ASU 2016-13, the Company recognizes full lifetime expected credit losses upon initial recognition of the associated financial instrument carried at amortized cost basis. Under ASU 2016-13, changes in the allowance for credit losses and the impact on the provision for credit losses will be affected by the size and composition of the Company's finance receivables portfolios, economic conditions, reasonable and supportable forecasts, and other appropriate factors at each reporting period. Prior periods have not been restated and will continue to be reported in accordance with the previously applicable U.S. GAAP, which generally required that a credit loss be incurred before it was recognized. As such, prior periods will not be comparable to the current period. Additional information on the Company's finance receivables is discussed further in Note 7.

In January 2017, the FASB issued ASU No. 2017-04 Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (ASU 2017-04). ASU 2017-04 simplified the subsequent measurement of goodwill by eliminating the requirement to calculate the implied fair value of goodwill. Rather, the goodwill impairment is calculated by comparing the fair value of a reporting unit to its carrying value, and an impairment loss is recognized for the amount by which the carrying amount exceeds the fair value, limited to the total goodwill allocated to the reporting unit. All reporting units apply the same impairment test under the new standard. The Company adopted ASU 2017-04 on January 1, 2020 on a prospective basis. The adoption of ASU 2017-04 did not have an effect on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13). ASU 2018-13 amended ASC 820 to eliminate, modify, and add certain disclosure requirements for fair value measurements. The amendments were required to be applied retrospectively, with the exception of a few disclosure additions, which were to be applied on a prospective basis. The Company adopted ASC 2018-13 on January 1, 2020. The adoption of ASU 2018-13 did not have a material impact on the Company's disclosures.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) (ASU 2018-15). The new guidance requires a customer in a cloud computing arrangement that is a service contract to follow the existing internal-use software guidance to determine which implementation costs to capitalize as assets or expense as incurred. The Company adopted ASU 2018-15 on January 1, 2020 on a prospective basis. The adoption of ASU 2018-15 did not have a material impact on the Company's consolidated financial statements.

#### *Accounting Standards Not Yet Adopted*

In December 2019, the FASB issued ASU No. 2019-12, Simplifying the Accounting for Income Taxes (ASU 2019-12). The new guidance eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The guidance is effective for fiscal years beginning after December 15, 2020 and for interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2019-12 to have a material impact on its consolidated financial statements.

## 2. Revenue

The Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or service to a customer. Revenue is measured based on the consideration that the Company expects to be entitled to in exchange for the goods or services transferred. Taxes that are collected from a customer concurrent with revenue-producing activities are excluded from revenue.

Disaggregated revenue by major source was as follows for the years ended December 31, (in thousands):

|  | 2020                | 2019                |
|--|---------------------|---------------------|
| <b>Motorcycles and Related Products:</b> |                     |                     |
| Motorcycles                              | \$ 2,350,407        | \$ 3,538,269        |
| Parts & Accessories                      | 659,634             | 713,400             |
| General Merchandise                      | 186,068             | 237,566             |
| Licensing                                | 29,750              | 35,917              |
| Other                                    | 38,195              | 47,526              |
|  | <u>3,264,054</u>    | <u>4,572,678</u>    |
| <b>Financial Services:</b>               |                     |                     |
| Interest income                          | 682,517             | 678,205             |
| Other                                    | 107,806             | 110,906             |
|  | <u>790,323</u>      | <u>789,111</u>      |
|  | <u>\$ 4,054,377</u> | <u>\$ 5,361,789</u> |

### Motorcycles and Related Products

*Motorcycles, Parts & Accessories, and General Merchandise* – Revenues from the sale of motorcycles, Parts & Accessories (P&A), and General Merchandise are recorded when control is transferred to the customer, generally at the time of shipment. The sale of products to independent dealers outside the U.S. and Canada is generally on open account with terms that approximate 30-120 days and the resulting receivables are included in *Accounts receivable, net* on the *Consolidated balance sheets*. The sale of products to independent dealers in the U.S. and Canada is financed through HDFs and the related receivables are included in *Finance receivables, net* on the *Consolidated balance sheets*.

The Company offers sales incentive programs to independent dealers and retail customers designed to promote the sale of motorcycles, P&A, and General Merchandise. The Company estimates its variable consideration sold under its sales incentive programs using the expected value method. The Company accounts for consideration payable to a customer as part of its sales incentives as a reduction of revenue, which is accrued at the later of the date the related sale is recorded or the date the incentive program is both approved and communicated.

The Company offers the right to return eligible P&A and General Merchandise. When the Company offers a right to return, it estimates returns based on an analysis of historical trends and records revenue on the initial sale only in the amount that it expects to be entitled. The remaining consideration is deferred in a refund liability account. The refund liability is remeasured for changes in the estimate at each reporting date with a corresponding adjustment to revenue.

Variable consideration related to sales incentives and rights to return is adjusted at the earliest of when the amount of consideration the Company expects to receive changes or the consideration becomes fixed. Adjustments for variable consideration related to previously recognized sales were not material during 2020 and 2019.

Shipping and handling costs associated with freight after control of a product has transferred to a customer are accounted for as fulfillment costs. The Company accrues for the shipping and handling in the same period that the related revenue is recognized.

The Company offers standard, limited warranties on its motorcycles and P&A. These warranties provide assurance that the product will function as expected and are not separate performance obligations. The Company accounts for estimated warranty costs as a liability when control of the product transfers to the customer.

**Licensing** – The Company licenses the Harley-Davidson name and other trademarks owned by the Company and collects royalties from its licensees. The trademark licenses are considered symbolic intellectual property, which grant the licensees a right to access the Company’s intellectual property. The Company satisfies its performance obligation over the license period, as the Company fulfills its promise to grant the licensees rights to use and benefit from the intellectual property as well as maintain the intellectual property.

Payment is typically due within thirty days of the end of each quarter for the royalties earned in that quarter. Revenue, in the form of sales-based royalties, is recognized when the licensees’ subsequent sales occur. The Company applies the practical expedient in ASC Topic 606, *Revenue from Contracts with Customers*, to recognize licensing revenues in the amount that the Company has the right to invoice because the royalties due each period correspond directly with the value of the Company’s performance to date. Revenue will be recognized over the remaining contract terms which range up to 2 years.

**Other** – Other revenue consists primarily of revenue from Harley Owners Group® (H.O.G.) membership sales, motorcycle rental commissions, museum admissions and events, and other miscellaneous products and services.

### Financial Services

**Interest Income** – Interest income on finance receivables is recorded as earned and is based on the average outstanding daily balance for wholesale and retail receivables. Accrued and uncollected interest is classified with *Finance receivables, net*. Certain loan origination costs related to finance receivables, including payments made to dealers for certain retail loans, are deferred and recorded within *Finance receivables, net* and amortized over the life of the contract.

**Other Income** – Other income consists primarily of insurance and licensing revenues. HDFS works with certain unaffiliated insurance companies to offer motorcycle insurance and protection products through most Harley-Davidson independent dealers in the U.S. and Canada. HDFS also works with third-party financial institutions that issue credit cards or offer other financial products bearing the Harley-Davidson brand in the U.S. and internationally. For many of these contracts, the Company grants temporary rights to use the licensed trademarks owned by the Company and collects royalties from its customers in connection with sales of their products. The trademark licenses are considered symbolic intellectual property, which grant the customer a right to access the intellectual property. The Company satisfies its performance obligation over the license period, as it fulfills its promise to grant the customer rights to use and benefit from the intellectual property as well as maintain the intellectual property. Royalty and profit sharing amounts are received either quarterly or per annum, based upon the contract. Revenue, in the form of sales-based royalties, is recognized when the customers’ subsequent sales occur. Revenue will be recognized over the remaining contract terms which range up to 5 years. The Company is the primary obligor for certain other insurance related contracts and, as a result, revenue is recognized over the life of the contract as the Company fulfills its performance obligation.

### Contract Liabilities

The Company maintains certain deferred revenue balances related to payments received at contract inception in advance of the Company’s performance under the contract and generally relates to the sale of H.O.G. memberships and extended service plan contracts. Deferred revenue is recognized as revenue as the Company performs under the contract. Deferred revenue, included in *Accrued liabilities* and *Other long-term liabilities* on the *Consolidated balance sheets*, was as follows as of December 31, (in thousands):

|                              | 2020      | 2019      |
|------------------------------|-----------|-----------|
| Balance, beginning of period | \$ 29,745 | \$ 29,055 |
| Balance, end of period       | 36,614    | 29,745    |

Previously deferred revenue recognized as revenue in 2020 and 2019 was \$19.7 million and \$26.3 million, respectively. The Company expects to recognize approximately \$15.4 million of the remaining unearned revenue in 2021 and \$21.2 million thereafter.

### 3. Restructuring Activities

Expenses associated with the Company’s restructuring activities are included in *Restructuring expense* on the *Consolidated statements of operations*.

**2020 Restructuring Activities** – In 2020, the Company initiated restructuring activities including a workforce reduction, the termination of certain current and future products, facility changes, optimizing its global independent dealer network, exiting certain international markets, and discontinuing its sales and manufacturing operations in India. The workforce reduction resulted in the termination of approximately 500 employees. In addition, the India action will result in the termination of approximately 70 employees.

Restructuring expenses incurred related to the 2020 restructuring activities were \$130.0 million, including \$119.1 million in the Motorcycles segment and \$10.9 million in the Financial Services segment. The Company expects remaining restructuring expenses related to the 2020 restructuring activities to be approximately \$20 million, which is expected to be recognized in 2021 when the actions are completed. The total estimated restructuring activities of approximately \$150 million includes approximately \$139 million and \$11 million expected to be incurred in the Motorcycles and Financial Services segments, respectively. Total expected restructuring expenses under the 2020 restructuring activities include approximately \$30 million related to employee termination benefits, \$90 million related to contract termination and other costs and \$30 million related to non-current asset adjustments, including accelerated depreciation and other adjustments to the carrying value of non-current assets.

Changes in accrued restructuring expenses for the 2020 restructuring activities, which are included in *Accrued liabilities* on the *Consolidated balance sheets*, were as follows as of December 31, (in thousands):

|                              | 2020                          |                               |                               | Total     |
|------------------------------|-------------------------------|-------------------------------|-------------------------------|-----------|
|                              | Employee Termination Benefits | Contract Terminations & Other | Non-Current Asset Adjustments |           |
| Balance, beginning of period | \$ —                          | \$ —                          | \$ —                          | \$ —      |
| Restructuring expense        | 28,913                        | 70,894                        | 30,202                        | 130,009   |
| Utilized – cash              | (21,494)                      | (54,773)                      | —                             | (76,267)  |
| Utilized – non cash          | —                             | —                             | (30,202)                      | (30,202)  |
| Foreign currency changes     | 305                           | 75                            | —                             | 380       |
| Balance, end of period       | \$ 7,724                      | \$ 16,196                     | \$ —                          | \$ 23,920 |

**2018 Restructuring Activities** – In 2018, the Company initiated a plan to further improve its manufacturing operations and cost structure by commencing a multi-year manufacturing optimization plan which includes the consolidation of its motorcycle assembly plant in Kansas City, Missouri, into its plant in York, Pennsylvania, and the closure of its wheel operations in Adelaide, Australia (Manufacturing Optimization Plan). The consolidation of operations resulted in the elimination of approximately 800 jobs at the Kansas City facility and the addition of approximately 450 jobs at the York facility through 2019. The Adelaide facility closure resulted in the elimination of approximately 90 jobs. Through December 31, 2019 the Motorcycles segment incurred cumulative restructuring expenses of \$122.2 million and other costs related to temporary inefficiencies of \$23.2 million under the Manufacturing Optimization Plan. The Manufacturing Optimization Plan was completed in 2019.

In 2018, the Company initiated a reorganization of its workforce (Reorganization Plan), which was completed in 2019. As a result, approximately 70 employees left the Company on an involuntary basis.

Restructuring expenses for the 2018 Restructuring Activities were limited to the Motorcycles segment and were recorded during 2019 and 2018. Changes in accrued restructuring expenses for the 2018 restructuring activities, which are included in *Accrued liabilities* on the *Consolidated balance sheets* during 2019 and 2018 were as follows (in thousands). The changes in accrued restructuring expenses during 2020 related to the 2018 restructuring activities were immaterial.

|                              | 2019                            |                          |          |           |                               |           |
|------------------------------|---------------------------------|--------------------------|----------|-----------|-------------------------------|-----------|
|                              | Manufacturing Optimization Plan |                          |          |           | Reorganization Plan           |           |
|                              | Employee Termination Benefits   | Accelerated Depreciation | Other    | Total     | Employee Termination Benefits | Total     |
| Balance, beginning of period | \$ 24,958                       | \$ —                     | \$ 79    | \$ 25,037 | \$ 3,461                      | \$ 28,498 |
| Restructuring expense        | 15                              | 14,684                   | 17,971   | 32,670    | (317)                         | 32,353    |
| Utilized - cash              | (24,102)                        | —                        | (16,950) | (41,052)  | (3,118)                       | (44,170)  |
| Utilized - non cash          | —                               | (14,684)                 | (1,094)  | (15,778)  | —                             | (15,778)  |
| Foreign currency changes     | (6)                             | —                        | (4)      | (10)      | (26)                          | (36)      |
| Balance, end of period       | \$ 865                          | \$ —                     | \$ 2     | \$ 867    | \$ —                          | \$ 867    |

2018

|                              | Manufacturing Optimization Plan |                          |          |           | Reorganization Plan           |           |
|------------------------------|---------------------------------|--------------------------|----------|-----------|-------------------------------|-----------|
|                              | Employee Termination Benefits   | Accelerated Depreciation | Other    | Total     | Employee Termination Benefits | Total     |
| Balance, beginning of period | \$ —                            | \$ —                     | \$ —     | \$ —      | \$ —                          | \$ —      |
| Restructuring expense        | 38,666                          | 34,654                   | 16,182   | 89,502    | 3,899                         | 93,401    |
| Utilized - cash              | (13,060)                        | —                        | (16,095) | (29,155)  | (444)                         | (29,599)  |
| Utilized - non cash          | —                               | (34,654)                 | —        | (34,654)  | —                             | (34,654)  |
| Foreign currency changes     | (648)                           | —                        | (8)      | (656)     | 6                             | (650)     |
| Balance, end of period       | \$ 24,958                       | \$ —                     | \$ 79    | \$ 25,037 | \$ 3,461                      | \$ 28,498 |

The Company incurred incremental *Motorcycles and Related Products cost of goods sold* due to temporary inefficiencies resulting from implementing the Manufacturing Optimization Plan during 2019 and 2018 of \$10.3 million and \$12.9 million, respectively.

#### 4. Income Taxes

*Income tax (benefit) provision* for the years ended December 31, consists of the following (in thousands):

|           | 2020        | 2019       | 2018       |
|-----------|-------------|------------|------------|
| Current:  |             |            |            |
| Federal   | \$ 4,877    | \$ 82,484  | \$ 136,202 |
| State     | 2,614       | 6,421      | 23,134     |
| Foreign   | 19,560      | 23,328     | 29,823     |
|           | 27,051      | 112,233    | 189,159    |
| Deferred: |             |            |            |
| Federal   | (30,779)    | 18,760     | (23,181)   |
| State     | (11,579)    | 402        | (6,787)    |
| Foreign   | (1,721)     | 2,385      | (4,013)    |
|           | (44,079)    | 21,547     | (33,981)   |
|           | \$ (17,028) | \$ 133,780 | \$ 155,178 |

The components of *(Loss) income before income taxes* for the years ended December 31, were as follows (in thousands):

|          | 2020        | 2019       | 2018       |
|----------|-------------|------------|------------|
| Domestic | \$ (81,522) | \$ 465,798 | \$ 593,099 |
| Foreign  | 65,792      | 91,617     | 93,530     |
|          | \$ (15,730) | \$ 557,415 | \$ 686,629 |



Income tax (benefit) provision differs from the amount that would be provided by applying the statutory U.S. corporate income tax rate for the years ended December 31, due to the following items (in thousands):

|  | 2020               | 2019              | 2018              |
|--|--------------------|-------------------|-------------------|
| (Benefit) provision at statutory rate                      | \$ (3,303)         | \$ 117,057        | \$ 144,192        |
| State taxes, net of federal benefit                        | 822                | 14,165            | 18,086            |
| Foreign rate differential                                  | 60                 | 1,665             | 2,712             |
| Foreign derived intangible income                          | —                  | (3,108)           | (8,400)           |
| Research and development credit                            | (8,442)            | (8,200)           | (7,400)           |
| Unrecognized tax benefits including interest and penalties | (8,567)            | 289               | (4,121)           |
| Valuation allowance adjustments                            | 9,675              | 8,070             | 908               |
| State credits  | (13,106)           | (4,704)           | —                 |
| Deferred tax balance remeasurement for rate change         | —                  | —                 | (8,098)           |
| Territorial tax  | —                  | —                 | 9,556             |
| Global intangible low-taxed income                         | 1,480              | 1,113             | 2,437             |
| Adjustments for previously accrued taxes                   | (4,951)            | (1,755)           | (7,196)           |
| Rate differential on intercompany transfers                | —                  | —                 | 6,013             |
| Executive compensation limitation                          | 2,543              | 2,620             | 3,171             |
| Other foreign inclusions                                   | 4,415              | 4,202             | 1,787             |
| Other  | 2,346              | 2,366             | 1,531             |
| Income tax (benefit) provision                             | <u>\$ (17,028)</u> | <u>\$ 133,780</u> | <u>\$ 155,178</u> |

The 2017 Tax Cuts and Jobs Act subjects U.S. shareholders to current tax on global intangible low-taxed income (GILTI) earned by certain foreign subsidiaries for which a company can elect to either recognize deferred taxes or to provide tax expense in the year incurred. The Company has elected to account for GILTI in the year the tax is incurred.

The principal components of the Company's deferred income tax assets and liabilities as of December 31, include the following (in thousands):

|  | 2020              | 2019             |
|--|-------------------|------------------|
| <b>Deferred income tax assets:</b>                     |                   |                  |
| Accruals not yet tax deductible                        | \$ 142,100        | \$ 95,746        |
| Pension and postretirement healthcare plan obligations | 6,499             | 17,685           |
| Stock compensation                                     | 9,619             | 11,867           |
| Net operating loss and credit carryforwards            | 55,857            | 45,279           |
| Valuation allowance                                    | (38,072)          | (29,024)         |
| Other  | 78,051            | 64,833           |
|  | <u>254,054</u>    | <u>206,386</u>   |
| <b>Deferred income tax liabilities:</b>                |                   |                  |
| Depreciation, tax in excess of book                    | (74,579)          | (83,477)         |
| Other  | (29,544)          | (29,840)         |
|  | <u>(104,123)</u>  | <u>(113,317)</u> |
|  | <u>\$ 149,931</u> | <u>\$ 93,069</u> |

The Company reviews its deferred income tax asset valuation allowances on a quarterly basis, or whenever events or changes in circumstances indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or consolidated group recording the net deferred income tax asset is considered, along with any positive or negative evidence including tax law changes. Since future financial results and tax law may differ from previous estimates, periodic adjustments to the Company's valuation allowances may be necessary.

The Company's gross state operating loss carryforwards were as follows at December 31, (in thousands):

| Year of Expiration | 2020              |
|--------------------|-------------------|
| 2031               | \$ 252,142        |
| 2033               | 49                |
| 2034               | 2,455             |
| 2035               | 7,800             |
| 2038               | 3,992             |
| 2039               | 11,710            |
| 2040               | 29,836            |
| Indefinite         | 9,449             |
|                    | <u>\$ 317,433</u> |

The Company also had Wisconsin research and development credit carryforwards of \$33.8 million at December 31, 2020, expiring in 2024-2035.

At December 31, 2020, the Company had a deferred tax asset of \$45.9 million related to its state operating loss and Wisconsin research and development credit carryforwards and a deferred tax asset of \$10.0 million related to foreign net operating losses.

The Company's valuation allowance was \$38.1 million at December 31, 2020 and included \$17.7 million related to state operating loss and Wisconsin research and development credit carryforwards, \$6.5 million related to foreign net operating losses and \$13.9 million related to other deferred tax assets. The increase in the valuation allowance from prior year included \$8.0 million related to state operating loss and Wisconsin research and development credit carryforwards and \$1.0 million related to foreign net operating losses.

The Company recognizes interest and penalties related to unrecognized tax benefits in *Income tax (benefit) provision*. Changes in the Company's gross liability for unrecognized tax benefits, excluding interest and penalties, were as follows (in thousands):

|   | 2020             | 2019             |
|---|------------------|------------------|
| Unrecognized tax benefits, beginning of period                                      | \$ 60,112        | \$ 61,411        |
| Increase in unrecognized tax benefits for tax positions taken in a prior period     | 1,649            | 1,067            |
| Decrease in unrecognized tax benefits for tax positions taken in a prior period     | (12,560)         | (5,608)          |
| Increase in unrecognized tax benefits for tax positions taken in the current period | 3,092            | 4,576            |
| Statute lapses  | —                | (325)            |
| Settlements with taxing authorities   | (1,696)          | (1,009)          |
| Unrecognized tax benefits, end of period  | <u>\$ 50,597</u> | <u>\$ 60,112</u> |

The amount of unrecognized tax benefits as of December 31, 2020 and 2019 that, if recognized, would affect the effective tax rate was \$43.8 million and \$53.1 million, respectively.

The total gross amount of benefit related to interest and penalties associated with unrecognized tax benefits recognized during 2020, 2019 and 2018 in the *Consolidated statements of operations* was \$2.1 million, \$0.1 million and \$3.2 million, respectively.

The total gross amount of interest and penalties associated with unrecognized tax benefits recognized at December 31, 2020 and 2019 in the *Consolidated balance sheets* was \$25.5 million and \$27.6 million, respectively.

The Company does not expect a significant increase or decrease to the total amounts of unrecognized tax benefits related to continuing operations during the fiscal year ending December 31, 2021. However, the Company is under regular audit by tax authorities. The Company believes that it has appropriate support for the positions taken on its tax returns and that its annual tax provision includes amounts sufficient to pay any assessments. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

The Company or one of its subsidiaries files income tax returns in the U.S. federal and Wisconsin state jurisdictions and various other state and foreign jurisdictions. The Company is no longer subject to income tax examinations for Wisconsin state income taxes before 2016 or for U.S. federal income taxes before 2017.

## 5. Capital Stock and Earnings Per Share

*Capital Stock* – The Company is authorized to issue 2,000,000 shares of preferred stock of \$1.00 par value, none of which is outstanding. The Company's common stock has a par value of \$0.01 per share. During 2020, the Company retired 15.0 million shares of its treasury stock. Share information regarding the Company's common stock at December 31, was as follows:

|                       | 2020        | 2019        |
|-----------------------|-------------|-------------|
| Common stock shares:  |             |             |
| Authorized            | 800,000,000 | 800,000,000 |
| Issued                | 168,503,526 | 182,816,536 |
| Outstanding           | 152,930,740 | 152,468,442 |
| Treasury stock shares | 15,572,786  | 30,348,094  |

There were no discretionary share repurchases during the year ended December 31, 2020. Discretionary share repurchases during the years ended December 31, 2019 and 2018 were \$286.7 million or 8.2 million shares and \$382.0 million or 9.2 million shares, respectively. Share repurchases of common stock that employees surrendered to satisfy withholding taxes in connection with the vesting of restricted stock units (RSUs) were \$8.0 million or 0.3 million shares, \$9.8 million or 0.3 million shares, and \$8.6 million or 0.2 million shares during the years ended December 31, 2020, 2019 and 2018, respectively, discussed further in Note 17.

The Company paid cash dividends of \$0.44, \$1.50, and \$1.48 per share during the years ended December 31, 2020, 2019, and 2018, respectively.

*Earnings Per Share* – The computation of basic and diluted earnings per share for the years ended December 31, was as follows (in thousands except per share amounts):

|  | 2020     | 2019       | 2018       |
|--|----------|------------|------------|
| Net income   | \$ 1,298 | \$ 423,635 | \$ 531,451 |
| Basic weighted-average shares outstanding                        | 153,186  | 157,054    | 165,672    |
| Effect of dilutive securities – employee stock compensation plan | 722      | 750        | 832        |
| Diluted weighted-average shares outstanding                      | 153,908  | 157,804    | 166,504    |
| Earnings per share:  |          |            |            |
| Basic  | \$ 0.01  | \$ 2.70    | \$ 3.21    |
| Diluted  | \$ 0.01  | \$ 2.68    | \$ 3.19    |

Shares of common stock related to share-based compensation that were not included in the effect of dilutive securities because the effect would have been anti-dilutive include 1.4 million, 1.1 million and 1.1 million shares during 2020, 2019 and 2018, respectively.

## 6. Additional Balance Sheet and Cash Flow Information

Investments in marketable securities consisted of the following at December 31, (in thousands):

|              | 2020      | 2019      |
|--------------|-----------|-----------|
| Mutual funds | \$ 52,061 | \$ 52,575 |

Mutual funds, included in *Other long-term assets* on the *Consolidated balance sheets*, are carried at fair value with gains and losses recorded in income. Mutual funds are held to support certain deferred compensation obligations.

*Inventories, net* consisted of the following as of December 31, (in thousands):

|   | 2020              | 2019              |
|---|-------------------|-------------------|
| Raw materials and work in process                       | \$ 211,979        | \$ 235,433        |
| Motorcycle finished goods                               | 281,132           | 280,306           |
| Parts & Accessories and General Merchandise             | 84,469            | 144,258           |
| Inventory at lower of FIFO cost or net realizable value | 577,580           | 659,997           |
| Excess of FIFO over LIFO cost                           | (54,083)          | (56,426)          |
|   | <u>\$ 523,497</u> | <u>\$ 603,571</u> |

Inventory obsolescence reserves deducted from FIFO cost were \$72.0 million and \$49.3 million as of December 31, 2020 and 2019, respectively.

*Property, plant and equipment, net* consisted of the following as of December 31, (in thousands):

|                                    | 2020              | 2019              |
|------------------------------------|-------------------|-------------------|
| Land and related improvements      | \$ 69,518         | \$ 75,798         |
| Buildings and related improvements | 428,171           | 507,178           |
| Machinery and equipment            | 1,577,337         | 1,609,582         |
| Software                           | 759,675           | 750,978           |
| Construction in progress           | 188,823           | 148,805           |
|                                    | 3,023,524         | 3,092,341         |
| Accumulated depreciation           | (2,279,740)       | (2,244,959)       |
|                                    | <u>\$ 743,784</u> | <u>\$ 847,382</u> |

Software, net of accumulated amortization, included in *Property, plant and equipment, net*, was \$100.7 million and \$138.9 million as of December 31, 2020 and 2019, respectively.

*Accrued liabilities* consisted of the following as of December 31, (in thousands):

|   | 2020              | 2019              |
|---|-------------------|-------------------|
| Payroll, employee benefits and related expenses | \$ 107,511        | \$ 113,621        |
| Sales incentive programs                        | 52,820            | 73,354            |
| Warranty and recalls                            | 44,415            | 57,068            |
| Accrued interest                                | 65,590            | 49,213            |
| Tax-related accruals                            | 24,238            | 29,871            |
| Leases  | 17,081            | 19,013            |
| Fair value of derivative financial instruments  | 25,521            | 13,934            |
| Restructuring                                   | 23,920            | 867               |
| Other   | 196,118           | 225,347           |
|   | <u>\$ 557,214</u> | <u>\$ 582,288</u> |

*Deposits* – During 2020, HDFS began offering brokered certificates of deposit to customers indirectly through contractual arrangements with third-party banks and/or securities brokerage firms through its bank subsidiary. At December 31, 2020, the Company had \$80.0 million, net of fees, of short-term interest-bearing brokered certificates of deposit outstanding. Each separate brokered certificate of deposit is issued under a master certificate and, as such, all outstanding brokered certificates of deposit are considered below the Federal Deposit Insurance Corporation insurance coverage limits.

**Operating Cash Flow** – The reconciliation of *Net income* to *Net cash provided by operating activities* for the years ended December 31, was as follows (in thousands):

|  | 2020                | 2019              | 2018                |
|--|---------------------|-------------------|---------------------|
| <b>Cash flows from operating activities:</b>   |                     |                   |                     |
| Net income   | \$ 1,298            | \$ 423,635        | \$ 531,451          |
| <b>Adjustments to reconcile Net income to Net cash provided by operating activities:</b> |                     |                   |                     |
| Depreciation and amortization  | 185,715             | 232,537           | 264,863             |
| Amortization of deferred loan origination costs  | 71,142              | 76,326            | 81,315              |
| Amortization of financing origination fees   | 14,435              | 9,823             | 8,367               |
| Provision for long-term employee benefits  | 40,833              | 13,344            | 36,481              |
| Employee benefit plan contributions and payments   | (20,722)            | (13,256)          | (10,544)            |
| Stock compensation expense   | 23,494              | 33,733            | 35,539              |
| Net change in wholesale finance receivables related to sales                             | 531,701             | (5,822)           | (56,538)            |
| Provision for credit losses  | 181,870             | 134,536           | 106,870             |
| Deferred income taxes  | (44,079)            | 21,547            | (33,981)            |
| Other, net   | 13,826              | 298               | 37,554              |
| <b>Changes in current assets and liabilities:</b>  |                     |                   |                     |
| Accounts receivable, net   | 127,657             | 44,902            | 9,143               |
| Finance receivables – accrued interest and other   | 7,418               | (11,119)          | 773                 |
| Inventories, net   | 80,858              | (47,576)          | (31,059)            |
| Accounts payable and accrued liabilities   | (43,087)            | (18,462)          | 196,192             |
| Derivative financial instruments   | (3,481)             | 1,936             | 473                 |
| Other  | 9,012               | (28,110)          | 29,022              |
|  | <u>1,176,592</u>    | <u>444,637</u>    | <u>674,470</u>      |
| <b>Net cash provided by operating activities</b>   | <b>\$ 1,177,890</b> | <b>\$ 868,272</b> | <b>\$ 1,205,921</b> |

Cash paid during the years ended December 31, for interest and income taxes was as follows (in thousands):

|              | 2020       | 2019       | 2018       |
|--------------|------------|------------|------------|
| Interest     | \$ 245,961 | \$ 229,678 | \$ 207,484 |
| Income taxes | \$ 30,675  | \$ 149,828 | \$ 149,436 |

Interest paid represents interest payments of HDFS and interest payments of the Company, included in *Financial Services interest expense* and *Interest expense* on the *Consolidated statements of operations*.

## 7. Finance Receivables

Finance receivables include both retail and wholesale finance receivables, including amounts held by consolidated VIEs. Finance receivables are recorded in the financial statements at amortized cost net of an allowance for credit losses.

The Company provides retail financial services to customers of its independent dealers in the U.S. and Canada. The origination of retail loans is a separate and distinct transaction between the Company and the retail customer, unrelated to the Company's sale of product to its dealers. Retail finance receivables consist of secured promissory notes and secured installment sales contracts and are primarily related to independent dealer sales of motorcycles to retail customers. The Company holds either titles or liens on titles to vehicles financed by promissory notes and installment sales contracts. As of December 31, 2020 and 2019, approximately 11% of gross outstanding retail finance receivables were originated in Texas; there were no other states that accounted for more than 10% of gross outstanding retail finance receivables.

The Company offers wholesale financing to its independent dealers in the U.S. and Canada. Wholesale finance receivables are related primarily to the Company's sale of motorcycles and related parts and accessories to dealers. Wholesale loans to dealers are generally secured by financed inventory or property.

Finance receivables, net at December 31, were as follows (in thousands):

|                                       | 2020                | 2019                | 2018                | 2017                | 2016                |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Retail finance receivables:</b>    |                     |                     |                     |                     |                     |
| United States                         | \$ 6,128,269        | \$ 6,180,236        | \$ 6,103,378        | \$ 5,901,002        | \$ 5,769,410        |
| Canada                                | 215,926             | 236,192             | 224,823             | 239,598             | 212,801             |
|                                       | <u>6,344,195</u>    | <u>6,416,428</u>    | <u>6,328,201</u>    | <u>6,140,600</u>    | <u>5,982,211</u>    |
| <b>Wholesale finance receivables:</b> |                     |                     |                     |                     |                     |
| United States                         | 459,495             | 1,067,880           | 1,007,956           | 939,621             | 961,150             |
| Canada                                | 30,254              | 88,639              | 75,659              | 77,336              | 65,440              |
|                                       | <u>489,749</u>      | <u>1,156,519</u>    | <u>1,083,615</u>    | <u>1,016,957</u>    | <u>1,026,590</u>    |
|                                       | <u>6,833,944</u>    | <u>7,572,947</u>    | <u>7,411,816</u>    | <u>7,157,557</u>    | <u>7,008,801</u>    |
| Allowance for credit losses           | (390,936)           | (198,581)           | (189,885)           | (192,471)           | (173,343)           |
|                                       | <u>\$ 6,443,008</u> | <u>\$ 7,374,366</u> | <u>\$ 7,221,931</u> | <u>\$ 6,965,086</u> | <u>\$ 6,835,458</u> |

Approved but unfunded retail finance loans totaled \$134.9 million and \$160.4 million at December 31, 2020 and 2019, respectively. Unused lines of credit extended to the Company's wholesale finance customers totaled \$1.64 billion and \$1.14 billion at December 31, 2020 and 2019, respectively.

Wholesale finance receivables are generally contractually due within one year. As of December 31, 2020, contractual maturities of total finance receivables were as follows (in thousands):

|            | United States       | Canada            | Total               |
|------------|---------------------|-------------------|---------------------|
| 2021       | \$ 1,505,981        | \$ 76,190         | \$ 1,582,171        |
| 2022       | 1,194,078           | 49,038            | 1,243,116           |
| 2023       | 1,340,552           | 53,037            | 1,393,589           |
| 2024       | 1,465,470           | 57,515            | 1,522,985           |
| 2025       | 1,001,327           | 10,400            | 1,011,727           |
| Thereafter | 80,356              | —                 | 80,356              |
|            | <u>\$ 6,587,764</u> | <u>\$ 246,180</u> | <u>\$ 6,833,944</u> |

On January 1, 2020, the Company adopted ASU 2016-13, which requires an entity to recognize expected lifetime losses on finance receivables upon origination. The allowance for credit losses as of December 31, 2020 represents the Company's estimate of lifetime losses for its finance receivables. Prior to the adoption of ASU 2016-13, the Company maintained an allowance for credit losses based on the Company's estimate of probable losses inherent in its finance receivables as of the balance sheet date.

Under ASU 2016-13, the Company's finance receivables are reported at amortized cost, net of the allowance for credit losses. Amortized cost includes the principal outstanding, accrued interest, and deferred loan fees and costs. Based on differences in the nature of the finance receivables and the underlying methodology for calculating the allowance for loan losses, the Company segments its finance receivables into the retail and wholesale portfolios. The Company further disaggregates each portfolio by credit quality indicators. As the credit risk varies between the retail and wholesale portfolios, the Company utilizes different credit quality indicators for each portfolio. Prior to the adoption of ASU 2016-13, the Company's investment in finance receivables included the same components as the amortized cost under the new accounting guidance.

The retail portfolio primarily consists of a large number of small balance, homogeneous finance receivables. The Company performs a collective evaluation of the adequacy of the retail allowance for credit losses. For periods after January 1, 2020, the Company utilizes a vintage-based loss forecast methodology that includes decompositions for probability of default, exposure at default, attrition rate, and recovery balance rate. Reasonable and supportable economic forecasts for a two-year period are incorporated into the methodology to reflect the estimated impact of changes in future economic conditions, such as unemployment rates, household obligations or other relevant factors, over the two-year reasonable and supportable period. For periods beyond the Company's reasonable and supportable forecasts, the Company reverts to its average historical loss experience using a mean-reversion process over a three-year period. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, or term as well as other relevant factors. For periods prior to January 1, 2020, the Company performed a periodic and systematic collective evaluation of the adequacy of the retail allowance for credit losses. The Company utilized

loss forecast models which considered a variety of factors including, but not limited to, historical loss trends, origination or vintage analysis, known and inherent risks in the portfolio, the value of the underlying collateral, recovery rates, and current economic conditions.

The wholesale portfolio is primarily composed of large balance, non-homogeneous loans. The Company's evaluation for the wholesale allowance for credit losses is first based on a loan-by-loan review to determine whether the loans share similar risk characteristics. The Company individually evaluates loans that do not share risk characteristics. Loans identified as those for which foreclosure is probable are classified as Non-Performing, and a specific allowance for credit losses is established when appropriate. The specific allowance is determined based on the amortized cost of the related finance receivable and the estimated fair value of the collateral, less selling costs and the cash that the Company expects to receive. Finance receivables in the wholesale portfolio not individually assessed are aggregated, based on similar risk characteristics, according to the Company's internal risk rating system and measured collectively. For periods after January 1, 2020, the related allowance for credit losses is based on factors such as the specific borrower's financial performance and ability to repay, the Company's past loan loss experience, reasonable and supportable economic forecasts, and the value of the underlying collateral and expected recoveries. For periods prior to January 1, 2020, the related allowance for credit losses was based on factors such as the specific borrower's financial performance and ability to repay, the Company's past loan loss experience, current economic conditions, and the value of the underlying collateral.

The Company considers various third-party economic forecast scenarios as part of estimating the allowance for expected credit losses and applies a probability-weighting to those economic forecast scenarios. As part of the January 1, 2020 adoption of ASU 2016-13, the Company expected to be operating in a negative economic environment throughout 2020, and the Company had incorporated the potential for a recession in 2020 into its economic forecast. However, as a result of the COVID-19 pandemic, the Company's outlook on future economic conditions worsened throughout the year and significant uncertainty surrounding future economic outcomes remains. As such, the Company's economic outlook at the end of 2020 included a heavy emphasis on pessimistic economic trend assumptions as the COVID-19 pandemic continues to restrain the U.S. economy. Additionally, the historical experience incorporated into the portfolio-specific models does not fully reflect the Company's comprehensive expectations regarding the future. As such, the Company incorporated qualitative factors to establish an appropriate allowance balance. These factors include motorcycle recovery value considerations, delinquency adjustments and specific problem loan trends.

Due to the use of projections and assumptions in estimating the losses, the amount of losses actually incurred by the Company in either portfolio could differ from the amounts estimated. Further, the Company's allowance for credit losses incorporates known conditions at the balance sheet date and management's expectations surrounding the economic forecasts. The Company will continue to monitor future economic trends and conditions. Expectations surrounding the Company's economic forecasts may change in future periods as additional information becomes available.

The allowance for credit losses on finance receivables is comprised of individual components relating to wholesale and retail finance receivables. Changes in the allowance for credit losses on finance receivables by portfolio for the year ended December 31, were as follows (in thousands):

|  | 2020       |           |            |
|--|------------|-----------|------------|
|  | Retail     | Wholesale | Total      |
| Balance, beginning of period                             | \$ 188,501 | \$ 10,080 | \$ 198,581 |
| Cumulative effect of change in accounting <sup>(a)</sup> | 95,558     | 5,046     | 100,604    |
| Provision for credit losses                              | 175,225    | 6,645     | 181,870    |
| Charge-offs  | (137,371)  | (2,573)   | (139,944)  |
| Recoveries   | 49,825     | —         | 49,825     |
| Balance, end of period                                   | \$ 371,738 | \$ 19,198 | \$ 390,936 |

|                              | 2019       |           |            |
|------------------------------|------------|-----------|------------|
|                              | Retail     | Wholesale | Total      |
| Balance, beginning of period | \$ 182,098 | \$ 7,787  | \$ 189,885 |
| Provision for credit losses  | 132,243    | 2,293     | 134,536    |
| Charge-offs                  | (173,358)  | —         | (173,358)  |
| Recoveries                   | 47,518     | —         | 47,518     |
| Balance, end of period       | \$ 188,501 | \$ 10,080 | \$ 198,581 |

|                              | 2018       |           |            |
|------------------------------|------------|-----------|------------|
|                              | Retail     | Wholesale | Total      |
| Balance, beginning of period | \$ 186,254 | \$ 6,217  | \$ 192,471 |
| Provision for credit losses  | 105,292    | 1,578     | 106,870    |
| Charge-offs                  | (154,433)  | (8)       | (154,441)  |
| Recoveries                   | 44,985     | —         | 44,985     |
| Balance, end of period       | \$ 182,098 | \$ 7,787  | \$ 189,885 |

(a) On January 1, 2020, the Company adopted ASU 2016-13 and increased the allowance for loan loss through *Retained earnings*, net of income taxes, to establish an allowance that represents expected lifetime credit losses on the finance receivable portfolios at date of adoption.

The Company manages retail credit risk through its credit approval process and ongoing collection efforts. The Company uses FICO scores, a standard credit rating measurement, to differentiate the expected default rates of retail credit applicants, enabling the Company to better evaluate credit applicants for approval and to tailor pricing according to this assessment. For the Company's U.S. and Canadian retail finance receivables, the Company determines the credit quality indicator for each loan at origination and does not update the credit quality indicator subsequent to the loan origination date.

As loan performance by credit quality indicator differs between the U.S. and Canadian retail loans, the Company's credit quality indicators vary for the two portfolios. For U.S. retail finance receivables, those with a FICO score of 740 or above at origination are generally considered super prime, loans with a FICO score between 640 and 740 are generally categorized as prime, and loans with FICO score below 640 are generally considered sub-prime. For Canadian retail finance receivables, those with a FICO score of 700 or above at origination are generally considered super prime, loans with a FICO score between 620 and 700 are generally categorized as prime, and loans with FICO score below 620 are generally considered sub-prime.

The amortized cost of the Company's U.S. and Canadian retail finance receivables by vintage and credit quality indicator, at December 31, 2020, was as follows (in thousands):

|                         | 2020                | 2019                | 2018                | 2017              | 2016              | 2015 & Prior      | Total               |
|-------------------------|---------------------|---------------------|---------------------|-------------------|-------------------|-------------------|---------------------|
| <b>U.S. Retail:</b>     |                     |                     |                     |                   |                   |                   |                     |
| Super prime             | \$ 822,631          | \$ 575,977          | \$ 355,529          | \$ 165,436        | \$ 71,360         | \$ 29,181         | \$ 2,020,114        |
| Prime                   | 1,133,637           | 794,058             | 508,713             | 293,358           | 156,688           | 77,046            | 2,963,500           |
| Sub-prime               | 435,875             | 295,403             | 177,598             | 111,163           | 72,556            | 52,060            | 1,144,655           |
|                         | <u>2,392,143</u>    | <u>1,665,438</u>    | <u>1,041,840</u>    | <u>569,957</u>    | <u>300,604</u>    | <u>158,287</u>    | <u>6,128,269</u>    |
| <b>Canadian Retail:</b> |                     |                     |                     |                   |                   |                   |                     |
| Super prime             | 53,465              | 48,692              | 28,581              | 13,818            | 5,018             | 2,011             | 151,585             |
| Prime                   | 18,568              | 14,257              | 10,269              | 6,727             | 3,198             | 2,025             | 55,044              |
| Sub-prime               | 3,172               | 2,498               | 1,560               | 1,095             | 607               | 365               | 9,297               |
|                         | <u>75,205</u>       | <u>65,447</u>       | <u>40,410</u>       | <u>21,640</u>     | <u>8,823</u>      | <u>4,401</u>      | <u>215,926</u>      |
|                         | <u>\$ 2,467,348</u> | <u>\$ 1,730,885</u> | <u>\$ 1,082,250</u> | <u>\$ 591,597</u> | <u>\$ 309,427</u> | <u>\$ 162,688</u> | <u>\$ 6,344,195</u> |

Prior to the adoption of ASU 2016-13, retail loans with a FICO score of 640 or above at origination were generally considered prime, and loans with a FICO score below 640 were generally considered sub-prime. These credit quality indicators were determined at the time of loan origination and were not updated subsequent to the loan origination date. The recorded investment in retail finance receivables, by credit quality indicator at December 31, was as follows (in thousands):

|           | 2019                |
|-----------|---------------------|
| Prime     | \$ 5,278,093        |
| Sub-prime | 1,138,335           |
|           | <u>\$ 6,416,428</u> |



The Company's credit risk on the wholesale portfolio is different from that of the retail portfolio. Whereas the retail portfolio represents a relatively homogeneous pool of retail finance receivables that exhibit more consistent loss patterns, the wholesale portfolio exposures are less consistent. The Company utilizes an internal credit risk rating system to manage credit risk exposure consistently across wholesale borrowers and individually evaluates credit risk factors for each borrower. The Company uses the following internal credit quality indicators, based on an internal risk rating system, listed from highest level of risk to lowest level of risk for the wholesale portfolio: Doubtful, Substandard, Special Mention, Medium Risk and Low Risk. Based upon the Company's review, the dealers classified in the Doubtful category are the dealers with the greatest likelihood of being charged-off, while the dealers classified as Low Risk are least likely to be charged-off. Additionally, the Company classifies dealers identified as those in which foreclosure is probable as Non-Performing. The internal rating system considers factors such as the specific borrower's ability to repay and the estimated value of any collateral. Dealer risk rating classifications are reviewed and updated on a quarterly basis.

The amortized cost of wholesale financial receivables, by vintage and credit quality indicator, was as follows as of December 31, 2020 (in thousands):

|                 | 2020              | 2019             | 2018             | 2017            | 2016            | 2015 & Prior    | Total             |
|-----------------|-------------------|------------------|------------------|-----------------|-----------------|-----------------|-------------------|
| Non-Performing  | \$ —              | \$ —             | \$ —             | \$ —            | \$ —            | \$ —            | \$ —              |
| Doubtful        | —                 | —                | —                | —               | —               | —               | —                 |
| Substandard     | —                 | —                | —                | —               | —               | —               | —                 |
| Special Mention | 658               | 365              | 31               | —               | —               | —               | 1,054             |
| Medium Risk     | 1,925             | 242              | —                | —               | —               | —               | 2,167             |
| Low Risk        | 388,568           | 71,441           | 13,412           | 7,887           | 2,297           | 2,923           | 486,528           |
|                 | <u>\$ 391,151</u> | <u>\$ 72,048</u> | <u>\$ 13,443</u> | <u>\$ 7,887</u> | <u>\$ 2,297</u> | <u>\$ 2,923</u> | <u>\$ 489,749</u> |

Dealer risk rating categories prior to the adoption of ASU 2016-13 were consistent with the current risk rating categories with the exception of the Non-Performing category for dealers identified as those in which foreclosure is probable, which was established in connection with the January 1, 2020 adoption. The recorded investment in wholesale finance receivables, by internal credit quality indicator at December 31, was as follows (in thousands):

|                 | 2019                |
|-----------------|---------------------|
| Doubtful        | \$ 11,664           |
| Substandard     | 6,122               |
| Special Mention | 16,125              |
| Medium Risk     | 16,800              |
| Low Risk        | 1,105,808           |
|                 | <u>\$ 1,156,519</u> |

Retail finance receivables are contractually delinquent if the minimum payment is not received by the specified due date. Retail finance receivables at amortized cost, excluding accrued interest, are generally charged-off when the receivable is 120 days or more delinquent, the related asset is repossessed, or the receivable is otherwise deemed uncollectible. The Company reverses accrued interest related to charged-off accounts against interest income when the account is charged-off. The Company reversed \$19.1 million of accrued interest against interest income during the year ended December 31, 2020. All retail finance receivables accrue interest until either collected or charged-off. Due to the timely write-off of accrued interest, the Company made the election provided under ASU 2016-13 to exclude accrued interest from its allowance for credit losses. Accordingly, as of December 31, 2020 and 2019, all retail finance receivables were accounted for as interest-earning receivables, of which \$33.1 million and \$48.0 million, respectively, were 90 days or more past due.

Wholesale finance receivables are delinquent if the minimum payment is not received by the contractual due date. Wholesale finance receivables are written down once the Company determines that the specific borrower does not have the ability to repay the loan in full. Interest continues to accrue on past due finance receivables until the date the Company determines that foreclosure is probable, and the finance receivable is placed on non-accrual status. The Company will resume accruing interest on these accounts when payments are current according to the terms of the loans and future payments are reasonably assured. While on non-accrual status, all cash received is applied to principal or interest as appropriate. Once an account is charged-off, the Company will reverse the associated accrued interest against interest income. As the Company follows a non-accrual policy for interest, the allowance for credit losses excludes accrued interest for the wholesale portfolio. The Company reversed \$0.4 million of accrued interest related to the charge-off of Non-Performing dealer loans during the year ended December 31, 2020. There were no dealers on non-accrual status at December 31, 2020. The recorded investment of non-accrual status wholesale finance receivables at December 31, 2019 was \$5.0 million, and of this, \$2.6 million were 90 days or more past due.

The aging analysis of finance receivables at December 31, was as follows (in thousands):

|                                 | 2020                |                     |                     |                               |                   |                           |
|---------------------------------|---------------------|---------------------|---------------------|-------------------------------|-------------------|---------------------------|
|                                 | Current             | 31-60 Days Past Due | 61-90 Days Past Due | Greater than 90 Days Past Due | Total Past Due    | Total Finance Receivables |
| Retail finance receivables      | \$ 6,164,369        | \$ 106,818          | \$ 39,933           | \$ 33,075                     | \$ 179,826        | \$ 6,344,195              |
| Wholesale financial receivables | 489,556             | 166                 | 23                  | 4                             | 193               | 489,749                   |
|                                 | <u>\$ 6,653,925</u> | <u>\$ 106,984</u>   | <u>\$ 39,956</u>    | <u>\$ 33,079</u>              | <u>\$ 180,019</u> | <u>\$ 6,833,944</u>       |

|                                 | 2019                |                     |                     |                               |                   |                           |
|---------------------------------|---------------------|---------------------|---------------------|-------------------------------|-------------------|---------------------------|
|                                 | Current             | 31-60 Days Past Due | 61-90 Days Past Due | Greater than 90 Days Past Due | Total Past Due    | Total Finance Receivables |
| Retail finance receivables      | \$ 6,171,930        | \$ 142,479          | \$ 53,995           | \$ 48,024                     | \$ 244,498        | \$ 6,416,428              |
| Wholesale financial receivables | 1,152,416           | 1,145               | 384                 | 2,574                         | 4,103             | 1,156,519                 |
|                                 | <u>\$ 7,324,346</u> | <u>\$ 143,624</u>   | <u>\$ 54,379</u>    | <u>\$ 50,598</u>              | <u>\$ 248,601</u> | <u>\$ 7,572,947</u>       |

The recorded investment of retail and wholesale finance receivables, excluding non-accrual status finance receivables, that were contractually past due 90 days or more at December 31, for the past five years was as follows (in thousands):

|               | 2020             | 2019             | 2018             | 2017             | 2016             |
|---------------|------------------|------------------|------------------|------------------|------------------|
| United States | \$ 32,599        | \$ 47,138        | \$ 41,285        | \$ 39,051        | \$ 39,399        |
| Canada        | 480              | 888              | 1,051            | 1,025            | 1,326            |
|               | <u>\$ 33,079</u> | <u>\$ 48,026</u> | <u>\$ 42,336</u> | <u>\$ 40,076</u> | <u>\$ 40,725</u> |

Prior to the Company's January 1, 2020 adoption of ASU 2016-13, finance receivables were considered impaired when management determined it was probable that the Company would not be able to collect all amounts due according to the terms of the loan agreement. Portions of the allowance for credit losses were established to cover estimated losses on finance receivables specifically identified for impairment. The unspecified portion of the allowance for credit losses covered estimated losses on finance receivables which were collectively reviewed for impairment.

The allowance for credit losses and finance receivables by portfolio, segregated by those amounts that were individually evaluated for impairment and those that were collectively evaluated for impairment, at December 31, was as follows (in thousands):

|  | 2019                |                     |                     |
|--|---------------------|---------------------|---------------------|
|  | Retail              | Wholesale           | Total               |
| Allowance for credit losses, ending balance: |                     |                     |                     |
| Individually evaluated for impairment        | \$ —                | \$ 2,100            | \$ 2,100            |
| Collectively evaluated for impairment        | 188,501             | 7,980               | 196,481             |
|  | <u>\$ 188,501</u>   | <u>\$ 10,080</u>    | <u>\$ 198,581</u>   |
| Finance receivables, ending balance:         |                     |                     |                     |
| Individually evaluated for impairment        | \$ —                | \$ 4,601            | \$ 4,601            |
| Collectively evaluated for impairment        | 6,416,428           | 1,151,918           | 7,568,346           |
|  | <u>\$ 6,416,428</u> | <u>\$ 1,156,519</u> | <u>\$ 7,572,947</u> |

Additional information related to the wholesale finance receivables that were individually deemed to be impaired under *ASC Topic 310, Receivables* at December 31, 2019 included (in thousands):

|                               | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|-------------------------------|---------------------|--------------------------|-------------------|-----------------------------|----------------------------|
| <b>Wholesale:</b>             |                     |                          |                   |                             |                            |
| No related allowance recorded | \$ —                | \$ —                     | \$ —              | \$ —                        | \$ —                       |
| Related allowance recorded    | 4,994               | 4,601                    | 2,100             | 4,976                       | —                          |
|                               | <u>\$ 4,994</u>     | <u>\$ 4,601</u>          | <u>\$ 2,100</u>   | <u>\$ 4,976</u>             | <u>\$ —</u>                |

Retail finance receivables were not evaluated individually for impairment prior to charge-off at December 31, 2019.

Generally, it is the Company's policy not to change the terms and conditions of finance receivables. However, to minimize economic loss, the Company may modify certain finance receivables in troubled debt restructurings. Total finance receivables in troubled debt restructurings were not significant as of December 31, 2020 and December 31, 2019. Additionally, in certain situations, the Company may offer short-term adjustments to customer payment due dates without affecting the associated interest rate or loan term. During the second quarter and into the first part of the third quarter of 2020, the Company offered an increased amount of short-term payment due date extensions on eligible retail loans to help retail customers get through financial difficulties associated with the COVID-19 pandemic. Through the remainder of 2020, the volume of payment extensions on eligible retail loans declined but has not yet returned to pre-COVID-19 pandemic levels. The Company continues to grant payment extensions to customers in accordance with its policies.

## 8. Goodwill and Intangible Assets

On March 4, 2019, the Company purchased certain assets and liabilities of StaCyc, Inc. for total consideration of \$14.9 million including cash paid at acquisition of \$7.0 million. The primary assets acquired and included in the Motorcycles segment were goodwill of \$9.5 million, which was tax deductible, and intangible assets of \$5.3 million.

Changes in the carrying amount of goodwill in the Motorcycles segment for the years ended December 31, was as follows (in thousands):

|                              | 2020             | 2019             | 2018             |
|------------------------------|------------------|------------------|------------------|
| Balance, beginning of period | \$ 64,160        | \$ 55,048        | \$ 55,947        |
| Acquisitions                 | —                | 9,520            | —                |
| Currency translation         | 1,816            | (408)            | (899)            |
| Balance, end of period       | <u>\$ 65,976</u> | <u>\$ 64,160</u> | <u>\$ 55,048</u> |

Intangible assets, excluding goodwill, included in the Motorcycles segment consist primarily of customer relationships and trademarks with useful lives ranging from 5 to 20 years. Intangible assets are amortized on a straight-line basis over their estimated useful lives. Intangible assets are recorded in *Other long-term assets* on the *Consolidated balance sheets*. The gross carrying amounts at December 31, 2020 and 2019 differ from the acquisition date amounts due to changes in foreign currency exchange rates. Intangible assets at December 31, were as follows (in thousands):

|                          | 2020            | 2019             | 2018            |
|--------------------------|-----------------|------------------|-----------------|
| Gross carrying amount    | \$ 12,979       | \$ 12,837        | \$ 7,234        |
| Accumulated amortization | (3,350)         | (2,240)          | (1,236)         |
|                          | <u>\$ 9,629</u> | <u>\$ 10,597</u> | <u>\$ 5,998</u> |

Amortization of intangible assets, excluding goodwill, recorded in *Selling, administrative and engineering expense* on the *Consolidated statements of operations* was \$1.1 million, \$0.9 million and \$0.4 million for 2020, 2019 and 2018, respectively. Future amortization of the Company's intangible assets as of December 31, 2020 is as follows (in thousands):

|            |    |              |
|------------|----|--------------|
| 2021       | \$ | 1,072        |
| 2022       |    | 1,072        |
| 2023       |    | 1,072        |
| 2024       |    | 830          |
| 2025       |    | 750          |
| Thereafter |    | 4,833        |
|            | \$ | <u>9,629</u> |

The Financial Services segment had no goodwill or intangible assets at December 31, 2020 and 2019.

## 9. Derivative Financial Instruments and Hedging Activities

The Company is exposed to risks from fluctuations in foreign currency exchange rates, interest rates and commodity prices. To reduce its exposure to such risks, the Company selectively uses derivative financial instruments. All derivative transactions are authorized and executed pursuant to regularly reviewed policies and procedures which prohibit the use of financial instruments for speculative trading purposes.

The Company sells products in foreign currencies and utilizes foreign currency exchange contracts to mitigate the effects of foreign currency exchange rate fluctuations related to the Euro, Australian dollar, Japanese yen, Brazilian real, Canadian dollar, Mexican peso, Chinese yuan, Indian rupee, Singapore dollar, Thai baht, and Pound sterling. The Company's foreign currency exchange contracts generally have maturities of less than one year.

The Company utilizes commodity contracts to mitigate the effects of commodity price fluctuations related to metals and fuel consumed in the Company's motorcycle operations. The Company's commodity contracts generally have maturities of less than one year.

The Company periodically utilizes treasury rate lock contracts to fix the interest rate on a portion of the principal related to an anticipated issuance of long-term debt, interest rate swaps to reduce the impact of fluctuations in interest rates on medium-term notes with floating interest rates, and cross-currency swaps to mitigate the effect of foreign currency exchange rate fluctuations on foreign currency-denominated debt. The Company also utilizes interest rate caps to facilitate certain asset-backed securitization transactions.

All derivative financial instruments are recognized on the *Consolidated balance sheets* at fair value. In accordance with *ASC Topic 815, Derivatives and Hedging* (ASC Topic 815), the accounting for changes in the fair value of a derivative financial instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship.

Changes in the fair value of derivative financial instruments that are designated as cash flow hedges are initially recorded in *Other comprehensive income (loss)* (OCI) and subsequently reclassified into earnings when the hedged item affects income. The Company assesses, both at the inception of each hedge and on an ongoing basis, whether the derivative financial instruments that are designated as cash flow hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. No component of a designated hedging derivative financial instrument's gain or loss is excluded from the assessment of hedge effectiveness. Derivative financial instruments not designated as hedges are not speculative and are used to manage the Company's exposure to foreign currency, commodity risks, and interest rate risks. Changes in the fair value of derivative financial instruments not designated as hedging instruments are recorded directly in income.

The notional and fair values of the Company's derivative financial instruments under ASC Topic 815, at December 31, were as follows (in thousands):

| <b>Derivative Financial Instruments<br/>Designated as Cash Flow Hedging Instruments</b> |                           |                                 |                                |                           |                                 |                                |
|---|---------------------------|---------------------------------|--------------------------------|---------------------------|---------------------------------|--------------------------------|
|   | <b>2020</b>               |                                 |                                | <b>2019</b>               |                                 |                                |
|   | <b>Notional<br/>Value</b> | <b>Other<br/>Current Assets</b> | <b>Accrued<br/>Liabilities</b> | <b>Notional<br/>Value</b> | <b>Other<br/>Current Assets</b> | <b>Accrued<br/>Liabilities</b> |
| Foreign currency contracts  | \$ 533,925                | \$ 11                           | \$ 21,927                      | \$ 434,321                | \$ 3,505                        | \$ 3,661                       |
| Commodity contracts   | 671                       | —                               | 52                             | 616                       | —                               | 80                             |
| Cross-currency swaps  | 1,367,460                 | 138,622                         | —                              | 660,780                   | 8,326                           | —                              |
| Interest rate swaps   | 450,000                   | —                               | 3,086                          | 900,000                   | —                               | 9,181                          |
|   | <u>\$ 2,352,056</u>       | <u>\$ 138,633</u>               | <u>\$ 25,065</u>               | <u>\$ 1,995,717</u>       | <u>\$ 11,831</u>                | <u>\$ 12,922</u>               |

| <b>Derivative Financial Instruments<br/>Not Designated as Hedging Instruments</b> |                           |                                 |                                |                           |                                 |                                |
|---|---------------------------|---------------------------------|--------------------------------|---------------------------|---------------------------------|--------------------------------|
|   | <b>2020</b>               |                                 |                                | <b>2019</b>               |                                 |                                |
|   | <b>Notional<br/>Value</b> | <b>Other<br/>Current Assets</b> | <b>Accrued<br/>Liabilities</b> | <b>Notional<br/>Value</b> | <b>Other<br/>Current Assets</b> | <b>Accrued<br/>Liabilities</b> |
| Foreign currency contracts  | \$ 245,494                | \$ 737                          | \$ 435                         | \$ 220,139                | \$ 721                          | \$ 865                         |
| Commodity contracts   | 6,806                     | 849                             | 21                             | 8,270                     | 95                              | 147                            |
| Interest rate caps  | 978,058                   | 47                              | —                              | 375,980                   | 2                               | —                              |
|   | <u>\$ 1,230,358</u>       | <u>\$ 1,633</u>                 | <u>\$ 456</u>                  | <u>\$ 604,389</u>         | <u>\$ 818</u>                   | <u>\$ 1,012</u>                |

The amount of gains and losses related to derivative financial instruments designated as cash flow hedges for the years ended December 31, were as follows (in thousands):

|                              | <b>Gain/(Loss)<br/>Recognized in OCI</b> |                 |                  | <b>Gain/(Loss)<br/>Reclassified from AOCL into Income</b> |                  |                 |
|------------------------------|--|-----------------|------------------|---|------------------|-----------------|
|                              | <b>2020</b>                              | <b>2019</b>     | <b>2018</b>      | <b>2020</b>   | <b>2019</b>      | <b>2018</b>     |
| Foreign currency contracts   | \$ (14,507)                              | \$ 8,235        | \$ 41,657        | \$ 9,859  | \$ 21,433        | \$ 11,492       |
| Commodity contracts          | (160)                                    | (103)           | 34               | (189)   | (70)             | 24              |
| Cross-currency swaps         | 130,297                                  | 8,326           | —                | 153,472   | 12,156           | —               |
| Treasury rate lock contracts | —  | —               | 41               | (492)   | (492)            | (498)           |
| Interest rate swaps          | (8,449)                                  | (9,981)         | (6,046)          | (14,543)  | (5,295)          | (1,552)         |
|                              | <u>\$ 107,181</u>                        | <u>\$ 6,477</u> | <u>\$ 35,686</u> | <u>\$ 148,107</u>   | <u>\$ 27,732</u> | <u>\$ 9,466</u> |

The location and amount of gains and losses recognized in income related to derivative financial instruments designated as cash flow hedges for the years ended December 31, were as follows (in thousands):

|  | Motorcycles<br>cost of goods sold | Selling, administrative<br>&<br>engineering expense | Interest expense | Financial Services<br>interest expense |
|--|-----------------------------------|---|------------------|--|
| <b>2020</b>  |                                   |   |                  |  |
| Line item on the Consolidated statements of operations in which the effects of cash flow hedges are recorded | \$ 2,435,745                      | \$ 1,050,627  | \$ 31,121        | \$ 246,447                             |
| Gain/(loss) reclassified from AOCL into income:  |                                   |   |                  |  |
| Foreign currency contracts   | \$ 9,859                          | \$ —  | \$ —             | \$ —                                   |
| Commodity contracts  | \$ (189)                          | \$ —  | \$ —             | \$ —                                   |
| Cross-currency swaps   | \$ —                              | \$ 153,472  | \$ —             | \$ —                                   |
| Treasury rate lock contracts   | \$ —                              | \$ —  | \$ (362)         | \$ (130)                               |
| Interest rate swaps  | \$ —                              | \$ —  | \$ —             | \$ (14,543)                            |
| <b>2019</b>  |                                   |   |                  |  |
| Line item on the Consolidated statements of operations in which the effects of cash flow hedges are recorded | \$ 3,229,798                      | \$ 1,199,056  | \$ 31,078        | \$ 210,438                             |
| Gain/(loss) reclassified from AOCL into income:  |                                   |   |                  |  |
| Foreign currency contracts   | \$ 21,433                         | \$ —  | \$ —             | \$ —                                   |
| Commodity contracts  | \$ (70)                           | \$ —  | \$ —             | \$ —                                   |
| Cross-currency swaps   | \$ —                              | \$ 12,156   | \$ —             | \$ —                                   |
| Treasury rate lock contracts   | \$ —                              | \$ —  | \$ (362)         | \$ (130)                               |
| Interest rate swaps  | \$ —                              | \$ —  | \$ —             | \$ (5,295)                             |
| <b>2018</b>  |                                   |   |                  |  |
| Line item on the Consolidated statements of operations in which the effects of cash flow hedges are recorded | \$ 3,351,796                      | \$ 1,258,098  | \$ 30,884        | \$ 193,187                             |
| Gain/(loss) reclassified from AOCL into income:  |                                   |   |                  |  |
| Foreign currency contracts   | \$ 11,492                         | \$ —  | \$ —             | \$ —                                   |
| Commodity contracts  | \$ 24                             | \$ —  | \$ —             | \$ —                                   |
| Treasury rate lock contracts   | \$ —                              | \$ —  | \$ (362)         | \$ (136)                               |
| Interest rate swaps  | \$ —                              | \$ —  | \$ —             | \$ (1,552)                             |

The amount of net loss included in *Accumulated other comprehensive loss* (AOCL) at December 31, 2020, estimated to be reclassified into income over the next 12 months was \$32.9 million.

The amount of gains and losses recognized in income related to derivative financial instruments not designated as hedging instruments as of December 31, were as follows (in thousands). Gains and losses on foreign currency contracts and commodity contracts were recorded in *Motorcycles and Related Products cost of goods sold* and the interest rate caps were recorded in *Financial Services interest expense*.

|                            | Amount of Gain/(Loss)<br>Recognized in Income |              |                 |
|----------------------------|---|--------------|-----------------|
|                            | 2020  | 2019         | 2018            |
| Foreign currency contracts | \$ (205)                                      | \$ 191       | \$ —            |
| Commodity contracts        | (148)   | 17           | (430)           |
| Interest rate caps         | (532)   | (143)        | —               |
|                            | <u>\$ (885)</u>                               | <u>\$ 65</u> | <u>\$ (430)</u> |

The Company is exposed to credit loss risk in the event of non-performance by counterparties to its derivative financial instruments. Although no assurances can be given, the Company does not expect any of the counterparties to its derivative financial instruments to fail to meet their obligations. To manage credit loss risk, the Company evaluates counterparties based on credit ratings and, on a quarterly basis, evaluates each hedge's net position relative to the counterparty's ability to cover their position.

## 10. Leases

The Company determines if an arrangement is or contains a lease at contract inception. Right-of-use (ROU) assets related to the Company's leases are recorded in *Lease assets* and lease liabilities are recorded in *Accrued liabilities* and *Lease liability* on the *Consolidated balance sheets*.

ROU assets represent the Company's right to use an underlying asset over the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of future lease payments over the lease term. The ROU asset also includes prepaid lease payments and initial direct costs and is reduced for lease incentives paid by the lessor. The discount rate used to determine the present value is generally the Company's incremental borrowing rate because the implicit rate in the lease is not readily determinable. The lease term used to calculate the ROU asset and lease liabilities includes periods covered by options to extend or terminate when the Company is reasonably certain the lease term will include these optional periods.

In accordance with *ASC Topic 842, Leases* (ASC Topic 842), the Company elected the short-term lease practical expedient that allows entities to recognize lease payments on a straight-line basis over the lease term for leases with a term of 12 months or less. The Company has also elected the practical expedient under ASC Topic 842 allowing entities to not separate non-lease components from lease components, but instead account for such components as a single lease component for all leases except leases involving assets operated by a third-party.

The Company has operating lease arrangements for sales and administrative offices, manufacturing and distribution facilities, product testing facilities, equipment and vehicles. The Company's leases have remaining lease terms ranging from 1 to 11 years, some of which include options to extend the lease term for periods generally not greater than 5 years and some of which include options to terminate the leases within 1 year. Certain leases also include options to purchase the leased asset. The Company's leases do not contain any material residual value guarantees or material restrictive covenants.

Operating lease expense for the years ended December 31, 2020 and 2019 was \$26.7 million and \$27.4 million, respectively. This includes variable lease costs related to leases involving assets operated by a third-party of approximately \$5.6 million and \$6.5 million for the years ended December 31, 2020 and 2019, respectively. Other variable and short-term lease costs were not material.

Balance sheet information related to the Company's leases at December 31, was as follows (in thousands):

|                     | 2020             | 2019             |
|---------------------|------------------|------------------|
| Lease assets        | \$ 45,203        | \$ 61,618        |
| Accrued liabilities | \$ 17,081        | \$ 19,013        |
| Lease liabilities   | 30,115           | 44,447           |
|                     | <u>\$ 47,196</u> | <u>\$ 63,460</u> |

Future maturities of the Company's operating lease liabilities as of December 31, 2020 were as follows (in thousands):

|                        |    |               |
|------------------------|----|---------------|
| 2021                   | \$ | 18,160        |
| 2022                   |    | 13,573        |
| 2023                   |    | 5,462         |
| 2024                   |    | 3,518         |
| 2025                   |    | 5,787         |
| Thereafter             |    | 3,592         |
| Future lease payments  |    | 50,092        |
| Present value discount |    | (2,896)       |
| Lease liabilities      | \$ | <u>47,196</u> |

Other lease information surrounding the Company's operating leases as of December 31, was as follows (dollars in thousands):

|  | 2020      | 2019      |
|--|-----------|-----------|
| Cash outflows for amounts included in the measurement of lease liabilities           | \$ 20,533 | \$ 21,491 |
| Right-of-use assets obtained in exchange for lease obligations, net of modifications | \$ 1,833  | \$ 21,579 |
| Weighted-average remaining lease term (in years)                                     | 3.78      | 4.68      |
| Weighted-average discount rate   | 3.1 %     | 2.1 %     |

## 11. Debt

Debt with a contractual term less than 12 months is generally classified as short-term and consisted of the following at December 31, (in thousands):

|                            | 2020         | 2019       |
|----------------------------|--------------|------------|
| Unsecured commercial paper | \$ 1,014,274 | \$ 571,995 |

Debt with a contractual term greater than 12 months is generally classified as long-term and consisted of the following at December 31, (in thousands):

|   | 2020             | 2019             |
|---|------------------|------------------|
| Secured debt:   |                  |                  |
| Asset-backed Canadian commercial paper conduit facility | \$ 116,678       | \$ 114,693       |
| Asset-backed U.S. commercial paper conduit facilities   | 402,205          | 490,427          |
| Asset-backed securitization debt                        | 1,800,393        | 766,965          |
| Unamortized discounts and debt issuance costs           | (8,437)          | (2,573)          |
|   | <u>2,310,839</u> | <u>1,369,512</u> |



|  |               | 2020                | 2019                |
|--|---------------|---------------------|---------------------|
| <b>Unsecured notes (at par value):</b>           |               |                     |                     |
| Medium-term notes:                               |               |                     |                     |
| Due in 2020, issued February 2015                | 2.15%         | —                   | 600,000             |
| Due in 2020, issued May 2018                     | LIBOR + 0.50% | —                   | 450,000             |
| Due in 2020, issued March 2017                   | 2.40%         | —                   | 350,000             |
| Due in 2021, issued January 2016                 | 2.85%         | 600,000             | 600,000             |
| Due in 2021, issued in November 2018             | LIBOR + 0.94% | 450,000             | 450,000             |
| Due in 2021, issued May 2018                     | 3.55%         | 350,000             | 350,000             |
| Due in 2022, issued February 2019                | 4.05%         | 550,000             | 550,000             |
| Due in 2022, issued June 2017                    | 2.55%         | 400,000             | 400,000             |
| Due in 2023, issued February 2018                | 3.35%         | 350,000             | 350,000             |
| Due in 2023, issued May 2020 <sup>(a)</sup>      | 4.94%         | 797,206             | —                   |
| Due in 2024, issued November 2019 <sup>(b)</sup> | 3.14%         | 735,882             | 672,936             |
| Due in 2025, issued June 2020                    | 3.35%         | 700,000             | —                   |
| Unamortized discounts and debt issuance costs    |               | (15,374)            | (12,809)            |
|  |               | <u>4,917,714</u>    | <u>4,760,127</u>    |
| Senior notes:                                    |               |                     |                     |
| Due in 2025, issued July 2015                    | 3.50%         | 450,000             | 450,000             |
| Due in 2045, issued July 2015                    | 4.625%        | 300,000             | 300,000             |
| Unamortized discounts and debt issuance costs    |               | (6,023)             | (6,704)             |
|  |               | <u>743,977</u>      | <u>743,296</u>      |
|  |               | <u>5,661,691</u>    | <u>5,503,423</u>    |
| Long-term debt                                   |               | 7,972,530           | 6,872,935           |
| Current portion of long-term debt, net           |               | (2,039,597)         | (1,748,109)         |
| Long-term debt, net                              |               | <u>\$ 5,932,933</u> | <u>\$ 5,124,826</u> |

(a) Euro denominated €650.0 million par value remeasured to U.S. dollar at December 31, 2020

(b) Euro denominated €600.0 million par value remeasured to U.S. dollar at December 31, 2020 and 2019, respectively

The Company's future principal payments on debt obligations as of December 31, 2020 were as follows (in thousands):

|            |                     |
|------------|---------------------|
| 2021       | \$ 3,063,227        |
| 2022       | 1,655,414           |
| 2023       | 1,793,635           |
| 2024       | 1,054,362           |
| 2025       | 700,000             |
| Thereafter | 750,000             |
|            | <u>\$ 9,016,638</u> |

**Unsecured Commercial Paper** – Commercial paper maturities may range up to 365 days from the issuance date. The weighted-average interest rate of outstanding commercial paper balances was 1.34% and 1.94% at December 31, 2020 and 2019, respectively.

**Credit Facilities** – In April 2020, the Company entered into a \$707.5 million five-year credit facility to replace the \$765.0 million five-year credit facility that was due to mature in April 2021. The new five-year credit facility matures in April 2025. The Company also amended the \$780.0 million five-year credit facility to \$707.5 million with no change to the maturity date of April 2023. The Company also had a \$195.0 million 364-day credit facility which was due to mature in May 2020. In April 2020, the Company extended the maturity date of this credit facility to August 2020; however, this facility was terminated on May 18, 2020. At the time of termination, there were no outstanding borrowings under this 364-day credit facility. On June 1, 2020, the Company entered into a new \$350.0 million 364-day credit facility, and on June 4, 2020, the Company borrowed \$150.0 million under this facility. On December 9, 2020, the Company amended this facility to allow for the early repayment of the \$150.0 million borrowing, which was repaid in full on this date, along with the related interest. The

five-year credit facilities (together, the Global Credit Facilities), as well as the \$350.0 million 364-day credit facility, bear interest at variable rates, which may be adjusted upward or downward depending on certain criteria, such as credit ratings. The Global Credit Facilities and the \$350.0 million 364-day credit facility also require the Company to pay a fee based on the average daily unused portion of the aggregate commitments. The Global Credit Facilities are committed facilities primarily used to support the Company's unsecured commercial paper program.

*Unsecured Notes* – The fixed-rate U.S. dollar-denominated unsecured notes provide for semi-annual interest payments, the fixed-rate foreign currency-dominated unsecured notes provide for annual interest payments, and the floating-rate unsecured notes provide for quarterly interest payments. Principal on the unsecured notes is due at maturity.

During February, May, and June of 2020, \$600.0 million of 2.15%, \$450.0 million of floating rate, and \$350.0 million 2.40% medium-term notes matured, respectively, and the principal and accrued interest were paid in full. During January, March, and September of 2019, \$600.0 million of 2.25%, \$150.0 million of floating-rate, and \$600.0 million of 2.40% medium-term notes matured, respectively, and the principal and accrued interest were paid in full.

*Operating and Financial Covenants* – HDFS and the Company are subject to various operating and financial covenants related to the credit facilities and various operating covenants under the medium-term and senior notes and the U.S. and Canadian asset-backed commercial paper conduit facilities. The more significant covenants are described below.

The operating covenants limit the Company's and HDFS' ability to:

- Assume or incur certain liens;
- Participate in certain mergers or consolidations; and
- Purchase or hold margin stock.

Under the current financial covenants of the Global Credit Facilities, the ratio of HDFS' consolidated debt, excluding secured debt, to HDFS' consolidated allowance for credit losses on finance receivables plus HDFS' consolidated shareholders' equity, excluding accumulated other comprehensive loss (AOCL), cannot exceed 10.0 to 1.0 as of the end of any fiscal quarter. In addition, the ratio of the Company's consolidated debt to the Company's consolidated debt and consolidated shareholders' equity (where the Company's consolidated debt in each case excludes that of HDFS and its subsidiaries, and the Company's consolidated shareholders' equity excludes AOCL), cannot exceed 0.7 to 1.0 as of the end of any fiscal quarter. No financial covenants are required under the medium-term or senior notes or the U.S. or Canadian asset-backed commercial paper conduit facilities.

At December 31, 2020 and 2019, HDFS and the Company remained in compliance with all of the then existing covenants.

## **12. Asset-Backed Financing**

The Company participates in asset-backed financing both through asset-backed securitization transactions and through asset-backed commercial paper conduit facilities. In the Company's asset-backed financing programs, the Company transfers retail motorcycle finance receivables to special purpose entities (SPEs), which are considered VIEs under U.S. GAAP. Each SPE then converts those assets into cash, through the issuance of debt. The Company retains servicing rights for all of the retail motorcycle finance receivables transferred to SPEs as part of an asset-backed financing. The accounting treatment for asset-backed financings depends on the terms of the related transaction and the Company's continuing involvement with the VIE.

In transactions where the Company has power over the significant activities of the VIE and has an obligation to absorb losses or the right to receive benefits from the VIE that are potentially significant to the VIE, the Company is the primary beneficiary of the VIE and consolidates the VIE within its consolidated financial statements. On a consolidated basis, the asset-backed financing is treated as a secured borrowing in this type of transaction and is referred to as an on-balance sheet asset-backed financing.

In transactions where the Company is not the primary beneficiary of the VIE, the Company must determine whether it can achieve a sale for accounting purposes under *ASC Topic 860, Transfers and Servicing* (ASC Topic 860). To achieve a sale for accounting purposes, the assets being transferred must be legally isolated, not be constrained by restrictions from further transfer, and be deemed to be beyond the Company's control. If the Company does not meet all of these criteria for sale accounting, then the transaction is accounted for as a secured borrowing and is referred to as an on-balance sheet asset-backed financing.

If the Company meets all three of the sale criteria above, the transaction is recorded as a sale for accounting purposes and is referred to as an off-balance sheet asset-backed financing. Upon sale, the retail motorcycle finance receivables are removed from the Company's *Consolidated balance sheets* and a gain or loss is recognized for the difference between the

cash proceeds received, the assets derecognized, and the liabilities recognized as part of the transaction. The gain or loss on sale is included in *Financial Services revenue* in the *Consolidated statements of operations*.

The Company is not required, and does not currently intend, to provide any additional financial support to the on- or off-balance sheet VIEs associated with these transactions. Investors and creditors in these transactions only have recourse to the assets held by the VIEs.

The assets and liabilities related to the on-balance sheet asset-backed financings included in the *Consolidated balance sheets* at December 31, were as follows (in thousands):

|   | 2020                |                             |                   |                 |                     |                     |
|---|---------------------|-----------------------------|-------------------|-----------------|---------------------|---------------------|
|   | Finance receivables | Allowance for credit losses | Restricted cash   | Other assets    | Total assets        | Asset-backed debt   |
| <b>On-balance sheet assets and liabilities:</b>         |                     |                             |                   |                 |                     |                     |
| Consolidated VIEs:                                      |                     |                             |                   |                 |                     |                     |
| Asset-backed securitizations                            | \$ 2,129,372        | \$ (124,627)                | \$ 116,268        | \$ 2,622        | \$ 2,123,635        | \$ 1,791,956        |
| Asset-backed U.S. commercial paper conduit facility     | 441,402             | (25,793)                    | 26,624            | 1,131           | 443,364             | 402,205             |
| Unconsolidated VIEs:                                    |                     |                             |                   |                 |                     |                     |
| Asset-backed Canadian commercial paper conduit facility | 133,976             | (6,508)                     | 9,073             | 126             | 136,667             | 116,678             |
|   | <u>\$ 2,704,750</u> | <u>\$ (156,928)</u>         | <u>\$ 151,965</u> | <u>\$ 3,879</u> | <u>\$ 2,703,666</u> | <u>\$ 2,310,839</u> |
|   | 2019                |                             |                   |                 |                     |                     |
|   | Finance receivables | Allowance for credit losses | Restricted cash   | Other assets    | Total assets        | Asset-backed debt   |
| <b>On-balance sheet assets and liabilities:</b>         |                     |                             |                   |                 |                     |                     |
| Consolidated VIEs:                                      |                     |                             |                   |                 |                     |                     |
| Asset-backed securitizations                            | \$ 826,047          | \$ (24,935)                 | \$ 36,037         | \$ 778          | \$ 837,927          | \$ 764,392          |
| Asset-backed U.S. commercial paper conduit facilities   | 533,587             | (16,076)                    | 27,775            | 1,642           | 546,928             | 490,427             |
| Unconsolidated VIEs:                                    |                     |                             |                   |                 |                     |                     |
| Asset-backed Canadian commercial paper conduit facility | 132,279             | (2,786)                     | 7,686             | 296             | 137,475             | 114,693             |
|   | <u>\$ 1,491,913</u> | <u>\$ (43,797)</u>          | <u>\$ 71,498</u>  | <u>\$ 2,716</u> | <u>\$ 1,522,330</u> | <u>\$ 1,369,512</u> |

*On-Balance Sheet Asset-Backed Securitization VIEs* – The Company transfers U.S. retail motorcycle finance receivables to SPEs which in turn issue secured notes to investors, with various maturities and interest rates, secured by future collections of the purchased U.S. retail motorcycle finance receivables. Each on-balance sheet asset-backed securitization SPE is a separate legal entity, and the U.S. retail motorcycle finance receivables included in the asset-backed securitizations are only available for payment of the secured debt and other obligations arising from the asset-backed securitization transactions and are not available to pay other obligations or claims of the Company's creditors until the associated secured debt and other obligations are satisfied. Restricted cash balances held by the SPEs are used only to support the securitizations. There are no amortization schedules for the secured notes; however, the debt is reduced monthly as available collections on the related U.S. retail motorcycle finance receivables are applied to outstanding principal. The secured notes currently have various contractual maturities ranging from 2022 to 2028.

The Company is the primary beneficiary of its on-balance sheet asset-backed securitization VIEs because it retains servicing rights and a residual interest in the VIEs in the form of a debt security. As the servicer, the Company is the variable interest holder with the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. As a residual interest holder, the Company has the obligation to absorb losses and the right to receive benefits which could potentially be significant to the VIE.

In 2020, the Company transferred \$2.42 billion of U.S. retail motorcycle finance receivables to four separate SPEs which, in turn, issued \$2.08 billion, or \$2.06 billion net of discounts and issuance costs, of secured notes through four separate on-balance sheet asset-backed securitization transactions. In 2019, the Company transferred \$1.12 billion of U.S. retail motorcycle finance receivables to two separate SPEs which, in turn, issued \$1.03 billion, or \$1.02 billion net of discount and issuance costs, of secured notes through two separate on-balance sheet asset-backed securitization transactions.

At December 31, 2020, the *Consolidated balance sheets* included outstanding balances related to the following secured notes with the related maturity dates and interest rates (in thousands):

| Issue Date   | Principal Amount at Date of Issuance | Weighted-Average Rate at Date of Issuance | Contractual Maturity Date at Date of Issuance |
|--------------|--------------------------------------|---|---|
| May 2020     | \$750,178                            | 3.38%                                     | April 2028                                    |
| May 2020     | \$500,000                            | 2.37%                                     | October 2021 - October 2028                   |
| April 2020   | \$300,000                            | 3.30%                                     | November 2027                                 |
| January 2020 | \$525,000                            | 1.83%                                     | February 2021 - April 2027                    |
| June 2019    | \$525,000                            | 2.37%                                     | July 2020 - November 2026                     |
| May 2019     | \$500,000                            | 3.05%                                     | July 2026                                     |

There were no secured notes included in the *Consolidated balance sheets* at December 31, 2019 that were repaid in full during 2020. For the years ended December 31, 2020 and 2019, interest expense on the secured notes was \$42.1 million and \$13.3 million, respectively, which is included in *Financial Services interest expense*. The weighted average interest rate of the outstanding on-balance sheet asset-backed securitization transactions was 2.39% and 2.36% at December 31, 2020 and 2019, respectively.

*On-Balance Sheet Asset-Backed U.S. Commercial Paper Conduit Facilities VIE* – Until November 25, 2020, the Company had two separate agreements with third-party bank-sponsored asset-backed U.S. commercial paper conduits, a \$300.0 million revolving facility agreement and a \$600.0 million revolving facility agreement (together, the Former U.S. Conduit Facilities). On November 25, 2020, the Company amended each revolving facility agreement by consolidating the two agreements into one \$900.0 million revolving facility agreement with third-party bank-sponsored asset-backed U.S. commercial paper conduits. Under the revolving facility agreement, the Company may transfer U.S. retail motorcycle finance receivables to an SPE, which in turn may issue debt to those third-party bank-sponsored asset-backed U.S. commercial paper conduits. In addition to the \$900.0 million aggregate commitment, the agreement allows for additional borrowings, at the lender's discretion, of up to \$300.0 million. Availability under the \$900.0 million revolving facility (the U.S. Conduit Facility) is based on, among other things, the amount of eligible U.S. retail motorcycle finance receivables held by the SPE as collateral.

Under the U.S. Conduit Facility, the assets of the SPE are restricted as collateral for the payment of the debt or other obligations arising in the transaction and are not available to pay other obligations or claims of the Company's creditors. The terms for this debt provide for interest on the outstanding principal based on prevailing commercial paper rates if funded by a conduit lender through the issuance of commercial paper. If not funded by a conduit lender through the issuance of commercial paper, the terms of the interest are based on LIBOR. In each of these cases, a program fee is assessed based on the outstanding principal. The U.S. Conduit Facility also provides for an unused commitment fee based on the unused portion of the total aggregate commitment. When calculating the unused fee, the aggregate commitment does not include any unused portion of the \$300.0 million additional borrowings allowed. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the U.S. Conduit Facility, any outstanding principal will continue to be reduced monthly through available collections. The expected remaining term of the related receivables held by the SPE is approximately 4 years. Unless earlier terminated or extended by mutual agreement of the Company and the lenders, as of December 31, 2020, the U.S. Conduit Facility has an expiration date of November 19, 2021.

The Company is the primary beneficiary of its U.S. Conduit Facility VIE because it retains servicing rights and a residual interest in the VIE in the form of a debt security. As the servicer, the Company is the variable interest holder with the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. As a residual interest holder, the Company has the obligation to absorb losses and the right to receive benefits which could potentially be significant to the VIE.

In 2020, the Company transferred \$195.3 million of U.S. retail motorcycle finance receivables to an SPE which, in turn, issued \$163.6 million of debt under the Former U.S. Conduit Facilities. In 2019, the Company transferred \$174.4 million of U.S. retail motorcycle finance receivables to an SPE which, in turn, issued \$154.6 million of debt under the Former U.S. Conduit Facilities.

For the year ended December 31, 2020 interest expense under the Former U.S. Conduit Facilities and U.S. Conduit Facility was a total of \$8.9 million. For the year ended December 31, 2019 interest expense under the Former U.S. Conduit Facilities was \$18.5 million. The interest expense is included in *Financial Services interest expense*. The weighted average interest rate of the outstanding U.S. Conduit Facility was 1.61% at December 31, 2020. The weighted average interest rate of the outstanding Former U.S. Conduit Facilities was 2.63% at December 31, 2019.

**On-Balance Sheet Asset-Backed Canadian Commercial Paper Conduit Facility** – In June 2020, the Company renewed its facility agreement (Canadian Conduit) with a Canadian bank-sponsored asset-backed commercial paper conduit. Under the agreement, the Canadian Conduit is contractually committed, at the Company's option, to purchase eligible Canadian retail motorcycle finance receivables for proceeds up to C\$220.0 million. The transferred assets are restricted as collateral for the payment of the associated debt. The terms for this debt provide for interest on the outstanding principal based on prevailing market interest rates plus a specified margin. The Canadian Conduit also provides for a program fee and an unused commitment fee based on the unused portion of the total aggregate commitment of C\$220.0 million. There is no amortization schedule; however, the debt is reduced monthly as available collections on the related finance receivables are applied to outstanding principal. Upon expiration of the Canadian Conduit, any outstanding principal will continue to be reduced monthly through available collections. The expected remaining term of the related receivables is approximately 4 years. Unless earlier terminated or extended by mutual agreement of the Company and the lenders, as of December 31, 2020, the Canadian Conduit has an expiration date of June 25, 2021.

The Company is not the primary beneficiary of the Canadian bank-sponsored, multi-seller conduit VIE; therefore, the Company does not consolidate the VIE. However, the Company treats the conduit facility as a secured borrowing as it maintains effective control over the assets transferred to the VIE and therefore does not meet the requirements for sale accounting.

As the Company participates in and does not consolidate the Canadian bank-sponsored, multi-seller conduit VIE, the maximum exposure to loss associated with this VIE, which would only be incurred in the unlikely event that all the finance receivables and underlying collateral have no residual value, is \$20.0 million at December 31, 2020. The maximum exposure is not an indication of the Company's expected loss exposure.

In 2020, the Company transferred \$77.9 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$61.6 million. In 2019, the Company transferred \$28.2 million of Canadian retail motorcycle finance receivables to the Canadian Conduit for proceeds of \$23.4 million.

For the years ended December 31, 2020 and 2019, interest expense on the Canadian Conduit was \$2.9 million and \$3.6 million, respectively, which is included in *Financial Services interest expense*. The weighted average interest rate of the outstanding Canadian Conduit was 2.13% and 2.68% at December 31, 2020 and 2019, respectively.

**Off-Balance Sheet Asset-Backed Securitization VIE** – There were no off-balance sheet asset-backed securitization transactions during the years ended December 31, 2020, 2019 and 2018. During the second quarter of 2016, the Company sold retail motorcycle finance receivables with a principal balance of \$301.8 million into a securitization VIE that was not consolidated, recognized a gain of \$9.3 million and received cash proceeds of \$312.6 million. The gain on sale was included in *Financial Services revenue* on the *Consolidated statements of operations*. In April 2020, the Company repurchased the finance receivables associated with this off-balance sheet asset-backed securitization VIE for \$27.4 million.

Similar to an on-balance sheet asset-backed securitization, the Company transferred U.S. retail motorcycle finance receivables to an SPE which in turn issued secured notes to investors, with various maturities and interest rates, secured by future collections of the purchased U.S. retail motorcycle finance receivables. The off-balance sheet asset-backed securitization SPE was a separate legal entity, and the U.S. retail motorcycle finance receivables included in the asset-backed securitization were only available for payment of the secured debt and other obligations arising from the asset-backed securitization transaction and were not available to pay other obligations or claims of the Company's creditors. In an on-balance sheet asset-backed securitization, the Company retains a financial interest in the VIE in the form of a debt security. As part of this off-balance sheet securitization, the Company did not retain any financial interest in the VIE beyond servicing rights and ordinary representations and warranties and related covenants.

The Company was not the primary beneficiary of the off-balance sheet asset-backed securitization VIE because it only retained servicing rights and did not have the obligation to absorb losses or the right to receive benefits from the VIE which could potentially be significant to the VIE. Accordingly, this transaction met the accounting sale requirements under ASC Topic 860 and was recorded as a sale for accounting purposes. Upon the sale in 2016, the retail motorcycle finance receivables were removed from the Company's *Consolidated balance sheets* and a gain was recognized for the difference between the cash proceeds received, the assets derecognized and the liabilities recognized as part of the transaction.

**Servicing Activities** – The Company services all retail motorcycle finance receivables that it originates. When the Company transfers retail motorcycle finance receivables to SPEs through asset-backed financings, the Company retains the right to service the finance receivables and receives servicing fees based on the securitized finance receivables balance and certain ancillary fees. In on-balance sheet asset-backed financings, servicing fees are eliminated in consolidation and therefore are not recorded on a consolidated basis. In off-balance sheet asset-backed financings, servicing fees and ancillary fees are recorded in *Financial Services revenue* in the *Consolidated statements of operations*. The fees the Company is paid for

servicing represent adequate compensation and, consequently, the Company does not recognize a servicing asset or liability. The Company recognized servicing fee income of \$0.1 million and \$0.6 million for the years ended December 31, 2020 and December 31, 2019, respectively.

The unpaid principal balance of retail motorcycle finance receivables serviced by the Company at December 31, was as follows (in thousands):

|   | 2020                | 2019                |
|---|---------------------|---------------------|
| On-balance sheet retail motorcycle finance receivables  | \$ 6,187,300        | \$ 6,274,551        |
| Off-balance sheet retail motorcycle finance receivables | —                   | 35,197              |
|   | <u>\$ 6,187,300</u> | <u>\$ 6,309,748</u> |

The unpaid principal balance of retail motorcycle finance receivables serviced by the Company 30 days or more delinquent at December 31, was as follows (in thousands):

|   | 2020              | 2019              |
|---|-------------------|-------------------|
| On-balance sheet retail motorcycle finance receivables  | \$ 176,733        | \$ 244,498        |
| Off-balance sheet retail motorcycle finance receivables | —                 | 885               |
|   | <u>\$ 176,733</u> | <u>\$ 245,383</u> |

Credit losses, net of recoveries for the retail motorcycle finance receivables serviced by the Company, for the years ended December 31, were as follows (in thousands):

|   | 2020             | 2019              |
|---|------------------|-------------------|
| On-balance sheet retail motorcycle finance receivables  | \$ 87,546        | \$ 125,840        |
| Off-balance sheet retail motorcycle finance receivables | 13               | 458               |
|   | <u>\$ 87,559</u> | <u>\$ 126,298</u> |

### 13. Fair Value

The Company assesses the inputs used to measure fair value using a three-tier hierarchy.

Level 1 inputs include quoted prices for identical instruments and are the most observable.

Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, foreign currency exchange rates, commodity prices, and yield curves. The Company uses the market approach to derive the fair value for its Level 2 fair value measurements. Foreign currency contracts, commodity contracts, and cross-currency swaps are valued using quoted forward rates and prices; interest rate swaps and caps are valued using quoted interest rates and yield curves.

Level 3 inputs are not observable in the market and include the Company's judgments about the assumptions market participants would use in pricing the asset or liability.

*Recurring Fair Value Measurements* – The Company's assets and liabilities measured at fair value on a recurring basis as of December 31, were as follows (in thousands):

|                                  | 2020                |                     |                   |
|----------------------------------|---------------------|---------------------|-------------------|
|                                  | Balance             | Level 1             | Level 2           |
| <b>Assets:</b>                   |                     |                     |                   |
| Cash equivalents                 | \$ 3,019,884        | \$ 2,819,884        | \$ 200,000        |
| Marketable securities            | 52,061              | 52,061              | —                 |
| Derivative financial instruments | 140,266             | —                   | 140,266           |
|                                  | <u>\$ 3,212,211</u> | <u>\$ 2,871,945</u> | <u>\$ 340,266</u> |
| <b>Liabilities:</b>              |                     |                     |                   |
| Derivative financial instruments | \$ 25,521           | \$ —                | \$ 25,521         |

|                                  | 2019              |                   |                   |
|----------------------------------|-------------------|-------------------|-------------------|
|                                  | Balance           | Level 1           | Level 2           |
| <b>Assets:</b>                   |                   |                   |                   |
| Cash equivalents                 | \$ 624,832        | \$ 459,885        | \$ 164,947        |
| Marketable securities            | 52,575            | 52,575            | —                 |
| Derivative financial instruments | 12,649            | —                 | 12,649            |
|                                  | <u>\$ 690,056</u> | <u>\$ 512,460</u> | <u>\$ 177,596</u> |
| <b>Liabilities:</b>              |                   |                   |                   |
| Derivative financial instruments | \$ 13,934         | \$ —              | \$ 13,934         |

*Nonrecurring Fair Value Measurements* – Repossessed inventory was \$17.7 million and \$21.4 million at December 31, 2020 and 2019, respectively, for which the fair value adjustment was \$4.2 million and \$11.9 million, respectively. Fair value is estimated using Level 2 inputs based on the recent market values of repossessed inventory.

*Fair Value of Financial Instruments Measured at Cost* – The carrying value of the Company's *Cash and cash equivalents* and *Restricted cash* approximates their fair values. The fair value and carrying value of the Company's remaining financial instruments that are measured at cost or amortized cost at December 31, were as follows (in thousands):

|   | 2020         |                | 2019         |                |
|---|--------------|----------------|--------------|----------------|
|   | Fair Value   | Carrying Value | Fair Value   | Carrying Value |
| <b>Assets:</b>  |              |                |              |                |
| Finance receivables, net                                | \$ 6,586,348 | \$ 6,443,008   | \$ 7,419,627 | \$ 7,374,366   |
| <b>Liabilities:</b>                                     |              |                |              |                |
| Deposits  | \$ 79,965    | \$ 79,965      | \$ —         | \$ —           |
| <b>Debt:</b>  |              |                |              |                |
| Unsecured commercial paper                              | \$ 1,014,274 | \$ 1,014,274   | \$ 571,995   | \$ 571,995     |
| Asset-backed U.S. commercial paper conduit facilities   | \$ 402,205   | \$ 402,205     | \$ 490,427   | \$ 490,427     |
| Asset-backed Canadian commercial paper conduit facility | \$ 116,678   | \$ 116,678     | \$ 114,693   | \$ 114,693     |
| Asset-backed securitization debt                        | \$ 1,817,892 | \$ 1,791,956   | \$ 768,094   | \$ 764,392     |
| Medium-term notes                                       | \$ 5,118,928 | \$ 4,917,714   | \$ 4,816,153 | \$ 4,760,127   |
| Senior notes  | \$ 828,141   | \$ 743,977     | \$ 774,949   | \$ 743,296     |

*Finance Receivables, net* – The carrying value of retail and wholesale finance receivables is amortized cost less an allowance for credit losses. The fair value of retail finance receivables is generally calculated by discounting future cash flows using an estimated discount rate that reflects current credit, interest rate and prepayment risks associated with similar types of instruments. Fair value is determined based on Level 3 inputs. The amortized cost basis of wholesale finance receivables approximates fair value because they are generally either short-term or have interest rates that adjust with changes in market interest rates.

*Deposits* – The carrying value of deposits is amortized cost and approximates carrying value due to the short maturities of the deposits. Fair value is calculated using Level 2 inputs.

*Debt* – The carrying value of debt is generally amortized cost, net of discounts and debt issuance costs. The fair value of unsecured commercial paper and credit facility borrowings are calculated using Level 2 inputs and approximates carrying value due to its short maturity. The fair value of debt provided under the U.S. Conduit Facilities and Canadian Conduit Facility is calculated using Level 2 inputs and approximates carrying value since the interest rates charged under the facilities are tied directly to market rates and fluctuate as market rates change. The fair values of the medium-term notes and senior notes are estimated based upon rates currently available for debt with similar terms and remaining maturities (Level 2 inputs). The fair value of the fixed-rate debt related to on-balance sheet asset-backed securitization transactions is estimated based on pricing currently available for transactions with similar terms and maturities (Level 2 inputs). The fair value of the floating-rate debt related to on-balance sheet asset-backed securitization transactions is calculated using Level 2 inputs and approximates carrying value since the interest rates charged are tied directly to market rates and fluctuate as market rates change.

#### 14. Product Warranty and Recall Campaigns

The Company currently provides a standard two-year limited warranty on all new motorcycles sold worldwide, except in Japan, where the Company currently provides a standard three-year limited warranty. The Company also provides a five-year unlimited warranty on the battery for new electric motorcycles. In addition, the Company provides a one-year warranty for parts and accessories. The warranty coverage for the retail customer generally begins when the product is sold to a retail customer. The Company accrues for future warranty claims at the time of sale using an estimated cost based primarily on historical Company claim information.

Additionally, the Company has from time to time initiated certain voluntary recall campaigns. The Company records estimated recall costs when the liability is both probable and estimable. This generally occurs when the Company's management approves and commits to a recall. The warranty and recall liability is included in *Accrued Liabilities* and *Other long-term liabilities* on the *Consolidated balance sheets*. Changes in the Company's warranty and recall liability were as follows as of December 31, (in thousands):

|  | 2020             | 2019             | 2018              |
|--|------------------|------------------|-------------------|
| Balance, beginning of period                             | \$ 89,793        | \$ 131,740       | \$ 94,200         |
| Warranties issued during the period                      | 32,042           | 50,470           | 53,367            |
| Settlements made during the period                       | (51,420)         | (90,404)         | (79,300)          |
| Recalls and changes to pre-existing warranty liabilities | (1,207)          | (2,013)          | 63,473            |
| Balance, end of period                                   | <u>\$ 69,208</u> | <u>\$ 89,793</u> | <u>\$ 131,740</u> |

The liability for recall campaigns was \$24.7 million, \$36.4 million and \$73.3 million at December 31, 2020, 2019 and 2018, respectively. Additionally, the Company recorded supplier recoveries within operating expenses separate from the amounts disclosed above of \$28.0 million in 2019.

#### 15. Employee Benefit Plans and Other Postretirement Benefits

The Company has a qualified defined benefit pension plan and postretirement healthcare benefit plans. The plans cover certain eligible employees and retirees of the Motorcycles segment. The Company also has unfunded supplemental employee retirement plan agreements (SERPA) with certain employees.

Pension benefits are based primarily on years of service and, for certain participants, levels of compensation. Plan participants are eligible to receive postretirement healthcare benefits upon attaining age 55 after rendering at least 10 years of service to the Company. Some of the plans require participant contributions to partially offset benefit costs.

##### Obligations and Funded Status:

The changes in the benefit obligation, fair value of plan assets and the funded status of the Company's pension and SERPA plans and the postretirement healthcare plans as of the Company's measurement dates of December 31, were as follows (in thousands):

|   | Pension and SERPA Benefits |                  | Postretirement Healthcare Benefits |                |
|---|----------------------------|------------------|------------------------------------|----------------|
|   | 2020                       | 2019             | 2020                               | 2019           |
| Change in benefit obligation:           |                            |                  |                                    |                |
| Benefit obligation, beginning of period | \$ 2,212,012               | \$ 1,984,708     | \$ 293,505                         | \$ 286,574     |
| Service cost                            | 27,224                     | 25,408           | 11,761                             | 4,449          |
| Interest cost                           | 76,447                     | 85,483           | 9,391                              | 11,753         |
| Actuarial losses (gains)                | 228,081                    | 236,719          | 18,824                             | 9,590          |
| Plan participant contributions          | —                          | —                | 2,140                              | 1,999          |
| Plan amendments                         | —                          | 8,371            | —                                  | —              |
| Special early retirement benefits       | —                          | 1,583            | —                                  | —              |
| Benefits paid                           | (137,381)                  | (126,079)        | (19,703)                           | (20,860)       |
| Net curtailments and settlements        | (15,948)                   | (4,181)          | (673)                              | —              |
| Benefit obligation, end of period       | <u>2,390,435</u>           | <u>2,212,012</u> | <u>315,245</u>                     | <u>293,505</u> |



|  | Pension and SERPA Benefits |            | Postretirement Healthcare Benefits |             |
|--|----------------------------|------------|------------------------------------|-------------|
|  | 2020                       | 2019       | 2020                               | 2019        |
| <b>Change in plan assets:</b>  |                            |            |                                    |             |
| Fair value of plan assets, beginning of period                               | 2,209,222                  | 1,874,618  | 220,992                            | 190,357     |
| Return on plan assets  | 361,674                    | 459,388    | 36,349                             | 41,717      |
| Plan participant contributions   | —                          | —          | 2,140                              | 1,999       |
| Benefits paid  | (136,921)                  | (124,784)  | (15,446)                           | (13,081)    |
| Fair value of plan assets, end of period                                     | 2,433,975                  | 2,209,222  | 244,035                            | 220,992     |
| Funded status of the plan  | \$ 43,540                  | \$ (2,790) | \$ (71,210)                        | \$ (72,513) |
| <b>Funded status as recognized on the Consolidated balance sheets:</b>       |                            |            |                                    |             |
| Pension and postretirement assets  | \$ 82,537                  | \$ 56,014  | \$ 13,174                          | \$ —        |
| Accrued liabilities  | (8,814)                    | (2,666)    | (361)                              | —           |
| Pension and postretirement liabilities                                       | (30,183)                   | (56,138)   | (84,023)                           | (72,513)    |
|  | \$ 43,540                  | \$ (2,790) | \$ (71,210)                        | \$ (72,513) |
| <b>Amounts included in Accumulated other comprehensive loss, net of tax:</b> |                            |            |                                    |             |
| Prior service credits  | \$ (5,712)                 | \$ (6,489) | \$ (5,438)                         | \$ (7,559)  |
| Actuarial losses (gains)   | 445,804                    | 496,919    | (4,942)                            | (1,321)     |
|  | \$ 440,092                 | \$ 490,430 | \$ (10,380)                        | \$ (8,880)  |

During 2020, actuarial losses related to the obligation for pension and SERPA benefits were due primarily to a decrease in the discount rate, partially offset by changes in mortality assumptions, demographic assumptions and a reduction in plan participants. During 2019, actuarial losses were due primarily to a decrease in the discount rate partially offset by changes in mortality assumptions.

During 2020 and 2019, the actuarial losses related to the obligation for postretirement healthcare benefits were due primarily to decreases in the discount rate, partially offset by favorable claim cost adjustments.

The funded status of the qualified pension plan and the SERPA plans are combined above. Plans with projected benefit obligations (PBO) or accumulated benefit obligations (ABO) in excess of the fair value of plan assets at December 31, is presented below (in thousands):

|   | 2020      | 2019      |
|---|-----------|-----------|
| <b>Plans with PBO in excess of fair value of plan assets:</b> |           |           |
| PBO   | \$ 38,996 | \$ 58,804 |
| Fair value of plan assets                                     | \$ —      | \$ —      |
| <b>Plans with ABO in excess of fair value of plan assets:</b> |           |           |
| ABO   | \$ 30,598 | \$ 44,232 |
| Fair value of plan assets                                     | \$ —      | \$ —      |

The total ABO for all the Company's pension and SERPA plans combined was \$2.30 billion and \$2.12 billion as of December 31, 2020 and 2019, respectively.

## Benefit Costs:

Service cost is allocated among *Selling, administrative and engineering expense, Motorcycles and Related Products cost of goods sold and Inventories, net*. Amounts capitalized in inventory are not significant. Non-service cost components of net periodic benefit cost are presented in *Other (expense) income, net*. Components of net periodic benefit costs for the Company's defined benefit plans for the years ended December 31, were as follows (in thousands):

|                                   | Pension and SERPA Benefits |           |           | Postretirement Healthcare Benefits |          |          |
|-----------------------------------|----------------------------|-----------|-----------|------------------------------------|----------|----------|
|                                   | 2020                       | 2019      | 2018      | 2020                               | 2019     | 2018     |
| Service cost                      | \$ 27,224                  | \$ 25,408 | \$ 32,340 | \$ 11,761                          | \$ 4,449 | \$ 7,180 |
| Interest cost                     | 76,447                     | 85,483    | 82,778    | 9,391                              | 11,753   | 11,556   |
| Expected return on plan assets    | (135,056)                  | (142,323) | (147,671) | (13,870)                           | (14,030) | (14,161) |
| Amortization of unrecognized:     |                            |           |           |                                    |          |          |
| Prior service credit              | (1,088)                    | (1,930)   | (420)     | (2,381)                            | (2,381)  | (1,842)  |
| Net loss                          | 65,489                     | 44,511    | 64,773    | 492                                | 277      | 1,817    |
| Special early retirement benefits | —                          | 1,583     | —         | —                                  | —        | —        |
| Curtailement loss (gain)          | 74                         | —         | 1,017     | (392)                              | (960)    | (886)    |
| Settlement loss                   | 2,742                      | 1,503     | —         | —                                  | —        | —        |
| Net periodic benefit cost         | \$ 35,832                  | \$ 14,235 | \$ 32,817 | \$ 5,001                           | \$ (892) | \$ 3,664 |

The expected return on plan assets is calculated based on the market related value of plan assets. The market related value of plan assets is different from the fair value in that asset gains and losses are smoothed over a five-year period.

Unrecognized gains and losses related to plan obligations and assets are initially recorded in other comprehensive income and result from actual experience that differs from assumed or expected results, and the impacts of changes in assumptions. Unrecognized plan asset gains and losses not yet reflected in the market related value of plan assets are not subject to amortization. Remaining unrecognized gains and losses that exceed 10% of the greater of the projected benefit obligation or the market related value of plan assets are amortized to earnings over the estimated future service period of active plan participants. The impacts of plan amendments, if any, are amortized over the estimated future service period of plan participants at the time of the amendment.

## Assumptions:

Weighted-average assumptions used to determine benefit obligations and net periodic benefit cost at December 31, were as follows:

|  | Pension and SERPA Benefits |        |        | Postretirement Healthcare Benefits |        |        |
|--|----------------------------|--------|--------|------------------------------------|--------|--------|
|  | 2020                       | 2019   | 2018   | 2020                               | 2019   | 2018   |
| Assumptions for benefit obligations:       |                            |        |        |                                    |        |        |
| Discount rate                              | 2.62 %                     | 3.49 % | 4.38 % | 2.11 %                             | 3.26 % | 4.23 % |
| Rate of compensation increase              | 3.34 %                     | 3.39 % | 3.38 % | n/a                                | n/a    | n/a    |
| Assumptions for net periodic benefit cost: |                            |        |        |                                    |        |        |
| Discount rate                              | 3.49 %                     | 4.38 % | 3.71 % | 3.26 %                             | 4.23 % | 3.52 % |
| Expected return on plan assets             | 6.70 %                     | 7.10 % | 7.25 % | 7.00 %                             | 7.25 % | 7.25 % |
| Rate of compensation increase              | 3.39 %                     | 3.38 % | 3.43 % | n/a                                | n/a    | n/a    |

## Plan Assets:

*Pension Plan Assets* – The Company's investment objective is to ensure assets are sufficient to pay benefits while mitigating the volatility of retirement plan assets or liabilities recorded in the balance sheet. The Company mitigates volatility through asset diversification and partial asset/liability matching. The investment portfolio for the Company's pension plan assets contains a diversified blend of equity and fixed-income investments. The Company's current overall targeted asset allocation as a percentage of total market value was 53% equities and 47% fixed-income and cash. Assets are rebalanced regularly to keep the actual allocation in line with targets. Equity holdings primarily include investments in small-, medium- and large-cap companies in the U.S., including Company stock, investments in developed and emerging foreign markets and other investments such as private equity and real estate. Fixed-income holdings consist of U.S. government and agency securities, state and municipal bonds, corporate bonds from diversified industries and foreign obligations. In addition, cash

equivalent balances are maintained at levels adequate to meet near-term plan expenses and benefit payments. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews.

*Postretirement Healthcare Plan Assets* – The Company's investment objective is to maximize the return on assets to help pay benefits by prudently investing in equities, fixed income and alternative assets. The Company's current overall targeted asset allocation as a percentage of total market value was 69% equities and 31% fixed-income and cash. Equity holdings primarily include investments in small-, medium- and large-cap companies in the U.S., investments in developed and emerging foreign markets and other investments such as private equity and real estate. Fixed-income holdings consist of U.S. government and agency securities, state and municipal bonds, corporate bonds from diversified industries and foreign obligations. In addition, cash equivalent balances are maintained at levels adequate to meet near-term plan expenses and benefit payments. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews.

The following tables present the fair values of the plan assets related to the Company's pension and postretirement healthcare plans within the fair value hierarchy as defined in Note 13. The fair values of the Company's pension plan assets at December 31, 2020 were as follows (in thousands):

|  | Balance      | Level 1      | Level 2      |
|--|--------------|--------------|--------------|
| Cash and cash equivalents                  | \$ 56,153    | \$ —         | \$ 56,153    |
| Equity holdings:                           |              |              |              |
| U.S. companies                             | 785,227      | 769,583      | 15,644       |
| Foreign companies                          | 114,013      | 106,783      | 7,230        |
| Harley-Davidson common stock               | 46,741       | 46,741       | —            |
| Pooled equity funds                        | 381,538      | 381,538      | —            |
| Other                                      | 66           | 66           | —            |
|  | 1,327,585    | 1,304,711    | 22,874       |
| Fixed-income holdings:                     |              |              |              |
| U.S. Treasuries                            | 59,116       | 59,116       | —            |
| Federal agencies                           | 15,230       | —            | 15,230       |
| Corporate bonds                            | 691,003      | —            | 691,003      |
| Pooled fixed income funds                  | 148,717      | 51,456       | 97,261       |
| Foreign bonds                              | 110,062      | —            | 110,062      |
| Municipal bonds                            | 14,671       | —            | 14,671       |
|  | 1,038,799    | 110,572      | 928,227      |
| Plan assets subject to fair value leveling | 2,422,537    | \$ 1,415,283 | \$ 1,007,254 |
| Plan assets measured at net asset value:   |              |              |              |
| Limited partnership interests              | 537          |              |              |
| Real estate investment trusts              | 10,901       |              |              |
|  | 11,438       |              |              |
|  | \$ 2,433,975 |              |              |

Included in the pension plan assets are 1,273,592 shares of the Company's common stock with a market value of \$46.7 million at December 31, 2020.

The fair values of the Company's postretirement healthcare plan assets at December 31, 2020 were as follows (in thousands):

|  | Balance           | Level 1           | Level 2          |
|--|-------------------|-------------------|------------------|
| Cash and cash equivalents                  | \$ 4,306          | \$ —              | \$ 4,306         |
| Equity holdings:                           |                   |                   |                  |
| U.S. companies                             | 115,272           | 115,272           | —                |
| Foreign companies                          | 29,670            | 29,670            | —                |
| Pooled equity funds                        | 27,207            | 27,207            | —                |
| Other                                      | 5                 | 5                 | —                |
|  | <u>172,154</u>    | <u>172,154</u>    | <u>—</u>         |
| Fixed-income holdings:                     |                   |                   |                  |
| U.S. Treasuries                            | 2,873             | 2,873             | —                |
| Federal agencies                           | 6,970             | —                 | 6,970            |
| Corporate bonds                            | 12,460            | —                 | 12,460           |
| Pooled fixed income funds                  | 37,989            | 37,989            | —                |
| Foreign bonds                              | 970               | —                 | 970              |
| Municipal bonds                            | 458               | —                 | 458              |
|  | <u>61,720</u>     | <u>40,862</u>     | <u>20,858</u>    |
| Plan assets subject to fair value leveling | 238,180           | <u>\$ 213,016</u> | <u>\$ 25,164</u> |
| Plan assets measured at net asset value:   |                   |                   |                  |
| Real estate investment trusts              | 5,855             |                   |                  |
|  | <u>\$ 244,035</u> |                   |                  |

The fair values of the Company's pension plan assets at December 31, 2019 were as follows (in thousands):

|  | Balance             | Level 1             | Level 2           |
|--|---------------------|---------------------|-------------------|
| Cash and cash equivalents                  | \$ 35,463           | \$ —                | \$ 35,463         |
| Equity holdings:                           |                     |                     |                   |
| U.S. companies                             | 728,892             | 707,276             | 21,616            |
| Foreign companies                          | 79,707              | 77,275              | 2,432             |
| Harley-Davidson common stock               | 47,365              | 47,365              | —                 |
| Pooled equity funds                        | 377,301             | 377,301             | —                 |
| Other                                      | 72                  | 72                  | —                 |
|  | <u>1,233,337</u>    | <u>1,209,289</u>    | <u>24,048</u>     |
| Fixed-income holdings:                     |                     |                     |                   |
| U.S. Treasuries                            | 67,234              | 67,234              | —                 |
| Federal agencies                           | 15,434              | —                   | 15,434            |
| Corporate bonds                            | 583,475             | —                   | 583,475           |
| Pooled fixed income funds                  | 142,134             | 48,674              | 93,460            |
| Foreign bonds                              | 103,439             | —                   | 103,439           |
| Municipal bonds                            | 12,339              | —                   | 12,339            |
|  | <u>924,055</u>      | <u>115,908</u>      | <u>808,147</u>    |
| Plan assets subject to fair value leveling | 2,192,855           | <u>\$ 1,325,197</u> | <u>\$ 867,658</u> |
| Plan assets measured at net asset value:   |                     |                     |                   |
| Limited partnership interests              | 4,118               |                     |                   |
| Real estate investment trust               | 12,249              |                     |                   |
|  | <u>16,367</u>       |                     |                   |
|  | <u>\$ 2,209,222</u> |                     |                   |

Included in the pension plan assets were 1,273,592 shares of the Company's common stock with a market value of \$47.4 million at December 31, 2019.

The fair values of the Company's postretirement healthcare plan assets at December 31, 2019 were as follows (in thousands):

|  | Balance           | Level 1           | Level 2          |
|--|-------------------|-------------------|------------------|
| Cash and cash equivalents                  | \$ 2,458          | \$ —              | \$ 2,458         |
| Equity holdings:                           |                   |                   |                  |
| U.S. companies                             | 104,399           | 104,399           | —                |
| Foreign companies                          | 22,422            | 21,744            | 678              |
| Pooled equity funds                        | 25,029            | 25,029            | —                |
| Other                                      | 7                 | 7                 | —                |
|  | <u>151,857</u>    | <u>151,179</u>    | <u>678</u>       |
| Fixed-income holdings:                     |                   |                   |                  |
| U.S. Treasuries                            | 5,782             | 5,782             | —                |
| Federal agencies                           | 7,986             | —                 | 7,986            |
| Corporate bonds                            | 8,425             | —                 | 8,425            |
| Pooled fixed income funds                  | 36,720            | 36,720            | —                |
| Foreign bonds                              | 672               | —                 | 672              |
| Municipal bonds                            | 454               | —                 | 454              |
|  | <u>60,039</u>     | <u>42,502</u>     | <u>17,537</u>    |
| Plan assets subject to fair value leveling | 214,354           | <u>\$ 193,681</u> | <u>\$ 20,673</u> |
| Plan assets measured at net asset value:   |                   |                   |                  |
| Real estate investment trust               | 6,638             |                   |                  |
|  | <u>\$ 220,992</u> |                   |                  |

For 2021, the Company's overall expected long-term rate of return is 6.20% for pension assets and 6.70% for postretirement healthcare plan assets. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based on historical returns adjusted to reflect the current view of the long-term investment market.

#### Postretirement Healthcare Cost:

The weighted-average healthcare cost trend rates used in determining the accumulated postretirement benefit obligation of the healthcare plans were as follows:

|   | 2020   | 2019   |
|---|--------|--------|
| Healthcare cost trend rate for next year                                    | 7.00 % | 7.25 % |
| Rate to which the cost trend rate is assumed to decline (the ultimate rate) | 5.00 % | 5.00 % |
| Year that the rate reaches the ultimate trend rate                          | 2029   | 2029   |

#### Future Contributions and Benefit Payments:

Based on the funded status of the qualified pension plan, there is no requirement for the Company to make contributions to the qualified pension plan assets in 2021. The Company expects that 2021 postretirement healthcare plan benefits and benefits due under the SERPA plans will be paid by the Company or, in the case of postretirement healthcare plan benefits, partially funded with plan assets.

The Company's future expected benefit payments as of December 31, 2020 were as follows (in thousands):

|           | Pension Benefits | SERPA Benefits | Postretirement Healthcare Benefits |
|-----------|------------------|----------------|------------------------------------|
| 2021      | \$ 99,727        | \$ 8,813       | \$ 23,444                          |
| 2022      | \$ 102,183       | \$ 1,684       | \$ 23,707                          |
| 2023      | \$ 104,792       | \$ 1,955       | \$ 23,775                          |
| 2024      | \$ 107,078       | \$ 1,919       | \$ 23,465                          |
| 2025      | \$ 110,810       | \$ 1,818       | \$ 23,157                          |
| 2026-2030 | \$ 587,220       | \$ 11,071      | \$ 108,384                         |

#### Defined Contribution Plans:

The Company has various defined contribution benefit plans that in total cover substantially all full-time employees. Employees can make voluntary contributions in accordance with the provisions of their respective plan, which includes a 401(k) tax deferral option. The Company makes additional contributions to the plans on behalf of the employees and expensed \$21.7 million, \$21.9 million and \$20.1 million during 2020, 2019 and 2018, respectively related to the contributions.

#### 16. Commitments and Contingencies

The Company is subject to lawsuits and other claims related to environmental, product and other matters. In determining costs to accrue related to these items, the Company carefully analyzes cases and considers the likelihood of adverse judgments or outcomes, as well as the potential range of possible loss. Any amounts accrued for these matters are monitored on an ongoing basis and are updated based on new developments or new information as it becomes available for each matter.

*York Environmental Matter* – The Company is involved with government agencies and the U.S. Navy related to a matter involving the cleanup of soil and groundwater contamination at its York, Pennsylvania facility. The York facility was formerly used by the U.S. Navy and AMF prior to the purchase of the York facility by the Company from AMF in 1981. The Company has an agreement with the U.S. Navy which calls for the U.S. Navy and the Company to contribute amounts into a trust equal to 53% and 47%, respectively, of costs associated with environmental investigation and remediation activities at the York facility (Response Costs). A site wide remedial investigation/feasibility study and a proposed final remedy for the York facility have been completed and approved by the Pennsylvania Department of Environmental Protection and the United States Environmental Protection Agency (EPA). The associated cleanup plan documents were approved in February 2020 and the remaining cleanup activities are expected to begin in 2021. The Company has an accrual for its share of the estimated future Response Costs recorded in *Other long-term liabilities* on the *Consolidated balance sheets*.

*Product Liability Matters* – The Company is involved in product liability suits related to the operation of its business. The Company accrues for claim exposures that are probable of occurrence and can be reasonably estimated. The Company also maintains insurance coverage for product liability exposures. The Company believes that its accruals and insurance coverage are adequate and that product liability suits will not have a material adverse effect on the Company's *Consolidated financial statements*.

#### 17. Share-Based Awards

The Company has a share-based compensation plan which was approved by its shareholders in April 2020 (the Plan) under which its Board of Directors may grant to employees share-based awards including restricted stock units (RSUs), performance shares, and nonqualified stock options. Performance shares include a three-year performance period with vesting based on achievement of internal performance targets. RSUs granted under the Plan vest ratably over a three-year period with the first one-third of the grant vesting one year after the date of grant. Dividends are paid on RSUs and performance shares settled with stock. Dividend equivalents are paid on RSUs and performance shares settled with cash. Stock options expire 10 years from the date of grant. At December 31, 2020, there were 5.4 million shares of common stock available for future awards under the Plan.

The Company recognizes the cost of its share-based awards in the *Consolidated statements of operations*. The cost of each share-based equity award is based on the grant date fair value and the cost of each share-based cash-settled award is based on the settlement date fair value. Forfeitures for share-based awards are estimated at the grant date and adjusted when it is likely to change. Share-based award expense is recognized on a straight-line basis over the service or performance periods of each separately vesting tranche within the awards. The expense recognized reflects the number of awards that are ultimately expected to vest based on the service and, if applicable, performance requirements of each award. Total share-

based award compensation expense recognized by the Company during 2020, 2019 and 2018 was \$23.5 million, \$33.7 million and \$35.5 million, respectively, or \$18.0 million, \$25.8 million and \$27.2 million net of taxes, respectively.

*Restricted Stock Units and Performance Shares - Settled in Stock* – The fair value of RSUs and performance shares settled in stock is determined based on the market price of the Company’s stock on the grant date. The activity for these awards for the year ended December 31, 2020 was as follows (in thousands, except for per share amounts):

|                                | Shares & Units | Weighted-Average Fair Value Per Share |
|--------------------------------|----------------|---------------------------------------|
| Nonvested, beginning of period | 2,011          | \$ 43                                 |
| Granted                        | 1,189          | \$ 33                                 |
| Vested                         | (682)          | \$ 45                                 |
| Forfeited                      | (749)          | \$ 37                                 |
| Nonvested, end of period       | <u>1,769</u>   | <u>\$ 36</u>                          |

As of December 31, 2020, there was \$19.6 million of unrecognized compensation cost related to RSUs and performance shares settled in stock, net of estimated forfeitures, that is expected to be recognized over a weighted-average period of 1.5 years.

*Restricted Stock Units and Performance Shares - Settled in Cash* – RSUs and performance shares settled in cash are recorded in the *Consolidated balance sheets* as a liability until vested. The fair value is determined based on the market price of the Company’s stock and is remeasured at each balance sheet date. The activity for these awards for the year ended December 31, 2020 was as follows (in thousands, except for per share amounts):

|                                | Units      | Weighted-Average Fair Value Per Share |
|--------------------------------|------------|---------------------------------------|
| Nonvested, beginning of period | 127        | \$ 35                                 |
| Granted                        | 101        | \$ 36                                 |
| Vested                         | (50)       | \$ 33                                 |
| Forfeited                      | (22)       | \$ 28                                 |
| Nonvested, end of period       | <u>156</u> | <u>\$ 37</u>                          |

*Stock Options* – There were no stock options granted in 2020, 2019 or 2018. All outstanding stock options were vested as of December 31, 2018. The Company’s policy is to issue new shares of common stock upon the exercise of employee stock options. The stock option transactions for the year ended December 31, 2020 were as follows (in thousands, except for per share amounts):

|                                  | Options    | Weighted-Average Exercise Price |
|----------------------------------|------------|---------------------------------|
| Outstanding, beginning of period | 816        | \$ 56                           |
| Exercised                        | (4)        | \$ 24                           |
| Forfeited                        | (154)      | \$ 56                           |
| Outstanding, end of period       | <u>658</u> | <u>\$ 56</u>                    |
| Exercisable, end of period       | 658        | \$ 56                           |

The aggregate intrinsic value related to stock options exercised, outstanding and exercisable as of and for the years ended December 31, was as follows (in thousands):

|             | 2020 |    | 2019 |       | 2018 |       |
|-------------|------|----|------|-------|------|-------|
| Exercised   | \$   | 21 | \$   | 2,614 | \$   | 3,855 |
| Outstanding | \$   | —  | \$   | 52    | \$   | 2,366 |
| Exercisable | \$   | —  | \$   | 52    | \$   | 2,366 |



Stock options outstanding at December 31, 2020 were as follows (options in thousands):

| Price Range         | Weighted-Average Contractual Life | Options | Weighted-Average Exercise Price |
|---------------------|-----------------------------------|---------|---------------------------------|
| \$40.01 to \$50     | 0.7                               | 173     | \$ 44                           |
| \$50.01 to \$60     | 2.0                               | 122     | \$ 52                           |
| \$60.01 to \$70     | 2.7                               | 363     | \$ 63                           |
| Options outstanding | 2.0                               | 658     | \$ 56                           |
| Options exercisable | 2.0                               | 658     | \$ 56                           |

## 18. Accumulated Other Comprehensive Loss

Changes in *Accumulated other comprehensive loss* for the years ended December 31, were as follows (in thousands):

|  | 2020                                     |                                  |  |              |
|--|--|----------------------------------|--|--------------|
|  | Foreign currency translation adjustments | Derivative financial instruments | Pension and postretirement benefit plans | Total        |
| Balance, beginning of period                         | \$ (40,813)                              | \$ (14,586)                      | \$ (481,550)                             | \$ (536,949) |
| Other comprehensive income, before reclassifications | 37,088                                   | 107,181                          | 2,193                                    | 146,462      |
| Income tax expense                                   | (3,864)                                  | (23,626)                         | (515)                                    | (28,005)     |
|  | 33,224                                   | 83,555                           | 1,678                                    | 118,457      |
| Reclassifications:                                   |  |                                  |  |              |
| Net gains on derivative financial instruments        | —  | (148,107)                        | —  | (148,107)    |
| Prior service credits <sup>(a)</sup>                 | —  | —                                | (3,469)                                  | (3,469)      |
| Actuarial losses <sup>(a)</sup>                      | —  | —                                | 65,981                                   | 65,981       |
| Curtailment and settlement losses <sup>(a)</sup>     | —  | —                                | 3,040                                    | 3,040        |
| Reclassifications before tax                         | —  | (148,107)                        | 65,552                                   | (82,555)     |
| Income tax benefit (expense)                         | —  | 33,022                           | (15,392)                                 | 17,630       |
|  | —  | (115,085)                        | 50,160                                   | (64,925)     |
| Other comprehensive income (loss)                    | 33,224                                   | (31,530)                         | 51,838                                   | 53,532       |
| Balance, end of period                               | \$ (7,589)                               | \$ (46,116)                      | \$ (429,712)                             | \$ (483,417) |
|  |  |                                  |  |              |
|  | 2019                                     |                                  |  |              |
|  | Foreign currency translation adjustments | Derivative financial instruments | Pension and postretirement benefit plans | Total        |
| Balance, beginning of period                         | \$ (49,608)                              | \$ 1,785                         | \$ (581,861)                             | \$ (629,684) |
| Other comprehensive income, before reclassifications | 9,229                                    | 6,477                            | 90,071                                   | 105,777      |
| Income tax expense                                   | (434)                                    | (1,541)                          | (21,149)                                 | (23,124)     |
|  | 8,795                                    | 4,936                            | 68,922                                   | 82,653       |
| Reclassifications:                                   |  |                                  |  |              |
| Net gains on derivative financial instruments        | —  | (27,732)                         | —  | (27,732)     |
| Prior service credits <sup>(a)</sup>                 | —  | —                                | (4,311)                                  | (4,311)      |
| Actuarial losses <sup>(a)</sup>                      | —  | —                                | 44,788                                   | 44,788       |
| Curtailment and settlement losses <sup>(a)</sup>     | —  | —                                | 543                                      | 543          |
| Reclassifications before tax                         | —  | (27,732)                         | 41,020                                   | 13,288       |
| Income tax benefit (expense)                         | —  | 6,425                            | (9,631)                                  | (3,206)      |
|  | —  | (21,307)                         | 31,389                                   | 10,082       |
| Other comprehensive income (loss)                    | 8,795                                    | (16,371)                         | 100,311                                  | 92,735       |
| Balance, end of period                               | \$ (40,813)                              | \$ (14,586)                      | \$ (481,550)                             | \$ (536,949) |

|   | 2018   |                                     |  |                     |
|---|--|-------------------------------------|--|---------------------|
|   | Foreign currency<br>translation<br>adjustments | Derivative financial<br>instruments | Pension and<br>postretirement<br>benefit plans | Total               |
| Balance, beginning of period                                | \$ (21,852)                                    | \$ (17,254)                         | \$ (460,943)                                   | \$ (500,049)        |
| Other comprehensive (loss) income, before reclassifications | (28,212)                                       | 35,686                              | (84,725)                                       | (77,251)            |
| Income tax benefit (expense)                                | 3,202  | (8,455)                             | 19,893   | 14,640              |
|   | (25,010)                                       | 27,231                              | (64,832)                                       | (62,611)            |
| <b>Reclassifications:</b>                                   |  |                                     |  |                     |
| Net gains on derivative financial instruments               | —  | (9,466)                             | —  | (9,466)             |
| Prior service credits <sup>(a)</sup>                        | —  | —                                   | (2,262)  | (2,262)             |
| Actuarial losses <sup>(a)</sup>                             | —  | —                                   | 66,590   | 66,590              |
| Curtailment and settlement gains <sup>(a)</sup>             | —  | —                                   | (886)  | (886)               |
| Reclassifications before tax                                | —  | (9,466)                             | 63,442   | 53,976              |
| Income tax benefit (expense)                                | —  | 2,244                               | (14,896)                                       | (12,652)            |
|   | —  | (7,222)                             | 48,546   | 41,324              |
| Other comprehensive (loss) income                           | (25,010)                                       | 20,009                              | (16,286)                                       | (21,287)            |
| Reclassification of certain tax effects                     | (2,746)  | (970)                               | (104,632)                                      | (108,348)           |
| Balance, end of period                                      | <u>\$ (49,608)</u>                             | <u>\$ 1,785</u>                     | <u>\$ (581,861)</u>                            | <u>\$ (629,684)</u> |

(a) Amounts reclassified are included in the computation of net periodic benefit cost, discussed further in Note 15.

## 19. Reportable Segments and Geographic Information

*Reportable Segments* – Harley-Davidson, Inc. is the parent company for the groups of companies referred to as Harley-Davidson Motor Company (HDMC) and Harley-Davidson Financial Services (HDFS). The Company operates in two segments: Motorcycles and Related Products (Motorcycles) and Financial Services. The Company's reportable segments are strategic business units that offer different products and services and are managed separately based on the fundamental differences in their operations.

The Motorcycles segment consists of HDMC which designs, manufactures and sells Harley-Davidson motorcycles as well as motorcycle parts, accessories, general merchandise and services. The Company's products are sold to retail customers primarily through a network of independent dealers. The Company conducts business on a global basis, with sales in the U.S., Canada, Europe/Middle East/Africa (EMEA), Asia Pacific, and Latin America.

The Financial Services segment consists of HDFS which is engaged in the business of financing and servicing wholesale inventory receivables and retail consumer loans, primarily for the purchase of Harley-Davidson motorcycles. HDFS also works with certain unaffiliated insurance companies to provide motorcycle insurance and protection products to motorcycle owners. HDFS conducts business principally in the U.S. and Canada.

Selected segment information is set forth below for the years ended December 31, (in thousands):

|   | 2020         | 2019         | 2018         |
|---|--------------|--------------|--------------|
| <b>Motorcycles and Related Products:</b>        |              |              |              |
| Motorcycles revenue                             | \$ 3,264,054 | \$ 4,572,678 | \$ 4,968,646 |
| Gross profit                                    | 828,309      | 1,342,880    | 1,616,850    |
| Selling, administrative and engineering expense | 895,321      | 1,020,907    | 1,101,086    |
| Restructuring expense                           | 119,110      | 32,353       | 93,401       |
| Operating (loss) income                         | (186,122)    | 289,620      | 422,363      |
| <b>Financial Services:</b>                      |              |              |              |
| Financial Services revenue                      | 790,323      | 789,111      | 748,229      |
| Financial Services expense                      | 583,623      | 523,123      | 457,069      |
| Restructuring expense                           | 10,899       | —            | —            |
| Operating income                                | 195,801      | 265,988      | 291,160      |
| Operating income                                | \$ 9,679     | \$ 555,608   | \$ 713,523   |

Financial Services revenue includes \$6.1 million, \$10.0 million and \$9.0 million of interest paid by HDMC to HDFS on wholesale finance receivables in 2020, 2019 and 2018, respectively. The offsetting cost of these interest incentives was recorded as a reduction to Motorcycles revenue.

Additional segment information is set forth below as of December 31, (in thousands):

|                               | Motorcycles  | Financial Services | Consolidated  |
|-------------------------------|--------------|--------------------|---------------|
| <b>2020:</b>                  |              |                    |               |
| Assets                        | \$ 2,492,515 | \$ 9,518,086       | \$ 12,010,601 |
| Depreciation and amortization | \$ 177,113   | \$ 8,602           | \$ 185,715    |
| Capital expenditures          | \$ 128,798   | \$ 2,252           | \$ 131,050    |
| <b>2019:</b>                  |              |                    |               |
| Assets                        | \$ 2,548,115 | \$ 7,980,044       | \$ 10,528,159 |
| Depreciation and amortization | \$ 223,656   | \$ 8,881           | \$ 232,537    |
| Capital expenditures          | \$ 176,264   | \$ 5,176           | \$ 181,440    |
| <b>2018:</b>                  |              |                    |               |
| Assets                        | \$ 2,562,931 | \$ 8,102,733       | \$ 10,665,664 |
| Depreciation and amortization | \$ 260,707   | \$ 4,156           | \$ 264,863    |
| Capital expenditures          | \$ 197,905   | \$ 15,611          | \$ 213,516    |

*Geographic Information* – Included in the *Consolidated financial statements* are the following amounts relating to geographic locations for the years ended December 31, (in thousands):

|  | 2020                | 2019                | 2018                |
|--|---------------------|---------------------|---------------------|
| <b>Motorcycles revenue<sup>(a)</sup>:</b>        |                     |                     |                     |
| United States                                    | \$ 2,043,851        | \$ 2,971,223        | \$ 3,159,049        |
| EMEA   | 589,943             | 743,385             | 893,589             |
| Canada   | 99,219              | 210,381             | 230,211             |
| Japan  | 137,815             | 156,644             | 161,370             |
| Australia and New Zealand                        | 107,891             | 117,525             | 147,561             |
| Other countries                                  | 285,335             | 373,520             | 376,866             |
|  | <u>\$ 3,264,054</u> | <u>\$ 4,572,678</u> | <u>\$ 4,968,646</u> |
| <b>Financial Services revenue<sup>(a)</sup>:</b> |                     |                     |                     |
| United States                                    | \$ 757,730          | \$ 754,535          | \$ 712,898          |
| Canada   | 20,353              | 22,799              | 23,120              |
| Europe   | 8,300               | 8,435               | 8,411               |
| Other countries                                  | 3,940               | 3,342               | 3,800               |
|  | <u>\$ 790,323</u>   | <u>\$ 789,111</u>   | <u>\$ 748,229</u>   |
| <b>Long-lived assets<sup>(b)</sup>:</b>          |                     |                     |                     |
| United States                                    | \$ 644,224          | \$ 757,594          | \$ 838,446          |
| International:                                   |                     |                     |                     |
| Thailand   | 94,749              | 78,651              | 50,331              |
| Other countries                                  | 4,811               | 11,137              | 15,355              |
|  | <u>99,560</u>       | <u>89,788</u>       | <u>65,686</u>       |
|  | <u>\$ 743,784</u>   | <u>\$ 847,382</u>   | <u>\$ 904,132</u>   |

(a) Revenue is attributed to geographic regions based on location of customer.

(b) Long-lived assets include all long-term assets except those specifically excluded under *ASC Topic 280, Segment Reporting*, such as deferred income taxes and finance receivables.

## 20. Supplemental Consolidating Data

The supplemental consolidating data is presented for informational purposes and is different than segment information due to the allocation of consolidating reporting adjustments to the reportable segments. Supplemental consolidating data for 2020 is as follows (in thousands):

|   | Year Ended December 31, 2020 |                   |                           |                  |
|---|------------------------------|-------------------|---------------------------|------------------|
|   | HDMC Entities                | HDFS Entities     | Consolidating Adjustments | Consolidated     |
| <b>Revenue:</b>                                     |                              |                   |                           |                  |
| Motorcycles and Related Products                    | \$ 3,279,407                 | \$ —              | \$ (15,353)               | \$ 3,264,054     |
| Financial Services                                  | —                            | 783,421           | 6,902                     | 790,323          |
|   | <u>3,279,407</u>             | <u>783,421</u>    | <u>(8,451)</u>            | <u>4,054,377</u> |
| <b>Costs and expenses:</b>                          |                              |                   |                           |                  |
| Motorcycles and Related Products cost of goods sold | 2,435,745                    | —                 | —                         | 2,435,745        |
| Financial Services interest expense                 | —                            | 246,447           | —                         | 246,447          |
| Financial Services provision for credit losses      | —                            | 181,870           | —                         | 181,870          |
| Selling, administrative and engineering expense     | 907,257                      | 152,258           | (8,888)                   | 1,050,627        |
| Restructuring expense                               | 119,110                      | 10,899            | —                         | 130,009          |
|   | <u>3,462,112</u>             | <u>591,474</u>    | <u>(8,888)</u>            | <u>4,044,698</u> |
| Operating (loss) income                             | (182,705)                    | 191,947           | 437                       | 9,679            |
| Other expense, net                                  | (1,848)                      | —                 | —                         | (1,848)          |
| Investment income                                   | 107,560                      | —                 | (100,000)                 | 7,560            |
| Interest expense                                    | 31,121                       | —                 | —                         | 31,121           |
| (Loss) income before income taxes                   | (108,114)                    | 191,947           | (99,563)                  | (15,730)         |
| Income tax (benefit) provision                      | (59,231)                     | 42,203            | —                         | (17,028)         |
| Net (loss) income                                   | <u>\$ (48,883)</u>           | <u>\$ 149,744</u> | <u>\$ (99,563)</u>        | <u>\$ 1,298</u>  |

December 31, 2020

|   | HDMC Entities       | HDFS Entities       | Consolidating Adjustments | Consolidated         |
|---|---------------------|---------------------|---------------------------|----------------------|
| <b>ASSETS</b>                               |                     |                     |                           |                      |
| Current assets:                             |                     |                     |                           |                      |
| Cash and cash equivalents                   | \$ 666,161          | \$ 2,591,042        | \$ —                      | \$ 3,257,203         |
| Accounts receivable, net                    | 220,110             | —                   | (77,028)                  | 143,082              |
| Finance receivables, net                    | —                   | 1,509,539           | —                         | 1,509,539            |
| Inventories, net                            | 523,497             | —                   | —                         | 523,497              |
| Restricted cash                             | —                   | 131,642             | —                         | 131,642              |
| Other current assets                        | 93,510              | 190,690             | (3,730)                   | 280,470              |
|   | <u>1,503,278</u>    | <u>4,422,913</u>    | <u>(80,758)</u>           | <u>5,845,433</u>     |
| Finance receivables, net                    | —                   | 4,933,469           | —                         | 4,933,469            |
| Property, plant and equipment, net          | 709,845             | 33,939              | —                         | 743,784              |
| Pension and postretirement assets           | 95,711              | —                   | —                         | 95,711               |
| Goodwill                                    | 65,976              | —                   | —                         | 65,976               |
| Deferred income taxes                       | 69,688              | 90,011              | (1,161)                   | 158,538              |
| Lease assets                                | 40,564              | 4,639               | —                         | 45,203               |
| Other long-term assets                      | 184,300             | 33,115              | (94,928)                  | 122,487              |
|   | <u>\$ 2,669,362</u> | <u>\$ 9,518,086</u> | <u>\$ (176,847)</u>       | <u>\$ 12,010,601</u> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                     |                     |                           |                      |
| Current liabilities:                        |                     |                     |                           |                      |
| Accounts payable                            | \$ 277,429          | \$ 90,503           | \$ (77,028)               | \$ 290,904           |
| Accrued liabilities                         | 444,786             | 115,506             | (3,078)                   | 557,214              |
| Deposits                                    | —                   | 79,965              | —                         | 79,965               |
| Short-term debt                             | —                   | 1,014,274           | —                         | 1,014,274            |
| Current portion of long-term debt, net      | —                   | 2,039,597           | —                         | 2,039,597            |
|   | <u>722,215</u>      | <u>3,339,845</u>    | <u>(80,106)</u>           | <u>3,981,954</u>     |
| Long-term debt, net                         | 743,977             | 5,188,956           | —                         | 5,932,933            |
| Lease liability                             | 26,313              | 3,802               | —                         | 30,115               |
| Pension and postretirement liabilities      | 114,206             | —                   | —                         | 114,206              |
| Deferred income taxes                       | 7,166               | 1,441               | —                         | 8,607                |
| Other long-term liabilities                 | 171,242             | 46,514              | 2,245                     | 220,001              |
| Commitments and contingencies (Note 16)     |                     |                     |                           |                      |
| Shareholders' equity                        | 884,243             | 937,528             | (98,986)                  | 1,722,785            |
|   | <u>\$ 2,669,362</u> | <u>\$ 9,518,086</u> | <u>\$ (176,847)</u>       | <u>\$ 12,010,601</u> |

|  | Year Ended December 31, 2020 |                |                           |                  |
|--|------------------------------|----------------|---------------------------|------------------|
|  | HDMC Entities                | HDFS Entities  | Consolidating Adjustments | Consolidated     |
| <b>Cash flows from operating activities:</b>   |                              |                |                           |                  |
| Net (loss) income  | \$ (48,883)                  | \$ 149,744     | \$ (99,563)               | \$ 1,298         |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: |                              |                |                           |                  |
| Depreciation and amortization  | 177,113                      | 8,602          | —                         | 185,715          |
| Amortization of deferred loan origination costs  | —                            | 71,142         | —                         | 71,142           |
| Amortization of financing origination fees   | 681                          | 13,754         | —                         | 14,435           |
| Provision for long-term employee benefits  | 40,833                       | —              | —                         | 40,833           |
| Employee benefit plan contributions and payments   | (20,722)                     | —              | —                         | (20,722)         |
| Stock compensation expense   | 17,905                       | 1,859          | 3,730                     | 23,494           |
| Net change in wholesale finance receivables related to sales                             | —                            | —              | 531,701                   | 531,701          |
| Provision for credit losses  | —                            | 181,870        | —                         | 181,870          |
| Deferred income taxes  | (19,097)                     | (24,697)       | (285)                     | (44,079)         |
| Other, net   | 544                          | 13,718         | (436)                     | 13,826           |
| Changes in current assets and liabilities:   |                              |                |                           |                  |
| Accounts receivable, net   | 161,012                      | —              | (33,355)                  | 127,657          |
| Finance receivables - accrued interest and other   | —                            | 7,418          | —                         | 7,418            |
| Inventories, net   | 80,858                       | —              | —                         | 80,858           |
| Accounts payable and accrued liabilities   | (34,755)                     | (40,851)       | 32,519                    | (43,087)         |
| Derivative financial instruments   | (3,566)                      | 85             | —                         | (3,481)          |
| Other  | 13,929                       | (4,081)        | (836)                     | 9,012            |
|  | <u>414,735</u>               | <u>228,819</u> | <u>533,038</u>            | <u>1,176,592</u> |
| Net cash provided by operating activities  | 365,852                      | 378,563        | 433,475                   | 1,177,890        |
| <b>Cash flows from investing activities:</b>   |                              |                |                           |                  |
| Capital expenditures   | (128,798)                    | (2,252)        | —                         | (131,050)        |
| Origination of finance receivables   | —                            | (5,616,347)    | 2,118,861                 | (3,497,486)      |
| Collections on finance receivables   | —                            | 6,192,625      | (2,652,336)               | 3,540,289        |
| Other investing activities   | 18,073                       | 3,391          | —                         | 21,464           |
| Net cash (used) provided by investing activities   | (110,725)                    | 577,417        | (533,475)                 | (66,783)         |

|   | Year Ended December 31, 2020 |               |                           |              |
|---|------------------------------|---------------|---------------------------|--------------|
|   | HDMC Entities                | HDFS Entities | Consolidating Adjustments | Consolidated |
| <b>Cash flows from financing activities:</b>                                  |                              |               |                           |              |
| Proceeds from issuance of medium-term notes                                   | —                            | 1,396,602     | —                         | 1,396,602    |
| Repayments of medium-term notes   | —                            | (1,400,000)   | —                         | (1,400,000)  |
| Proceeds from securitization debt   | —                            | 2,064,450     | —                         | 2,064,450    |
| Repayments of securitization debt   | —                            | (1,041,751)   | —                         | (1,041,751)  |
| Borrowings of asset-backed commercial paper                                   | —                            | 225,187       | —                         | 225,187      |
| Repayments of asset-backed commercial paper                                   | —                            | (318,828)     | —                         | (318,828)    |
| Net increase in unsecured commercial paper                                    | —                            | 444,380       | —                         | 444,380      |
| Deposits  | —                            | 79,947        | —                         | 79,947       |
| Dividends paid  | (68,087)                     | (100,000)     | 100,000                   | (68,087)     |
| Repurchase of common stock  | (8,006)                      | —             | —                         | (8,006)      |
| Issuance of common stock under share-based plans                              | 89                           | —             | —                         | 89           |
| Net cash (used) provided by financing activities                              | (76,004)                     | 1,349,987     | 100,000                   | 1,373,983    |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | 16,389                       | 2,323         | —                         | 18,712       |
| Net increase in cash, cash equivalents and restricted cash                    | \$ 195,512                   | \$ 2,308,290  | \$ —                      | \$ 2,503,802 |
| <b>Cash, cash equivalents and restricted cash:</b>                            |                              |               |                           |              |
| Cash, cash equivalents and restricted cash, beginning of period               | \$ 470,649                   | \$ 434,717    | \$ —                      | \$ 905,366   |
| Net increase in cash, cash equivalents and restricted cash                    | 195,512                      | 2,308,290     | —                         | 2,503,802    |
| Cash, cash equivalents and restricted cash, end of period                     | \$ 666,161                   | \$ 2,743,007  | \$ —                      | \$ 3,409,168 |

## 21. Subsequent Event

In February 2021, HDFS issued \$600.0 million of secured notes through an on-balance sheet asset-backed securitization transaction at a weighted average interest rate of 0.30%.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

### Item 9A. Controls and Procedures

**Evaluation of Disclosure Controls and Procedures** – In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act), as of the end of the period covered by this Annual Report on Form 10-K, the Company's management evaluated, with the participation of the Company's President and Chief Executive Officer and the Chief Financial Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based upon their evaluation of these disclosure controls and procedures, the President and Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission rules and forms, and to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its President and Chief Executive Officer and its Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure.

**Management's Report on Internal Control over Financial Reporting** – The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the criteria established in *Internal Control – Integrated Framework* (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on management's evaluation under the



framework in *Internal Control – Integrated Framework*, management has concluded that the Company’s internal control over financial reporting was effective as of December 31, 2020. Ernst & Young LLP, an independent registered public accounting firm, has audited the *Consolidated financial statements* included in this Annual Report on Form 10-K and, as part of its audit, has issued an attestation report, included herein, on the effectiveness of the Company’s internal control over financial reporting.

*Attestation Report of Independent Registered Public Accounting Firm* – The attestation report required under this Item 9A is contained in *Item 8. Consolidated Financial Statements and Supplementary Data* of this Annual Report on Form 10-K under the heading *Report of Independent Registered Public Accounting Firm*.

*Changes in Internal Controls* – There were no changes in the Company’s internal control over financial reporting that occurred during the quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

### PART III

#### **Item 10. Directors, Executive Officers and Corporate Governance**

The information to be included in the Company’s definitive proxy statement for the 2021 annual meeting of shareholders (the Proxy Statement) under the captions *Questions and Answers about the Company – Who are our Executive Officers for SEC Purposes?, Board Matters and Corporate Governance – Audit and Finance Committee, Proposal 1: Election of Directors, Section 16(a) Beneficial Ownership Reporting, Audit and Finance Committee Report, and Board Matters and Corporate Governance – Independence of Directors* is incorporated by reference herein.

The Company has adopted the Harley-Davidson, Inc. Financial Code of Ethics applicable to the Company’s Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer, Controller and other persons performing similar finance functions. The Company has posted a copy of the Harley-Davidson, Inc. Financial Code of Ethics on the Company’s website at <http://investor.harley-davidson.com/>. The Company intends to satisfy the disclosure requirements under Item 5.05 of the Securities and Exchange Commission’s Current Report on Form 8-K regarding amendments to, or waivers from, the Harley-Davidson, Inc. Financial Code of Ethics by posting such information on its website at [www.harley-davidson.com](http://www.harley-davidson.com). The Company is not including the information contained on or available through its website as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

#### **Item 11. Executive Compensation**

The information to be included in the Proxy Statement under the captions *Executive Compensation and Human Resources Committee Report on Executive Compensation* is incorporated by reference herein.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information to be included in the Proxy Statement under the caption *Common Stock Ownership of Certain Beneficial Owners and Management* is incorporated by reference herein.

The following table provides information about the Company’s equity compensation plans as of December 31, 2020:

| Plan Category                      | Number of securities to be issued upon the exercise of outstanding options | Weighted-average exercise price of outstanding options | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column) |
|------------------------------------|--|--|---|
| Plan approved by shareholders:     |  |  |   |
| Management employees               | 658,357  | \$ 55.85   | 5,395,000   |
| Plan not approved by shareholders: |  |  |   |
| Non-employee Board of Directors    | —  | \$ —   | 152,495   |
|                                    | <u>658,357</u>   |  | <u>5,547,495</u>  |

Documents for the Company’s equity compensation plans have been filed with the Securities and Exchange Commission on a timely basis and included in the list of exhibits to this Annual Report on Form 10-K.

Under the Company’s management plan its Board of Directors may grant to employees share-based awards including restricted stock units (RSUs), performance shares, and nonqualified stock options. Performance shares include a three-year performance period with vesting based on achievement of internal performance targets. RSUs vest ratably over a three-year

period. Stock options granted under the Plan have an exercise price equal to the fair market value of the underlying stock at the date of grant and vest ratably over a three-year period with the first one-third of the grant becoming exercisable one year after the date of grant. Stock options expire 10 years from the date of grant.

The Company's Director Compensation Policy provides non-employee Directors with compensation that includes an annual retainer as well as a grant of share units. The payment of share units is deferred until a Director ceases to serve as a Director and the share units are payable at that time in actual shares of common stock. The Company's Director Compensation Policy also provides that a non-employee Director may elect to receive 50% or 100% of the annual retainer to be paid in each calendar year in the form of common stock based upon the fair market value of the common stock at the time of the annual meeting of shareholders. Each Director must receive a minimum of one-half of their annual retainer in common stock until the Director reaches the Director stock ownership guidelines defined below.

In May 2016, the Company's Board of Directors approved the "Board of Directors and Senior Executive Stock Ownership Guidelines" (Ownership Guidelines). The Ownership Guidelines stipulate that all Directors hold five times their annual retainer in shares of common stock and Vice Presidents, General Managers or higher (Senior Executives) hold from two times to six times of their base salary in shares of common stock, or certain rights to acquire common stock, depending on their level. The Directors and Senior Executives have five years from the date they are elected a Director or become a Senior Executive to accumulate the appropriate number of shares of common stock. Restricted stock, RSUs, shares held in 401(k) accounts, shares issuable under vested unexercised stock options, performance shares and performance share units (at target amount), deferred stock units and shares of common stock held directly count toward satisfying the guidelines for common stock ownership.

***Item 13. Certain Relationships and Related Transactions, and Director Independence***

The information to be included in the Company's Proxy Statement under the captions *Certain Transactions* and *Board Matters and Corporate Governance – Independence of Directors* are incorporated by reference herein.

***Item 14. Principal Accounting Fees and Services***

The information to be included in the Company's Proxy Statement under the caption *Proposal 3: Ratification of the Selection of Independent Registered Public Accounting Firm – Fees Paid to Ernst & Young LLP* is incorporated by reference herein.

## PART IV

### **Item 15. Exhibits and Financial Statements**

(a) The following documents are filed as part of this Form 10-K:

|   |                     |
|---|---------------------|
| (1) Financial Statements under <i>Item 8. Consolidated Financial Statements and Supplementary Data</i>                |                     |
| <a href="#">Reports of Independent Registered Public Accounting Firm</a>  | <a href="#">40</a>  |
| <a href="#">Consolidated statements of operations for the years ended December 31, 2020, 2019, and 2018</a>           | <a href="#">44</a>  |
| <a href="#">Consolidated statements of comprehensive income for the years ended December 31, 2020, 2019, and 2018</a> | <a href="#">45</a>  |
| <a href="#">Consolidated balance sheets at December 31, 2020 and 2019</a>   | <a href="#">46</a>  |
| <a href="#">Consolidated statements of cash flows for the years ended December 31, 2020, 2019, and 2018</a>           | <a href="#">48</a>  |
| <a href="#">Consolidated statements of shareholders' equity for the years ended December 31, 2020, 2019, and 2018</a> | <a href="#">49</a>  |
| <a href="#">Notes to Consolidated financial statements</a>  | <a href="#">50</a>  |
| (2) Financial Statement Schedule  |                     |
| <a href="#">Schedule II – Valuation and qualifying accounts</a>   | <a href="#">100</a> |
| (3) <a href="#">Exhibits</a>  | <a href="#">101</a> |

Reference is made to the separate *Index to Exhibits* contained on pages 101 through 105 filed herewith.

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedules.

### **Item 16. Form 10-K Summary**

None.

**HARLEY-DAVIDSON, INC.**  
**SCHEDULE II - CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS**  
**Years ended December 31, 2020, 2019 and 2018**  
(In thousands)

|   | 2020              | 2019              | 2018              |
|---|-------------------|-------------------|-------------------|
| <b>Accounts receivable - Allowance for doubtful accounts</b>  |                   |                   |                   |
| Balance, beginning of period                                  | \$ 4,928          | \$ 4,007          | \$ 4,091          |
| Provision charged to expense                                  | 853               | 1,569             | 731               |
| Reserve adjustments   | 88                | 7                 | (137)             |
| Write-offs, net of recoveries                                 | (2,127)           | (655)             | (678)             |
| Balance, end of period  | <u>\$ 3,742</u>   | <u>\$ 4,928</u>   | <u>\$ 4,007</u>   |
| <b>Finance receivables - Allowance for credit losses</b>      |                   |                   |                   |
| Balance, beginning of period                                  | \$ 198,581        | \$ 189,885        | \$ 192,471        |
| Cumulative effect of change in accounting <sup>(a)</sup>      | 100,604           | —                 | —                 |
| Provision for credit losses                                   | 181,870           | 134,536           | 106,870           |
| Charge-offs, net of recoveries                                | (90,119)          | (125,840)         | (109,456)         |
| Balance, end of period  | <u>\$ 390,936</u> | <u>\$ 198,581</u> | <u>\$ 189,885</u> |
| <b>Inventories - Allowance for obsolescence<sup>(b)</sup></b> |                   |                   |                   |
| Balance, beginning of period                                  | \$ 49,349         | \$ 39,015         | \$ 38,669         |
| Provision charged to expense                                  | 43,357            | 24,984            | 25,722            |
| Reserve adjustments   | 718               | (39)              | (332)             |
| Write-offs, net of recoveries                                 | (21,429)          | (14,611)          | (25,044)          |
| Balance, end of period  | <u>\$ 71,995</u>  | <u>\$ 49,349</u>  | <u>\$ 39,015</u>  |
| <b>Deferred tax assets - Valuation allowance</b>              |                   |                   |                   |
| Balance, beginning of period                                  | \$ 29,024         | \$ 21,868         | \$ 21,561         |
| Adjustments   | 9,048             | 7,156             | 307               |
| Balance, end of period  | <u>\$ 38,072</u>  | <u>\$ 29,024</u>  | <u>\$ 21,868</u>  |

(a) On January 1, 2020, the Company adopted Accounting Standards Update No. 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments and increased the allowance for loan loss through *Retained Earnings*, net of income taxes, to establish an allowance that represents expected lifetime credit losses on the finance receivable portfolios at date of adoption.

(b) Inventory obsolescence reserves deducted from cost determined on first-in, first-out (FIFO) basis, before deductions for last-in, first-out (LIFO) valuation reserves.

**INDEX TO EXHIBITS**  
[Items 15(a)(3) and 15(c)]

| Exhibit No.          | Description  |
|----------------------|--|
| <a href="#">2.1</a>  | Asset Purchase Agreement, dated April 30, 2015, among Harley-Davidson Canada LP, Fred Deeley Imports Ltd. and Harley-Davidson Motor Company, Inc., as amended (incorporated herein by reference to Exhibit 2.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 28, 2015 (File No. 1-9183))  |
| <a href="#">3.1</a>  | Restated Articles of Incorporation as amended through April 27, 2015 (incorporated herein by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 2015 (File No. 1-9183))  |
| <a href="#">3.2</a>  | Harley-Davidson, Inc. By-Laws, as amended through April 6, 2020 (incorporated herein by reference by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 2020 (File No. 1-9183))  |
| <a href="#">4.1</a>  | 5-Year Credit Agreement, dated as of April 6, 2018, among the Company, certain subsidiaries of the Company, the financial institutions parties thereto and JPMorgan Chase Bank, N.A., as among other things, global administrative agent 2020 (incorporated herein by reference to Exhibit 4.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 1, 2018 (File No. 1-9183))   |
| <a href="#">4.2</a>  | Indenture, dated as of March 4, 2011, among Harley-Davidson Financial Services, Inc., Issuer, Harley-Davidson Credit Corp., Guarantor, and Bank of New York Mellon Trust Company, N.A., Trustee (incorporated herein by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated March 1, 2011 (File No. 1-9183))   |
| <a href="#">4.3</a>  | Officers' Certificate, dated February 26, 2015, pursuant to Sections 102 and 301 of the Indenture, dated March 4, 2011, with the form of 2.150% Medium-Term Notes due 2020 (incorporated herein by reference to Exhibit 4.10 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 1-9183))  |
| <a href="#">4.4</a>  | Indenture, dated July 28, 2015, by and between Harley-Davidson, Inc. and The Bank of New York Mellon Trust Company, N.A., as Trustee. (incorporated herein by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated July 28, 2015 (File No. 1-9183))   |
| <a href="#">4.5</a>  | Officers' Certificate, dated July 28, 2015 establishing the form of 3.500% Senior Notes due 2025 and 4.625% Senior Notes due 2045 (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated July 28, 2015 (File No. 1-9183))   |
| <a href="#">4.6</a>  | Officers' Certificate, dated January 8, 2016, pursuant to Sections 102 and 301 of the Indenture, dated March 4, 2011, with the form of 2.850% Medium-Term Notes due 2021 (incorporated herein by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated January 5, 2016 (File No. 1-9183))  |
| <a href="#">4.7</a>  | Amendment No. 1 to 5-Year Credit Agreement, dated as of April 6, 2018, among the Company, certain subsidiaries of the Company, the financial institutions parties thereto and JPMorgan Chase Bank, N.A., as among other things, global administrative agent, relating to the 5-Year Credit Agreement, dated as of April 7, 2016, among the Company, certain subsidiaries of the Company, the financial institutions parties thereto and JPMorgan Chase Bank, N.A., as among other things, global administrative agent (incorporated herein by reference to Exhibit 4.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 1, 2018 (File No. 1-9183)) |
| <a href="#">4.8</a>  | 5-Year Credit Agreement, dated as of April 7, 2016 among the Company, certain subsidiaries of the Company, the financial institutions parties thereto and JPMorgan Chase Bank, N.A., as among other things, global administrative agent (incorporated herein by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 27, 2016 (File No. 1-9183))   |
| <a href="#">4.9</a>  | Amendment No. 1 5-year Credit Agreement, dated as of April 7, 2016, among the Company, certain subsidiaries of the Company, the financial institutions parties thereto, and JPMorgan Chase Bank, N.A., as among other things, global administrative agent, relating to the 5-year Credit Agreement, dated as of April 7, 2014 among the Company, certain subsidiaries of the Company, the financial institutions parties thereto and JPMorgan Chase Bank, N.A., as among other things, global administrative agent (incorporated herein by reference to Exhibit 4.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 27, 2016 (File No. 1-9183))  |
| <a href="#">4.10</a> | Officers' Certificate, dated March 10, 2017, pursuant to Sections 102 and 301 of the Indenture, dated March 4, 2011, with the form of 2.400% Medium-Term Notes due 2020 (incorporated herein by reference to Exhibit 4.14 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017 (File No. 1-9183))   |
| <a href="#">4.11</a> | Officers' Certificate, dated June 9, 2017, pursuant to Sections 102 and 301 of the Indenture, dated March 4, 2011, with the form of 2.550% Medium-Term Notes due 2022 (incorporated herein by reference to Exhibit 4.17 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017 (File No. 1-9183))   |
| <a href="#">4.12</a> | Officers' Certificate, dated February 9, 2018, pursuant to Sections 102 and 301 of the Indenture, dated March 4, 2011, with the form of 3.350% Medium-Term Notes due 2023 (incorporated herein by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 1, 2018 (File No. 1-9183))  |
| <a href="#">4.13</a> | Officers' Certificate, dated May 21, 2018, pursuant to Sections 102 and 301 of the Indenture, dated March 4, 2011, with the form of 3.550% Medium-Term Notes due 2021 (incorporated herein by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 1, 2018 (File No. 1-9183))   |

Various instruments relating to the Company's long-term debt described in this report need not be filed herewith pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K. The registrant, by signing this report, agrees to furnish the Securities and Exchange Commission, upon its request, with a copy of any such instrument.

\* Represents a management contract or compensatory plan, contract or arrangement in which a Director or named executive officer of the Company participated.

**INDEX TO EXHIBITS**  
[Items 15(a)(3) and 15(c)]

| Exhibit No.           | Description  |
|-----------------------|--|
| <a href="#">4.14</a>  | Officers' Certificate, dated May 21, 2018, pursuant to Sections 102 and 301 of the Indenture, dated March 4, 2011, with the form of Floating Rate Medium-Term Notes due 2020 (incorporated herein by reference to Exhibit 4.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 1, 2018 (File No. 1-9183))  |
| <a href="#">4.15</a>  | Officers' Certificate, dated November 28, 2018, pursuant to Sections 102 and 301 of the Indenture, dated March 4, 2011, with the form of Floating Rate Medium-Term Notes due 2021 (incorporated herein by reference to Exhibit 4.20 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018 (File No. 1-9183))   |
| <a href="#">4.16</a>  | Officers' Certificate, dated February 4, 2019, pursuant to Sections 102 and 301 of the Indenture, dated March 4, 2011, with the form of 4.05% Medium-Term Notes due 2022 (incorporated herein by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 (File No. 1-9183))  |
| <a href="#">4.17</a>  | Fiscal Agency Agreement, dated November 19, 2019, relating to the 0.9% Medium Term Notes due November 2024, among certain subsidiaries of the Company, The Bank of New York Mellon Trust Company, N.A. and The Bank of New York Mellon, London Branch (incorporated herein by reference to Exhibit 4.20 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2019 (File No. 1-9183))   |
| <a href="#">4.18</a>  | 364-Day Credit Agreement, dated May 13, 2019, among the Company, certain subsidiaries of the Company, the financial institutions parties thereto, and JPMorgan Chase Bank, N.A., as, among other things, global administrative agent (incorporated herein by reference to Exhibit 4.21 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2019 (File No. 1-9183))  |
| <a href="#">4.19</a>  | Description of Registrants Securities (incorporated herein by reference to Exhibit 4.22 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2019 (File No. 1-9183))   |
| <a href="#">4.20</a>  | Amendment No. 2 to 5-Year Credit Agreement, dated as of April 1, 2020, among the Company, certain subsidiaries of the Company, the financial institutions parties thereto and JPMorgan Chase Bank, N.A., as, among other things, global administrative agent, relating to the 5-Year Credit Agreement, dated as of April 7, 2016, among the Company, certain subsidiaries of the Company, the financial institutions parties thereto and JPMorgan Chase Bank, N.A., as among other things, global administrative agent (incorporated herein by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 2020 (File No. 1-9183))    |
| <a href="#">4.21</a>  | Amendment No. 2 to 5-Year Credit Agreement, dated as of April 1, 2020, among the Company, certain subsidiaries of the Company, the financial institutions parties thereto and JPMorgan Chase Bank, N.A., as, among other things, global administrative agent, relating to the 5-Year Credit Agreement, dated as of April 6, 2018, among the Company, certain subsidiaries of the Company, the financial institutions parties thereto and JPMorgan Chase Bank, N.A., as among other things, global administrative agent (incorporated herein by reference to Exhibit 4.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 2020 (File No. 1-9183))    |
| <a href="#">4.22</a>  | Amendment No. 1 to 364-Day Credit Agreement, dated as of April 23, 2020, among the Company, certain subsidiaries of the Company, the financial institutions parties thereto, and JPMorgan Chase Bank, N.A., as, among other things, global administrative agent, relating to the 364-Day Credit Agreement, dated as of May 13, 2019, among the Company, certain subsidiaries of the Company, the financial institutions parties thereto and JPMorgan Chase Bank, N.A., as among other things, global administrative agent (incorporated herein by reference to Exhibit 4.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 2020 (File No. 1-9183)) |
| <a href="#">4.23</a>  | Fiscal Agency Agreement, dated May 19, 2020, relating to the 3.875% Medium Term Notes due May 2023, among certain subsidiaries of the Company, The Bank of New York Mellon, London Branch and The Bank of New York Mellon SA/NV, Luxembourg Branch (incorporated herein by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 28, 2020 (File No. 1-9183))   |
| <a href="#">4.24</a>  | Officers' Certificate, dated June 8, 2020, pursuant to Sections 102 and 301 of the Indenture, dated March 4, 2011, with the form of 3.350% Medium-Term Notes due 2025 (incorporated herein by reference to Exhibit 4.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 28, 2020 (File No. 1-9183))  |
| <a href="#">4.25</a>  | 364-Day Credit Agreement, dated June 1, 2020, among the Company, certain subsidiaries of the Company, the financial institutions parties thereto, and Toronto Dominion (Texas) LLC., as, global administrative agent (incorporated herein by reference to Exhibit 4.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 28, 2020 (File No. 1-9183))   |
| <a href="#">10.1*</a> | Harley-Davidson, Inc. 2009 Incentive Stock Plan (incorporated herein by reference to Appendix A to the Company's definitive proxy statement on Schedule 14A for the Company's Annual Meeting of Shareholders held on April 25, 2009 filed on April 3, 2009 (File No. 1-9183))  |
| <a href="#">10.2*</a> | Amended and Restated Harley-Davidson, Inc. 2014 Incentive Stock Plan as amended effective January 25, 2019 (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (File No. 1-9183))  |

\* Represents a management contract or compensatory plan, contract or arrangement in which a Director or named executive officer of the Company participated.

**INDEX TO EXHIBITS**  
[Items 15(a)(3) and 15(c)]

| Exhibit No.            | Description   |
|------------------------|---|
| <a href="#">10.3*</a>  | Harley-Davidson, Inc. 2020 Incentive Stock Plan (incorporated herein by reference to Appendix A to the Company's definitive proxy statement on Schedule 14A for the Company's Annual Meeting of Shareholders held on May 21, 2020 filed on April 9, 2020 (File No. 1-9183))   |
| <a href="#">10.4*</a>  | Amended and Restated Harley-Davidson, Inc. Director Stock Plan as amended effective December 1, 2014 (incorporated herein by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-9183))   |
| <a href="#">10.5*</a>  | Director Compensation Policy approved April 29, 2016 (incorporated herein by reference from Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 26, 2016 (File No. 1-9183))   |
| <a href="#">10.6*</a>  | Deferred Compensation Plan for Nonemployee Directors as amended and restated effective January 1, 2009 (incorporated herein by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-9183))  |
| <a href="#">10.7*</a>  | Harley-Davidson Management Deferred Compensation Plan as amended and restated effective January 1, 2017 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 25, 2016 (File No. 1-9183))   |
| <a href="#">10.8*</a>  | Harley-Davidson, Inc. Employee Incentive Plan (incorporated herein by reference to the Appendix to the Company's definitive proxy statement on Schedule 14A for the Company's Annual Meeting of Shareholders held April 25, 2015 (File No. 1-9183))   |
| <a href="#">10.9*</a>  | Harley-Davidson, Inc. Short-Term Incentive Plan for Senior Executives (incorporated herein by reference to Appendix D to the Company's definitive proxy statement on Schedule 14A for the Company's Annual Meeting of Shareholders held April 30, 2011 (File No. 1-9183))   |
| <a href="#">10.10*</a> | Harley-Davidson Pension Benefit Restoration Plan as amended and restated effective January 1, 2009 (incorporated herein by reference to Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-9183))   |
| <a href="#">10.11*</a> | Form of Notice of Grant of Stock Options and Option Agreement of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2009 Incentive Stock Plan (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 28, 2010 (File No. 1-9183))  |
| <a href="#">10.12*</a> | Form of Notice of Grant of Stock Options and Option Agreement (Transition Agreement) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2009 Incentive Stock Plan (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 28, 2010 (File No. 1-9183))                         |
| <a href="#">10.13*</a> | Form of Notice of Special Grant of Stock Options and Option Agreement (Transition Agreement) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2009 Incentive Stock Plan (incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 28, 2010 (File No. 1-9183))                 |
| <a href="#">10.14*</a> | Form of Notice of Award of Restricted Stock Units and Restricted Stock Unit Agreement of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2009 Incentive Stock Plan (incorporated herein by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 28, 2010 (File No. 1-9183))                        |
| <a href="#">10.15*</a> | Form of Notice of Award of Restricted Stock Units and Restricted Stock Unit Agreement (Transition Agreement) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2009 Incentive Stock Plan (incorporated herein by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 28, 2010 (File No. 1-9183)) |
| <a href="#">10.16*</a> | Form of Notice of Grant of Stock Options and Option Agreement of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2009 Incentive Stock Plan to each of Messrs. Hund, Levatich and Olin (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 1, 2009 (File No. 1-9183))                           |
| <a href="#">10.17*</a> | Form of Notice of Grant of Stock Options and Stock Option Agreement (Standard) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 2015 (File No. 1-9183))                               |
| <a href="#">10.18*</a> | Form of Notice of Grant of Stock Options and Stock Option Agreement (Transition Agreement) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 29, 2015 (File No. 1-9183))                   |
| <a href="#">10.19*</a> | Executive Severance Plan (incorporated herein by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017 (File No. 1-9183))  |
| <a href="#">10.20*</a> | Form of Transition Agreement between the Registrant and each of Messrs. Levatich and Olin (incorporated herein by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 1-9183))  |
| <a href="#">10.21*</a> | Transition Agreement between the Registrant and Mr. Hund dated November 30, 2009 (incorporated herein by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 1-9183))   |

\* Represents a management contract or compensatory plan, contract or arrangement in which a Director or named executive officer of the Company participated.

**INDEX TO EXHIBITS**  
[Items 15(a)(3) and 15(c)]

| Exhibit No.            | Description   |
|------------------------|---|
| <a href="#">10.22*</a> | Form of Aircraft Time Sharing Agreement between the Registrant and each of Messrs. Levatich, Olin, Mansfield and Hund and Mses. Kumbier and Anding (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (File No. 1-9183))   |
| <a href="#">10.23*</a> | Form of Non-competition and Non-solicitation Agreement between Harley-Davidson Canada LP, Fred Deeley Imports Ltd. and Harley-Davidson Motor Company, Inc., as amended (incorporated herein by reference to exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 28, 2015 (File No. 1-9183))   |
| <a href="#">10.24*</a> | Harley-Davidson Retiree Insurance Allowance Plan, as amended and restated effective January 1, 2016 (incorporated herein by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 1-9183))   |
| <a href="#">10.25*</a> | Form of Notice of Award of Performance Shares and Performance Share Agreement (Standard) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan first approved for use in February 2017 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-Q for the quarter ended March 26, 2017 (File No. 1-9183))  |
| <a href="#">10.26*</a> | Form of Notice of Award of Performance Share Units and Performance Share Unit Agreement (Standard International) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan first approved for use in February 2017 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-Q for the quarter ended March 26, 2017 (File No. 1-9183))  |
| <a href="#">10.27*</a> | Form of Notice of Award of Performance Shares and Performance Share Agreement (Transition Agreement) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan first approved for use in February 2017 (incorporated herein by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-Q for the quarter ended March 26, 2017 (File No. 1-9183))  |
| <a href="#">10.28*</a> | Form of Notice of Award of Restricted Stock Units and Restricted Stock Unit Agreement (Special Retention) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan first approved for use in February 2017 (incorporated herein by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-Q for the quarter ended March 26, 2017 (File No. 1-9183))   |
| <a href="#">10.29*</a> | Form of Transition Agreement between the Registrant and each of Mr. Mansfield and Mses. Kumbier and Anding (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended April 1, 2018 (File No. 1-9183))  |
| <a href="#">10.30*</a> | Form of Notice of Award of Restricted Stock Units and Restricted Stock Unit Agreement (Standard), Form of Notice of Award of Restricted Stock Units and Restricted Stock Unit Agreement (Standard International), Form of Notice of Award of Restricted Stock Units and Restricted Stock Unit Agreement (Special), Form of Notice of Award of Restricted Stock Units and Restricted Stock Unit Agreement (Special Retention), and Form of Notice of Award of Restricted Stock Units and Restricted Stock Unit Agreement (Transition Agreement) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan first approved for use in February 2018 (incorporated herein by reference to Exhibit 10.43 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018 (File No. 1-9183)) |
| <a href="#">10.31*</a> | Form of Notice of Award of Performance Shares and Performance Shares Agreement (Standard), Form of Notice of Award of Performance Share Units and Performance Share Unit Agreement (Standard International), and Form of Notice of Award of Performance Shares and Performance Shares Agreement (Transition Agreement) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan first approved for use in February 2018 (incorporated herein by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018 (File No. 1-9183))   |
| <a href="#">10.32*</a> | Form of Notice of Award of Restricted Stock Units and Restricted Stock Unit Agreement (Standard), Form of Notice of Award of Restricted Stock Units and Restricted Stock Unit Agreement (Standard International), Form of Notice of Award of Restricted Stock Units and Restricted Stock Unit Agreement (Special), and Form of Notice of Award of Restricted Stock Units and Restricted Stock Unit Agreement (Special Retention) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan first approved for use in February 2019 (incorporated herein by reference to Exhibit 10.45 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018 (File No. 1-9183))   |
| <a href="#">10.33*</a> | Form of Notice of Award of Performance Shares and Performance Shares Agreement (Standard) and Form of Notice of Award of Performance Share Units and Performance Share Unit Agreement (Standard International) of Harley-Davidson, Inc. under the Harley-Davidson, Inc. 2014 Incentive Stock Plan first approved for use in February 2019 (incorporated herein by reference to Exhibit 10.46 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018 (File No. 1-9183))   |
| <a href="#">10.34</a>  | Settlement Agreement, dated March 27, 2020, by and among Harley-Davidson, Inc., and Impala Master Fund Ltd. and Impala Asset Management LLC (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 30, 2020 (File No. 1-9183))  |
| <a href="#">10.35*</a> | Acting President and Chief Executive Officer offer letter (incorporated herein by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-Q for the quarter ended March 29, 2020 (File No. 1-9183))  |

\* Represents a management contract or compensatory plan, contract or arrangement in which a Director or named executive officer of the Company participated.



**INDEX TO EXHIBITS**  
[Items 15(a)(3) and 15(c)]

| <b>Exhibit No.</b>     | <b>Description</b>   |
|------------------------|--|
| <a href="#">10.36*</a> | Form of Transition Agreement between the Registrant and each of Messrs. Zeitz, Krause, Niketh, and Root and Mses. Giuffre and Goetter (incorporated herein by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-Q for the quarter ended September 27, 2020 (File No. 1-9183)) |
| <a href="#">10.37*</a> | Settlement and General Release Agreement between the Registrant and Ms. Kumbier dated August 14, 2020 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-Q for the quarter ended September 27, 2020 (File No. 1-9183))                                 |
| <a href="#">21</a>     | Harley-Davidson, Inc. Subsidiaries   |
| <a href="#">23</a>     | Consent of Independent Registered Public Accounting Firm   |
| <a href="#">31.1</a>   | Chief Executive Officer Certification pursuant to Rule 13a-14(a)   |
| <a href="#">31.2</a>   | Chief Financial Officer Certification pursuant to Rule 13a-14(a)   |
| <a href="#">32</a>     | Written Statement of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. §1350   |
| 101.INS                | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document   |
| 101.SCH                | XBRL Taxonomy Extension Schema Document  |
| 101.CAL                | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF                | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB                | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE                | XBRL Taxonomy Extension Presentation Linkbase Document   |
| 104                    | Cover Page Interactive Data File - formatted in Inline XBRL and contained in Exhibit 101   |

\* Represents a management contract or compensatory plan, contract or arrangement in which a Director or named executive officer of the Company participated.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 23, 2021.

HARLEY-DAVIDSON, INC.

By: /s/ Jochen Zeitz  
Jochen Zeitz  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 23, 2021.

| <u>Name</u>   | <u>Title</u>   |
|---|--|
| <u>/s/ Jochen Zeitz</u><br>Jochen Zeitz                 | Chairman, President and Chief Executive Officer<br>(Principal executive officer) |
| <u>/s/ Gina Goetter</u><br>Gina Goetter                 | Chief Financial Officer<br>(Principal financial officer)                         |
| <u>/s/ Mark R. Kornetzke</u><br>Mark R. Kornetzke       | Chief Accounting Officer<br>(Principal accounting officer)                       |
| <u>/s/ Troy Alstead</u><br>Troy Alstead                 | Director   |
| <u>/s/ R. John Anderson</u><br>R. John Anderson         | Director   |
| <u>/s/ Michael J. Cave</u><br>Michael J. Cave           | Director   |
| <u>/s/ Allan Golston</u><br>Allan Golston               | Director   |
| <u>/s/ Sara L. Levinson</u><br>Sara L. Levinson         | Director   |
| <u>/s/ N. Thomas Linebarger</u><br>N. Thomas Linebarger | Non-Executive Chairman   |
| <u>/s/ Brian Niccol</u><br>Brian Niccol                 | Director   |
| <u>/s/ Maryrose Sylvester</u><br>Maryrose Sylvester     | Director   |

## HARLEY-DAVIDSON, INC. SUBSIDIARIES

| Name  | Jurisdiction of Incorporation |
|---|-------------------------------|
| H-D U.S.A., LLC   | Wisconsin                     |
| Harley-Davidson Motor Company Group, LLC                    | Wisconsin                     |
| Harley-Davidson Motor Company Operations, Inc.              | Wisconsin                     |
| H-D Franklin, LLC   | Wisconsin                     |
| H-D Tomahawk Somo, LLC                                      | Wisconsin                     |
| H-D Tomahawk Industrial Park, LLC                           | Wisconsin                     |
| H-D Tomahawk Kaphaem Road, LLC                              | Wisconsin                     |
| H-D Capitol Drive, LLC                                      | Wisconsin                     |
| H-D Pilgrim Road, LLC                                       | Wisconsin                     |
| Harley-Davidson Motor Company, Inc.                         | Wisconsin                     |
| Harley-Davidson Museum, LLC                                 | Wisconsin                     |
| Buell Distribution Company, LLC                             | Wisconsin                     |
| H-D F&R, LLC  | Wisconsin                     |
| Harley-Davidson Asia Pacific, LLC                           | Wisconsin                     |
| Harley-Davidson Retail, Inc.                                | Wisconsin                     |
| Buell Motorcycle Company, LLC                               | Wisconsin                     |
| HDWA, LLC   | Wisconsin                     |
| H-D LiveWire Labs, LLC                                      | California                    |
| Harley-Davidson Dealer Systems, Inc.                        | Ohio                          |
| ElectricSoul, LLC   | Delaware                      |
| StaCyc, Inc.  | Delaware                      |
| H-D International Holding Co., Inc.                         | Wisconsin                     |
| Harley-Davidson Holding Co., Inc.                           | Delaware                      |
| Harley-Davidson Benelux B.V.                                | Netherlands                   |
| Harley-Davidson Retail B.V.                                 | Netherlands                   |
| Harley-Davidson France SAS                                  | France                        |
| Harley-Davidson Germany GmbH                                | Germany                       |
| Harley-Davidson Italia S.r.l.                               | Italy                         |
| Harley-Davidson Japan KK                                    | Japan                         |
| Harley-Davidson Europe Ltd.                                 | England                       |
| Harley-Davidson do Brazil Ltda.                             | Brazil                        |
| Harley-Davidson do Brazil Fabricacao De Componentes Ltda.   | Brazil                        |
| Harley-Davidson Australia Pty. Limited                      | Australia                     |
| Harley-Davidson (Shanghai) Commercial and Trading Co., Ltd. | China                         |
| H-D Hong Kong Ltd.  | Hong Kong                     |
| Harley-Davidson Espana S.L.                                 | Spain                         |
| Harley-Davidson Switzerland GmbH                            | Switzerland                   |
| Harley-Davidson De Mexico, S. De R.L. De C.V.               | Mexico                        |
| Harley-Davidson De Mexico Management, S. De R.L. De C.V.    | Mexico                        |
| Harley-Davidson Africa (Pty) Ltd.                           | South Africa                  |
| Harley-Davidson Asia Pacific Pte. Ltd.                      | Singapore                     |
| Harley-Davidson Central and Eastern Europe s.r.o.           | Czech Republic                |
| H-D Motor Company India Private Limited                     | India                         |
| Harley-Davidson Austria GmbH                                | Austria                       |

| Name   | Jurisdiction of Incorporation |
|--|-------------------------------|
| Harley-Davidson RUS LLC                                | Russia                        |
| Harley-Davidson MENA DMCC                              | Dubai                         |
| Harley-Davidson South East Europe Single Member E.P.E. | Greece                        |
| Harley-Davidson (Thailand) Company Limited             | Thailand                      |
| HDMC (Thailand) Ltd.                                   | Thailand                      |
| H-D Motor (Thailand) Limited                           | Thailand                      |
| H-D Motorcycle (Thailand) Limited                      | Thailand                      |
| Harley-Davidson Indonesia PT                           | Indonesia                     |
| Harley-Davidson Canada GP Inc.                         | Canada                        |
| Harley-Davidson Canada Holdings ULC                    | Canada                        |
| Harley-Davidson Canada LP                              | Canada                        |
| HR, LLC  | Indiana                       |
| HR Holding Corp.                                       | Wisconsin                     |
| Harley-Davidson Financial Services, Inc.               | Delaware                      |
| Harley-Davidson Insurance Services, Inc.               | Nevada                        |
| Harley-Davidson Credit Corp.                           | Nevada                        |
| Harley-Davidson Insurance Services of Illinois, Inc.   | Illinois                      |
| Harley-Davidson Customer Funding Corp                  | Nevada                        |
| Harley-Davidson Motorcycle Trust 2019-L                | Delaware                      |
| Harley-Davidson Motorcycle Trust 2019-A                | Delaware                      |
| Harley-Davidson Motorcycle Trust 2020-A                | Delaware                      |
| Harley-Davidson Motorcycle Trust 2020-B                | Delaware                      |
| Harley-Davidson Motorcycle Trust 2020-L                | Delaware                      |
| Harley-Davidson Motorcycle Trust 2020-M                | Delaware                      |
| Eaglemark Savings Bank                                 | Nevada                        |
| Harley-Davidson Leasing, Inc.                          | Nevada                        |
| Harley-Davidson Warehouse Funding Corp.                | Nevada                        |
| Harley-Davidson Financial Services International, Inc. | Delaware                      |
| Harley-Davidson Financial Services Europe Limited      | England                       |
| Harley-Davidson Financial Services Canada, Inc.        | Canada                        |

## Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-51741) pertaining to the Harley-Davidson, Inc. Director Stock Plan;
- (2) Registration Statement (Form S-8 No. 333-123405) pertaining to the Harley-Davidson, Inc. 2004 Incentive Stock Plan;
- (3) Registration Statement (Form S-8 No. 333-166549) pertaining to the Harley-Davidson, Inc. 2009 Incentive Stock Plan;
- (4) Registration Statement (Form S-8 No. 333-171813) pertaining to the Harley-Davidson, Inc. Stock Purchase Plan;
- (5) Registration Statement (Form S-8 Nos. 333-181761) of Harley-Davidson, Inc. pertaining to the Harley-Davidson Retirement Savings Plan for Salaried Employees, the Harley-Davidson Retirement Savings Plan for Milwaukee and Tomahawk Hourly Bargaining Unit Employees, the Harley-Davidson Retirement Savings Plan for Kansas City Hourly Bargaining Unit Employees, and the Harley-Davidson Retirement Savings Plan for York Hourly Bargaining Unit Employees;
- (6) Registration Statement (Form S-8 No. 333-199972) pertaining to the Harley-Davidson, Inc. 2014 Incentive Stock Plan;
- (7) Registration Statement (Form S-8 No. 333-231340) pertaining to the Harley-Davidson, Inc. pertaining to the Harley-Davidson Retirement Savings Plan for Salaried Employees, the Harley-Davidson Retirement Savings Plan for Milwaukee and Tomahawk Hourly Bargaining Unit Employees, the Harley-Davidson Retirement Savings Plan for Kansas City Hourly Bargaining Unit Employees, and the Harley-Davidson Retirement Savings Plan for York Hourly Bargaining Unit Employees
- (8) Registration Statement (Form S-3 No. 333-238110) of Harley-Davidson, Inc. and the related Prospectus;

of our reports dated February 23, 2021, with respect to the consolidated financial statements and schedule of Harley-Davidson, Inc. and the effectiveness of internal control over financial reporting of Harley-Davidson, Inc., included in this Annual Report (Form 10-K) of Harley-Davidson, Inc. for the year ended December 31, 2020.

/s/ Ernst & Young LLP  
Milwaukee, Wisconsin  
February 23, 2021

Chief Executive Officer Certification  
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934

I, Jochen Zeitz, certify that:

1. I have reviewed this annual report on Form 10-K of Harley-Davidson, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2021

/s/ Jochen Zeitz

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Jochen Zeitz

President and Chief Executive Officer

Chief Financial Officer Certification  
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934

I, Gina Goetter, certify that:

1. I have reviewed this annual report on Form 10-K of Harley-Davidson, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2021

/s/ Gina Goetter

Gina Goetter

Chief Financial Officer

Written Statement of the Chief Executive Officer and Chief Financial Officer  
Pursuant to 18 U.S.C. sec. 1350

Solely for the purpose of complying with 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned President and Chief Executive Officer and the Chief Financial Officer of Harley-Davidson, Inc. (the "Company"), hereby certify, based on our knowledge, that the Annual Report on Form 10-K of the Company for the year ended December 31, 2020 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 23, 2021

/s/ Jochen Zeitz

Jochen Zeitz  
President and Chief Executive Officer

/s/ Gina Goetter

Gina Goetter  
Chief Financial Officer