

<http://www.google.com/hostednews/ap/article/ALeqM5iby6HPwmtvHa0aEPTtDQb0Bm5KzOD99FQ8IO0>

Harley-Davidson deepens cuts as 2Q profit tumbles

By DAN STRUMPF (AP) – July 16, 2009



In this Jan. 6, 2006 file photo, a worker assembles a motorcycle on line at the Harley Davidson plant in Kansas City, Mo. Harley-Davidson Inc. said Thursday it is cutting 1,000 more employees and lowering its motorcycle shipment guidance as quarterly earnings continued to fall due to weaker sales. The company said it will implement production shutdowns at its Kansas City, Mo. and York, Pa. production facilities, as well as at its powertrain operations at Menomonee Falls and Wauwatosa, Wis. (AP Photo/Orlin Wagner, file)

NEW YORK — Back when the good times rolled, Harley-Davidson Inc. couldn't keep up with demand for its flashy high-end motorcycles. Now, the party is over and Harley is feeling the hangover.

The Milwaukee-based company on Thursday said it was cutting another 1,000 employees, or 11 percent of its work force, as it posted a steep decline in its second-quarter profit. Strapped consumers continue to put off sales of its premium rides, which can cost more than a new car, forcing it to make deeper production and work force cuts.

"Look at unemployment being at 25-year record highs and you look at the consumer confidence index bouncing around near record lows," CEO Keith Wandell, who took charge of the company in May, said in an interview. "It's made people a little leery about making a big-ticket discretionary purchases."

Harley enjoyed a robust business in the 1990s, when it captured a large number of new buyers and opened a string of new dealerships, said Van Conway, president of the Detroit turnaround firm Conway MacKenzie Inc. But as the craze wore out and, in recent years, the credit markets tightened and buyers aged, sales dropped off.

"The demand might not ever go back to where it was," during the craze, Conway said. "They've got to get back to the core people that love them."

The new job cuts announced on Thursday include 700 hourly and 300 salaried employees. More than half will be in Milwaukee, a spokeswoman said. They come on top of between 1,400 and 1,500 cuts announced earlier this year. The company said it will reduce production from its York, Pa., and Kansas City, Mo., facilities, as well as at its powertrain operations at Menomonee Falls and Wauwatosa, Wis.

But shares of the company climbed \$1.47, or 8.4 percent, to close at \$18.96, as some analysts applauded the cuts, which could help results down the road.

Harley's U.S. retail sales during the quarter fell 35 percent, the company said. Industrywide sales were worse, falling 48 percent.

International sales fell a more modest 18 percent. The company has been aggressively pushing its bikes in overseas markets, including in Latin America, Europe and China, as it seeks to offset slowing sales at home.

Harley, the top maker of heavyweight motorcycles, said its profit plummeted 91 percent to \$19.8 million, or 8 cents per share, in the quarter ended June 28. That's down from \$222.8 million, or 95 cents per share, a year earlier.

Revenue declined 27 percent to \$1.15 billion.

The results included two non-cash charges related to the company's motorcycle financing division. The company did not provide results excluding those charges, but Deutsche Bank analyst Rod Lache said adjusted earnings came to 27 cents per share.

Wall Street analysts surveyed by Thomson Reuters expected 24 cents per share on revenue of \$1.15 billion, on average. Such estimates typically exclude one-time items.

Harley has been restructuring since the beginning of the year as it sought to cope with weaker sales. Volumes of its bikes, which start in the mid-thousands but can run \$30,000 or more for high-end touring models, are closely tied to consumer confidence and employment, which have taken a pounding during the recession.

In May, the company said it was weighing its options for its main motorcycle assembly plant in York, Pa. The operations at the facility aren't competitive, the company said, and a study remains under way to assess whether production will remain in York or move to another U.S. site. It said Thursday it expects to make a decision by the end of the year.

Harley has also been replacing top managers. Wandell took over from Jim Ziemer, who retired after four years as CEO. Wandell was previously chief operating officer at Johnson Controls Inc., which is also based in Milwaukee and makes automotive and building systems.

Harley still faces longer-term challenges, including luring more women, minority and younger riders to its brand. Baby boomers remain its biggest customers. According to a study last fall by J.P. Morgan, the median age of Harley customers rose to 48 in 2007 from 35 in 1987.

The company has reached out to new demographics through such efforts as women's rider programs and sleeker products like the V-Rod Muscle, which was released last year and features a sportier, more stylish design geared toward younger, urban buyers.

Harley cut its yearly shipment guidance. It now expects to ship between 212,000 and 228,000 motorcycles to its dealers and distributors worldwide in 2009, down between 25 to 30 percent from 2008 shipments levels.

Harley's financing arm, Harley-Davidson Financial Services, posted an operating loss of \$62.1 million in the second quarter versus operating income of \$37.1 million a year ago. The tight credit markets have weighed on the unit.

However, the company said it has more than enough funding to meet HDFS's 2009 funding needs of \$1 billion, helped by two large securitization transactions this year.