



Harley-Davidson Canada LP  
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## Canadian Dealer Ownership Policy

November 1, 2021

### I. Introduction

The Mission of Harley-Davidson® is “More than building machines, we stand for the timeless pursuit of adventure. Freedom for the soul.” For over a century, we have maintained a version of this Mission for customers and enthusiasts around the world, which is at the heart of everything we do. Ultimately, it is our family of Harley-Davidson dealers who make these dreams come true for our mutual customers. Our dealers are the keepers of the culture and at the heart of a unique customer base of men, women, and families with one common love that brings them together...Harley-Davidson motorcycles! There is a special relationship among Harley-Davidson, our dealers, and our mutual customers. This is what separates the Harley-Davidson experience from everything else. We need to ensure that our future customers have the opportunity to develop a relationship with their dealer and enjoy the same premium Harley-Davidson experience as our current customers. Our ability to continue to provide this extraordinary customer relationship is dependent on a dealer network with this same mindset. Through this Policy, HDMC documents its expectations and requirements for any dealer Owner, Dealer Group, and for any individual that would like to become a Harley-Davidson dealer/owner.

### II. Definitions

**Dealer.** The entity that owns and operates the Harley-Davidson dealership and is the party to the Dealer Contract.

**Dealer Contract.** The Harley-Davidson Dealer Contract that authorizes a dealer to purchase and resell at retail new Harley-Davidson motorcycles and related product and further licenses such dealer to use the Harley-Davidson trademarks. The Dealer Contract definition includes the “Additional Contractual Provisions for Dealers in Canada”. The standard Dealer Contract is on a one [1] (2022 only) + three [3] year term following.

**Dealer Group.** A group consisting of more than one Dealer (whether owned by an individual or combination of individuals and/or entities directly or indirectly affiliated with one another via common ownership or management) working in concert for a common purpose or interest, and/or who share resources. This includes, but is not limited to, a management company through which a Dealer receives strategic support, operational accounting, management oversight, and similar activities.

**Dealer Operator.** An individual Owner (must meet all Owner requirements in Section IV of this Policy) and has powers to make decisions on the dealership business on behalf of the

other Owners. A minimum of 5% ownership is required to hold the Dealer Operator role. The Dealer Operator must be actively involved in the dealership operations of a Dealer or a Dealer Group. The Dealer Operator is required to sign the Dealer Contract and any addenda/amendments thereto and is ultimately responsible for the dealership's performance and obligations under such agreement.

**Framework Agreement.** This is a separate agreement between a Dealer Group and HDC, which outlines the terms and conditions for a group to expand and acquire additional H-D dealerships.

**General Manager or GM.** An individual, regardless of the title s/he holds, who is responsible for the day-to-day operations and management of the dealership, who is brand-dedicated, onsite, and actively involved, full-time at the dealership.

**HDMC.** Harley-Davidson Motor Company, Inc., a Wisconsin corporation, doing business as Harley-Davidson Motor Company.

**HDC.** Harley-Davidson Canada LP, a subsidiary entity of HDMC in Canada doing business as Harley-Davidson Canada. Anywhere "we," "us," and "our" are used in this Policy refers to HDC.

**Owner.** Any individual who owns any interest in a Dealer, either directly or indirectly through a business entity or trust. To "own an interest in" a dealership, business entity, or trust means having any legal or beneficial interest in the dealership, business entity, or trust. For purposes of this policy, a marital property or community property interest in a dealership, business entity, or trust is not considered an ownership interest.

**Policy.** This Canadian Dealer Ownership Policy, effective **October 22, 2021**, applicable to all Canadian Dealers.

**Requisite Experience.** An individual with management responsibility – at the Dealer Operator or General Manager level – must have at least 3 years of successful motorcycle, powersports, and/or automotive retail management experience.

**Successor.** An individual that the Dealer Operator has nominated as the person to whom the Dealer Operator's ownership, legal control, and corresponding responsibilities and duties in the dealership will be transferred upon a succession event (death or incapacity) of the Dealer Operator. HDC must approve the Successor for a dealership; and the Successor, if not a current Owner, must meet certain requirements (see Section IX. Succession & Estate Planning, item C).

**Trust.** A trust agreement is a signed document that establishes a Trust. A Trust is a relationship in which legal title to property is transferred from the owner (the "settlor and/or contributor") to another party (the "trustee"), who will then administer the property for the benefit of one or more persons named in a trust agreement as the Trust's beneficiary or beneficiaries (the "beneficiary"). A trust agreement can create a Trust that

is either revocable or irrevocable during the life of the settlor. HDC must approve in advance any transfer of dealership assets or ownership interest to any Trust or any acquisition of dealership assets or ownership interests by any Trust. See Section IX. H-M.

### III. Ownership Entities

A Harley-Davidson Dealer must be a legal entity (e.g., corporation, limited partnership) that is certified to do business in the province where the dealership facilities are located. The entity must be newly formed and may not have any other business interests or assets under it. The Dealer may be ultimately owned by a single individual or by a group of individuals, a Trust(s), a private equity firm, or a publicly traded company, provided the applicable terms and conditions outlined in this Policy for the specific ownership type is met by each prospective dealer.

A dealer or prospective dealer must provide the requisite documentation (as determined by HDC) to evidence the corporate structure to the level of the ultimate individual ownership and control of the Dealer.

### IV. Owner Requirements

- A. An Owner must be at least **18** years of age and be a Canadian Citizen or have lawful permanent resident status in Canada, or otherwise authorized by HDC.
- B. An Owner must complete, sign, and submit a **Dealer Application** and provide all other required information.
- C. HDC performs background checks on all Owners. This background check cannot reveal any material problems (financial, personal, legal, or otherwise) that could adversely affect the ownership, operation, management, reputation, business, goodwill, or interests of HDC, the Harley-Davidson intellectual property, or the dealership.
- D. An Owner cannot (a) be or have been convicted of or plead or have plead guilty to any crime or have or have had any civil or administrative liability found against him or her, which in any case may adversely affect the ownership, operation, management, reputation, business, goodwill, or interests of the dealership, HDC, HDMC, or our trademarks; or (b) be or have been convicted of or plead or have plead guilty to any indictable offence.
- E. No person may be an Owner if such ownership creates a conflict of interest (e.g., owns/works for a competitor, supplier, or a company in direct competition with HDC, or HDMC or an affiliate, etc.) that has the potential of adversely affecting HDC's, HDMC's or the dealership's reputation, business, goodwill, or interests. HDC will evaluate these situations on a case-by-case basis. (For clarity, ownership in or of a powersports dealership shall not be deemed a conflict.)
- F. An Owner must be disclosed as an Owner on the Dealer Contract.
- G. **Corporate Owners with 10% or greater ownership interest or ultimate control over the Dealer must guarantee all obligations of the Dealer owed to HDMC and/or its affiliates. Further, (1) for a Dealer that is closely held or ultimately owned by a closely held entity(ies), individuals with 10% or greater ownership interest must personally guarantee all obligations of the dealership owed to HDMC and/or its affiliates (and, in certain cases, an individual with less**

**than 10% ownership may also be required to sign a personal guarantee); and (2) for a Dealer that is not closely held or ultimately owned by a closely held entity(ies), the Dealer shall provide, or be covered by, such forms of guarantee as HDMC and/or its affiliates may require in their sole discretion.**

- H. An Owner must comply with all applicable anti-bribery laws and regulations and conform to HDMC's policy on anti-bribery specific to dealers and distributors.
- I. An Owner must conform his or her conduct (whether personal or business) with the Dealer Contract, HDMC's Mission and Values, standards of good citizenship, or generally acceptable behaviour in contemporary society, in a way that does not adversely affect the ownership, operation, management, reputation, business, goodwill or interests of HDC or HDMC, the Harley-Davidson intellectual property, or the dealership.
- J. Relating to a private equity firm or a publicly traded company, any individual Owner with 5% or greater ownership, directly or indirectly, in the company will be required to meet the above Owner Requirements. In addition, the executive management team and the management team of the Dealer(s) will be required to meet the Owner Requirements noted above.
- K. **A Framework Agreement with HDC must be executed by a Dealer Group, including a private equity firm or publicly traded company, as outlined in Section II.**

## V. Financial Requirements

- A. The Owner/prospect or, collectively, the Owners, of a dealership must meet the following minimum personal financial requirements:

**1) \$2,000,000 CAN net worth**

**2) \$750,000 CAN in liquid assets (excluding any real estate equity)**

Notwithstanding the above minimum financial requirements, the actual financial requirements for each individual Owner and the dealership overall will be based on the specific purchase price of the dealership.

- B. HDC requires an unencumbered or non-debt investment of at least **20%** for the capitalization of the dealership collectively by the proposed Owners, including the Dealer Operator. (Note: The capitalization amount will also include the purchase price of any land and building if held by the dealership entity). Essentially, the Beginning Balance Sheet of the dealership must have a sufficient debt/equity ratio, preferably 2:1. **In addition, the Dealer Operator, at a minimum, must invest a proportionate share of the non-debt funds required by HDC equal to or greater than his or her ownership percentage.** These requirements are also followed for the capitalization (e.g., facility, purchase of furniture fixtures, equipment, etc.) of new target dealerships.

## VI. Management of the Dealership

The management structure for a dealership is critical to its success. Our expectation is that the Owner designated as the Dealer Operator (1) must have at least 5% equity ownership, (2) be directly involved in the operation and management of the dealership, and (3) be accessible to Harley-Davidson representatives. This Owner/the Dealer Operator, if not the majority owner, should have full legal control through some mechanism, e.g., majority voting

control, proxy(ies), voting trust agreement, sole LP Manager, etc. (unless approved otherwise by HDC). If the ownership involves a large group of owners, including a private equity firm or publicly traded company, there must be a Board of Directors and a Dealer Operator overseeing the dealership(s)' operations and a GM (as defined above and discussed below) at each owned dealership.

A GM as defined above must meet the following criteria: (1) the Requisite Experience requirement under Section II. of this Policy, (2) complete a Dealer Application and provide to HDC, (3) complete and pass a background check and meet HDC's high standards for moral and ethical behavior, (4) is accessible to HDC personnel, and (5) is responsible for the performance of the dealership. If the GM is no longer employed and actively engaged at the dealership, the dealer will have 90 days to find a replacement GM that meets the foregoing criteria, and HDC must be made aware of such new appointment. An Owner may serve as the GM at one dealership location.

**HDC must always approve - and be aware of - the management structure and the decision-making hierarchy, including legal/full control and operational control, of each Dealer and Dealer Group.**

## **VII. Multiple Dealership Limitations & Requirement**

No person, Owner, Dealer Operator, Dealer Group, or any member or participant in a Dealer Group, may:

- A. Have a direct or indirect ownership interest (of any amount) in any Dealer or Dealer Group whose sales account in the aggregate for more than 10% of annual Canadian Harley-Davidson motorcycle sales at any one time unless already pre-approved.**

Any Dealer Group or individual Owner who wishes to have an ownership interest in more than one or to acquire an additional dealership must meet all the following requirements and conditions:

### Contract Compliance

- B. Must be in "Good Standing" with HDC and in compliance with the Dealer Contract, and all other HDC and its affiliates' policies, procedures, and requirements at each currently owned dealership.
- C. Each dealership must be directly held by and operated under a separate legal entity from any other dealership. Also, per Section III any new dealership entity must be newly formed and may not have any other business interests or assets under it.
- D. Must provide a business plan that shows how the person and/or entity intend to purchase, operate, and grow each dealership.

### Facility Compliance

- E. Must meet or exceed current Retail Environment facility standards and/or have Approved Retail Environment status as described in the current *Approved Retail Environment Policy and Facility Statement*.

#### Financial

- F. Must comply with the Financial Requirements of Section V.
- G. (1) Has not been on “credit-hold” with Harley-Davidson Financial Services Canada, Inc. (“HDFSC”) (or any affiliate of HDFSC) during the previous 12 months, (2) has submitted all required financial statements, and (3) has signed and submitted all applicable financing and security documents required by HDFSC.
- H. The individual, and each dealership owned by the individual or by a member or participant in a Dealer Group, must always be in compliance with all HDFSC agreements and/or obligations and any third-party financing agreements.
- I. We require the assets of all dealerships and Dealer Groups to be cross collateralized as security for all obligations owed to HDC, HDFSC, or an affiliate.
- J. Must maintain minimum working capital and operating cash at all times as required by HDC.

#### Training and Customer Experience

- K. Must comply with all dealer standards on training at existing dealership(s).
- L. Completion rate of 100% for all assigned dealership training prior to the due date
- M. All CXI alerts acted on within 72 hours at existing dealership(s).

#### Performance Standards

N. HDC believes that only Owners/Dealer Groups who own and operate high-performing dealerships should acquire an additional dealership(s). Therefore, to be eligible to purchase an additional dealership, HDC requires that all dealerships currently owned by an individual Owner or Dealer Group must meet or exceed certain performance requirements and/or metrics set by HDC.

**Specifically, the majority of the dealerships currently owned by Owner/Dealer Group must be at or greater than the national average in the following performance metrics (12-month rolling average as of prior month end):**

- Sales Effectiveness
- CXI-Total Purchase and Service Combined NPS Score

These performance requirements may be changed from time to time at the discretion of HDC, and such changes will be effective when published to the dealer network.

In the case of a new Owner(s) to HDC, the prospective new Owner(s) must meet the above performance criteria relating to their auto or powersports dealerships.

## Harley-Davidson Program Participation

O. The expectation of HDC is that all Owners/Dealer Groups (at each owned dealership) will fully participate in Harley-Davidson-sponsored programs and those with our business partners, including:

- Financing & Insurance from HDFS for both Retail & Commercial products
- Products & Services including but not limited to the Dealer Management System (DMS)
- Genuine Parts & Accessories, MotorClothes®, etc. from Harley-Davidson
- H-D eCommerce Program when launched, H-D Performance Groups, H.O.G. Chapters and any future loyalty programs
- H-D Dealer Digital Program (with Shift Digital or other H-D approved provider), H-D authorized online selling initiatives and/or platforms as developed by H-D or any of its affiliates from time to time, and electrification initiatives (where applicable) of H-D and/or its Affiliates

Thus, HDC will give strong preference to any Owner/Dealer Group proposing to acquire another dealership that actively participates in and fully supports any and all Harley-Davidson products, programs, and services. Conversely, any Owner/Dealer Group that does not support Harley-Davidson products, programs, and services and/or supports those of a competing supplier or product provider will not be considered favorably for future dealership purchases. HDC has the right to deny any proposed transfer if the purchaser acts in a manner deemed harmful or potentially harmful to HDC or any of its affiliates.

## **VIII. Multiple Dealership Acquisitions**

Acquiring more than one Harley-Davidson dealership at a time requires significant financial and management resources. HDC will place considerable scrutiny on a transaction involving multiple dealerships and will generally disapprove any proposed transaction that does not meet all requirements of this Policy specific to each dealership. We reserve the right to impose additional terms and conditions based on the specific circumstances of a proposed transaction.

## **IX. Succession & Estate Planning**

### Overview

It is imperative for any business to have a comprehensive succession plan. Whether a small family business or a larger company encompassing many businesses, succession planning provides for the continued success of any business through a succession event. This is no different for a Harley-Davidson dealership. Because of this, HDC requires that all Dealers employ succession and estate planning to ensure a smooth and orderly transition of their dealership assets and management responsibility. If an individual is the majority Owner of a Dealer (or Dealers), the Owner must provide a written plan designating his or her

successor for each owned Dealer, which must be approved by HDC. This plan will be reviewed annually by HDMC. For a Dealer Group, including a private equity firm or public company group, any changes to the principal Owners or the Dealer Operator must be reported to HDC, and we must approve any current changes or proposed future changes to the management structure of any owned Dealer, including any change to the designated Dealer Operator for a Dealer. The succession planning for a Dealer Group will also be reviewed and approved annually by HDC. Any failure by an Owner/Dealer Group to have an approved succession plan on file with HDC for each owned dealership may impact that Owner/Dealer Group's support and/or approval from HDC to acquire another Harley-Davidson dealership.

By having an approved Successor on file with HDC, a Dealer Operator will have some assurance that ownership and control of the dealership will remain with their intended Successor or beneficiary, including a Family Member. **However, upon a triggering event (e.g., death, incapacity, or retirement of the Dealer Operator), the Successor must still meet the Owner and Dealer Operator requirements and any other applicable requirements in this Policy at the time of succession in order to be approved by HDC as the Owner/Dealer Operator.**

Therefore, a Dealer Operator must have a succession plan in place that designates an individual, i.e., the Successor, who will assume the Dealer Operator duties in the event of death, incapacity, or eventual retirement of the Dealer Operator. In conjunction with a succession plan, a Dealer Operator should also have an estate plan in place, which will outline a plan to transfer the ownership interest in the dealership to affect the succession plan. In other words, the estate plan will provide the vehicle or process to legally transfer ownership interest in a dealership upon the Dealer Operator's death and may consist of a power of attorney, will(s), Trust, partnership, company, shareholder agreement, or similar legal arrangement.

The type of estate plan appropriate for each Dealer Operator or any Owner will depend upon the individual's financial and family circumstances.

**We strongly recommend that a dealer seek legal advice when setting up and implementing its succession and estate plans.**

#### Successor Nomination Form

- A. Every Dealer Operator is required to complete a Successor Nomination Form with HDC that will memorialize the Dealer Operator's Successor designation.
- B. This Form demonstrates how the dealership will remain in compliance with this Policy in the event of the Dealer Operator's death, termination of employment, retirement, or permanent material incapacity (i.e., any condition preventing the Dealer Operator from fulfilling his/her duties or obligations).
- C. The nominated Successor, if not a current Owner, must complete and submit a Successor Nominee Application; meet the requirements of Subsections A, B, C, D, E, H, and J under the Owner Requirements in Section IV of this Policy; and provide any additional information requested by HDC in order to be approved as the Successor. Further, at the time the



Successor applies to become an Owner and/or the Dealer Operator, the Successor must meet all of the requirements of this Policy.

- D. A Dealer Operator may cancel an executed Successor Nomination Form with HDC in accordance with the Dealer Contract and complete a new Form nominating a different Successor by following the above steps Section IV (A-C).

#### Additional Estate Plan Requirements

- E. Any transfer of an ownership interest in a dealership, whether during a Dealer Operator's or an Owner's lifetime or upon death, including transfers to another individual(s), into a Trust (see definition in Section II), partnership, corporation, or other entity, constitutes a change of ownership under the Dealer Contract. **Under the Dealer Contract, no change of ownership can occur without HDC's prior written approval.**
- F. The estate plan must permit the dealership to comply with the requirements set forth in the Dealer Contract and this Policy.
- G. Vesting and distributions of ownership interests in the dealership from an Owner's estate or from a Trust (whether inter vivos or testamentary), or as a result of any reorganization transaction or transactions, may only be made to individuals who qualify as Owners under this Policy. If an individual does not meet those requirements at the time of the proposed distribution, HDC will not approve the transfer.

#### Trust-Specific Requirements

- H. **All Trust agreements** (see definition in Section II) **must be reviewed and approved by HDC prior to any transfer of ownership interest in the dealership to the Trust or prior to the Trust acquiring any interest in the dealership.**
- I. If an ownership interest in a dealership is transferred to a Trust, the trustee and the current income beneficiaries must at all times qualify as an Owner and, if applicable, Dealer Operator as set forth in this Policy. If at any time a Trust, or any beneficiaries or trustees thereof, no longer comply with this Policy or the Dealer Contract, the Trust must either distribute the ownership interest outright to a beneficiary or beneficiaries that do qualify or sell the ownership interest within 12 months to a person who qualifies as an Owner or Dealer Operator, as applicable.
- J. The estate plan may not distribute an ownership interest in the dealership to a charitable trust, foundation, or other charitable entity unless the plan requires the charitable trust, foundation or entity to sell the ownership interest within **12 months** of the date of distribution to a person who qualifies as an Owner and Dealer Operator, where applicable, pursuant to this Policy. In addition, the plan must require the appointment of an Interim Dealer Operator to manage the dealership until it is sold, who must be approved in advance by HDC and comply with Section IV-C.
- K. Upon the death of the Dealer Operator, all ownership interests in the dealership held by a Trust must either be: (1) distributed outright to individuals who comply with the requirements set forth in this Policy; or (2) continue to be held in a Trust where the trustee and all beneficiaries comply with the requirements set forth in this Policy.

- L. If a Trust holds a majority of the ownership and/or voting interests in the dealership:
  - (1) There must be one individual who is the designated as the sole trustee or who is designated as the “Special Trustee” over the dealership assets or ownership, and
  - (2) the Trust agreement may not name an institution (e.g., bank) as a trustee; we will not approve an institutional trustee as the Dealer Operator.
- M. If a Trust holds an ownership interest in a dealership, the trustee(s) of such Trust must execute a trust guaranty for the benefit of HDFSC.

#### **X. “NOT IN GOOD STANDING” (NGS) STATUS WITH HDC**

Any willful violation of this Policy, including the submittal to HDC for approval of any fully executed agreement(s) that will place the proposed buyer in violation of this Policy, will result in the individual Owner or Dealer Group (applicable to all currently owned dealership locations) being placed on “Not in Good Standing” (NGS) status with HDC for a specified period of time, generally for a period of 12 months, as determined by HDC. The consequences of NGS status are defined in HDMC’s NGS Policy, which may be modified or updated by HDC from time to time.