Winnebago (WGO)

$61.27 (As of 02/21/20)

Price Target (6-12 Months): **$65.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/24/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: B | Growth: A | Momentum: F	

Summary

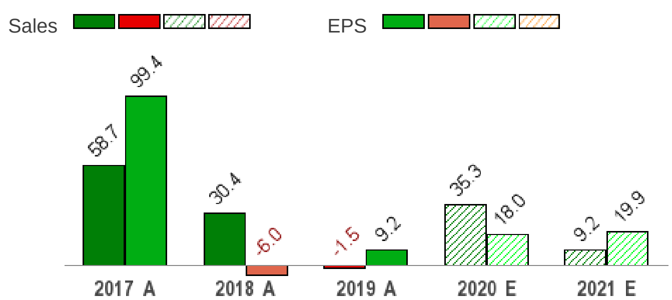
Winnebago has outperformed the industry over the past year. The recreational vehicle maker is riding on the strength of its acquisitions, including Grand Design and Chris-Craft. It also inked a deal with Newmar Corporation, which will add high-end motorized products to the existing Winnebago brand line-up. Its rising free cash flow and strengthening balance sheet enables it to consistently enhance shareholder value and outperform the marketplace. However, with continued industry headwinds in Class A and Class C products, the company's motorized business is putting pressure on sales and earnings. Rising input costs are also likely to affect the firm. Further, the difference between the resold vehicle price and repurchase cost escalates Winnebago's expenses. As such, the stock warrants a cautious stance at the moment.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$63.45 - $28.16**
20 Day Average Volume (sh)	**514,733**
Market Cap	**$1.9 B**
YTD Price Change	**15.7%**
Beta	**1.60**
Dividend / Div Yld	**$0.44 / 0.7%**
Industry	**Building Products - Mobile Homes and RV Builders**
Zacks Industry Rank	**Bottom 18% (208 out of 255)**
Last EPS Surprise	**4.3%**
Last Sales Surprise	**10.9%**
EPS F1 Est- 4 week change	**-0.1%**
Expected Report Date	**03/23/2020**
Earnings ESP	**-6.9%**
P/E TTM	**17.6**
P/E F1	**15.1**
PEG F1	**0.7**
P/S TTM	**0.9**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	732 E	634 E	782 E	781 E	2,935 E
2020	588 A	609 E	746 E	745 E	2,688 E
2019	494 A	433 A	529 A	530 A	1,986 A

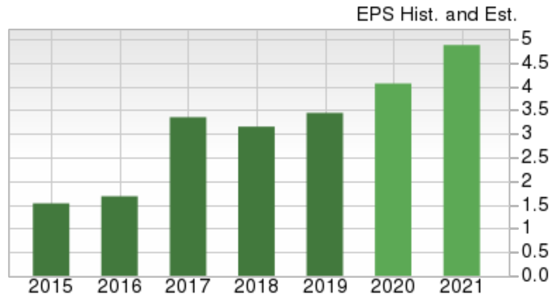
EPS Estimates

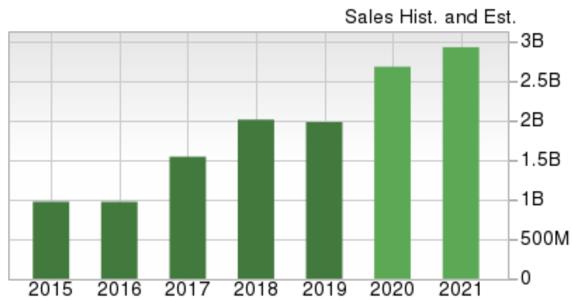
	Q1	Q2	Q3	Q4	Annual*
2021	$1.00 E	$0.95 E	$1.41 E	$1.48 E	$4.87 E
2020	$0.73 A	$0.70 A	$1.29 E	$1.34 E	$4.06 E
2019	$0.70 A	$0.60 A	$1.14 A	$1.01 A	$3.44 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/21/2020. The reports text is as of 02/24/2020.

Overview





Winnebago Industries, Inc. is a leading producer of recreational vehicles (RV) in the United States. It has been manufacturing RVs for around 60 years. The motorhomes or RVs are made in the company's vertically integrated manufacturing facilities in Iowa, while the travel trailer and fifth wheel trailers are produced in Indiana. The company distributes its products through independent dealers throughout the United States and Canada.

On November 8, 2016, Winnebago acquired all of the issued and outstanding capital stock of towable RV manufacturer Grand Design for $520.5 million to expand the existing towable RV product offerings and dealer base and acquire additional talent in the RV industry.

With the acquisition of Grand Design, the company expanded the number of reporting segments to two: (1) Motorized products (constituting 60.3% of overall revenues in 2019) and services and, (2) Towable products and services (constituting 35.6% of overall revenues in 2019). The Motorized segment comprises of all products that include a motorized chassis as well as other related manufactured products. The Towable segment includes all products that are not motorized and are generally towed by another vehicle.

In fourth-quarter 2018, following the Chris-Craft deal, the company created a new Corporate / All Other category.

In fact, in June 2018, Winnebago has announced of acquiring pleasure-boat maker Chris-Craft from the London-based private equity firm Stellican Ltd. for an unspecified amount. This acquisition is in sync with Winnebago's strategy to diversify its portfolio in the outdoor lifestyle market. It also provides the company with a strong base for additional revenue generation.

Notably, Chris-Craft is a top brand with similarities to Winnebago. The companies offer customers with highest-quality products and services. Winnebago's solid brand, high-quality product line and strong position in the marine market make Chris-Craft a lucrative addition to its portfolio.

Reasons To Buy:

Winnebago has been riding on the strength of its acquisitions, including Grand Design and Chris-Craft.

- Winnebago has been riding on the strength of its acquisitions. The company's notable buyouts include Grand Design and Chris-Craft in 2016 and 2018, respectively. These acquisitions bolstered the firm's footprint and diversified portfolio in the outdoor lifestyle market. Notably, the Grand Design acquisition expanded the existing towable RV product offerings of Winnebago. The company's towable segment is gaining from high revenues and margins. Further, the Chris-Craft takeover, which enabled it to enter into the marine segment, is aiding the company's top-line growth. The prospects of the luxury boat business — Chris-Craft —looks promising, as Winnebago will undertake product expansion initiatives going forward.

- In a bid to further boost its portfolio, Winnebago recently inked a deal with Newmar Corporation, which will add high-end motorized products to the existing Winnebago brand line-up. The deal is likely to be immediately accretive to Winnebago's free cash flow and fiscal 2020 EPS, and result in cost savings of at least $5 million annually for a period of three years.

- Winnebago's increasing free cash flow and strengthening balance sheet enables it to consistently enhance shareholder value and outperform the marketplace. In fiscal 2019, the company generated operating cash flow of $133.8 million, up 61% over prior year.

- The RV industry surely holds promise, as millennials are more inclined to spend on experiences that these vehicles can deliver. If the economy stays strong and continues to grow, RV sales will likely get a boost, thereby enhancing Winnebago's performance. The firm has a manageable leverage ratio of 36.4%, lower than the broader industry's 41.04%, which gives it financial flexibility and allows it to tap on growth opportunities.

Reasons To Sell:

Headwinds like rising input costs and sluggish demand may impact the near-term performance of Winnebago.

- The recreational vehicle industry is influenced by many strong macroeconomic factors and is extremely sensitive to overall strength of the economy. The industry has started to show signs of a slowdown. According to the RV Industry Association, RV shipments are expected to witness drop of 3.9% y/y in 2020. It forecasts wholesale shipments to come in at 386,400 units in 2020, representing 3.9% decline year over year. Towable RVs and motorhome shipments are forecast to decline 3.15% and 27.06%, respectively.
- Rising input costs are also likely to affect the firm. RV components are likely to get impacted by tariffs woes in China, which would significantly raise prices for manufacturers like Winnebago. The price increase would likely be passed on to consumers, in turn lowering demand.
- Winnebago signs formal repurchase agreements with leading financial institutions, which help dealers to purchase products. Under such agreements, the company provides a guarantee that it will repurchase vehicles at a reduced price in case of any default by the dealer. However, the difference between the resold vehicle price and repurchase cost escalates Winnebago's expenses.
- The recreational vehicle industry is facing challenges as dealers are reducing overall inventory levels. With continued industry headwinds in Class A and Class C products, the company's motorized business is putting pressure on sales and earnings.

Last Earnings Report

Winnebago Earnings Beat Estimates in Q1, Revenues Up Y/Y

Quarter Ending	11/2019
Report Date	**Dec 20, 2019**
Sales Surprise	**10.94%**
EPS Surprise	**4.29%**
Quarterly EPS	**0.73**
Annual EPS (TTM)	**3.48**

Winnebago reported earnings of 73 cents per share in the first quarter of fiscal 2020, beating the Zacks Consensus Estimate of 70 cents. Notably, higher-than-expected revenues across all segments resulted in the outperformance. Sales in the Motorhome and Towable segments came in at $225.9 million and $341.3 million, beating the consensus mark of $185 million and $271 million, respectively. The bottom line also compared favourably with 70 cents a share recorded in the year-ago quarter.

Revenues in the reported quarter increased 19.2% year over year to $588.5 million. The revenue figure beat the Zacks Consensus Estimate of $530 million.

Nonetheless, higher year-on-year operating expenses resulted in the operating income to slip 26.7% to $23.9 million in the quarter. Total operating expenses flared up 42.8% year over year to $54.7 million in the fiscal first quarter.

Segment Results

Revenues in the Motorhome segment were up 24.6% year over year to $225.9 million, mainly aided by strength in the Class B line-up and the addition of Newmar revenues in the quarter. Adjusted EBITDA declined 22.1% year over year to $9.3 million, due to an unfavorable volume mix and higher SG&A expenses.

Revenues in the Towable segment improved 16.5% year over year to $341.3 million. This upside was driven by robust unit growth in the Grand Design RV product line. Adjusted EBITDA was $35.8 million, up 16.1%from the prior-year quarter.

Financial Position

Winnebago had cash and cash equivalents of $101.3 million as of Nov 30, 2019, compared with $37.4 million as of Aug 31, 2019. As of Nov 30, 2019, the company had long-term debt of $450.8 million, representing debt to capital ratio of 36.4%

For first-quarter fiscal 2020, the company's cash flow from operations was $79 million, marking a rise of 45.9% year over year.

Dividend Payment

Winnebago's board approved a dividend payment of 11 cents per share for the fiscal first quarter. The amount will be payable Jan 29, 2020, to shareholders of record as of Jan 15, 2020.

Valuation

Winnebago’ shares are up 15.9% in the year-to-date period and up 82.1% in the trailing 12-month period. Stocks in the Zacks Building Products - Mobile Homes and RV Builders industry and the Zacks Auto sector are up 11.3% and up 3.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 44.1% and 25.6%, respectively.

The S&P 500 index is up 3.9% in the year-to-date period and up 21.1% in the past year.

The stock is currently trading at 13.76X forward 12-month earnings, which compares to 17.08X for the Zacks sub-industry, 16.3X for the Zacks sector and 19.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.36X and as low as 5.44X, with a 5-year median of 11.66X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $65 price target reflects 14.6X forward 12-month earnings per share.

The table below shows summary valuation data for WGO:

Valuation Multiples - WGO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.76	17.08	16.3	19.09
	5-Year High	19.36	17.08	18.86	19.34
	5-Year Low	5.44	9.95	10.71	15.18
	5-Year Median	11.66	13.38	16	17.47
P/S F12M	Current	0.69	0.71	1.97	3.51
	5-Year High	1.02	0.71	2.23	3.51
	5-Year Low	0.3	0.45	1.25	2.54
	5-Year Median	0.58	0.55	1.65	3
EV/EBITDA TTM	Current	12.95	12.06	19.81	12.31
	5-Year High	17.05	12.06	22.93	12.85
	5-Year Low	5.01	3.64	14.63	8.47
	5-Year Median	8.26	8.17	19.36	10.72

As of 02/21/2020

Industry Analysis **Zacks Industry Rank:** Bottom 18% (208 out of 255)

Top Peers

LCI Industries **(LCII)**	Outperform
General Motors Company **(GM)**	Neutral
Honda Motor Co., Ltd. **(HMC)**	Neutral
Horizon Global Corporation **(HZN)**	Neutral
Skyline Corporation **(SKY)**	Neutral
Thor Industries, Inc. **(THO)**	Neutral
Toyota Motor Corporation **(TM)**	Neutral
Ford Motor Company **(F)**	Underperform

Industry Comparison Industry: Building Products - Mobile Homes And Rv Builders

Industry Peers

	WGO Neutral	X Industry	S&P 500	GM Neutral	LCII Outperform	THO Neutral
VGM Score	B	-	-	C	B	D
Market Cap	1.94 B	1.94 B	24.03 B	49.51 B	2.82 B	4.75 B
# of Analysts	5	5	13	7	3	4
Dividend Yield	0.72%	0.00%	1.76%	4.39%	2.31%	1.86%
Value Score	B	-	-	A	D	C
Cash/Price	0.05	0.11	0.04	0.47	0.01	0.06
EV/EBITDA	12.76	12.76	14.08	4.38	12.61	15.34
PEG Ratio	0.66	2.60	2.08	0.53	1.00	2.60
Price/Book (P/B)	2.47	2.47	3.29	1.08	3.52	2.23
Price/Cash Flow (P/CF)	14.43	14.43	13.42	2.34	12.70	10.89
P/E (F1)	14.49	15.97	19.00	5.76	15.96	15.97
Price/Sales (P/S)	0.93	1.18	2.64	0.36	1.19	0.57
Earnings Yield	6.63%	6.27%	5.26%	17.37%	6.26%	6.27%
Debt/Equity	0.61	0.08	0.70	1.43	0.87	0.84
Cash Flow ($/share)	4.25	4.25	7.03	14.84	8.86	7.89
Growth Score	A	-	-	D	A	D
Hist. EPS Growth (3-5 yrs)	24.27%	28.51%	10.84%	6.93%	16.98%	13.71%
Proj. EPS Growth (F1/F0)	18.08%	21.62%	7.09%	24.90%	20.78%	3.96%
Curr. Cash Flow Growth	10.40%	22.35%	6.72%	-8.62%	2.39%	-20.46%
Hist. Cash Flow Growth (3-5 yrs)	22.31%	29.36%	8.25%	9.37%	17.98%	16.64%
Current Ratio	2.20	2.20	1.22	0.88	2.47	1.38
Debt/Capital	37.87%	7.73%	42.37%	58.92%	46.39%	45.58%
Net Margin	4.98%	4.98%	11.56%	4.91%	6.18%	2.06%
Return on Equity	17.07%	15.89%	16.80%	15.19%	19.20%	15.72%
Sales/Assets	1.73	1.66	0.55	0.59	1.59	1.66
Proj. Sales Growth (F1/F0)	35.39%	2.41%	3.90%	6.57%	15.64%	11.63%
Momentum Score	F	-	-	F	F	B
Daily Price Chg	-2.08%	-0.03%	-0.83%	-1.81%	-2.52%	-2.40%
1 Week Price Chg	4.58%	0.47%	1.65%	3.36%	0.87%	6.68%
4 Week Price Chg	7.59%	0.95%	-0.37%	-0.66%	-0.52%	3.04%
12 Week Price Chg	26.83%	12.99%	3.74%	-4.12%	4.89%	32.28%
52 Week Price Chg	85.50%	24.18%	14.14%	-12.54%	35.76%	24.18%
20 Day Average Volume	514,733	52,451	1,992,841	11,219,894	106,681	618,425
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.07%	-0.07%	-0.02%	-2.02%	8.85%	1.22%
(F1) EPS Est 12 week change	-11.21%	-0.78%	-0.17%	-3.72%	8.85%	5.88%
(Q1) EPS Est Mthly Chg	-1.69%	-1.69%	-0.48%	NA	2.12%	3.04%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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