

Winnebago (WGO)

\$31.07 (As of 03/26/20)

Price Target (6-12 Months): **\$33.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/24/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: B

Summary

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 lineup. Its rising free cash flow and strengthening balance sheet enables it to consistently enhance shareholder value and outperform the marketplace. However, the company being extremely consumer cyclic, is likely to bear the brunt of declining sales and earnings due to the coronavirus pandemic. 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.

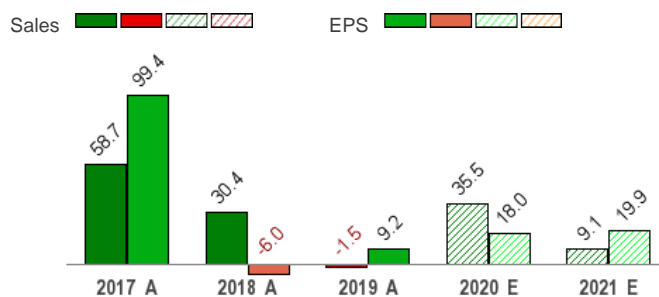
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$63.45 - \$16.94
20 Day Average Volume (sh)	1,065,848
Market Cap	\$984.5 M
YTD Price Change	-41.4%
Beta	1.47
Dividend / Div Yld	\$0.44 / 1.4%
Industry	Building Products - Mobile Homes and RV Builders
Zacks Industry Rank	Top 38% (97 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.3%
Last Sales Surprise	2.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	06/17/2020
Earnings ESP	9.7%
P/E TTM	8.8
P/E F1	7.7
PEG F1	0.4
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	731 E	644 E	767 E	789 E	2,937 E
2020	588 A	627 A	740 E	752 E	2,691 E
2019	494 A	433 A	529 A	530 A	1,986 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.01 E	\$0.97 E	\$1.38 E	\$1.48 E	\$4.87 E
2020	\$0.73 A	\$0.67 A	\$1.28 E	\$1.35 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 03/26/2020. The reports text is as of 03/27/2020.

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.

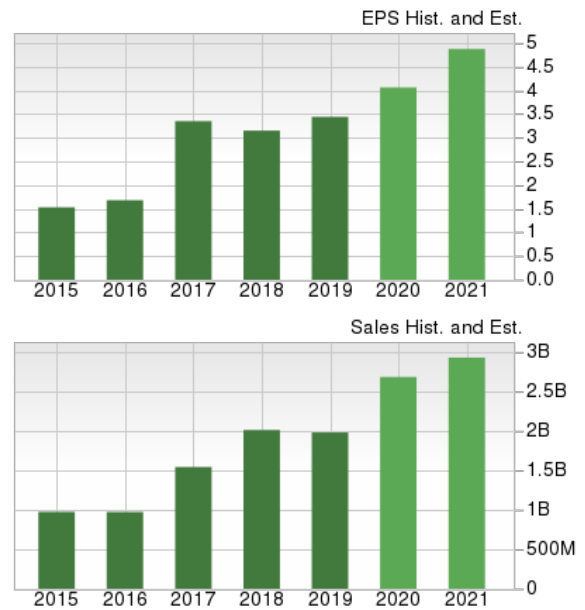
On November 8, 2016, Winnebago acquired all of the issued and outstanding capital stock of towable RV manufacturer Grand Design for \$520.5 million to expand the existing towable RV product offerings and dealer base and acquire additional talent in the RV industry.

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. 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 firm has a manageable leverage ratio of 36%, which gives it financial flexibility and allows it to tap on growth opportunities.

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

Reasons To Sell:

- ▼ 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. The coronavirus epidemic has prompted the firm to temporarily suspend its production. Weak consumer sentiment amid COVID-19 pandemic is likely to hurt the firm's sales and earnings in the near future.
- ▼ 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.

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

Last Earnings Report

Winnebago Delivers Higher Y/Y Earnings & Revenues in Q2

Winnebago reported earnings of 67 cents per share in second-quarter fiscal 2020, missing the Zacks Consensus Estimate of 70 cents. High SG&A costs and lower-than-expected deliveries of motorhomes and fifth-wheel towable can be attributed to the underperformance. Nonetheless, the bottom line compared favorably with 61 cents a share recorded in the year-ago quarter. Impressive lineup of high-quality innovative products and the strategic acquisitions of Newmar and Grand Design enabled the company to deliver improved year-over-year results.

Revenues in the reported quarter increased 44.8% year over year to \$626.8 million. The revenue figure also beat the Zacks Consensus Estimate of \$610 million. While the company recorded higher year-over-year operating expenses, operating income increased to \$29.6 million from the year-ago figure of \$28.9 million due to the uptick in revenues.

Segment Results

Revenues in the Motorhome segment were up 97.7% year over year to \$325.5 million, mainly aided by strength in the Class B line-up and the addition of Newmar revenues in the quarter. Adjusted EBITDA skyrocketed 243% year over year to \$15 million.

Revenues in the Towable segment improved 13% year over year to \$283.5 million. This upside was driven by robust unit growth in the Grand Design RV product line. Adjusted EBITDA was \$34.7 million, up 3.3% from the prior-year quarter.

Financials & Dividend

Winnebago had cash and cash equivalents of \$122.9 million as of Feb 29, 2020 compared with \$37.4 million on Aug 31, 2019. Long-term debt totaled \$451.1 million, representing a debt-to-capital ratio of 36%

Quarter Ending 02/2020

Report Date	Mar 25, 2020
Sales Surprise	2.71%
EPS Surprise	-4.29%
Quarterly EPS	0.67
Annual EPS (TTM)	3.55

Valuation

Winnebago' shares are down 41.4% in the year-to-date period and up 0.4% 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 42.3% and 22.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 16.9% and 13.7%, respectively.

The S&P 500 index is down 23.1% in the year-to-date period and 12.8% in the past year.

The stock is currently trading at 6.87X forward 12-month earnings, which compares to 9.64X for the Zacks sub-industry, 9.8X for the Zacks sector and 14.92X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.36X and as low as 4.57X, with a 5-year median of 11.62X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$33 price target reflects 7.3X 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	6.87	9.64	9.8	14.92
	5-Year High	19.36	16.23	11.75	19.34
	5-Year Low	4.57	9.64	8.23	14.92
	5-Year Median	11.62	13.38	9.88	17.42
EV/EBITDA TTM	Current	7.32	7.15	8.81	9.16
	5-Year High	17.69	12.26	11.34	12.88
	5-Year Low	4.89	3.6	6.97	8.27
	5-Year Median	8.23	8.17	9.3	10.78
P/S F12M	Current	0.35	0.37	0.52	2.68
	5-Year High	1.02	0.71	0.76	3.43
	5-Year Low	0.23	0.37	0.5	2.54
	5-Year Median	0.57	0.55	0.62	3

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 38% (97 out of 253)



Top Peers

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

Industry Comparison Industry: Building Products - Mobile Homes And Rv Builders				Industry Peers		
	WGO Neutral	X Industry	S&P 500	GM Underperform	LCII Neutral	THO Neutral
VGM Score	A	-	-	D	A	A
Market Cap	984.45 M	984.45 M	18.50 B	32.24 B	1.74 B	2.53 B
# of Analysts	5	5	13	6	3	5
Dividend Yield	1.42%	0.00%	2.35%	6.74%	3.75%	3.49%
Value Score	A	-	-	A	C	A
Cash/Price	0.14	0.21	0.07	0.90	0.02	0.12
EV/EBITDA	7.49	7.49	11.16	3.56	8.69	9.89
PEG Ratio	0.32	6.38	1.74	0.60	NA	6.38
Price/Book (P/B)	1.23	1.38	2.44	0.70	2.17	1.19
Price/Cash Flow (P/CF)	7.32	7.80	9.87	1.52	7.82	5.81
P/E (F1)	7.10	9.44	15.29	5.90	11.27	9.44
Price/Sales (P/S)	0.43	0.68	1.93	0.23	0.73	0.28
Earnings Yield	13.07%	10.59%	6.47%	16.93%	8.87%	10.59%
Debt/Equity	0.60	0.08	0.70	1.43	0.87	0.82
Cash Flow (\$/share)	4.25	4.25	7.01	14.84	8.86	7.89
Growth Score	A	-	-	F	A	B
Hist. EPS Growth (3-5 yrs)	24.27%	28.51%	10.85%	6.93%	16.98%	10.27%
Proj. EPS Growth (F1/F0)	18.08%	21.62%	2.89%	-20.71%	5.36%	-6.14%
Curr. Cash Flow Growth	10.40%	22.35%	5.93%	-8.62%	2.39%	-20.46%
Hist. Cash Flow Growth (3-5 yrs)	22.31%	29.36%	8.55%	9.37%	17.98%	16.64%
Current Ratio	2.25	2.25	1.23	0.88	2.47	1.38
Debt/Capital	37.41%	7.73%	42.57%	58.92%	46.39%	45.14%
Net Margin	4.37%	4.39%	11.64%	4.91%	6.18%	2.28%
Return on Equity	16.18%	15.89%	16.74%	15.19%	19.20%	15.42%
Sales/Assets	1.71	1.57	0.54	0.59	1.59	1.57
Proj. Sales Growth (F1/F0)	35.52%	2.41%	2.37%	-1.37%	8.28%	11.73%
Momentum Score	B	-	-	F	C	C
Daily Price Chg	6.44%	5.68%	6.21%	4.98%	3.22%	10.77%
1 Week Price Chg	-30.92%	-23.09%	-16.96%	-26.59%	-29.80%	-27.83%
4 Week Price Chg	-41.85%	-28.60%	-15.70%	-26.54%	-29.90%	-39.26%
12 Week Price Chg	-41.16%	-20.42%	-23.67%	-39.65%	-35.59%	-37.87%
52 Week Price Chg	0.42%	-11.48%	-13.99%	-39.13%	-10.37%	-26.44%
20 Day Average Volume	1,065,848	79,966	4,286,768	22,868,832	222,470	1,518,448
(F1) EPS Est 1 week change	0.00%	0.00%	-0.15%	-11.94%	-12.76%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-2.28%	-36.52%	-12.76%	0.29%
(F1) EPS Est 12 week change	-0.07%	-0.07%	-3.22%	-38.88%	-5.04%	1.51%
(Q1) EPS Est Mthly Chg	-0.93%	-0.93%	-1.60%	-79.34%	0.42%	-30.64%

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	A
Growth Score	A
Momentum Score	B
VGM Score	A

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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