

Winnebago (WGO)

\$43.47 (As of 04/28/20)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/02/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: A

Momentum: F

Summary

Winnebago, being extremely consumer cyclic, is likely to bear the brunt of declining sales and earnings due to the coronavirus pandemic. The pandemic has impacted Winnebago's customers in the United States and Canada, leading to temporary plant closures, change in processes and cut in production levels, in line with the nationwide campaign addressing the crisis. The recreational vehicle (RV) industry, which is influenced by many strong macroeconomic factors and is extremely sensitive to overall strength of the economy, is slowing down. The company also faces headwinds from rising input costs. RV components are likely to get impacted by tariffs woes in China, which would significantly raise prices for manufacturers like Winnebago. Further, the difference between the resold vehicle price and repurchase cost escalates Winnebago's expenses.

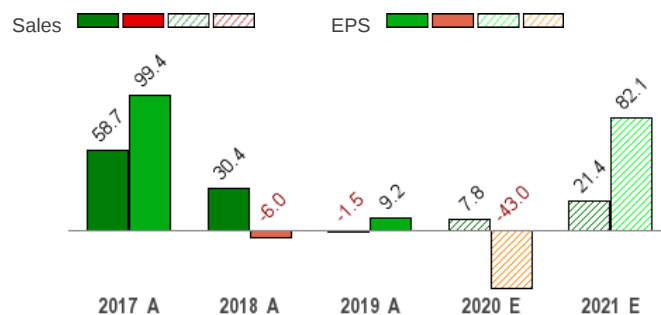
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$63.45 - \$16.94
20 Day Average Volume (sh)	809,956
Market Cap	\$1.5 B
YTD Price Change	-18.0%
Beta	1.87
Dividend / Div Yld	\$0.44 / 1.0%
Industry	Building Products - Mobile Homes and RV Builders
Zacks Industry Rank	Bottom 1% (251 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	-10.5%
Expected Report Date	06/17/2020
Earnings ESP	-19.6%
P/E TTM	12.2
P/E F1	22.2
PEG F1	1.0
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	648 E	633 E	637 E	676 E	2,599 E
2020	588 A	627 A	360 E	566 E	2,141 E
2019	494 A	433 A	529 A	530 A	1,986 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.68 E	\$0.71 E	\$1.03 E	\$1.07 E	\$3.57 E
2020	\$0.73 A	\$0.67 A	-\$0.09 E	\$0.67 E	\$1.96 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 04/28/2020. The reports text is as of 04/29/2020.

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.

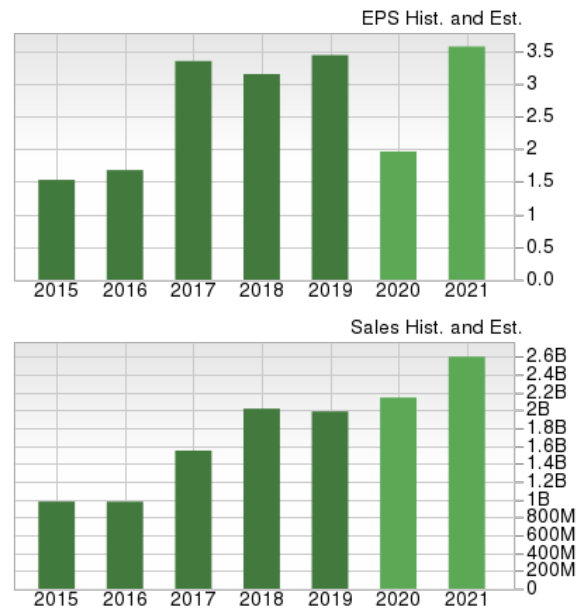
On November 8, 2016, Winnebago acquired all of the issued and outstanding capital stock of towable RV manufacturer Grand Design for \$520.5 million to expand the existing towable RV product offerings and dealer base and acquire additional talent in the RV industry.

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 Sell:

- ▼ The coronavirus pandemic has crippled the auto industry, and will lead to decline in sales and production, hurting the automotive manufacturer. It has affected Winnebago's customers in the United States and Canada, leading to temporary plant closures, change in processes and cut in production levels, in line with the nationwide campaign addressing the crisis. Weak consumer sentiment amid the pandemic is likely to hurt the firm's sales and earnings in the near future.
- ▼ 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.
- ▼ 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.

Risks

- 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. Its total debt-to-capital ratio stands at 0.38, lower than its industry's 0.4. This favorable reading indicates that the firm is not a very leveraged company. Moreover, the company's times interest earned ratio of 0.06 is also favorable to the industry ratio of 0.04.
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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

Recent News

Winnebago Industries Suspends Production on Coronavirus Scare - Mar 23, 2020

Winnebago Industries announced that it is temporarily suspending most production activities at the company's Winnebago, Grand Design RV, Newmar, and Chris-Craft facilities to prevent the spread of coronavirus. Each of the company's businesses will suspend production from Mar 23-Apr 12, 2020.

Valuation

Winnebago' shares are down 18% in the year-to-date period and down 22.9% in the trailing 12-month period. Stocks in the Zacks Building Products - Mobile Homes and RV Builders industry and the Zacks Auto sector are down 18.8% and 10.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 7.3% and 4.4%, respectively.

The S&P 500 index is down 10.8% in the year-to-date period and down 2.7% in the past year.

The stock is currently trading at 14.37X forward 12-month earnings, which compares to 20.52X for the Zacks sub-industry, 16.77X for the Zacks sector and 20.2X 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 11.56X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$37 price target reflects 12.25X 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	14.37	20.52	16.77	20.2
	5-Year High	19.36	20.52	16.77	20.2
	5-Year Low	4.57	9.95	8.23	15.19
	5-Year Median	11.56	13.44	9.93	17.45
EV/EBITDA TTM	Current	9.37	8.88	9.38	10.52
	5-Year High	17.69	12.26	11.34	12.87
	5-Year Low	4.89	3.6	6.97	8.27
	5-Year Median	8.17	8.04	9.26	10.78
P/S F12M	Current	0.6	0.56	0.65	3.22
	5-Year High	1.02	0.71	0.76	3.44
	5-Year Low	0.23	0.38	0.5	2.54
	5-Year Median	0.57	0.55	0.62	3.01

As of 04/28/2020

Industry Analysis Zacks Industry Rank: Bottom 1% (251 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ford Motor Company (F)	Neutral	3
LCI Industries (LCII)	Neutral	4
Thor Industries, Inc. (THO)	Neutral	4
Toyota Motor Corporation (TM)	Neutral	4
General Motors Company (GM)	Underperform	5
Honda Motor Co., Ltd. (HMC)	Underperform	5
Horizon Global Corporation (HZN)	Underperform	4
Skyline Corporation (SKY)	Underperform	5

Industry Comparison Industry: Building Products - Mobile Homes And Rv Builders				Industry Peers		
	WGO	X Industry	S&P 500	GM	LCII	THO
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	5	4	4
VGM Score	B	-	-	D	A	B
Market Cap	1.46 B	1.42 B	20.14 B	31.77 B	2.17 B	3.64 B
# of Analysts	5	5	14	6	3	5
Dividend Yield	1.01%	0.00%	2.13%	6.85%	3.02%	2.42%
Value Score	B	-	-	B	C	B
Cash/Price	0.09	0.18	0.06	0.74	0.02	0.08
EV/EBITDA	10.02	10.02	12.15	3.53	10.25	12.62
PEG Ratio	1.05	14.43	2.43	1.26	NA	14.43
Price/Book (P/B)	1.83	1.83	2.68	0.69	2.69	1.72
Price/Cash Flow (P/CF)	10.24	10.24	10.78	1.50	9.72	8.36
P/E (F1)	23.19	22.13	19.06	12.40	14.01	21.36
Price/Sales (P/S)	0.64	0.84	2.12	0.23	0.91	0.41
Earnings Yield	4.51%	4.51%	5.11%	8.07%	7.14%	4.68%
Debt/Equity	0.60	0.08	0.72	1.43	0.87	0.82
Cash Flow (\$/share)	4.25	4.25	7.01	14.84	8.86	7.89
Growth Score	A	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	23.99%	28.37%	10.88%	6.93%	16.98%	10.27%
Proj. EPS Growth (F1/F0)	-42.91%	-31.15%	-6.33%	-62.90%	5.36%	-40.35%
Curr. Cash Flow Growth	10.40%	22.35%	5.92%	-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%	43.90%	58.92%	46.39%	45.14%
Net Margin	4.37%	4.39%	11.13%	4.91%	6.18%	2.28%
Return on Equity	16.18%	15.89%	16.47%	15.19%	19.20%	15.42%
Sales/Assets	1.71	1.57	0.55	0.59	1.59	1.57
Proj. Sales Growth (F1/F0)	7.84%	1.29%	-1.35%	-12.64%	8.28%	2.57%
Momentum Score	F	-	-	C	A	F
Daily Price Chg	4.85%	4.85%	1.10%	-1.20%	0.83%	5.11%
1 Week Price Chg	10.09%	0.00%	-1.74%	-2.36%	6.81%	9.10%
4 Week Price Chg	56.31%	7.53%	11.80%	6.74%	28.97%	56.50%
12 Week Price Chg	-23.83%	-23.83%	-17.28%	-35.47%	-23.08%	-20.51%
52 Week Price Chg	22.90%	0.00%	-10.69%	-43.06%	-1.89%	0.21%
20 Day Average Volume	809,956	67,711	2,660,864	16,059,288	116,146	976,347
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-28.13%	0.00%	0.00%
(F1) EPS Est 4 week change	-10.48%	-35.39%	-6.46%	-47.17%	0.00%	-37.39%
(F1) EPS Est 12 week change	-51.65%	-43.81%	-12.81%	-70.72%	-5.04%	-37.23%
(Q1) EPS Est Mthly Chg	-248.39%	-73.02%	-10.84%	-325.00%	0.00%	-69.21%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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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