

Winnebago (WGO)

\$66.68 (As of 06/29/20)

Price Target (6-12 Months): **\$77.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 06/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: A

Summary

Shares of Winnebago have outperformed the industry over the past year. The firm has been riding on the strength of its acquisitions including Grand Design, Chris-Craft and Newmar. Winnebago's Newmar buyout has added high-end motorized products to the existing brand line-up and is bolstering the firm's revenues. Towable RVs have been gaining popularity globally and is expected to keep growing in the foreseeable future, thereby aiding Winnebago's prospects. In fact, RV vacations have been gaining momentum lately and emerging out as the best social-distance travel option amid the COVID-19 woes. Winnebago recorded robust increase in the backlog in the latest quarter and expects the trend to continue. The firm's low leverage of 38% increases financial flexibility. In view of the tailwinds, Winnebago warrants a bullish stance.

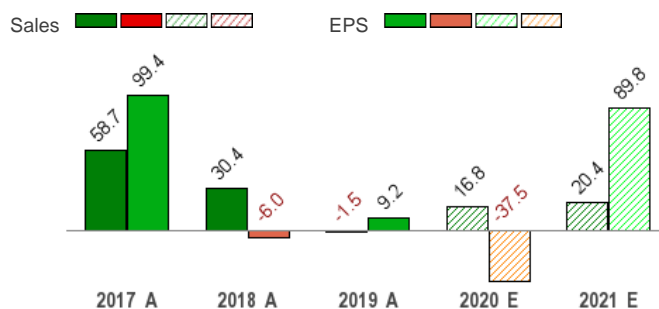
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$72.65 - \$16.94
20 Day Average Volume (sh)	926,934
Market Cap	\$2.2 B
YTD Price Change	25.9%
Beta	2.31
Dividend / Div Yld	\$0.44 / 0.7%
Industry	Building Products - Mobile Homes and RV Builders
Zacks Industry Rank	Top 2% (4 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	36.6%
Last Sales Surprise	23.5%
EPS F1 Est- 4 week change	29.8%
Expected Report Date	10/28/2020
Earnings ESP	-1.7%
P/E TTM	31.0
P/E F1	31.0
PEG F1	1.4
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	723 E	678 E	701 E	735 E	2,793 E
2020	588 A	627 A	402 A	694 E	2,320 E
2019	494 A	433 A	529 A	530 A	1,986 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.90 E	\$0.84 E	\$1.12 E	\$1.25 E	\$4.08 E
2020	\$0.73 A	\$0.67 A	-\$0.26 A	\$1.03 E	\$2.15 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 06/29/2020. The reports text is as of 06/30/2020.

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.

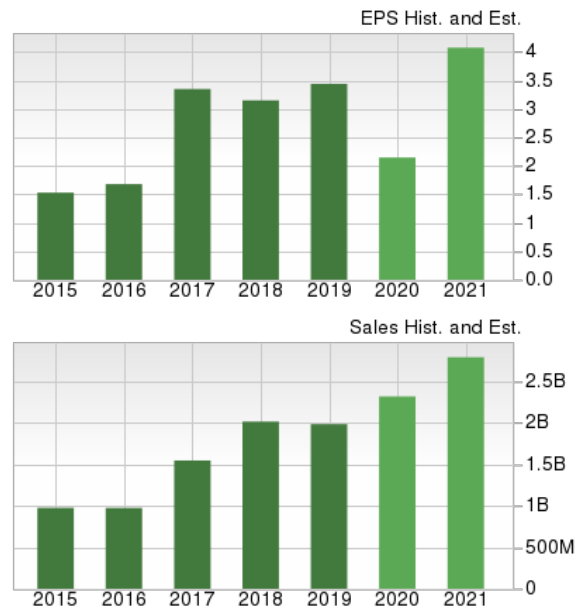
On November 8, 2016, Winnebago acquired all of the issued and outstanding capital stock of towable RV manufacturer Grand Design for \$520.5 million to expand the existing towable RV product offerings and dealer base and acquire additional talent in the RV industry.

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.

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

- ▲ 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 0.41. This favorable reading indicates that the firm is not a very leveraged company. Moreover, the company's times interest earned ratio of 6.23 is also favorable to the industry ratio of 4.03.
 - ▲ Amid coronavirus scare, RVs seem to be the safest travel option as they enable people to enjoy vacations with their families, while still adhering to social distancing. Towable RVs have been gaining popularity globally and is expected to keep growing in the foreseeable future. Winnebago witnessed strong demand rebound in May. The firm recorded robust increase in the backlog in the latest quarter and expects the trend to continue.
-

Risks

- 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.
 - The recreational vehicle industry is influenced by many strong macroeconomic factors and is extremely sensitive to overall strength of the economy. With the economy not in a very good shape and concerns of second coronavirus wave looming large, customers may decide to put discretionary expenses on hold. This may cast a pall over recreational companies like Winnebago.
 - 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.
-

Last Earnings Report

Winnebago Delivers Better-Than-Expected Results in Q3

Winnebago reported a loss of 26 cents per share in third-quarter fiscal 2020, narrower than the Zacks Consensus Estimate of a loss of 41 cents. Higher-than-expected revenues from the Motorhome segment led to the outperformance. However, earnings of \$1.14 a share were recorded in the year-ago quarter. Weak demand and disruptions across dealer network and supply chain due to coronavirus woes impacted the firm.

Precisely, sales from the Motorhome unit came in at \$203.6 million, surpassing the Zacks Consensus Estimate of \$170 million.

Revenues in the reported quarter decreased 24% year over year to \$402.4 million. The top line, however, beat the Zacks Consensus Estimate of \$326 million. The company recorded higher year-over-year operating expenses amid increased amortization costs. The firm incurred operating loss of \$8.1 million against the year-ago income of \$48.9 million.

Segment Results

Revenues in the Towable segment declined 45.5% year over year to \$188.9 million due to manufacturing suspension and lower consumer demand amid the coronavirus pandemic. Adjusted EBITDA plunged 71.2% year over year to \$16.5 million. Backlog increased 86.7% year over year with 13,235 units as of May 30, reflecting a strong rebound in dealer demand in the month.

Revenues in the Motorhome segment improved 27.1% year over year to \$203.6 million driven by the Newmar buyout, partly offset by COVID-19 woes. Excluding the impact of the acquisition, revenues decreased 27.9% from the prior-year period. The segment recorded a negative EBITDA of \$10.8 million. However, the metric narrowed from the year-ago quarter's \$11.2 million negative EBITDA. Backlog increased 99.2% year over year to 4,131 units due to the addition of Newmar and a strong rebound in dealer demand in May.

Financials & Dividend

Winnebago had cash and cash equivalents of \$152.5 million as of May 30, 2020. Long-term debt totaled \$451.3 million, up from \$245.4 million recorded on Aug 31, 2019.

Quarter Ending 05/2020

Report Date	Jun 24, 2020
Sales Surprise	23.48%
EPS Surprise	36.59%
Quarterly EPS	-0.26
Annual EPS (TTM)	2.15

Valuation

Winnebago' shares are up 25.8% in the year-to-date period and up 72.2% over the trailing 12-month period. Stocks in the Zacks Building Products - Mobile Homes and RV Builders industry and the Zacks Auto sector are up 19.3% and 2%, respectively year-to-date. Over the past year, the Zacks sub-industry and sector are up 51% and 13.2%, respectively.

The S&P 500 index is down 5.2% in the year-to-date period and up 3.6% in the past year.

The stock is currently trading at 17.79X forward 12-month earnings, which compares to 29.61X for the Zacks sub-industry, 23.39X for the Zacks sector and 21.54X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.77X and as low as 4.57X, with a 5-year median of 11.58X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$77 price target reflects 20.5X 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	17.79	29.61	23.39	21.54
	5-Year High	20.77	32.49	23.39	22.14
	5-Year Low	4.57	9.95	8.2	15.25
	5-Year Median	11.58	13.44	9.9	17.51
EV/EBITDA TTM	Current	18.2	11.62	10.58	11.14
	5-Year High	18.3	12.44	11.3	12.86
	5-Year Low	4.89	3.6	6.94	8.25
	5-Year Median	8.2	8.04	9.24	10.85
P/S F12M	Current	0.84	0.82	0.74	3.37
	5-Year High	1.02	0.82	0.75	3.44
	5-Year Low	0.23	0.38	0.49	2.53
	5-Year Median	0.58	0.55	0.61	3.02

As of 06/29/2020

Industry Analysis Zacks Industry Rank: Top 2% (4 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ford Motor Company (F)	Neutral	3
General Motors Company (GM)	Neutral	2
Horizon Global Corporation (HZN)	Neutral	4
Skyline Corporation (SKY)	Neutral	3
Thor Industries, Inc. (THO)	Neutral	2
Honda Motor Co., Ltd. (HMC)	Underperform	5
LCI Industries (LCII)	Underperform	5
Toyota Motor Corporation (TM)	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)	Outperform	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	1	-	-	2	5	2
VGM Score	B	-	-	B	A	A
Market Cap	2.25 B	1.80 B	21.46 B	36.21 B	2.86 B	5.91 B
# of Analysts	4	5	14	6	2	5
Dividend Yield	0.66%	0.00%	1.95%	6.01%	2.28%	1.50%
Value Score	B	-	-	A	C	B
Cash/Price	0.06	0.16	0.07	1.32	0.04	0.11
EV/EBITDA	14.32	14.32	12.54	3.39	13.06	17.70
PEG Ratio	1.41	NA	2.81	1.70	NA	NA
Price/Book (P/B)	2.80	2.80	2.93	0.82	3.55	2.80
Price/Cash Flow (P/CF)	15.71	15.71	11.53	1.71	12.86	13.55
P/E (F1)	31.01	32.18	20.96	16.72	48.92	32.18
Price/Sales (P/S)	1.05	1.05	2.25	0.27	1.17	0.72
Earnings Yield	3.22%	3.10%	4.53%	5.97%	2.04%	3.10%
Debt/Equity	0.60	0.16	0.76	1.84	1.03	0.93
Cash Flow (\$/share)	4.25	4.25	7.01	14.84	8.86	7.89
Growth Score	C	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	19.72%	25.77%	10.93%	1.65%	14.53%	5.44%
Proj. EPS Growth (F1/F0)	-37.57%	-35.70%	-10.50%	-68.60%	-60.10%	-35.83%
Curr. Cash Flow Growth	10.40%	10.40%	5.51%	-8.62%	2.39%	-20.46%
Hist. Cash Flow Growth (3-5 yrs)	22.31%	24.01%	8.62%	9.37%	17.98%	16.64%
Current Ratio	2.25	2.25	1.30	1.07	2.56	1.65
Debt/Capital	37.41%	14.02%	44.51%	64.76%	50.75%	48.22%
Net Margin	2.37%	4.25%	10.62%	3.60%	5.75%	2.40%
Return on Equity	9.35%	12.74%	15.82%	12.73%	18.49%	11.34%
Sales/Assets	1.52	1.45	0.55	0.57	1.47	1.45
Proj. Sales Growth (F1/F0)	16.83%	0.00%	-2.61%	-11.28%	-10.48%	1.96%
Momentum Score	A	-	-	D	B	A
Daily Price Chg	2.04%	1.29%	1.71%	3.43%	5.44%	0.55%
1 Week Price Chg	-4.40%	-5.02%	-3.90%	-8.01%	-5.74%	-6.10%
4 Week Price Chg	17.23%	3.16%	-2.17%	-6.09%	15.86%	22.61%
12 Week Price Chg	118.19%	65.54%	14.42%	29.41%	78.85%	154.90%
52 Week Price Chg	72.21%	13.74%	-8.82%	-34.71%	26.62%	84.61%
20 Day Average Volume	926,934	352,969	2,732,041	16,309,928	165,403	1,307,164
(F1) EPS Est 1 week change	19.81%	1.50%	0.00%	0.00%	0.00%	1.50%
(F1) EPS Est 4 week change	29.76%	29.76%	0.00%	13.08%	0.00%	110.37%
(F1) EPS Est 12 week change	-2.12%	-43.83%	-10.60%	-55.29%	-62.13%	-43.83%
(Q1) EPS Est Mthly Chg	41.37%	41.37%	0.00%	6.55%	0.00%	299.40%

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	C
Momentum Score	A
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.