

WINNEBAGO INDUSTRIES INC
Form 10-Q
June 21, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 26, 2018
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-06403

WINNEBAGO
INDUSTRIES,
INC.

(Exact name of
registrant as
specified in its
charter)

Iowa 42-0802678

(State

or

other (I.R.S.
jurisdiction Employer
of Identification
No.)
incorporation)

or

organization)

P. 50436

O.

Box

152,

Forest

City,

Iowa
(Address
of
principal (Zip Code)
executive
offices)

(641)
585-3535

(Registrant's telephone
number, including area
code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web Site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer Non-accelerated filer
Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of common stock, par value \$0.50 per share, outstanding June 18, 2018 was 31,529,354.

Winnebago Industries, Inc.
Table of Contents

| | |
|--|------------------|
| <u>Glossary</u> | <u>1</u> |
| <u>PART I FINANCIAL INFORMATION</u> | <u>2</u> |
| <u>Item 1. Condensed Consolidated Financial Statements (Unaudited)</u> | |
| <u>Condensed Consolidated Statements of Income and Comprehensive Income</u> | <u>2</u> |
| <u>Condensed Consolidated Balance Sheets</u> | <u>3</u> |
| <u>Condensed Consolidated Statements of Cash Flows</u> | <u>4</u> |
| <u>Condensed Consolidated Stockholders' Statement of Equity</u> | <u>5</u> |
| <u>Notes to Condensed Consolidated Financial Statements</u> | <u>6</u> |
| <u>Note 1: Basis of Presentation</u> | <u>6</u> |
| <u>Note 2: Business Combination, Goodwill and Other Intangible Assets</u> | <u>7</u> |
| <u>Note 3: Business Segments</u> | <u>10</u> |
| <u>Note 4: Concentration Risk</u> | <u>11</u> |
| <u>Note 5: Derivatives, Investments and Fair Value Measurements</u> | <u>11</u> |
| <u>Note 6: Inventories</u> | <u>13</u> |
| <u>Note 7: Property, Plant and Equipment</u> | <u>13</u> |
| <u>Note 8: Warranty</u> | <u>13</u> |
| <u>Note 9: Long-Term Debt</u> | <u>14</u> |
| <u>Note 10: Employee and Retiree Benefits</u> | <u>15</u> |
| <u>Note 11: Shareholders' Equity</u> | <u>15</u> |
| <u>Note 12: Contingent Liabilities and Commitments</u> | <u>16</u> |
| <u>Note 13: Income Taxes</u> | <u>17</u> |
| <u>Note 14: Income Per Share</u> | <u>17</u> |
| <u>Note 15: Accumulated Other Comprehensive Income (Loss)</u> | <u>18</u> |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>19</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>29</u> |
| <u>Item 4. Controls and Procedures</u> | <u>29</u> |
| <u>PART II OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | <u>30</u> |
| <u>Item 1A. Risk Factors</u> | <u>30</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>30</u> |
| <u>Item 6. Exhibits</u> | <u>31</u> |
| <u>SIGNATURES</u> | <u>32</u> |

Table of Contents

Glossary

The following terms and abbreviations appear in the text of this report and are defined as follows:

| | |
|-------------------------------|--|
| ABL | Credit Agreement dated as of November 8, 2016 and as amended on December 8, 2017 among Winnebago Industries, Inc., Winnebago of Indiana, LLC, Grand Design RV, LLC, the other loan parties thereto and JPMorgan Chase Bank, N.A. as Administrative Agent |
| AOCI | Accumulated Other Comprehensive Income (Loss) |
| ASC | Accounting Standards Codification |
| ASP | Average Sales Price |
| ASU | Accounting Standards Update |
| Blocker Corporation | SP GE VIII - B GD RV Blocker Corporation |
| Credit Agreement | Collective reference to the ABL and Term Loan |
| EBITDA | Earnings Before Interest, Tax, Depreciation and Amortization |
| ERP | Enterprise Resource Planning |
| FASB | Financial Accounting Standards Board |
| FIFO | First In, First Out |
| GAAP | Generally Accepted Accounting Principles |
| Grand Design | Grand Design RV, LLC |
| IRS | Internal Revenue Service |
| LIFO | Last In, First Out |
| LIBOR | London Interbank Offered Rate |
| Motorized | Business segment including motorhomes and other related manufactured products |
| NYSE | New York Stock Exchange |
| OCI | Other Comprehensive Income |
| Octavius | Octavius Corporation, a wholly-owned subsidiary of Winnebago Industries, Inc. |
| RV | Recreation Vehicle |
| RVIA | Recreation Vehicle Industry Association |
| SAB | Staff Accounting Bulletin |
| SEC | US Securities and Exchange Commission |
| Securities Purchase Agreement | Purchase Agreement dated as of November 8, 2016 between Winnebago Industries, Inc. and Grand Design RV, LLC |
| SERP | Supplemental Executive Retirement Plan |
| SG&A | Selling, General and Administrative Expenses |
| Stat Surveys | Statistical Surveys, Inc. |
| Tax Act | The Tax Cuts and Jobs Act |
| Term Loan | Loan Agreement dated as of November 8, 2016 and as amended on December 8, 2017 among Winnebago Industries, Inc., Octavius Corporation, the other loan parties thereto and JPMorgan Chase Bank, N.A. as Administrative Agent |
| Towable | Business segment including products that are not motorized and are towable by another vehicle |
| US | United States of America |
| XBRL | eXtensible Business Reporting Language |

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Winnebago Industries, Inc.

Condensed Consolidated Statements of Income and Comprehensive Income

(Unaudited)

| (In thousands, except per share data) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-----------------|-------------------|-----------------|
| | May 26, 2018 | May 27, 2017 | May 26, 2018 | May 27, 2017 |
| Net revenues | \$562,261 | \$476,364 | \$1,480,641 | \$1,092,183 |
| Cost of goods sold | 476,747 | 405,560 | 1,264,635 | 943,188 |
| Gross profit | 85,514 | 70,804 | 216,006 | 148,995 |
| SG&A: | | | | |
| Selling | 13,100 | 10,141 | 37,443 | 25,564 |
| General and administrative | 21,404 | 15,194 | 57,088 | 37,640 |
| Postretirement health care benefit income | — | — | — | (24,796) |
| Transaction costs | 800 | 450 | 850 | 6,374 |
| Amortization of intangible assets | 1,933 | 10,159 | 5,921 | 22,578 |
| Total SG&A | 37,237 | 35,944 | 101,302 | 67,360 |
| Operating income | 48,277 | 34,860 | 114,704 | 81,635 |
| Interest expense | 4,172 | 5,265 | 13,871 | 11,571 |
| Non-operating income | (100) | (54) | (212) | (137) |
| Income before income taxes | 44,205 | 29,649 | 101,045 | 70,201 |
| Provision for income taxes | 11,684 | 10,258 | 28,478 | 23,794 |
| Net income | \$32,521 | \$19,391 | \$72,567 | \$46,407 |
| Income per common share: | | | | |
| Basic | \$1.03 | \$0.61 | \$2.30 | \$1.53 |
| Diluted | \$1.02 | \$0.61 | \$2.28 | \$1.52 |
| Weighted average common shares outstanding: | | | | |
| Basic | 31,582 | 31,587 | 31,617 | 30,333 |
| Diluted | 31,753 | 31,691 | 31,825 | 30,448 |
| Dividends paid per common share | \$0.10 | \$0.10 | \$0.30 | \$0.30 |
| Net income | \$32,521 | \$19,391 | \$72,567 | \$46,407 |
| Other comprehensive income (loss): | | | | |
| Amortization of prior service credit (net of tax of \$0, \$0, \$0 and \$15,409) | — | — | — | (25,035) |
| Amortization of net actuarial loss (net of tax of \$3, \$3, \$9 and \$5,971) | 7 | 6 | 20 | 9,702 |
| Plan amendment (net of tax of \$0, \$0, \$0 and \$2,402) | — | — | — | 3,903 |
| Change in fair value of interest rate swap (net of tax of \$42, \$36, \$877 and \$306) | 129 | (58) | 2,046 | (497) |
| Total other comprehensive income (loss) | 136 | (52) | 2,066 | (11,927) |
| Comprehensive income | \$32,657 | \$19,339 | \$74,633 | \$34,480 |

See notes to condensed consolidated financial statements.

2

Table of Contents

Winnebago Industries, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

| (In thousands, except per share data) | May 26, 2018 | August 26, 2017 |
|--|-----------------|--------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$39,029 | \$35,945 |
| Receivables, less allowance for doubtful accounts (\$172 and \$183) | 148,948 | 124,539 |
| Inventories | 177,378 | 142,265 |
| Prepaid expenses and other assets | 8,408 | 11,388 |
| Total current assets | 373,763 | 314,137 |
| Property, plant and equipment, net | 82,481 | 71,560 |
| Other assets: | | |
| Goodwill | 244,684 | 242,728 |
| Other intangible assets, net | 222,519 | 228,440 |
| Investment in life insurance | 28,130 | 27,418 |
| Deferred income taxes | 7,043 | 12,736 |
| Other assets | 7,090 | 5,493 |
| Total assets | \$965,710 | \$902,512 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$88,397 | \$79,194 |
| Current maturities of long-term debt | — | 2,850 |
| Income taxes payable | 6,186 | 7,450 |
| Accrued expenses: | | |
| Accrued compensation | 27,989 | 24,546 |
| Product warranties | 37,444 | 30,805 |
| Self-insurance | 9,571 | 6,122 |
| Promotional | 6,523 | 6,560 |
| Accrued interest | 3,177 | 3,128 |
| Other | 11,119 | 6,503 |
| Total current liabilities | 190,406 | 167,158 |
| Non-current liabilities: | | |
| Long-term debt, less current maturities | 251,798 | 271,726 |
| Unrecognized tax benefits | 1,703 | 1,606 |
| Deferred compensation benefits, net of current portion | 15,732 | 19,270 |
| Other | 250 | 1,078 |
| Total non-current liabilities | 269,483 | 293,680 |
| Stockholders' equity: | | |
| Capital stock common (par value \$0.50; authorized 60,000 shares, issued 51,776 shares) | 25,888 | 25,888 |
| Additional paid-in capital | 84,179 | 80,401 |
| Retained earnings | 742,148 | 679,138 |
| Accumulated other comprehensive income (loss) | 1,043 | (1,023) |
| Treasury stock, at cost (20,247 and 20,183 shares) | (347,437) | (342,730) |
| Total stockholders' equity | 505,821 | 441,674 |
| Total liabilities and stockholders' equity | \$965,710 | \$902,512 |

See notes to condensed consolidated financial statements.

3

Table of ContentsWinnebago Industries, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| | Nine Months Ended | |
|---|-------------------|-----------------|
| (In thousands) | May 26, 2018 | May 27, 2017 |
| Operating activities: | | |
| Net income | \$ 72,567 | \$ 46,407 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 6,679 | 5,287 |
| Amortization of intangible assets | 5,921 | |