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WINNEBAGO INDUSTRIES INC

Form 10-K

October 18, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended August 25, 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 jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

P.O. Box 152, Forest City, Iowa 50436

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (641) 585 3535

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---------------------|---|
|---------------------|---|

| | |
|--------------------------------|-----------------------------------|
| Common Stock (\$.50 par value) | The New York Stock Exchange, Inc. |
|--------------------------------|-----------------------------------|

| | |
|--|------------------------------|
| | Chicago Stock Exchange, Inc. |
|--|------------------------------|

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 Act). Yes No

Aggregate market value of the common stock held by non-affiliates of the registrant: \$1,122,564,545 (26,952,330 shares at the closing price on the New York Stock Exchange of \$41.65 on February 23, 2018).

Common stock outstanding on October 15, 2018: 31,629,704 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to the registrant's 2018 Annual Meeting of Shareholders, scheduled to be held December 11, 2018, are incorporated by reference into Part II and Part III of this Annual Report on Form 10-K where indicated.

Winnebago Industries, Inc.
 Fiscal 2018 Form 10-K
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WINNEBAGO INDUSTRIES, INC.

FORM 10 K

Report for the Fiscal Year Ended August 25, 2018

Forward-Looking Information

Certain of the matters discussed in this Annual Report on Form 10-K are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which involve risks and uncertainties. A number of factors could cause actual results to differ materially from these statements, including, but not limited to, competition and new product introductions by competitors, our ability to attract and retain qualified personnel, business or production disruptions, sales order cancellations, risk related to compliance with debt covenants and leverage ratios, stock price volatility, availability of labor, a slowdown in the economy, low consumer confidence, the effect of global tensions, increases in interest rates, availability of credit, risk related to cyclical and seasonality, slower than anticipated sales of new or existing products, integration of operations relating to merger and acquisition activities generally, inadequate liquidity or capital resources, inventory and distribution channel management, our ability to innovate, our reliance on large dealer organizations, significant increase in repurchase obligations, availability and price of fuel, availability of chassis and other key component parts, increased material and component costs, exposure to warranty claims, ability to protect our intellectual property, exposure to product liability claims, dependence on information systems and web applications, any unexpected expenses related to the implementation of our Enterprise Resource Planning system, risk related to data security, governmental regulation, including for climate change, risk related to anti-takeover provisions applicable to us, and other factors which may be disclosed throughout this Annual Report on Form 10-K. Although we believe that the expectations reflected in the "forward-looking statements" are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Undue reliance should not be placed on these "forward-looking statements," which speak only as of the date of this report. We undertake no obligation to publicly update or revise any "forward-looking statements," whether as a result of new information, future events, or otherwise, except as required by law or the rules of the New York Stock Exchange. We advise you, however, to consult any further disclosures made on related subjects in future quarterly reports on Form 10-Q and current reports on Form 8-K that are filed or furnished with the U.S. Securities and Exchange Commission ("SEC").

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PART I

Item 1. Business.

General

The "Company," "Winnebago Industries," "we," "our," and "us" are used interchangeably to refer to Winnebago Industries, Inc. and its wholly-owned subsidiaries, as appropriate in the context.

Winnebago Industries, Inc., headquartered in Forest City, Iowa, is a leading U.S. manufacturer with a diversified portfolio of recreation vehicles ("RV"s) and marine products used primarily in leisure travel and outdoor recreation activities. We produce our motorhomes in manufacturing facilities in Iowa and Oregon; our travel trailer and fifth wheel trailers in Indiana; and our marine products in Florida. We distribute our RV and marine products primarily through independent dealers throughout the U.S. and Canada, who then retail the products to the end consumer. We also distribute our marine products internationally through independent dealers, who then retail the products to the end consumer.

We were incorporated under the laws of the state of Iowa on February 12, 1958, and adopted our present name on February 28, 1961. Our executive offices are located at 605 West Crystal Lake Road in Forest City, Iowa. Our telephone number is (641) 585-3535.

Available Information

Our website, located at www.wgo.net, provides additional information about us. On our website, you can obtain, free of charge, this and prior year Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all of our other filings with the SEC. Our recent press releases are also available on our website. Our website also contains important information regarding our corporate governance practices. Information contained on our website is not incorporated into this Annual Report on Form 10-K.

Principal Products

Beginning in the fourth quarter of Fiscal 2018, we have five operating segments: 1) Winnebago motorhomes, 2) Winnebago towables, 3) Grand Design towables, 4) Winnebago specialty vehicles, and 5) Chris-Craft marine. We evaluate performance based on each operating segment's Adjusted EBITDA, as defined within Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of this Annual Report on Form 10-K, which excludes certain corporate administration expenses and non-operating income and expense.

Our two reportable segments include: 1) Motorhome (comprised of products that include a motorized chassis as well as other related manufactured products and services) and 2) Towable (comprised of products which are not motorized and are generally towed by another vehicle as well as other related manufactured products and services), which is an aggregation of the Winnebago towables and Grand Design towables operating segments.

The Corporate / All Other category includes the Winnebago specialty vehicles and Chris-Craft marine operating segments as well as expenses related to certain corporate administration expenses for the oversight of the enterprise. These expenses include items such as corporate leadership and administration costs. Previously, these expenses were allocated to each operating segment.

Prior year segment information has been reclassified to conform to the current reportable segment presentation. The reclassifications included removing the corporate administration expenses from both the Motorhome and Towable

reportable segments and removing Winnebago specialty vehicles from the Motorhome reportable segment, as we begin to dedicate leadership and focus on these operations separately from our Winnebago motorhomes operations.

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Motorhome

A motorhome is a self-propelled mobile dwelling used primarily as temporary living quarters during vacation and camping trips, or to support active and mobile lifestyles. The Recreation Vehicle Industry Association ("RVIA") classifies motorhomes into three types, all of which we manufacture and sell under the Winnebago brand name, which are defined as follows:

| Type | Description | Winnebago products offerings |
|-----------------------------|---|--|
| Class A (gas and diesel) | Conventional motorhomes constructed directly on medium- and heavy-duty truck chassis, which include the engine and drivetrain components. The living area and driver's compartment are designed and produced by the motorhome manufacturer. | Gas: Adventurer, Intent ⁽¹⁾ , Sightseer, Suncruiser, Sunova, Sunstar, Sunstar LX, Vista, Vista LX Diesel: Forza, Grand Tour, Horizon ⁽¹⁾ , Journey, Tour, Via |
| Class B (gas and diesel) | Panel-type vans to which sleeping, kitchen, and/or toilet facilities are added. These models may also have a top extension to provide more headroom. | Winnebago Touring Coach (Era, Paseo, Revel ⁽¹⁾ , Travato) |
| Class C (gas and diesel) | Motorhomes built on van-type chassis onto which the motorhome manufacturer constructs a living area with access to the driver's compartment. | Aspect, Cambria, Fuse, Minnie Winnie, Navion, Outlook ⁽¹⁾ , Spirit, Trend, View |

(1) New product offerings introduced in Fiscal 2018.

Our Class A, B, and C motorhomes are sold by dealers in the retail market with manufacturer's suggested retail prices ranging from approximately \$80,000 to \$520,000, depending on size and model, plus optional equipment and delivery charges. Our motorhomes range in length from 21 to 44 feet.

Unit sales of our motorhomes for the last three fiscal years were as follows:

| Units | Year Ended ⁽¹⁾ | | |
|------------------|---------------------------|--------------------|--------------------|
| | August 25, 2018 | August 26, 2017 | August 27, 2016 |
| Class A | 2,997 31.4 % | 3,182 34.4 % | 2,925 31.4 % |
| Class B | 2,012 21.1 % | 1,541 16.6 % | 1,239 13.3 % |
| Class C | 4,539 47.5 % | 4,537 49.0 % | 5,143 55.3 % |
| Total motorhomes | 9,548 100.0 % | 9,260 100.0 % | 9,307 100.0 % |

(1) Percentages may not add due to rounding differences.

Motorhome parts and service activities represent revenues generated by service work we perform for retail customers at our Forest City, Iowa and Junction City, Oregon facilities as well as revenues from sales of RV parts. Our competitive strategy is to provide proprietary manufactured parts through our dealer network, which we believe increases customer satisfaction and the value of our motorhomes.

Towable

A towable is a non-motorized vehicle that is designed to be towed by automobiles, pickup trucks, SUVs, or vans and is used as temporary living quarters for recreational travel. The RVIA classifies towables in four types: conventional travel trailers, fifth wheels, folding camper trailers, and truck campers. We manufacture and sell conventional travel

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trailers and fifth wheels under the Winnebago and Grand Design brand names, which are defined as follows:

| Type | Description | Winnebago product offerings | Grand Design product offerings |
|----------------|---|--|---|
| Travel trailer | Conventional travel trailers are towed by means of a hitch attached to the frame of the vehicle. | Micro Minnie, Minnie, Minnie Drop, Minnie Plus | Imagine, Reflection, Transcend ⁽¹⁾ |
| Fifth wheel | Fifth wheel trailers are constructed with a raised forward section that is connected to the vehicle with a special fifth wheel hitch. | Minnie Plus | Momentum, Reflection, Solitude |

(1) New product offerings introduced in Fiscal 2018.

Our travel trailer and fifth wheel towables are sold by dealers in the retail market with manufacturer's suggested retail prices ranging from approximately \$15,000 to \$110,000, depending on size and model, plus optional equipment and delivery charges.

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Unit sales of our towables for the last three fiscal years were as follows:

| Units | Year Ended ⁽¹⁾ | | |
|----------------|---------------------------|--------------------|--------------------|
| | August 25, 2018 | August 26, 2017 | August 27, 2016 |
| Travel trailer | 22,360 61.1 % | 13,650 60.7 % | 3,613 86.0 % |
| Fifth wheel | 14,229 38.9 % | 8,824 39.3 % | 586 14.0 % |
| Total towables | 36,589 100.0 % | 22,474 100.0 % | 4,199 100.0 % |

(1) Percentages may not add due to rounding differences.

On November 8, 2016, we closed on our acquisition of Grand Design RV, LLC ("Grand Design"), a fast-growing towables manufacturer in Middlebury, Indiana. Grand Design manufactures travel trailers and fifth wheel products. With this acquisition, we have a broader and more balanced portfolio of motorized and towable products and intend to capitalize on the opportunities across the RV market and to drive improved profitability and long-term value for shareholders.

Winnebago Specialty Vehicles

We also manufacture other specialty commercial vehicles primarily custom designed for the buyer's specific needs and requirements, such as law enforcement command centers, mobile medical clinics, and mobile office space. These specialty commercial vehicles are manufactured in Forest City, Iowa and sold through our dealer network. In addition, we also provide commercial vehicles as bare shells to third-party upfitters for conversion at their facilities.

Chris-Craft

On June 4, 2018, we acquired 100% of the ownership interests of Chris-Craft USA, Inc. ("Chris-Craft"), a privately-owned company based in Sarasota, Florida. As a result of this acquisition, we manufacture and sell premium quality boats in the recreational powerboat industry through an established global network of independent authorized dealers.

Production

We generally produce motorhomes and towables to stock for dealers. We have some ability to increase our capacity by scheduling overtime and/or hiring additional production employees or to decrease our capacity through the use of shortened work weeks and/or reducing head count. We have long been known as an industry leader in innovation as each year we introduce new or redesigned products. These changes generally include new floor plans and sizes as well as design and decor modifications. Most of our raw materials such as steel, aluminum, fiberglass, and wood products are obtainable from numerous sources.

Our motorhomes are primarily produced in the state of Iowa at four different campuses. Beginning in Fiscal 2016, we also began assembling Class A diesel motorhomes in our Junction City, Oregon facility. Our Motorhome business utilizes vertically integrated supply streams, with the principal exceptions being chassis, engines, generators, and appliances that we purchase from reputable manufacturers. Certain parts, especially motorhome chassis, are available from a small group of suppliers. In Fiscal 2018, we had two chassis suppliers, that each individually accounted for more than 10% of our Motorhome raw material purchases.

Our towables are produced at two assembly campuses located in Middlebury, Indiana. The majority of components are comprised of frames, appliances, and furniture, and are purchased from suppliers. In Fiscal 2018, we had one supplier that accounted for more than 10% of our Towable raw material purchases.

Backlog

We strive to balance timely order fulfillment to our dealers with the lead times suppliers require to efficiently source materials and manage costs. Production facility constraints at peak periods also lead to fluctuations in backlog orders which we manage closely. The approximate revenue of our Motorhome backlog was \$157.6 million and \$122.1 million as of August 25, 2018 and August 26, 2017, respectively. The approximate revenue of our Towable backlog was \$244.9 million and \$229.7 million as of August 25, 2018 and August 26, 2017, respectively. A more detailed description of our Motorhome and Towable order backlog is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of this Annual Report on Form 10-K.

Distribution and Financing

We market our products on a wholesale basis to a diversified independent dealer network located throughout the U.S. and, to a limited extent, in Canada, Africa, Asia, Europe, Australia, and South America. Foreign sales were 10.0% or less of net revenues during each of the past three fiscal years.

As of August 25, 2018, our RV dealer network in the U.S. and Canada included approximately 550 Motorhome and Towable physical dealer locations, many of which carry both products. One of our dealer organizations, La Mesa RV Center, Inc., accounted

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for 9.8% of our consolidated net revenue for Fiscal 2018, as this dealer sold our products in 11 dealership locations across four U.S. states.

We have sales and service agreements with dealers which are subject to annual review. Many of the dealers are also engaged in other areas of business, including the sale of automobiles, trailers, or boats, and most dealers carry one or more competitive lines of RVs. We continue to place high emphasis on the capability of our dealers to provide complete service for our products. Dealers are obligated to provide full service for owners of our products or, in lieu thereof, to secure such service from other authorized providers.

We advertise and promote our products through national trade magazines, the distribution of product brochures, the Go RVing national advertising campaign sponsored by RVIA, direct-mail advertising campaigns, various national promotional opportunities, and on a local basis through trade shows, television, radio, and newspapers, primarily in connection with area dealers.

Sales to dealers are made on cash terms. Most dealers are financed on a "floorplan" basis under which a bank or finance company lends the dealer all, or substantially all, of the purchase price, collateralized by a security interest in the merchandise purchased. As is customary in our industries, we typically enter into a repurchase agreement with a lending institution financing a dealer's purchase of our product upon the lending institution's request and after completion of a credit check of the dealer involved. Our repurchase agreements provide that, for up to 18 months after an RV unit is financed and up to 24 months after a marine unit is financed, in the event of default by the dealer on the agreement to pay the lending institution and repossession of the unit(s) by the lending institution, we will repurchase the financed merchandise from the lender at the amount then due, which is often less than dealer invoice. Our maximum exposure for repurchases varies significantly from time to time, depending upon the level of dealer inventory, general economic conditions, demand for our products, dealer location, and access to and the cost of financing. See Note 11, Contingent Liabilities and Commitments, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Competition

The RV and marine markets are highly competitive with many other manufacturers selling products which compete directly with our products. Some of our competitors are much larger than us, most notably in the towable RV market, which may provide these competitors additional purchasing power. The competition in our industry is based upon design, price, quality, and service of the products. We believe our principal competitive advantages are our brand strength, product quality, and our service after the sale. We also believe that our motorhome products have historically commanded a price premium as a result of these competitive advantages.

Seasonality

The primary use of RVs and marine products for leisure travel and outdoor recreation has historically led to a peak retail selling season concentrated in the spring and summer months and lower sales during winter months. Our sales are generally influenced by this pattern in retail sales, but sales can also be affected by the level of dealer inventory. As a result, our RV sales are historically lowest during our second fiscal quarter, which ends in February.

Governmental Regulations

We are subject to a variety of federal, state, local, and, to a limited extent, international laws and regulations, including the federal Motor Vehicle Act ("MVA"), under which the National Highway Traffic Safety Administration ("NHTSA") may require manufacturers to recall RVs that contain safety-related defects, and numerous state consumer protection laws and regulations relating to the operation of motor vehicles, including so-called "Lemon Laws." The

Boat Safety Act of 1971 has similar safety-related recall requirements for marine units. In addition, marine units sold in the U.S. and Europe must meet the certification standards of the U.S. Coast Guard and the European Community, respectively.

We are also subject to regulations established by the Occupational Safety and Health Administration ("OSHA"). Our facilities are periodically inspected by federal and state agencies, such as OSHA. We are a member of RVIA, a voluntary association of RV manufacturers which promulgates RV safety standards. We place an RVIA seal on each of our RVs to certify that the RVIA standards have been met. We believe that our products and facilities comply in all material respects with the applicable vehicle safety, consumer protection, RVIA, and OSHA regulations and standards.

Our operations are subject to a variety of federal and state environmental laws and regulations relating to the use, generation, storage, treatment, emission, labeling, and disposal of hazardous materials and wastes, and noise pollution. We believe that we are currently in compliance with applicable environmental laws and regulations in all material aspects.

Trademarks

We have several domestic and foreign trademark registrations associated with our products which include: Winnebago, Adventurer, Affinity, Airlie, Aspect, Benchmark, Brave, Bryon, Cambria, Chalet, Chris-Craft (logo), Commander, Cottesloe, County Coach, Destination, Dynamax, Ellipse, Era, Forza, Fuse, Glide & Dine, Gowinnebago, Grand Design, Grand Design Recreational

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Vehicles, Grand Design RV, Horizon, Imagine, Inlounge, Inspire, Instinct, Intable, Intent, Itasca, Intrigue, Journey, Latitude, Maxum Chassis, Meridian, Micro Minnie, Minnie, Minnie Drop, Minnie Winnie, Navion, One Place, Momentum, Reflection, Powerline Energy Management System and Design, Rest Easy, Revel, Rialta, Roamer, Scorpion, Sightseer, Solei, Solitude, Spirit, Storemore and Design, Suncruiser, Sunova, Sunstar, The most recognized name in motorhomes, Thermo-Panel, Transcend, Travato, Trend, Tribute, True Air, Via, View, Vista, Viva!, Voyage, W, Flying W (logo), WIT Club, Winnie Drop, Winnebago Ind (logo), Winnebagolife, Winnebago Minnie, Winnebago Towables (logo), Winnebago Touring Coach, and Winnebago trade dress (three dimensional design of the front roof panel, front grill panel, and front body panel of motor homes). We believe that our trademarks and trade names are significant assets to our business. and we have in the past and will in the future vigorously protect them against infringement by third parties. We are not dependent upon any patents or technology licenses of others for the conduct of our business.

Human Resources

At the end of Fiscal 2018, 2017, and 2016, we employed approximately 4,700, 4,060, and 3,050 persons, respectively. None of our employees are covered under a collective bargaining agreement. We believe our relations with our employees are good.

Item 1A. Risk Factors.

Described below are certain risks that we believe apply to our business and the industry in which we operate.