WINNEBAGO INDUSTRIES INC
Form 10-Q
December 20, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 24, 2018
or

o 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,	50436

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

(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 x No o

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 x No o

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 x Accelerated filer o Non-accelerated filer o
Smaller reporting company o Emerging growth company o

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. o

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

The number of shares of common stock, par value $0.50 per share, outstanding on December 14, 2018 was 32,025,628.

Winnebago Industries, Inc.
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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 November 24, 2018	November 25, 2017
Net revenues	$493,648	$ 450,021
Cost of goods sold	422,652	387,190
Gross profit	70,996	62,831
Selling, general, and administrative expenses	35,712	29,600
Amortization of intangible assets	2,659	2,055
Total operating expenses	38,371	31,655
Operating income	32,625	31,176
Interest expense	4,501	4,781
Non-operating income	(763)	(123)
Income before income taxes	28,887	26,518
Provision for income taxes	6,726	8,560
Net income	$22,161	$ 17,958
Income per common share:		
Basic	$0.70	$ 0.57
Diluted	$0.70	$ 0.57
Weighted average common shares outstanding:		
Basic	31,567	31,614
Diluted	31,814	31,772
Net income	$22,161	$ 17,958
Other comprehensive income (loss):		
Amortization of net actuarial loss (net of tax of $3 and $4)	8	6
Change in fair value of interest rate swap (net of tax of $7 and $387)	(22)	634
Total other comprehensive income (loss)	(14)	640
Comprehensive income	$22,147	$ 18,598

See Notes to Condensed Consolidated Financial Statements.

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Winnebago Industries, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(in thousands, except per share data)	November 24, 2018	August 25, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 702	$ 2,342
Receivables, less allowance for doubtful accounts ($179 and $197, respectively)	140,837	164,585
Inventories	191,461	195,128
Prepaid expenses and other assets	10,256	9,883
Total current assets	343,256	371,938
Property, plant, and equipment, net	110,212	101,193
Other assets:		
Goodwill	275,072	274,370
Other intangible assets, net	263,058	265,717
Investment in life insurance	26,651	28,297
Other assets	11,724	10,290
Total assets	$ 1,029,973	$ 1,051,805
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 79,687	$ 81,039
Income taxes payable	13,212	15,655
Accrued expenses:		
Accrued compensation	21,977	29,350
Product warranties	41,303	40,498
Self-insurance	13,381	12,262
Promotional	14,868	11,017
Accrued interest	3,026	3,095
Other	11,736	11,269
Total current liabilities	199,190	204,185
Non-current liabilities:		
Long-term debt	253,262	291,441
Deferred income taxes	4,834	4,457
Unrecognized tax benefits	1,745	1,745
Deferred compensation benefits, net of current portion	14,214	15,282
Other	250	250
Total non-current liabilities	274,305	313,175
Contingent liabilities and commitments (Note 12)		
Stockholders' equity:		
Preferred stock, par value $0.01: Authorized-10,000 shares; Issued-none	—	—
Common stock, par value $0.50: Authorized-60,000 shares; Issued-51,776 shares	25,888	25,888
Additional paid-in capital	88,288	86,223
Retained earnings	787,794	768,816
Accumulated other comprehensive income	878	892
Treasury stock, at cost: 20,178 and 20,243 shares, respectively	(346,370)	(347,374)
Total stockholders' equity	556,478	534,445
Total liabilities and stockholders' equity	$ 1,029,973	$ 1,051,805

See Notes to Condensed Consolidated Financial Statements.

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

(in thousands)	Three Months Ended November 24, 2018	November 25, 2017
Operating activities:		
Net income	$22,161	$ 17,958
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,169	2,130
Amortization of intangibles assets	2,659	2,055
Amortization of debt issuance costs	394	437
Last in, first-out expense	597	299
Stock-based compensation	2,472	823
Deferred income taxes	382	1,665
Other, net	(570)	97
Change in assets and liabilities:		
Receivables	23,748	7,675
Inventories	3,070	(9,821)
Prepaid expenses and other assets	68	(936)
Accounts payable	(799)	(2,443)
Income taxes and unrecognized tax benefits	(2,443)	6,447
Accrued expenses and other liabilities	(737)	3,072
Net cash provided by operating activities	54,171	29,458
Investing activities:		
Purchases of property and equipment	(12,771)	(5,357)
Acquisition of business, net of cash acquired	(702)	—
Proceeds from the sale of property	—	92
Other, net	311	(57)
Net cash used in investing activities	(13,162)	(5,322)
Financing activities:		
Borrowings on credit agreement	133,711	—
Repayments of credit agreement	(172,229)	(4,250)
Payments of cash dividends	(3,183)	—
Payments for repurchases of common stock	(948)	(1,363)
Net cash used in financing activities	(42,649)	(5,613)
Net (decrease) increase in cash and cash equivalents	(1,640)	18,523
Cash and cash equivalents at beginning of year	2,342	35,945
Cash and cash equivalents at end of year	$702	$ 54,468
Supplement cash flow disclosure:		
Income taxes paid, net	$8,778	$ 322
Interest paid	$3,736	$ 4,548
Non-cash transactions:		
Capital expenditures in accounts payable	$145	$ 379
Accrued dividends	$—	$ 3,187

See Notes to Condensed Consolidated Financial Statements.

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Winnebago Industries, Inc.
Condensed Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

(in thousands, except per share data)	Common Shares		Additional paid-in capital	Retained earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total stockholders' equity
	Number	Amount				Number	Amount	
Balance, August 26, 2017	51,776	$25,888	$ 80,401	$679,138	$ (1,023)	(20,183)	$(342,730)	$ 441,674
Stock-based compensation, net of forfeitures	—	—	804	—	—	1	19	823
Issuance of restricted stock	—	—	(1,165)	—	—	74	1,251	86
Repurchase of common stock	—	—	—	—	—	(32)	(1,363)	(1,363)
Common stock dividends; $0.10 per share	—	—	—	(3,187)	—	—	—	(3,187)
Actuarial loss, net of $4 tax	—	—	—	—	6	—	—	6
Change in fair value of interest rate swap, net of $387 tax	—	—	—	—	634	—	—	634
Net income	—	—	—	17,958	—	—	—	17,958
Balance, November 25, 2017	51,776	$25,888	$ 80,040	$693,909	$ (383)	(20,140)	$(342,823)	$ 456,631
Balance, August 25, 2018	51,776	$25,888	$ 86,223	$768,816	$ 892	(20,243)	$(347,374)	$ 534,445
Stock-based compensation, net of forfeitures	—	—	2,448	—	—	2	41	2,489
Issuance of restricted stock	—	—	(383)	—	—	111	1,911	1,528
Repurchase of common stock	—	—	—	—	—	(48)	(948)	(948)
Common stock dividends; $0.10 per share	—	—	—	(3,183)	—	—	—	(3,183)
Actuarial loss, net of $3 tax	—	—	—	—	8	—	—	8
Change in fair value of interest rate swap, net of $7 tax	—	—	—	—	(22)	—	—	(22)
Net income	—	—	—	22,161	—	—	—	22,161
Balance, November 24, 2018	51,776	$25,888	$ 88,288	$787,794	$ 878	(20,178)	$(346,370)	$ 556,478

See Notes to Condensed Consolidated Financial Statements.

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Winnebago Industries, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1: Basis of Presentation
Unless the context otherwise requires, the use of the terms "Winnebago Industries," "WGO," "we," "us," and "our" in these Notes to Condensed Consolidated Financial Statements refers to Winnebago Industries, Inc. and its wholly-owned subsidiaries.

In the opinion of management, the accompanying Condensed Consolidated Financial Statements contain all adjustments necessary for a fair presentation as prescribed by accounting principles generally accepted in the United States (“GAAP”). All adjustments were comprised of normal recurring adjustments, except as noted in these Notes to Condensed Consolidated Financial Statements.

The interim Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended August 25, 2018.

Fiscal Period

We follow a 52-/53-week fiscal year, ending the last Saturday in August. Fiscal 2019 is a 53-week year, while Fiscal 2018 was a 52-week year. The extra (53rd) week in Fiscal 2019 will be recognized in our fourth quarter.

Subsequent Events

In preparing the accompanying unaudited Condensed Consolidated Financial Statements, we evaluated subsequent events for potential recognition and disclosure through the date of this filing. There were no material subsequent events, except for those listed below.

2019 Omnibus Incentive Plan

On December 11, 2018, our shareholders approved the Winnebago Industries, Inc. 2019 Omnibus Incentive Plan as detailed in our Proxy Statement for the 2018 Annual Meeting of Shareholders.

Dividend

On December 12, 2018, our Board of Directors approved a quarterly cash dividend of $0.11 per share payable on January 23, 2019 to common stockholders of record at the close of business on January 9, 2019.

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update (“ASU”) 2016-02, Leases (Topic 842), which requires an entity to recognize both assets and liabilities arising from financing and operating leases, along with additional qualitative and quantitative disclosures. This ASU and the related amendments must be adopted on a modified retrospective basis to either each prior reporting period presented or as of the beginning of the period of adoption. Based on the effective dates, we expect to adopt the new guidance in the first quarter of Fiscal 2020. We are currently evaluating the impact of the adoption on our consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815), which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. ASU 2017-12 is effective for annual reporting periods beginning after December 15, 2018 (our Fiscal 2020), including interim periods within those annual reporting periods. Early adoption is permitted. We are currently evaluating the impact of adopting this ASU on our consolidated financial statements.

Recently Adopted Accounting Pronouncements

In the first quarter of Fiscal 2019, we adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which establishes a comprehensive five-step model for the recognition of revenue from contracts with customers. This model is based on the core principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We elected the modified retrospective method of adoption, which we applied to contracts not completed as of the initial date of adoption. Application of the transition requirements had no material impact on operations or beginning retained earnings. While changes to certain control processes and procedures were updated for this adoption, the changes did not have a material impact to our internal control financial reporting framework.

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Also in the first quarter of Fiscal 2019, we retrospectively adopted ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (Topic 230), which provides guidance for eight specific cash flow issues with the objective of reducing the existing diversity in practice. The adoption of this standard did not materially impact our statements of cash flows, and no cash flow reclassifications were required for the prior period.

Note 2: Business Segments

In the fourth quarter of Fiscal 2018, we revised our segment presentation. 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 below, 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.

Identifiable assets of the reportable segments exclude general corporate assets, which principally consist of cash and cash equivalents and certain deferred tax balances. The general corporate assets are included in the Corporate / All Other category.

Prior period 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 began to dedicate leadership and focus on these operations separately from our Winnebago motorhomes operations.

Our chief operating decision maker ("CODM") is our Chief Executive Officer. Our CODM relies on internal management reporting that analyzes consolidated results to the net earnings level and operating segment's Adjusted EBITDA. Our CODM has ultimate responsibility for enterprise decisions. Our CODM determines, in particular, resource allocation for, and monitors the performance of, the consolidated enterprise, the Motorhome segment, and the Towable segment. The Motorhome segment management and Towable segment management have responsibility for operating decisions, allocating resources, and assessing performance within their respective segments. The accounting policies of both reportable segments are the same and are described in Note 1, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended August 25, 2018.

We evaluate the performance of our reportable segments based on Adjusted EBITDA. EBITDA is defined as net income before interest expense, provision for income taxes, and depreciation and amortization expense. Adjusted EBITDA is defined as net income before interest expense, provision for income taxes, depreciation and amortization expense, and other adjustments made in order to present comparable results from period to period. Examples of items excluded from Adjusted EBITDA include acquisition-related costs and non-operating income.

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The following table shows information by reportable segment:

(in thousands)	Three Months Ended November 24, 2018	November 25, 2017
Net Revenues		
Motorhome	$ 181,328	$ 188,197
Towable	292,833	259,665
Corporate / All Other	19,487	2,159
Consolidated	$ 493,648	$ 450,021
Adjusted EBITDA		
Motorhome	$ 11,976	$ 4,900
Towable	30,828	33,392
Corporate / All Other	(4,351)	(2,881)
Consolidated	$ 38,453	$ 35,411
Capital Expenditures		
Motorhome	$ 3,192	$ 3,107
Towable	8,877	2,250
Corporate / All Other	702	—
Consolidated	$ 12,771	$ 5,357

(in thousands)	November 24, 2018	August 25, 2018
Total Assets		
Motorhome	$ 303,984	$ 322,048
Towable	624,445	626,588
Corporate / All Other	101,544	103,169
Consolidated	$ 1,029,973	$ 1,051,805

Reconciliation of net income to consolidated Adjusted EBITDA:

(in thousands)	Three Months Ended November 24, 2018	November 25, 2017
Net income	$ 22,161	$ 17,958
Interest expense	4,501	4,781
Provision for income taxes	6,726	8,560
Depreciation	3,169	2,130
Amortization of intangible assets	2,659	2,055
EBITDA	39,216	35,484
Acquisition-related costs	—	50
Non-operating income	(763)	(123)
Adjusted EBITDA	$ 38,453	$ 35,411

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Note 3: Revenue

The following table disaggregates revenue by reportable segment and product category:

(in thousands)	Three Months Ended November 24, 2018	November 25, 2017
Net Revenues		
Motorhome:		
Class A	$48,678	$ 74,205
Class B	68,720	29,120
Class C	56,142	76,775
Other(1)	7,788	8,097
Total Motorhome	181,328	188,197
Towable:		
Fifth Wheel	162,749	144,114
Travel Trailer	125,626	112,725
Other(1)	4,458	2,826
Total Towable	292,833	259,665
Corporate / All Other:		
Other(2)	19,487	2,159
Total Corporate / All Other	19,487	2,159
Consolidated	$493,648	$ 450,021

(1) Relates to parts and accessories and services.
(2) Relates to marine and specialty vehicle units, parts and accessories, and services.

We generate all of our operating revenue from contracts with customers. Our primary source of revenue is generated through the sale of manufactured motorized units, non-motorized towable units, and marine units to our independent dealer network (our customer). We also generate income through the sale of certain parts and services, acting as the principal in these arrangements. We apply the new revenue standard requirements to a portfolio of contracts (or performance obligations) with similar characteristics for transactions where it is expected that the effects on the financial statements of applying the revenue recognition guidance to the portfolio would not differ materially from applying this guidance to the individual contracts (or performance obligations) within that portfolio. Revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the transaction price consideration that we expect to receive in exchange for those goods or services. Control refers to the ability of the customer to direct the use of, and obtain substantially all of, the remaining benefits from the goods or services. Our transaction price consideration is fixed, unless otherwise disclosed below as variable consideration. We made an accounting policy election so that our revenue excludes sales and usage-based taxes collected.

Unit revenue

Unit revenue is recognized at a point-in-time when control passes, which generally occurs when the unit is shipped or picked-up from our manufacturing facilities to the customer, which is consistent with our past practice. Our payment terms are typically at the point of shipment, and do not include a significant financing component. The amount of consideration received and recorded to revenue varies with changes in marketing incentives and offers to our customers. These marketing incentives and offers to our customers are considered variable consideration. We adjust the estimate of revenue at the earlier of when the most likely amount of consideration we expect to receive changes or when the consideration becomes fixed.

Our contracts include some incidental items that are immaterial in the context of the contract. We have made an accounting policy election to not assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer. We have made an accounting policy to account for any shipping and handling costs that occur after the transfer of control as a fulfillment cost that is accrued when control is transferred. Warranty obligations associated with the sale of a unit are assurance-type warranties that are a guarantee of the unit's intended functionality and, therefore, do not represent a distinct performance obligation within the context of the contract. Contract costs incurred related to the sale of manufactured units are expensed at the point-in-time when the related revenue is recognized.

We do not have material contract assets or liabilities. We establish allowances for uncollectible receivables based on historical collection trends and write-off history.

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Concentration of Risk

None of our dealer organizations accounted for more than 10% of our net revenue for the first quarter of Fiscal 2019 or the first quarter of 2018.

Note 4: Derivatives, Investments, and Fair Value Measurements
Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

We account for fair value measurements in accordance with Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measurement, and expands disclosure about fair value measurement. The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in thTD> **Preferred**
Securities Corporate Debt
Securities Total Investments Banking Financial Services

Balance as of 11/30/13

$535,696 $52,650 $483,046

Accrued discounts/premiums

Realized gain/(loss)

Change in unrealized appreciation/(depreciation)

(56,760) (56,760)

Purchases

Sales

Transfer in

Transfer out

Balance as of 08/31/14	$478,936	$52,650	$426,286

For the nine months ended August 31, 2014 total change in unrealized gain/(loss) on Level 3 securities still held at period-end and included in the change in net assets was $(56,760).

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Flaherty & Crumrine Preferred Securities Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

The following table summarizes the valuation techniques used and unobservable inputs developed to determine the fair value of Level 3 investments:

Category	Fair Value at 08/31/14	Valuation Technique	Unobservable Input	Input Range (Wgt Avg)
Preferred Securities				
Banking	$ 52,650	Bankruptcy recovery	Credit/Structure-specific recovery	0.00% - 0.50% (0.15%)
Corporate Debt				
Securities	426,286	Bankruptcy recovery	Credit/Structure-specific recovery	7% - 11% (9%)

The significant unobservable inputs used in the fair value measurement technique for bankruptcy recovery are based on recovery analysis that is specific to the security being valued, including the level of subordination and structural features of the security, and the current status of any bankruptcy or liquidation proceedings. Observable market trades in bankruptcy claims are utilized by management, when available, to assess the appropriateness of valuations, although the frequency of trading depends on the specific credit and seniority of the claim. Expected recoveries in bankruptcy by security type and industry do not tend to deviate much from historical recovery rates, which are very low (sometimes zero) for preferred securities and more moderate for senior debt. Significant changes in these inputs would result in a significantly higher or lower fair value measurement.

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Directors

Donald F. Crumrine, CFA

Chairman of the Board

David Gale

Morgan Gust

Karen H. Hogan

Robert F. Wulf, CFA

Officers

Donald F. Crumrine, CFA

Chief Executive Officer

Robert M. Ettinger, CFA

President

R. Eric Chadwick, CFA

Chief Financial Officer,

Vice President and Treasurer

Chad C. Conwell

Chief Compliance Officer,

Vice President and Secretary

Bradford S. Stone

Vice President and

Assistant Treasurer

Roger Ko

Assistant Treasurer

Laurie C. Lodolo

Assistant Compliance Officer,

Assistant Treasurer and

Assistant Secretary

Linda M. Puchalski

Assistant Treasurer

Investment Adviser

Flaherty & Crumrine Incorporated

e-mail: flaherty@pfdincome.com

Servicing Agent

Destra Capital Investments LLC

1-877-855-3434

Questions concerning your shares of Flaherty & Crumrine Preferred Securities Income Fund?

If your shares are held in a Brokerage Account, contact your Broker.
If you have physical possession of your shares in certificate form, contact the Fund s Transfer Agent
BNY Mellon c/o Computershare

P.O. Box 30170

College Station, TX 77842-3170

1-866-351-7446

This report is sent to shareholders of Flaherty & Crumrine Preferred Securities Income Fund Incorporated for their information. It is not a Prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.

Quarterly Report

August 31, 2014

www.preferredincome.com