

WINNEBAGO INDUSTRIES INC  
Form 10-Q  
March 27, 2015

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 February 28, 2015  
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

(State or other jurisdiction of incorporation or organization)

42-0802678

(I.R.S. Employer Identification No.)

P. O. Box 152, Forest City, Iowa

(Address of principal executive offices)

50436

(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  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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company

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

The number of shares of common stock, par value \$0.50 per share, outstanding March 26, 2015 was 26,931,255.

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Glossary

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

|                          |  |
|--------------------------|--|
| AOCI                     | Accumulated Other Comprehensive Income (Loss)  |
| Amended Credit Agreement | Credit Agreement dated as of May 28, 2014 by and between Winnebago Industries, Inc. and Winnebago of Indiana, LLC, as Borrowers, and General Electric Capital Corporation, as Agent                                |
| Apollo                   | Apollo Motorhome Holidays, LLC   |
| ASC                      | Accounting Standards Codification  |
| ASP                      | Average Sales Price  |
| ASU                      | Accounting Standards Update  |
| Credit Agreement         | Credit Agreement dated as of October 31, 2012 by and between Winnebago Industries, Inc. and Winnebago of Indiana, LLC, as Borrowers, and General Electric Capital Corporation, as Agent (was amended May 28, 2014) |
| ERP                      | Enterprise Resource Planning   |
| FASB                     | Financial Accounting Standards Board   |
| FIFO                     | First In, First Out  |
| GAAP                     | Generally Accepted Accounting Principles   |
| GECC                     | General Electric Capital Corporation   |
| IRS                      | Internal Revenue Service   |
| IT                       | Information Technology   |
| LIBOR                    | London Interbank Offered Rate  |
| LIFO                     | Last In, First Out   |
| NMF                      | Non-Meaningful Figure  |
| NYSE                     | New York Stock Exchange  |
| OCI                      | Other Comprehensive Income   |
| RV                       | Recreation Vehicle   |
| RVIA                     | Recreation Vehicle Industry Association  |
| SEC                      | U.S. Securities and Exchange Commission  |
| SERP                     | Supplemental Executive Retirement Plan   |
| Stat Surveys             | Statistical Surveys, Inc.  |
| Towables                 | Winnebago of Indiana, LLC, a wholly-owned subsidiary of Winnebago Industries, Inc.   |
| US                       | United States of America   |
| XBRL                     | eXtensible Business Reporting Language   |
| YTD                      | Year To Date   |

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## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Financial Statements

Winnebago Industries, Inc.  
 Consolidated Statements of Income and Comprehensive Income  
 (Unaudited)

| (In thousands, except per share data)   | Three Months Ended   |                  | Six Months Ended     |                  |
|---|----------------------|------------------|----------------------|------------------|
|   | February 28,<br>2015 | March 1,<br>2014 | February 28,<br>2015 | March 1,<br>2014 |
| Net revenues  | \$234,543            | \$228,811        | \$458,946            | \$451,481        |
| Cost of goods sold  | 210,285              | 205,966          | 410,302              | 402,674          |
| Gross profit  | 24,258               | 22,845           | 48,644               | 48,807           |
| Operating expenses:   |                      |                  |                      |                  |
| Selling   | 4,846                | 4,489            | 9,553                | 8,822            |
| General and administrative  | 7,464                | 4,949            | 12,701               | 10,572           |
| Gain on sale of real estate   | —                    | (629)            | —                    | (629)            |
| Total operating expenses  | 12,310               | 8,809            | 22,254               | 18,765           |
| Operating income  | 11,948               | 14,036           | 26,390               | 30,042           |
| Non-operating income (expense)  | 28                   | (74)             | 35                   | 17               |
| Income before income taxes  | 11,976               | 13,962           | 26,425               | 30,059           |
| Provision for taxes   | 3,880                | 4,369            | 8,434                | 9,320            |
| Net income  | \$8,096              | \$9,593          | \$17,991             | \$20,739         |
| Income per common share:  |                      |                  |                      |                  |
| Basic   | \$0.30               | \$0.35           | \$0.67               | \$0.75           |
| Diluted   | \$0.30               | \$0.35           | \$0.67               | \$0.74           |
| Weighted average common shares outstanding:   |                      |                  |                      |                  |
| Basic   | 26,924               | 27,595           | 26,946               | 27,723           |
| Diluted   | 27,018               | 27,724           | 27,048               | 27,850           |
| Net income  | \$8,096              | \$9,593          | \$17,991             | \$20,739         |
| Other comprehensive income (loss):  |                      |                  |                      |                  |
| Amortization of prior service credit<br>(net of tax of \$506, \$528, \$998 and \$1,010) | (822)                | (876)            | (1,622)              | (1,676)          |
| Amortization of net actuarial loss<br>(net of tax of \$136, \$102, \$258 and \$201)     | 220                  | 168              | 419                  | 332              |
| Plan amendment<br>(net of tax of \$581, \$1,346, \$581 and \$1,346)                     | 944                  | 2,234            | 944                  | 2,234            |
| Unrealized appreciation of investments<br>(net of tax of \$0, \$0, \$0 and \$91)        | —                    | —                | —                    | 151              |
| Total other comprehensive income (loss)   | 342                  | 1,526            | (259)                | 1,041            |
| Comprehensive income  | \$8,438              | \$11,119         | \$17,732             | \$21,780         |

See notes to consolidated financial statements.



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Consolidated Balance Sheets  
(Unaudited)

| (In thousands, except per share data)   | February 28,<br>2015 | August 30,<br>2014 |   |
|---|----------------------|--------------------|---|
| Assets  |                      |                    |   |
| Current assets:   |                      |                    |   |
| Cash and cash equivalents   | \$7,938              | \$57,804           |   |
| Receivables, less allowance for doubtful accounts (\$119 and \$127)                       | 75,636               | 69,699             |   |
| Inventories   | 149,841              | 112,848            |   |
| Net investment in operating leases  | —                    | 15,978             |   |
| Prepaid expenses and other assets   | 8,215                | 5,718              |   |
| Income taxes receivable and prepaid   | 8,808                | 5                  |   |
| Deferred income taxes   | 1,975                | 9,641              |   |
| Total current assets  | 252,413              | 271,693            |   |
| Property, plant and equipment, net  | 28,370               | 25,135             |   |
| Investment in life insurance  | 25,650               | 25,126             |   |
| Deferred income taxes   | 23,762               | 24,029             |   |
| Goodwill  | 1,228                | 1,228              |   |
| Other assets  | 9,508                | 11,091             |   |
| Total assets  | \$340,931            | \$358,302          |   |
| Liabilities and Stockholders' Equity  |                      |                    |   |
| Current liabilities:  |                      |                    |   |
| Accounts payable  | \$34,215             | \$33,111           |   |
| Income taxes payable  | —                    | 2,927              |   |
| Accrued expenses:   |                      |                    |   |
| Accrued compensation  | 16,284               | 20,763             |   |
| Operating lease repurchase obligations  | —                    | 16,050             |   |
| Product warranties  | 9,856                | 9,501              |   |
| Self-insurance  | 5,633                | 4,941              |   |
| Accrued loss on repurchases   | 1,544                | 2,212              |   |
| Promotional   | 3,315                | 3,205              |   |
| Other   | 5,709                | 7,009              |   |
| Total current liabilities   | 76,556               | 99,719             |   |
| Non-current liabilities:  |                      |                    |   |
| Unrecognized tax benefits   | 2,756                | 3,024              |   |
| Postretirement health care and deferred compensation benefits                             | 59,630               | 62,811             |   |
| Total non-current liabilities   | 62,386               | 65,835             |   |
| Contingent liabilities and commitments  |                      |                    |   |
| Stockholders' equity:   |                      |                    |   |
| Capital stock common, par value \$0.50;<br>authorized 60,000 shares, issued 51,776 shares | 25,888               | 25,888             |   |
| Additional paid-in capital  | 31,438               | 31,672             |   |
| Retained earnings   | 567,604              | 554,496            |   |
| Accumulated other comprehensive loss  | (2,067               | ) (1,808           | ) |
| Treasury stock, at cost (24,845 and 24,727 shares)  | (420,874             | ) (417,500         | ) |
| Total stockholders' equity  | 201,989              | 192,748            |   |
| Total liabilities and stockholders' equity  | \$340,931            | \$358,302          |   |

See notes to consolidated financial statements.

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Winnebago Industries, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

| (In thousands)  | Six Months Ended     |                  |
|---|----------------------|------------------|
|   | February 28,<br>2015 | March 1,<br>2014 |
| Operating activities:   |                      |                  |
| Net income  | \$ 17,991            | \$ 20,739        |
| Adjustments to reconcile net income to net cash used in operating activities: |                      |                  |
| Depreciation and amortization   | 2,125                | 1,966            |
| LIFO expense  | 626                  | 608              |
| Stock-based compensation  | 1,348                | 1,388            |
| Deferred income taxes including valuation allowance                           | 7,127                | (152)            |
| Postretirement benefit income and deferred compensation expense               | (338)                | (405)            |
| Provision (benefit) for doubtful accounts                                     | 2                    | (1)              |
| Gain on disposal of property  | (35)                 | (702)            |
| Increase in cash surrender value of life insurance policies                   | (462)                | (440)            |
| Change in assets and liabilities:   |                      |                  |
| Inventories   | (37,619)             | (12,356)         |
| Receivables, prepaid and other assets   | (7,560)              | (40,056)         |
| Investment in operating leases, net of repurchase obligations                 | (72)                 | —                |
| Income taxes and unrecognized tax benefits                                    | (11,258)             | 1,269            |
| Accounts payable and accrued expenses   | (4,075)              | 536              |
| Postretirement and deferred compensation benefits                             | (1,852)              | (1,924)          |
| Net cash used in operating activities   | (34,052)             | (29,530)         |
| Investing activities:   |                      |                  |
| Proceeds from the sale of investments, at par                                 | —                    | 2,350            |
| Purchases of property and equipment   | (5,154)              | (3,772)          |
| Proceeds from the sale of property  | 43                   | 2,392            |
| Other   | 294                  | (105)            |
| Net cash (used in) provided by investing activities                           | (4,817)              | 865              |
| Financing activities:   |                      |                  |
| Payments for purchases of common stock  | (6,141)              | (21,484)         |
| Payments of cash dividends  | (4,883)              | —                |
| Proceeds from exercise of stock options                                       | —                    | 2,080            |
| Borrowings on loans   | 22,000               | —                |
| Repayments of loans   | (22,000)             | —                |
| Other   | 27                   | 50               |
| Net cash used in financing activities   | (10,997)             | (19,354)         |
| Net decrease in cash and cash equivalents                                     | (49,866)             | (48,019)         |
| Cash and cash equivalents at beginning of period                              | 57,804               | 64,277           |
| Cash and cash equivalents at end of period                                    | \$ 7,938             | \$ 16,258        |
| Supplement cash flow disclosure:  |                      |                  |
| Income taxes paid, net of refunds   | \$ 12,565            | \$ 8,200         |
| Interest paid   | \$ 10                | \$ —             |

See notes to consolidated financial statements.

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

Note 1: Basis of Presentation

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

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; our website is [www.winnebagoind.com](http://www.winnebagoind.com). Our common stock trades on the NYSE under the symbol "WGO."

In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly our consolidated financial position as of February 28, 2015 and the consolidated results of income and comprehensive income and consolidated cash flows for the first six months of Fiscal 2015 and 2014. The consolidated statement of income and comprehensive income for the first six months of Fiscal 2015 is not necessarily indicative of the results to be expected for the full year. The consolidated balance sheet data as of August 30, 2014 was derived from audited financial statements, but does not include all of the information and footnotes required by GAAP for complete financial statements. These interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto appearing in our Annual Report on Form 10-K for the fiscal year ended August 30, 2014.

Fiscal Period

We follow a 52-/53-week fiscal year, ending the last Saturday in August. Both Fiscal 2015 and Fiscal 2014 are 52-week years.

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which specifies how and when to recognize revenue as well as providing informative, relevant disclosures. ASU 2014-09 will become effective for fiscal years beginning after December 15, 2016 (our Fiscal 2018). We are currently evaluating the impact on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Going Concern (Subtopic 205-40), which provides guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and related footnote disclosures. ASU 2014-15 will become effective for years ending after December 15, 2016 (our Fiscal 2017). We are currently evaluating the impact of ASU 2014-15 on our consolidated financial statements.

Note 2: Concentration Risk

One of our dealer organizations accounted for 20.1% and 20.7% of our consolidated net revenues for the first six months of Fiscal 2015 and Fiscal 2014, respectively. A second dealer organization accounted for 19.2% and 12.6% of our consolidated net revenues for the first six months of Fiscal 2015 and Fiscal 2014, respectively. The loss of either or both of these dealer organizations could have a significant adverse effect on our business. In addition, deterioration in the liquidity or creditworthiness of these dealers could negatively impact our sales and could trigger repurchase obligations under our repurchase agreements.

Note 3: 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 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.

Cash Equivalents

The carrying value of cash equivalents approximates fair value as original maturities are less than three months. Our cash equivalents are comprised of money market funds traded in an active market with no restrictions.

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The following tables set forth by level within the fair value hierarchy our financial assets that were accounted for at fair value on a recurring basis at February 28, 2015 and August 30, 2014 according to the valuation techniques we used to determine their fair values:

| (In thousands)                          | Fair Value at February 28, 2015 | Fair Value Measurements Using Inputs Considered As           |   |   |
|---|---------------------------------|--|---|---|
|   |                                 | Level 1 Quoted Prices in Active Markets for Identical Assets | Level 2 Significant Other Observable Inputs | Level 3 Significant Unobservable Inputs |
| Assets that fund deferred compensation: |                                 |  |   |   |
| Domestic equity funds                   | \$5,117                         | \$5,117  | \$—   | \$—                                     |
| International equity funds              | 514                             | 514  | —   | —                                       |
| Fixed income funds                      | 247                             | 247  | —   | —                                       |
| Total assets at fair value              | \$5,878                         | \$5,878  | \$—   | \$—                                     |

| (In thousands)                          | Fair Value at August 30, 2014 | Fair Value Measurements Using Inputs Considered As           |   |   |
|---|-------------------------------|--|---|---|
|   |                               | Level 1 Quoted Prices in Active Markets for Identical Assets | Level 2 Significant Other Observable Inputs | Level 3 Significant Unobservable Inputs |
| Assets that fund deferred compensation: |                               |  |   |   |
| Domestic equity funds                   | \$5,465                       | \$5,465  | \$—   | \$—                                     |
| International equity funds              | 716                           | 716  | —   | —                                       |
| Fixed income funds                      | 242                           | 242  | —   | —                                       |
| Total assets at fair value              | \$6,423                       | \$6,423  | \$—   | \$—                                     |

The following table provides a reconciliation between the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3):

| (In thousands)                                    | Three Months Ended |               | Six Months Ended  |               |
|---|--------------------|---------------|-------------------|---------------|
|   | February 28, 2015  | March 1, 2014 | February 28, 2015 | March 1, 2014 |
| Balance at beginning of period                    | \$—                | \$—           | \$—               | \$2,108       |
| Net change included in other comprehensive income | —                  | —             | —                 | 242           |
| Sales   | —                  | —             | —                 | (2,350)       |
| Balance at end of period                          | \$—                | \$—           | \$—               | \$—           |

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

**Assets that Fund Deferred Compensation**

Our assets that fund deferred compensation are marketable equity securities measured at fair value using quoted market prices and primarily consist of equity-based mutual funds. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available. These securities fund the Executive Share Option Plan (see Note 9), a deferred compensation program, and are presented as other assets in the accompanying balance sheets.

**Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis**

Our non-financial assets, which include goodwill and property, plant and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required, we must evaluate the non-financial asset for impairment. If an impairment did occur, the asset is required to be recorded at the estimated fair value. During the first six months of Fiscal 2015, no impairments were recorded for non-financial assets.

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## Note 4: Inventories

Inventories consist of the following:

| (In thousands)    | February 28,<br>2015 | August 30,<br>2014 |
|-------------------|----------------------|--------------------|
| Finished goods    | \$36,923             | \$28,029           |
| Work-in-process   | 71,684               | 49,919             |
| Raw materials     | 73,159               | 66,200             |
| Total             | 181,766              | 144,148            |
| LIFO reserve      | (31,925              | ) (31,300          |
| Total inventories | \$149,841            | \$112,848          |

The above value of inventories, before reduction for the LIFO reserve, approximates replacement cost. Of the \$181.8 million and \$144.1 million inventory at February 28, 2015 and August 30, 2014, respectively, \$169.0 million and \$137.7 million is valued on a LIFO basis. Towables inventory of \$12.8 million and \$6.4 million at February 28, 2015 and August 30, 2014, respectively, is valued on a FIFO basis.

## Note 5: Net Investment in Operating Leases and Operating Lease Repurchase Obligations

During the third quarter of Fiscal 2014 we delivered 520 RV rental units to Apollo, a US RV rental company. Under the terms of a sales agreement with Apollo, all units were paid for upon delivery. To secure an order of this magnitude, we contractually agreed to repurchase up to 343 of the units at specified prices after one season of rental use (by no later than December 31, 2014) provided certain conditions are met. On December 29, 2014 the repurchase timing was extended from December 31, 2014 to February 28, 2015. The original cost of these units was depreciated down to the estimated net realizable value of the rental units during the time frame that the units were in rental use. During the first quarter of Fiscal 2015, we were released of repurchase obligation for 124 units as Apollo sold the units in the market place. As units subject to repurchase were sold, we removed the remaining net investment in operating lease as well as the operating lease repurchase obligation. In the second quarter of Fiscal 2015, we were released of the remaining repurchase obligations and as a result, there were no associated assets or liabilities on the balance sheet at February 28, 2015.

Net lease revenue was recorded ratably over the rental period that Apollo held the units based upon the difference between the proceeds received and the estimated repurchase obligation less the estimated depreciation expense of the unit. We were not required to repurchase any units from Apollo, thus we did not record a gain or loss for the difference between the estimated residual value of the unit and the actual resale value as a component of net lease revenue. We recorded net lease revenue of \$626,000 during Fiscal 2014, \$623,000 and \$1.3 million during the second quarter and first six months of Fiscal 2015, respectively.

In March 2015, we received a rental order of similar size from Apollo for the 2015 rental season. Under the terms of the 2015 sales agreement, the sales of these units will all be normal sales with no units recorded as operating leases. Based on the planned delivery schedule, we will ship approximately two-thirds of these units in the third quarter of Fiscal 2015 and one-third in the fourth quarter of Fiscal 2015.

## Note 6: Property, Plant and Equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and consists of the following:

| (In thousands)                      | February 28,<br>2015 | August 30,<br>2014 |
|-------------------------------------|----------------------|--------------------|
| Land                                | \$738                | \$738              |
| Buildings and building improvements | 48,092               | 47,273             |
| Machinery and equipment             | 92,351               | 90,101             |
| Software                            | 5,052                | 4,356              |

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|  |          |            |   |
|--|----------|------------|---|
| Transportation                             | 9,347    | 9,098      |   |
| Total property, plant and equipment, gross | 155,580  | 151,566    |   |
| Less accumulated depreciation              | (127,210 | ) (126,431 | ) |
| Total property, plant and equipment, net   | \$28,370 | \$25,135   |   |

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Note 7: Credit Facilities

On October 31, 2012, we entered into the Credit Agreement with GECC. The Credit Agreement provides for an initial \$35.0 million revolving credit facility based on eligible inventory and was to expire on October 31, 2015, unless terminated earlier in accordance with its terms. There is no termination fee associated with the Credit Agreement.

The Credit Agreement contains no financial covenant restrictions for borrowings where we have excess borrowing availability under the facility of greater than \$5.0 million. The Credit Agreement requires us to comply with a fixed charge ratio if excess borrowing availability under the facility is less than \$5.0 million. In addition the Credit Agreement also includes a framework to expand the size of the facility up to \$50.0 million, based on mutually agreeable terms at the time of the expansion. The initial unused line fee associated with the Credit Agreement is 0.5% per annum and has the ability to be lowered based upon facility usage.

The Credit Agreement contains typical affirmative representations and covenants for a credit agreement of this size and nature. Additionally, the Credit Agreement contains negative covenants limiting our ability, among other things, to incur debt, grant liens, make acquisitions, make certain investments, pay certain dividends and distributions, engage in mergers, consolidations or acquisitions and sell certain assets. Obligations under the Credit Agreement are secured by a security interest in all of our accounts and other receivables, chattel paper, documents, deposit accounts, instruments, equipment, inventory, investment property, leasehold interest, cash and cash equivalents, letter-of-credit rights, most real property and fixtures and certain other business assets.

On May 28, 2014, we amended this Credit Agreement (the "Amended Credit Agreement"). The Amended Credit Agreement extends the term of the credit facility from October 31, 2015 to May 28, 2019. In addition, interest on loans made under the Amended Credit Facility will be based on LIBOR plus a margin of 2.0%. The amendment also revised and added definitions of several terms including an expanded Restricted Payment Basket that now permits up to \$15.0 million purchases of company stock and cash dividends to be excluded from the Fixed Charge ratio annually. In addition, the definition of Eligible Accounts was expanded to permit certain receivables to be included in the Borrowing Base. The Amended Credit Agreement also permits us to engage in certain sale lease buyback transactions in the ordinary course of business subject to certain restrictions and increases our ability to incur capital lease obligations.

During the second quarter we utilized the credit facility from time to time to meet working capital needs, however at the end of the period no borrowings were outstanding. As of the date of this report, we are in compliance with all material terms of the Amended Credit Agreement, and no borrowings are outstanding.

Note 8: Warranty

We provide our motorhome customers a comprehensive 12-month/15,000-mile warranty on our Class A, B and C motorhomes, and a 3-year/36,000-mile structural warranty on Class A and C sidewalls and floors. We provide a comprehensive 12-month warranty on all towable products. We have also incurred costs for certain warranty-type expenses which occurred after the normal warranty period. We have voluntarily agreed to pay such costs to help protect the reputation of our products and the goodwill of our customers. Estimated costs related to product warranty are accrued at the time of sale and are based upon past warranty claims and unit sales history and adjusted as required to reflect actual costs incurred, as information becomes available. A significant increase in dealership labor rates, the cost of parts or the frequency of claims could have a material adverse impact on our operating results for the period or periods in which such claims or additional costs materialize.

Changes in our product warranty liability are as follows:

| (In thousands) | Three Months Ended | Six Months Ended |
|----------------|--------------------|------------------|
|----------------|--------------------|------------------|

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|                                | February 28,<br>2015 | March 1,<br>2014 | February 28,<br>2015 | March 1,<br>2014 |
|--------------------------------|----------------------|------------------|----------------------|------------------|
| Balance at beginning of period | \$9,090              | \$8,345          | \$9,501              | \$8,443          |
| Provision                      | 2,269                | 2,368            | 4,846                | 5,138            |
| Claims paid                    | (1,503               | ) (1,932         | ) (4,491             | ) (4,800         |
| Balance at end of period       | \$9,856              | \$8,781          | \$9,856              | \$8,781          |

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## Note 9: Employee and Retiree Benefits

Postretirement health care and deferred compensation benefits are as follows:

| (In thousands)  | February 28,<br>2015 | August 30,<br>2014 |
|---|----------------------|--------------------|
| Postretirement health care benefit cost                                 | \$35,829             | \$36,930           |
| Non-qualified deferred compensation                                     | 20,313               | 21,014             |
| Executive share option plan liability                                   | 5,206                | 5,628              |
| SERP benefit liability  | 3,025                | 2,974              |
| Executive deferred compensation   | 290                  | 213                |
| Officer stock-based compensation  | 387                  | 627                |
| Total postretirement health care and deferred compensation benefits     | 65,050               | 67,386             |
| Less current portion <sup>(1)</sup>                                     | (5,420               | ) (4,575           |
| Long-term postretirement health care and deferred compensation benefits | \$59,630             | \$62,811           |

<sup>(1)</sup> The current portions of these benefits are presented on the consolidated balance sheets in accrued compensation with the exception of postretirement health care which is included in other accrued expenses.

## Postretirement Health Care Benefits

We provide certain health care and other benefits for retired employees hired before April 1, 2001, who have fulfilled eligibility requirements at age 55 with 15 years of continuous service. We use a September 1 measurement date for this plan and our postretirement health care plan currently is not funded.

We established dollar caps on the amount that we will pay for postretirement health care benefits per retiree on an annual basis to reduce our exposure to medical inflation. Retirees are required to pay a monthly premium in excess of the employer dollar caps for medical coverage based on years of service and age at retirement. Changes in the postretirement benefit plan include:

| Date         | Event                            | Dollar Cap<br>Reduction | Liability<br>Reduction<br>(In thousands) | Amortization<br>Period |
|--------------|----------------------------------|-------------------------|--|------------------------|
| Fiscal 2005  | Established employer dollar caps |                         |  |                        |
| January 2012 | Reduced employer dollar caps     | 10%                     | \$4,598                                  | 7.8 years              |
| January 2013 | Reduced employer dollar caps     | 10%                     | \$4,289                                  | 7.5 years              |
| January 2014 | Reduced employer dollar caps     | 10%                     | \$3,580                                  | 7.3 years              |
| January 2015 | Reduced employer dollar caps     | 10%                     | \$1,524                                  | 7.1 years              |

Net periodic postretirement benefit income consisted of the following components:

| (In thousands)                             | Three Months Ended   |                  | Six Months Ended     |                  |
|--|----------------------|------------------|----------------------|------------------|
|  | February 28,<br>2015 | March 1,<br>2014 | February 28,<br>2015 | March 1,<br>2014 |
| Interest cost                              | \$332                | \$386            | \$685                | \$780            |
| Service cost                               | 103                  | 98               | 213                  | 200              |
| Amortization of prior service benefit      | (1,327               | ) (1,405         | ) (2,620             | ) (2,686         |
| Amortization of net actuarial loss         | 351                  | 269              | 667                  | 529              |
| Net periodic postretirement benefit income | \$(541               | ) \$(652         | ) \$(1,055           | ) \$(1,177       |
| Payments for postretirement health care    | \$225                | \$259            | \$476                | \$532            |

## Note 10: Stockholders' Equity

## Stock-Based Compensation

We have a 2014 Omnibus Equity, Performance Award, and Incentive Compensation Plan (as amended, the "Plan") approved by shareholders in place which allows us to grant or issue non-qualified stock options, incentive stock

options, share awards and other equity compensation to key employees and to non-employee directors. On October 15, 2014 and October 16, 2013 the Human Resources Committee of the Board of Directors granted an aggregate of 99,600 and 84,200 shares, respectively, of restricted common stock to our key employees and non-employee directors under the Plan. The value of the restricted stock award is determined using the intrinsic value method which, in this case, is based on the number of shares granted and the closing price of our common stock on the date of grant.

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Stock-based compensation expense was \$447,000 and \$436,000 during the second quarters of Fiscal 2015 and 2014, respectively. Stock-based compensation expense was \$1.3 million and \$1.4 million during the six months of Fiscal 2015 and 2014, respectively. Of the \$1.3 million expense recognized in Fiscal 2015, \$838,000 related to the October 15, 2014 grant of 99,600 shares. The remainder is related to the amortization of previously granted restricted stock awards, as well as non-employee director stock units issued in lieu of director fees. Compensation expense is recognized over the requisite service period of the award or over a period ending with the employee's eligible retirement date, if earlier.

## Dividends

On December 17, 2014, the Board of Directors declared a quarterly cash dividend of \$0.09 per share of common stock, which was paid on February 4, 2015 to shareholders of record at the close of business on January 21, 2015.

On March 18, 2015, the Board of Directors declared a quarterly cash dividend of \$0.09 per share of common stock, payable on May 6, 2015 to shareholders of record at the close of business on April 22, 2015.

## Note 11: Contingent Liabilities and Commitments

## Repurchase Commitments

Generally, manufacturers in the RV industry enter into repurchase agreements with lending institutions which have provided wholesale floorplan financing to dealers. Most dealers' RVs 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 recreation vehicles purchased.

Our repurchase agreements provide that, in the event of default by the dealer on the agreement to pay the lending institution, we will repurchase the financed merchandise. The terms of these agreements, which generally can last up to 18 months, provide that our liability will be the lesser of remaining principal owed by the dealer or dealer invoice less periodic reductions based on the time since the date of the original invoice. Our contingent liability on these repurchase agreements was approximately \$429.6 million and \$363.8 million at February 28, 2015 and August 30, 2014, respectively.

In certain instances, we also repurchase inventory from our dealers due to state law or regulatory requirements that govern voluntary or involuntary relationship terminations. Although laws vary from state to state, some states have laws in place that require manufacturers of recreation vehicles to repurchase current inventory if a dealership exits the business. Incremental repurchase exposure beyond existing repurchase agreements, related to dealer inventory in states that we have had historical experience of repurchasing inventory, totaled \$6.5 million and \$6.8 million at February 28, 2015 and August 30, 2014, respectively.

Our risk of loss related to our repurchase commitments is significantly reduced by the potential resale value of any products that are subject to repurchase and is spread over numerous dealers and lenders. The aggregate contingent liability related to our repurchase agreements represents all financed dealer inventory at the period reporting date subject to a repurchase agreement, net of the greater of periodic reductions per the agreement or dealer principal payments. Based on the repurchase exposure as previously described, we established an associated loss reserve. Our accrued losses on repurchases were \$1.5 million as of February 28, 2015 and \$2.2 million as of August 30, 2014.

A summary of repurchase activity is as follows:

| (Dollars in thousands) | Three Months Ended   |                  | Six Months Ended     |                  |
|------------------------|----------------------|------------------|----------------------|------------------|
|                        | February 28,<br>2015 | March 1,<br>2014 | February 28,<br>2015 | March 1,<br>2014 |
| Inventory repurchased: |                      |                  |                      |                  |
| Units                  | —                    | —                | 54                   | 14               |
| Dollars                | \$—                  | \$—              | \$7,156              | \$325            |
| Inventory resold:      |                      |                  |                      |                  |
| Units                  | 53                   | —                | 55                   | 14               |
| Cash collected         | \$6,102              | \$—              | \$6,140              | \$257            |
| Loss realized          | \$1,022              | \$—              | \$1,033              | \$68             |

Units in ending inventory — — — —

The majority of the units resold in the second quarter of Fiscal 2015 were attributable to a single dealership. The loss realized in the quarter had previously been reserved for, and the decrease in the loss reserve is the result of the resale of the repurchased units.

We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our loss reserve for repurchase commitments. A hypothetical change of a 10% increase or decrease in our significant repurchase commitment assumptions at February 28, 2015 would have affected net income by approximately \$293,000.

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## Litigation

We are involved in various legal proceedings which are ordinary litigation incidental to our business, some of which are covered in whole or in part by insurance. We believe while the final resolution of any such litigation may have an impact on our results for a particular reporting period, the ultimate disposition of such litigation will not have any material adverse effect on our financial position, results of operations or liquidity.

## Note 12: Income Taxes

We account for income taxes under ASC 740, Income Taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns.

We file tax returns in the US federal jurisdiction, as well as various international and state jurisdictions. Although certain years are no longer subject to examinations by the IRS and various state taxing authorities, net operating loss carryforwards generated in those years may still be adjusted upon examination by the IRS or state taxing authorities if they either have been or will be used in a future period. As of February 28, 2015, our federal returns from Fiscal 2011 to present continue to be subject to review by the IRS. With few exceptions, the state returns from Fiscal 2009 to present continue to be subject to review by the taxing jurisdictions. A number of years may elapse before an uncertain tax position is audited and finally resolved, and it is often very difficult to predict the outcome of such audits.

As of February 28, 2015, our unrecognized tax benefits were \$2.8 million including accrued interest and penalties of \$1.1 million. If we were to prevail on all unrecognized tax benefits recorded, \$1.9 million of the \$2.8 million would benefit the overall effective tax rate. It is our policy to recognize interest and penalties accrued relative to unrecognized tax benefits as tax expense. It is reasonably possible that the amount of unrecognized tax benefits with respect to our other unrecognized tax positions will increase or decrease during the next twelve months; however, an estimate of the amount or range of the change cannot be made at this time.

## Note 13: Earnings Per Share

The following table reflects the calculation of basic and diluted income per share:

| (In thousands, except per share data)                             | Three Months Ended   |                  | Six Months Ended     |                  |
|---|----------------------|------------------|----------------------|------------------|
|   | February 28,<br>2015 | March 1,<br>2014 | February 28,<br>2015 | March 1,<br>2014 |
| Income per share - basic  |                      |                  |                      |                  |
| Net income  | \$8,096              | \$9,593          | \$17,991             | \$20,739         |
| Weighted average shares outstanding                               | 26,924               | 27,595           | 26,946               | 27,723           |
| Net income per share - basic                                      | \$0.30               | \$0.35           | \$0.67               | \$0.75           |
| Income per share - assuming dilution                              |                      |                  |                      |                  |
| Net income  | \$8,096              | \$9,593          | \$17,991             | \$20,739         |
| Weighted average shares outstanding                               | 26,924               | 27,595           | 26,946               | 27,723           |
| Dilutive impact of awards and options outstanding                 | 94                   | 129              | 102                  | 127              |
| Weighted average shares and potential dilutive shares outstanding | 27,018               | 27,724           | 27,048               | 27,850           |
| Net income per share - assuming dilution                          | \$0.30               | \$0.35           | \$0.67               | \$0.74           |

At the end of the second quarter of Fiscal 2015 and Fiscal 2014, there were options outstanding to purchase 180,154 shares and 316,600 shares, respectively, of common stock at an average price of \$28.20 and \$32.02, respectively, which were not included in the computation of diluted income per share because they are considered anti-dilutive under the treasury stock method per ASC 260, Earnings Per Share.





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## Note 14: Comprehensive Income (Loss)

Changes in AOCI by component, net of tax, were:

| (In thousands)                 | Three Months Ended<br>February 28, 2015 |  |            | March 1, 2014                          |  |          |
|--------------------------------|---|--|------------|--|--|----------|
|                                | Defined<br>Benefit<br>Pension<br>Items  | Unrealized<br>Gains and<br>Losses on<br>Available-<br>for-Sale<br>Securities | Total      | Defined<br>Benefit<br>Pension<br>Items | Unrealized<br>Gains and<br>Losses on<br>Available-<br>for-Sale<br>Securities | Total    |
| Balance at beginning of period | \$ (2,409)                              | ) \$ —   | \$ (2,409) | ) \$ 364                               | \$ —   | \$ 364   |
| OCI before reclassifications   | 944                                     | —  | 944        | 2,234                                  | —  | 2,234    |
| Amounts reclassified from AOCI | (602)                                   | ) —  | (602)      | ) (708)                                | ) —  | (708)    |
| Net current-period OCI         | 342                                     | —  | 342        | 1,526                                  | —  | 1,526    |
| Balance at end of period       | \$ (2,067)                              | ) \$ —   | \$ (2,067) | ) \$ 1,890                             | \$ —   | \$ 1,890 |

| (In thousands)                 | Six Months Ended<br>February 28, 2015  |  |            | March 1, 2014                          |  |          |
|--------------------------------|--|--|------------|--|--|----------|
|                                | Defined<br>Benefit<br>Pension<br>Items | Unrealized<br>Gains and<br>Losses on<br>Available-<br>for-Sale<br>Securities | Total      | Defined<br>Benefit<br>Pension<br>Items | Unrealized<br>Gains and<br>Losses on<br>Available-<br>for-Sale<br>Securities | Total    |
| Balance at beginning of period | \$ (1,808)                             | ) \$ —   | \$ (1,808) | ) \$ 1,000                             | \$ (151)   | ) \$ 849 |
| OCI before reclassifications   | 944                                    | —  | 944        | 2,234                                  | 151  | 2,385    |
| Amounts reclassified from AOCI | (1,203)                                | ) —  | (1,203)    | ) (1,344)                              | ) —  | (1,344)  |
| Net current-period OCI         | (259)                                  | ) —  | (259)      | ) 890                                  | 151  | 1,041    |
| Balance at end of period       | \$ (2,067)                             | ) \$ —   | \$ (2,067) | ) \$ 1,890                             | \$ —   | \$ 1,890 |

Reclassifications out of AOCI in net periodic benefit costs, net of tax, were:

| (In thousands)                       | Location on Consolidated<br>Statements<br>of Income and<br>Comprehensive Income | Three Months Ended   |                  | Six Months Ended     |                  |
|--------------------------------------|---|----------------------|------------------|----------------------|------------------|
|                                      |   | February 28,<br>2015 | March 1,<br>2014 | February 28,<br>2015 | March 1,<br>2014 |
| Amortization of prior service credit | Operating expenses  | \$ (822)             | ) \$ (876)       | ) (1,622)            | ) (1,676)        |
| Amortization of net actuarial loss   | Operating expenses  | 220                  | 168              | 419                  | 332              |
| Total reclassifications              |   | \$ (602)             | ) \$ (708)       | ) \$ (1,203)         | ) \$ (1,344)     |

Note 15: Subsequent Event

We evaluated all events or transactions occurring between the balance sheet date for the quarterly period ended February 28, 2015 and the date of issuance of the financial statements that would require recognition or disclosure in the financial statements. There were no material subsequent events except the March 26, 2015 Apollo sales agreement as noted in Note 5 and the March 18, 2015 dividend declaration as noted in Note 10.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This management's discussion should be read in conjunction with the Unaudited Consolidated Financial Statements contained in this Form 10-Q as well as the Management's Discussion and Analysis and Risk Factors included in our Annual Report on Form 10 K for the fiscal year ended August 30, 2014 and in Part II, Item 1A of this Quarterly Report on Form 10-Q.

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## Forward-Looking Information

Certain of the matters discussed in this Quarterly Report on Form 10-Q 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: increases in interest rates, availability of credit, low consumer confidence, availability of labor, significant increase in repurchase obligations, inadequate liquidity or capital resources, availability and price of fuel, a slowdown in the economy, increased material and component costs, availability of chassis and other key component parts, sales order cancellations, slower than anticipated sales of new or existing products, new product introductions by competitors, the effect of global tensions, integration of operations relating to mergers and acquisitions activities, any unexpected expenses related to ERP and strategic sourcing projects, and other factors which may be disclosed throughout this report. Although we believe that the expectations reflected in the “forward-looking statements” are reasonable, we cannot guarantee future results, or 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 NYSE.

## Executive Overview

Winnebago Industries, Inc. is a leading US manufacturer of RVs with a proud history of manufacturing RV products for more than 50 years. We produce all of our motorhomes in vertically integrated manufacturing facilities in Iowa and we produce all travel trailer and fifth wheel trailers in Indiana. We distribute our products primarily through independent dealers throughout the US and Canada, who then retail the products to the end consumer.

Our retail unit market share, as reported by Stat Surveys based on state records, is illustrated below. Note that this data is subject to adjustment and is continuously updated.

|                                 | Through January 31 |        | Calendar Year |        |        |   |
|---------------------------------|--------------------|--------|---------------|--------|--------|---|
|                                 | 2015               | 2014   | 2014          | 2013   | 2012   |   |
| US and Canada                   | 21.3               | % 18.6 | % 20.7        | % 18.6 | % 19.8 | % |
| Motorized A, B, C               | 1.0                | % 0.8  | % 0.8         | % 1.0  | % 0.9  | % |
| Travel trailer and fifth wheels |                    |        |               |        |        |   |

During calendar 2014, we increased our North American motorhome retail market share by 210 basis points. The most notable growth occurred in the Class C segment which was fueled in part by our partnership with a large rental dealer. We also experienced significant retail growth in Class B in calendar 2014 due to new products introduced and increased demand for existing offerings.

Presented in fiscal quarters, certain key metrics are shown below:

|                        | Class A, B & C Motorhomes |               |                   |         | Travel Trailers & Fifth Wheels |               |                   |         |
|------------------------|---------------------------|---------------|-------------------|---------|--------------------------------|---------------|-------------------|---------|
|                        |                           |               | As of Quarter End |         |                                |               | As of Quarter End |         |
|                        | Wholesale                 | Retail        | Dealer            | Order   | Wholesale                      | Retail        | Dealer            | Order   |
| (In units)             | Deliveries                | Registrations | Inventory         | Backlog | Deliveries                     | Registrations | Inventory         | Backlog |
| Q3 2013                | 1,978                     | 1,736         | 2,634             | 2,846   | 713                            | 846           | 1,642             | 443     |
| Q4 2013                | 1,890                     | 1,870         | 2,654             | 3,380   | 717                            | 748           | 1,611             | 221     |
| Q1 2014                | 2,005                     | 1,524         | 3,135             | 3,534   | 484                            | 504           | 1,591             | 151     |
| Q1 2014                | 2,055                     | 1,283         | 3,907             | 2,900   | 575                            | 394           | 1,772             | 206     |
| Rolling 12 months      | 7,928                     | 6,413         |                   |         | 2,489                          | 2,492         |                   |         |
| Mar 2013-Feb 2014      |                           |               |                   |         |                                |               |                   |         |
| Q3 2014 <sup>(1)</sup> | 2,674                     | 2,783         | 3,798             | 2,357   | 727                            | 724           | 1,775             | 303     |

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|  |       |       |       |          |       |       |       |           |
|--|-------|-------|-------|----------|-------|-------|-------|-----------|
| Q4 2014                                | 2,364 | 2,183 | 3,979 | 1,899    | 723   | 777   | 1,721 | 163       |
| Q1 2015                                | 2,031 | 1,818 | 4,192 | 2,122    | 546   | 585   | 1,682 | 154       |
| Q2 2015                                | 2,104 | 1,518 | 4,778 | 2,275    | 605   | 410   | 1,877 | 130       |
| Rolling 12 months<br>Mar 2014-Feb 2015 | 9,173 | 8,302 |       |          | 2,601 | 2,496 |       |           |
| Unit change                            | 1,245 | 1,889 | 871   | (625 )   | 112   | 4     | 105   | (76 )     |
| Percentage change                      | 15.7  | %29.5 | %22.3 | %(21.6 ) | % 4.5 | %0.2  | %5.9  | %(36.9 )% |

(1) Of the 2,674 units delivered in Q3 2014, 343 units were accounted for as operating leases as the units were subject to repurchase option. These units were included as retail registrations, not in dealer inventory, as the units were immediately placed into rental service once delivered. See Note 5 to the financial statements.

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## Industry Outlook

Key statistics for the motorhome industry are as follows:

| US and Canada Industry Class A, B & C Motorhomes |        |            |             |          |                                     |            |             |          |    |
|--|--------|------------|-------------|----------|-------------------------------------|------------|-------------|----------|----|
| Wholesale Shipments <sup>(1)</sup>               |        |            |             |          | Retail Registrations <sup>(2)</sup> |            |             |          |    |
| Calendar Year                                    |        |            |             |          |                                     |            |             |          |    |
| (In units)                                       | 2014   | 2013       | Unit Change | % Change | 2014                                | 2013       | Unit Change | % Change |    |
| Q1   | 11,125 | 8,500      | 2,625       | 30.9     | % 8,076                             | 7,147      | 929         | 13.0     | %  |
| Q2   | 12,203 | 10,972     | 1,231       | 11.2     | % 12,505                            | 10,909     | 1,596       | 14.6     | %  |
| Q3   | 10,704 | 9,469      | 1,235       | 13.0     | % 10,609                            | 9,125      | 1,484       | 16.3     | %  |
| Q4   | 9,919  | 9,391      | 528         | 5.6      | % 7,500                             | 6,281      | 1,219       | 19.4     | %  |
| Total  | 43,951 | 38,332     | 5,619       | 14.7     | % 38,690                            | 33,462     | 5,228       | 15.6     | %  |
|  | 2015   | 2014       | Unit Change | % Change | 2015                                | 2014       | Unit Change | % Change |    |
| January  | 3,732  | 3,268      | 464         | 14.2     | % 2,110                             | 2,119      | (9          | )(0.4    | )% |
| February   | 4,087  | 3,737      | 350         | 9.4      | %                                   | (4) 2,420  |             |          |    |
| March  | 4,532  | (3) 4,120  | 412         | 10.0     | %                                   | (4) 3,537  |             |          |    |
| Q1   | 12,351 | (3) 11,125 | 1,226       | 11.0     | %                                   | (4) 8,076  |             |          |    |
| Q2   | 12,900 | (3) 12,203 | 697         | 5.7      | %                                   | (4) 12,505 |             |          |    |
| Q3   | 10,700 | (3) 10,704 | (4          | )—       | %                                   | (4) 10,609 |             |          |    |
| Q4   | 10,000 | (3) 9,919  | 81          | 0.8      | %                                   | (4) 7,500  |             |          |    |
| Total  | 45,951 | (3) 43,951 | 2,000       | 4.6      | %                                   | 38,690     |             |          |    |
| YTD <sup>(5)</sup>                               | 7,819  | 7,005      | 814         | 11.6     | % 2,110                             | 2,119      |             |          |    |

<sup>(1)</sup> Class A, B and C wholesale shipments as reported by RVIA.<sup>(2)</sup> Class A, B and C retail registrations as reported by Stat Surveys for the US and Canada combined.

Monthly and quarterly Class A, B and C wholesale shipments are based upon the forecast prepared by Dr. Richard

<sup>(3)</sup> Curtin of the University of Michigan Consumer Survey Research Center for RVIA and reported in the Roadsigns

RV Spring 2015 Industry Forecast Issue. The revised RVIA annual 2015 wholesale shipment forecast is 45,000.

<sup>(4)</sup> Stat Surveys has not issued a projection for 2015 retail demand for this period.<sup>(5)</sup> YTD wholesale shipments include January through February; YTD retail registrations include January.

Key statistics for the towable industry are as follows:

| US and Canada Travel Trailer & Fifth Wheel Industry |         |            |             |          |                                     |            |             |          |   |
|---|---------|------------|-------------|----------|-------------------------------------|------------|-------------|----------|---|
| Wholesale Shipments <sup>(1)</sup>                  |         |            |             |          | Retail Registrations <sup>(2)</sup> |            |             |          |   |
| Calendar Year                                       |         |            |             |          |                                     |            |             |          |   |
| (In units)  | 2014    | 2013       | Unit Change | % Change | 2014                                | 2013       | Unit Change | % Change |   |
| Q1  | 75,458  | 66,745     | 8,713       | 13.1     | % 45,970                            | 42,987     | 2,983       | 6.9      | % |
| Q2  | 85,648  | 79,935     | 5,713       | 7.1      | % 99,881                            | 94,717     | 5,164       | 5.5      | % |
| Q3  | 65,543  | 61,251     | 4,292       | 7.0      | % 86,737                            | 79,805     | 6,932       | 8.7      | % |
| Q4  | 72,289  | 60,104     | 12,185      | 20.3     | % 42,144                            | 37,054     | 5,090       | 13.7     | % |
| Total   | 298,938 | 268,035    | 30,903      | 11.5     | % 274,732                           | 254,563    | 20,169      | 7.9      | % |
|   | 2015    | 2014       | Unit Change | % Change | 2015                                | 2014       | Unit Change | % Change |   |
| January   | 23,799  | 21,306     | 2,493       | 11.7     | % 11,053                            | 10,115     | 938         | 9.3      | % |
| February  | 26,979  | 26,043     | 936         | 3.6      | %                                   | (4) 13,653 |             |          |   |
| March   | 30,899  | (3) 28,109 | 2,790       | 9.9      | %                                   | (4) 22,202 |             |          |   |
| Q1  | 82,272  | (3) 75,458 | 6,814       | 9.0      | %                                   | (4) 45,970 |             |          |   |

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|                    |         |             |        |        |     |               |
|--------------------|---------|-------------|--------|--------|-----|---------------|
| Q2                 | 94,300  | (3) 85,648  | 8,652  | 10.1   | %   | (4) 99,881    |
| Q3                 | 73,400  | (3) 65,543  | 7,857  | 12.0   | %   | (4) 86,737    |
| Q4                 | 70,900  | (3) 72,289  | (1,389 | ) (1.9 | ) % | (4) 42,144    |
| Total              | 320,872 | (3) 298,938 | 21,934 | 7.3    | %   | 274,732       |
| YTD <sup>(5)</sup> | 50,778  | 47,349      | 3,429  | 7.2    | %   | 11,053 10,115 |

(1) Towable wholesale shipments as reported by RVIA.

(2) Towable retail registrations as reported by Stat Surveys for the US and Canada combined.

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Monthly and quarterly towable wholesale shipments are based upon the forecast prepared by Dr. Richard Curtin of (3) the University of Michigan Consumer Survey Research Center for RVIA and reported in the Roadsigns RV Spring 2015 Industry Forecast Issue. The revised RVIA annual 2015 wholesale shipment forecast is 319,700.

(4) Stat Surveys has not issued a projection for retail demand for this period.

(5) YTD wholesale shipments include January through February; YTD retail registrations include January.

**Company Outlook**

Our motorized dealer backlog is an indicator of demand for our product in the current marketplace. We believe that the decrease in our backlog (as noted in the table below) is a result of more timely delivery through increased production rates and improved chassis supply. We continued to increase our production rates during the first six months of fiscal 2015. In Fiscal 2014 we leased an additional production facility to facilitate the increased production rate and to reach an additional labor market. During the second quarter of fiscal 2015 we took motorhome orders for 2,257 units as compared to 1,421 units in the second quarter of fiscal 2014. We believe this also represents the positive outlook of our dealer base.

Our motorized sales order backlog of 2,275 as of February 28, 2015 represents orders to be shipped in the next two quarters:

| (In units)                             | As Of             |               |   |       | (Decrease)<br>Increase | %<br>Change |       |        |   |
|--|-------------------|---------------|---|-------|------------------------|-------------|-------|--------|---|
|  | February 28, 2015 | March 1, 2014 |   |       |                        |             |       |        |   |
| Class A gas                            | 487               | 21.4          | % | 1,129 | 38.9                   | %           | (642) | (56.9) | % |
| Class A diesel                         | 229               | 10.1          | % | 274   | 9.4                    | %           | (45)  | (16.4) | % |
| Total Class A                          | 716               | 31.5          | % | 1,403 | 48.4                   | %           | (687) | (49.0) | % |
| Class B                                | 238               | 10.5          | % | 274   | 9.4                    | %           | (36)  | (13.1) | % |
| Class C                                | 1,321             | 58.1          | % | 1,223 | 42.2                   | %           | 98    | 8.0    | % |
| Total motorhome backlog <sup>(1)</sup> | 2,275             | 100.0         | % | 2,900 | 100.0                  | %           | (625) | (21.6) | % |
| Travel trailer                         | 83                | 63.8          | % | 169   | 82.0                   | %           | (86)  | (50.9) | % |
| Fifth wheel                            | 47                | 36.2          | % | 37    | 18.0                   | %           | 10    | 27.0   | % |
| Total towable backlog <sup>(1)</sup>   | 130               | 100.0         | % | 206   | 100.0                  | %           | (76)  | (36.9) | % |

Approximate backlog revenue in thousands<sup>(2)</sup>

|           |           |           |  |             |        |   |
|-----------|-----------|-----------|--|-------------|--------|---|
| Motorhome | \$216,228 | \$260,095 |  | \$ (43,867) | (16.9) | % |
| Towable   | \$4,121   | \$4,853   |  | \$ (732)    | (15.1) | % |

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

Our backlog includes all accepted purchase orders from dealers to be shipped within the next six months. Orders in

(2) backlog can be cancelled or postponed at the option of the purchaser and, therefore, backlog may not necessarily be an accurate measure of future sales.

Our unit dealer inventory was as follows:

|            | February 28,<br>2015 | March 1,<br>2014 |  | Increase | %<br>Change |   |
|------------|----------------------|------------------|--|----------|-------------|---|
| Motorhomes | 4,778                | 3,907            |  | 871      | 22.3        | % |
| Towables   | 1,877                | 1,772            |  | 105      | 5.9         | % |

We believe that the increased level of our motorized dealer inventory at the end of the second quarter of Fiscal 2015 is aligned with current market conditions given the improved retail demand and the strong sales order backlog of our product. Notably, dealer inventory of our Class B motorhomes has increased significantly in the past year (up 329 units) due to the strong retail demand of our product which was up over 100% on a trailing twelve month basis. We

have introduced a number of new products in the past year in all segments, many of these products were delivered to the dealers during calendar 2014 for their initial stocking. We believe that these innovative products will generate additional retail demand in the coming quarters. We have also restructured our dealer distribution points for these new product offerings in the past year as our dealer physical locations have increased, which is another factor contributing to our dealer inventory growth.

The recreation vehicle industry has, from time to time, experienced shortages of chassis due to various causes such as component shortages and/or production delays due to quality issues at the chassis manufacturers. In the first half of Fiscal 2014 we experienced shortages of certain motorized RV chassis which negatively affected our sales and earnings. Conditions improved during the second half of Fiscal 2014 with Ford's improved Class A chassis supply and resolution of their Class A chassis quality issues which had caused a supply constraint. We continue to closely monitor our chassis suppliers and work with them to minimize impact to our production.

Our motorized production facilities are located in sparsely populated areas of Iowa. In addition, the unemployment rate in these areas is currently low. These factors limit our ability to increase motorized production volumes at a more rapid pace. To the extent



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that we have been able to increase the production rate, we have also incurred incremental operating expenses associated with overtime and workers compensation expense.

At the December 2014 Board of Directors meeting, two strategic initiatives were approved and, as a result, commenced in the second quarter of Fiscal 2015. Both of these projects represent significant investments that we believe will contribute to our future success.

The first strategic initiative relates to the execution of an ERP system implementation which will replace our in-house developed financial and operation legacy systems and provide better support for our changing business needs and plans for future growth. We believe that this project will deliver long-term cost savings through supply chain management optimization and operational improvements once completed, in addition to a reduction in system maintenance, internal development and support costs. Our current estimate for completion of this project is \$12 to \$16 million over a three-year time frame which includes software, external implementation assistance and increased internal staffing directly related to this initiative. We anticipate that approximately 40% of the cost will be immediately expensed over the life of the project and 60% will be capitalized. As a result, we expect up to \$3.0 million of incremental general and administrative expense in Fiscal 2015 of which \$652,000 was incurred in our second fiscal quarter.

The second initiative is a strategic sourcing project with the objective of obtaining long-term material cost savings through standardizing our purchasing processes, optimizing our supplier relationships and improving our current sourcing methodologies. We have engaged external support with deep domain expertise to help us conduct this project and, as a result, we expect to incur up to \$2.8 million in general and administrative expenses for this assistance, of which \$827,000 and \$967,000 was incurred in the second quarter and first six months of Fiscal 2015, respectively. We expect to incur approximately \$700,000 of incremental general and administrative expense for the remainder of Fiscal 2015 and \$1.1 million in Fiscal 2016; the project is planned to be completed in June 2016 based on current internal staffing support. When fully implemented, we anticipate this investment will provide gross margin expansion of 30 to 50 basis points.

## Results of Operations

## Current Quarter Compared to the Comparable Quarter Last Year

The following is an analysis of changes in key items included in the statements of operations:

| (In thousands, except percent and per share data) | Three Months Ended |                              | March 1, 2014 | % of Revenues <sup>(1)</sup> | Increase (Decrease) | % Change |    |
|---|--------------------|------------------------------|---------------|------------------------------|---------------------|----------|----|
|   | February 28, 2015  | % of Revenues <sup>(1)</sup> |               |                              |                     |          |    |
| Net revenues                                      | \$234,543          | 100.0                        | % \$228,811   | 100.0                        | % \$5,732           | 2.5      | %  |
| Cost of goods sold                                | 210,285            | 89.7                         | % 205,966     | 90.0                         | % 4,319             | 2.1      | %  |
| Gross profit                                      | 24,258             | 10.3                         | % 22,845      | 10.0                         | % 1,413             | 6.2      | %  |
| Selling   | 4,846              | 2.1                          | % 4,489       | 2.0                          | % 357               | 8.0      | %  |
| General and administrative                        | 7,464              | 3.2                          | % 4,949       | 2.2                          | % 2,515             | 50.8     | %  |
| Gain on sale of real estate                       | —                  | —                            | % (629)       | )(0.3                        | )% 629              | (100.0)  | )% |
| Operating expenses                                | 12,310             | 5.2                          | % 8,809       | 3.8                          | % 3,501             | 39.7     | %  |
| Operating income                                  | 11,948             | 5.1                          | % 14,036      | 6.1                          | % (2,088)           | )(14.9   | )% |
| Non-operating income (expense)                    | 28                 | —                            | % (74)        | )—                           | % 102               | (137.8)  | )% |
| Income before income taxes                        | 11,976             | 5.1                          | % 13,962      | 6.1                          | % (1,986)           | )(14.2   | )% |
| Provision for taxes                               | 3,880              | 1.7                          | % 4,369       | 1.9                          | % (489)             | )(11.2   | )% |
| Net income  | \$8,096            | 3.5                          | % \$9,593     | 4.2                          | % \$(1,497)         | )(15.6   | )% |
| Diluted income per share                          | \$0.30             |                              | \$0.35        |                              | \$ (0.05)           | )(14.3   | )% |

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|                                       |        |        |      |       |    |
|---------------------------------------|--------|--------|------|-------|----|
| Diluted average shares<br>outstanding | 27,018 | 27,724 | (706 | )(2.5 | )% |
|---------------------------------------|--------|--------|------|-------|----|

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

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Unit deliveries and ASP, net of discounts, consisted of the following:

| (In units)                 | Three Months Ended   |                                 | March 1,<br>2014 | Product<br>Mix % <sup>(1)</sup> | (Decrease)<br>Increase | %<br>Change |                      |                                 |
|----------------------------|----------------------|---------------------------------|------------------|---------------------------------|------------------------|-------------|----------------------|---------------------------------|
|                            | February 28,<br>2015 | Product<br>Mix % <sup>(1)</sup> |                  |                                 |                        |             | February 28,<br>2015 | Product<br>Mix % <sup>(1)</sup> |
| <b>Motorhomes:</b>         |                      |                                 |                  |                                 |                        |             |                      |                                 |
| Class A gas                | 524                  | 24.9                            | % 589            | 28.7                            | % (65                  | ) (11.0     | )                    | %                               |
| Class A diesel             | 286                  | 13.6                            | % 456            | 22.2                            | % (170                 | ) (37.3     | )                    | %                               |
| Total Class A              | 810                  | 38.5                            | % 1,045          | 50.9                            | % (235                 | ) (22.5     | )                    | %                               |
| Class B                    | 277                  | 13.2                            | % 198            | 9.6                             | % 79                   | 39.9        |                      | %                               |
| Class C                    | 1,017                | 48.3                            | % 812            | 39.5                            | % 205                  | 25.2        |                      | %                               |
| Total motorhome deliveries | 2,104                | 100.0                           | % 2,055          | 100.0                           | % 49                   | 2.4         |                      | %                               |
| ASP (in thousands)         | \$ 100.2             |                                 | \$ 100.6         |                                 | \$ (0.4                | ) (0.4      | )                    | %                               |
| <b>Towables:</b>           |                      |                                 |                  |                                 |                        |             |                      |                                 |
| Travel trailer             | 508                  | 84.0                            | % 463            | 80.5                            | % 45                   | 9.7         |                      | %                               |
| Fifth wheel                | 97                   | 16.0                            | % 112            | 19.5                            | % (15                  | ) (13.4     | )                    | %                               |
| Total towable deliveries   | 605                  | 100.0                           | % 575            | 100.0                           | % 30                   | 5.2         |                      | %                               |
| ASP (in thousands)         | \$ 25.7              |                                 | \$ 23.9          |                                 | \$ 1.8                 | 7.7         |                      | %                               |

<sup>(1)</sup> Percentages may not add due to rounding differences.

Net revenues consisted of the following:

| (In thousands)              | Three Months Ended   |                                 | March 1,<br>2014 | Product<br>Mix % <sup>(1)</sup> | Increase<br>(Decrease) | %<br>Change |                      |                                 |
|-----------------------------|----------------------|---------------------------------|------------------|---------------------------------|------------------------|-------------|----------------------|---------------------------------|
|                             | February 28,<br>2015 | Product<br>Mix % <sup>(1)</sup> |                  |                                 |                        |             | February 28,<br>2015 | Product<br>Mix % <sup>(1)</sup> |
| Motorhomes <sup>(1)</sup>   | \$212,329            | 90.5                            | % \$207,406      | 90.6                            | % \$4,923              | 2.4         |                      | %                               |
| Towables <sup>(2)</sup>     | 15,351               | 6.5                             | % 13,726         | 6.0                             | % 1,625                | 11.8        |                      | %                               |
| Other manufactured products | 6,863                | 2.9                             | % 7,679          | 3.4                             | % (816                 | ) (10.6     | )                    | %                               |
| Total net revenues          | \$234,543            | 100.0                           | % \$228,811      | 100.0                           | % \$5,732              | 2.5         |                      | %                               |

<sup>(1)</sup> Includes motorhome units, parts and services, and net motorhome lease revenue.

<sup>(2)</sup> Includes towable units and parts.

Motorhome net revenues increased \$4.9 million or 2.4% in the second quarter of Fiscal 2015 attributed primarily to a 2.4% increase in unit deliveries. Motorhome ASP dropped slightly due to a shift from Class A products to Class B and C unit sales in the second quarter of Fiscal 2015.

The increase in Towables revenues of \$1.6 million or 11.8% was attributed to an increase in ASP of 7.7% and a 5.2% increase in unit deliveries as compared to the second quarter of Fiscal 2014.

Cost of goods sold was \$210.3 million, or 89.7% of net revenues for the second quarter of Fiscal 2015 compared to \$206.0 million, or 90.0% of net revenues for the same period a year ago due to the following:

Total variable costs (materials, direct labor, variable overhead, delivery expense and warranty), as a percent of net revenues, slightly decreased to 84.4% compared to 84.5%.

Fixed overhead (manufacturing support labor, depreciation and facility costs) and research and development-related costs decreased to 5.2% compared to 5.5% of net revenues, mostly a result of higher production levels which resulted in increased absorption of fixed costs.

All factors considered, gross profit increased to 10.3% from 10.0% of net revenues.

Selling expenses were \$4.8 million and \$4.5 million, or 2.1% and 2.0% of net revenues in the second quarter of Fiscal 2015 and Fiscal 2014, respectively. Increases in the second quarter of Fiscal 2015 included advertising and product promotions as compared to the prior year.

General and administrative expenses were \$7.5 million and \$4.9 million, or 3.2% and 2.2% of net revenues in the second quarter of Fiscal 2015 and Fiscal 2014, respectively. The increase in the second quarter of Fiscal 2015 was primarily related to costs associated with ERP implementation and a strategic sourcing project which totaled \$1.5 million. In addition, we incurred increased legal expenses of approximately \$500,000 and increased equipment maintenance costs.

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During the second quarter of Fiscal 2014 we realized a gain of \$629,000 on the sale of a leased warehouse facility. The overall effective income tax rate for the second quarter of Fiscal 2015 was 32.4% compared to the effective tax rate of 31.3% for the same period in Fiscal 2014. The increase in tax rate for the second quarter of Fiscal 2015 is primarily a result of the increased estimated state taxes, lower tax-free income and tax credits. The legislation for various applicable tax credits expired on December 31, 2014; therefore our projected benefits for these credits are limited to four months of our fiscal year.

Net income and diluted income per share were \$8.1 million and \$0.30 per share, respectively, for the second quarter of Fiscal 2015. In the second quarter of Fiscal 2014, net income was \$9.6 million and diluted income was \$0.35 per share. The impact of stock repurchases in the last twelve months on diluted net income per share was an increase of \$0.01 for the second quarter of Fiscal 2015. See Part II, Item 2.

## Six Months of Fiscal 2015 Compared to the Comparable Six Months of Fiscal 2014

The following is an analysis of changes in key items included in the statements of operations:

| (In thousands, except percent and per share data) | Six Months Ended  |                              | March 1, 2014 | % of Revenues <sup>(1)</sup> | Increase (Decrease) | % Change  |
|---|-------------------|------------------------------|---------------|------------------------------|---------------------|-----------|
|   | February 28, 2015 | % of Revenues <sup>(1)</sup> |               |                              |                     |           |
| Net revenues                                      | \$458,946         | 100.0                        | % \$451,481   | 100.0                        | % \$7,465           | 1.7 %     |
| Cost of goods sold                                | 410,302           | 89.4                         | % 402,674     | 89.2                         | % 7,628             | 1.9 %     |
| Gross profit                                      | 48,644            | 10.6                         | % 48,807      | 10.8                         | % (163)             | )(0.3 %)  |
| Selling   | 9,553             | 2.1                          | % 8,822       | 2.0                          | % 731               | 8.3 %     |
| General and administrative                        | 12,701            | 2.8                          | % 10,572      | 2.3                          | % 2,129             | 20.1 %    |
| Gain on sale of real estate                       | —                 | —                            | % (629)       | )(0.1                        | )% 629              | (100.0 %) |
| Operating expenses                                | 22,254            | 4.8                          | % 18,765      | 4.2                          | % 3,489             | 18.6 %    |
| Operating income                                  | 26,390            | 5.8                          | % 30,042      | 6.7                          | % (3,652)           | )(12.2 %) |
| Non-operating income                              | 35                | —                            | % 17          | —                            | % 18                | 105.9 %   |
| Income before income taxes                        | 26,425            | 5.8                          | % 30,059      | 6.7                          | % (3,634)           | )(12.1 %) |
| Provision for taxes                               | 8,434             | 1.8                          | % 9,320       | 2.1                          | % (886)             | )(9.5 %)  |
| Net income  | \$17,991          | 3.9                          | % \$20,739    | 4.6                          | % \$(2,748)         | )(13.3 %) |
| Diluted income per share                          | \$0.67            |                              | \$0.74        |                              | \$(0.07)            | )(9.5 %)  |
| Diluted average shares outstanding                | 27,048            |                              | 27,850        |                              | (802)               | )(2.9 %)  |

<sup>(1)</sup> Percentages may not add due to rounding differences.

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Unit deliveries and ASP, net of discounts, consisted of the following:

| (In units)                                | Six Months Ended     |                                 | March 1,<br>2014 | Product<br>Mix % <sup>(1)</sup> | (Decrease)<br>Increase | %<br>Change |    |  |
|---|----------------------|---------------------------------|------------------|---------------------------------|------------------------|-------------|----|--|
|   | February 28,<br>2015 | Product<br>Mix % <sup>(1)</sup> |                  |                                 |                        |             |    |  |
| <b>Motorhomes:</b>                        |                      |                                 |                  |                                 |                        |             |    |  |
| Class A gas                               | 1,139                | 27.5                            | % 1,299          | 32.0                            | % (160                 | )(12.3      | )% |  |
| Class A diesel                            | 598                  | 14.5                            | % 853            | 21.0                            | % (255                 | )(29.9      | )% |  |
| Total Class A                             | 1,737                | 42.0                            | % 2,152          | 53.0                            | % (415                 | )(19.3      | )% |  |
| Class B                                   | 465                  | 11.2                            | % 300            | 7.4                             | % 165                  | 55.0        | %  |  |
| Class C                                   | 1,933                | 46.7                            | % 1,608          | 39.6                            | % 325                  | 20.2        | %  |  |
| Total motorhome deliveries <sup>(2)</sup> | 4,135                | 100.0                           | % 4,060          | 100.0                           | % 75                   | 1.8         | %  |  |
| ASP (in thousands)                        | \$99.3               |                                 | \$100.5          |                                 | \$(1.3                 | )(1.2       | )% |  |
| <b>Towables:</b>                          |                      |                                 |                  |                                 |                        |             |    |  |
| Travel trailer                            | 969                  | 84.2                            | % 870            | 82.2                            | % 99                   | 11.4        | %  |  |
| Fifth wheel                               | 182                  | 15.8                            | % 189            | 17.8                            | % (7                   | )(3.7       | )% |  |
| Total towable deliveries                  | 1,151                | 100.0                           | % 1,059          | 100.0                           | % 92                   | 8.7         | %  |  |
| ASP (in thousands)                        | \$25.4               |                                 | \$22.9           |                                 | \$2.6                  | 11.2        | %  |  |

<sup>(1)</sup> Percentages may not add due to rounding differences.

<sup>(2)</sup> An additional 343 motorhomes were delivered in Fiscal 2014 but not included in wholesale deliveries as presented in the table above as the units are subject to repurchase option. See Note 5 to the financial statements.

Net revenues consisted of the following:

| (In thousands)              | Six Months Ended     |       | March 1,<br>2014 | Increase<br>(Decrease) | %<br>Change |       |    |  |
|-----------------------------|----------------------|-------|------------------|------------------------|-------------|-------|----|--|
|                             | February 28,<br>2015 |       |                  |                        |             |       |    |  |
| Motorhomes <sup>(1)</sup>   | \$415,371            | 90.5  | % \$411,791      | 91.2                   | % \$3,580   | 0.9   | %  |  |
| Towables <sup>(2)</sup>     | 28,957               | 6.3   | % 24,257         | 5.4                    | % 4,700     | 19.4  | %  |  |
| Other manufactured products | 14,618               | 3.2   | % 15,433         | 3.4                    | % (815      | )(5.3 | )% |  |
| Total net revenues          | \$458,946            | 100.0 | % \$451,481      | 100.0                  | % \$7,465   | 1.7   | %  |  |

<sup>(1)</sup> Includes motorhome units, parts and services.

<sup>(2)</sup> Includes towable units and parts.

The increase in motorhome net revenues of \$3.6 million or 0.9% was attributed primarily to a 1.8% increase in unit deliveries in the first six months of Fiscal 2015 as compared to the first six months of Fiscal 2014, partially offset by a decrease in motorhome ASP of 1.2% as compared to the first six months of Fiscal 2014. The decrease in ASP was primarily due to a lower percentage of class A gas and diesel unit sales in the first six months of Fiscal 2015.

Towables revenues increased 19.4%, and were \$29.0 million in the first six months of Fiscal 2015, compared to \$24.3 million in the first six months of Fiscal 2014. The increase in revenues was a result of an 11.2% increase in ASP and an 8.7% increase in unit deliveries.

Cost of goods sold was \$410.3 million, or 89.4% of net revenues for the first six months of Fiscal 2015 compared to \$402.7 million, or 89.2% of net revenues for the first six months of Fiscal 2014 due to the following:

Total variable costs (materials, direct labor, variable overhead, delivery expense and warranty), as a percent of net revenues, increased to 84.2% in Fiscal 2015 compared to 83.8% in Fiscal 2014. The increase is primarily due to higher labor-related expenses in Fiscal 2015, notably workers' compensation.

Fixed overhead (manufacturing support labor, depreciation and facility costs) and research and development-related costs decreased to 5.2% of net revenues compared to 5.3% for Fiscal 2014.

• All factors considered, gross profit decreased to 10.6% from 10.8% of net revenues.

Selling expenses increased \$731,000, or 2.1% from 2.0% of net revenues in the first six months of Fiscal 2015 and Fiscal 2014, respectively. The increase was primarily related to advertising and product promotions.

General and administrative expenses were 2.8% and 2.3% of net revenues in the first six months of Fiscal 2015 and Fiscal 2014, respectively. General and administrative expenses increased \$2.1 million, or 20.1% in the first six months of Fiscal 2015 compared

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to the same period in Fiscal 2014. The increase related to ERP implementation, a strategic sourcing project, legal and equipment maintenance costs.

During the second quarter of Fiscal 2014 we realized a gain of \$629,000 on the sale of a leased warehouse facility. Non-operating income was flat in the first six months of Fiscal 2015 compared to the same period in Fiscal 2014. The overall effective income tax rate for the first six months of Fiscal 2015 was 31.9% compared to the effective income tax rate of 31.0% for the first six months of Fiscal 2014. The tax rate for the first six months of Fiscal 2015 is primarily a result of the lower level of pretax book income earned during Fiscal 2015. We also had a reduced level (in comparison to book income) of benefits recorded for tax credits and other tax planning initiatives in Fiscal 2015 in relation to the same period in Fiscal 2014. The legislation for various applicable tax credits expired on December 31, 2014; therefore our projected benefits for these credits are limited to four months of our fiscal year. Net income and diluted income per share were \$18.0 million and \$0.67 per share, respectively, for the first six months of Fiscal 2015. In the first six months of Fiscal 2014, net income was \$20.7 million and diluted net income was \$0.74 per share. The impact of stock repurchases in the last twelve months on diluted net income per share was an increase of \$0.01 for the first six months of Fiscal 2015. See Part II, Item 2.

### Analysis of Financial Condition, Liquidity and Resources

Cash and cash equivalents decreased \$49.9 million during the first six months of Fiscal 2015 and totaled \$7.9 million as of February 28, 2015. Significant liquidity events that occurred during the first six months of Fiscal 2015 were:

- Increase in inventory of \$37.6 million
- Line of credit borrowings and repayments of \$22.0 million
- Generation of net income of \$18.0 million
- Increase in income tax receivable of \$11.3 million
- Increase in receivables and prepaid assets of \$7.6 million
- Stock repurchases of \$6.1 million
- Dividend payment of \$4.9 million

As noted in Note 7, through our Amended Credit Agreement with GECC, we have the ability to borrow \$35.0 million through a revolving credit facility based on our eligible inventory and certain receivables. In addition, the Amended Credit Agreement also includes a framework to expand the size of the facility up to \$50.0 million, based on mutually agreeable terms at the time of the expansion.

We filed a Registration Statement on Form S-3, which was declared effective by the SEC on May 9, 2013. Subject to market conditions, we have the ability to offer and sell up to \$35.0 million of our common stock in one or more offerings pursuant to the Registration Statement. The Registration Statement will be available for use for three years from its effective date. We currently have no plans to offer and sell the common stock registered under the Registration Statement; however, it does provide another potential source of liquidity in addition to the alternatives already in place.

Working capital at February 28, 2015 and August 30, 2014 was \$175.9 million and \$172.0 million, respectively, an increase of \$3.9 million. We currently expect cash on hand, cash collected on receivables, funds generated from operations and the availability under a credit facility to be sufficient to cover both short-term and long-term operating requirements for Fiscal 2015. We anticipate capital expenditures in Fiscal 2015 of approximately \$15 - \$20 million, primarily for manufacturing equipment and facilities and IT upgrades. We are planning to purchase the currently leased Towables assembly facilities in Middlebury, Indiana for approximately \$5.4 million which is included in the range previously noted. We believe we will close this transaction in April of 2015.

We made share repurchases of \$6.1 million in the first six months of Fiscal 2015. If we believe the common stock is trading at attractive levels and reflects a prudent use of our capital, subject to compliance with our agreement with GECC, we may purchase additional shares in the remainder of Fiscal 2015. At February 28, 2015 we have \$7.4 million remaining on our board repurchase authorization. See Part II, Item 2 of this Form 10-Q.

### Operating Activities



Cash used by operating activities was \$34.1 million for the six months ended February 28, 2015 compared to \$29.5 million for the six months ended March 1, 2014. In Fiscal 2015 the combination of net income of \$18.0 million and changes in non-cash charges (e.g., depreciation, LIFO, stock-based compensation, deferred income taxes) provided \$28.4 million of operating cash. Changes in assets and liabilities (primarily an increase in inventories and receivables) used \$62.4 million of operating cash. In the first six months of Fiscal 2014, the combination of net income of \$20.7 million and changes in non-cash charges (e.g., depreciation, LIFO, stock-based compensation, deferred income taxes) provided \$23.0 million of operating cash. Changes in assets and liabilities (primarily increases in receivables and inventories) used \$52.5 million of operating cash.

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### Investing Activities

Cash used in investing activities of \$4.8 million for the six months ended February 28, 2015 was due primarily to capital spending of \$5.2 million. In the six months ended March 1, 2014, cash provided in investing activities of \$865,000 was due primarily to proceeds from the sale of investments of \$2.4 million, proceeds from the sale of property of \$2.4 million partially offset by capital spending of \$3.8 million.

### Financing Activities

Cash used in financing activities of \$11.0 million for the six months ended February 28, 2015 was primarily due to \$6.1 million in repurchases of our stock and \$4.9 million for the payment of dividends. We borrowed and repaid \$22.0 million on our line of credit in the six months ended February 28, 2015. Cash used in financing activities of \$19.4 million for the six months ended March 1, 2014 was primarily due to repurchases of our stock of \$21.5 million partially offset by proceeds from the exercise of stock options of \$2.1 million.

### Significant Accounting Policies

We describe our significant accounting policies 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 30, 2014. We discuss our critical accounting estimates in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K for the fiscal year ended August 30, 2014. We refer to these disclosures for a detailed explanation of our significant accounting policies and critical accounting estimates. There has been no significant change in our significant accounting policies or critical accounting estimates since the end of Fiscal 2014.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

None

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures", as such term is defined under Securities Exchange Act of 1934, as amended ("Exchange Act") Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's disclosure control objectives.

We have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this Report (the "Evaluation Date"). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the Evaluation Date.

#### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

### Item 1. Legal Proceedings

We are involved in various legal proceedings which are ordinary litigation incidental to our business, some of which are covered in whole or in part by insurance. We believe, while the final resolution of any such litigation may have an impact on our results for a particular reporting period, the ultimate disposition of such litigation will not have any material adverse effect on our financial position, results of operations or liquidity.

### Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10 K for the fiscal year ended August 30, 2014.

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## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On December 19, 2007, the Board of Directors authorized the repurchase of outstanding shares of our common stock, depending on market conditions, for an aggregate consideration of up to \$60 million. There is no time restriction on this authorization. During the second quarter of Fiscal 2015, 9,478 shares were repurchased under the authorization, at an aggregate cost of \$190,000. All of these shares were repurchased from employees who vested in Winnebago Industries shares during the second quarter of Fiscal 2015 and elected to pay their payroll tax via shares as opposed to cash. As of February 28, 2015, there was approximately \$7.4 million remaining under this authorization.

Purchases of our common stock during each fiscal month of the second quarter of Fiscal 2015 were:

| Period              | Total Number of Shares Purchased | Average Price Paid per Share | Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs |
|---------------------|----------------------------------|------------------------------|--|--|
| 11/30/14 - 01/03/15 | —                                | \$—                          | —  | \$7,632,000  |
| 01/04/15 - 01/31/15 | 9,478                            | \$20.05                      | 9,478  | \$7,442,000  |
| 02/01/15 - 02/28/15 | —                                | \$—                          | —  | \$7,442,000  |
| Total               | 9,478                            | \$20.05                      | 9,478  | \$7,442,000  |

Our Credit Agreement contains covenants that limit our ability, among other things, to pay certain cash dividends. See Note 7 to the financial statements.

## Item 6. Exhibits

- 31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated March 27, 2015.
- 31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated March 27, 2015.
- 32.1 Certification by the Chief Executive Officer pursuant to Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated March 27, 2015.
- 32.2 Certification by the Chief Financial Officer pursuant to Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated March 27, 2015.
- 101.INS\* XBRL Instance Document
- 101.SCH\* XBRL Taxonomy Extension Schema Document
- 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF\* XBRL Taxonomy Extension Definitions Linkbase Document
- 101.LAB\* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

\*Attached as Exhibit 101 to this report are the following financial statements from our Quarterly Report on Form 10-Q for the quarter ended February 28, 2015 formatted in XBRL: (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Operations and Comprehensive Income, (iii) the Unaudited Consolidated Statement of Cash Flows, and (iv) related notes to these financial statements. Such exhibits are deemed furnished and not filed pursuant to Rule 406T of Regulation S-T.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WINNEBAGO INDUSTRIES, INC.

Date: March 27, 2015

By /s/ Randy J. Potts  
Randy J. Potts  
Chief Executive Officer, President, Chairman of the  
Board  
(Principal Executive Officer)

Date: March 27, 2015

By /s/ Sarah N. Nielsen  
Sarah N. Nielsen  
Vice President, Chief Financial Officer  
(Principal Financial and Accounting Officer)