***WGO Short Pitch – Summary – Kevin Romanteau

Deep dive analyse ~50-pages available upon request

**Company
- Winnebago (WGO) is US manufacturer of motorized and towable recreational vehicles (RVs)
    - w/ revenue: towable 52%, motorhome 39%, marine 9% (entered in '21)
    - w/ mkt cap of $2,246m and EV of $2,612, ADV trailing 3mth 487,567 (as of 21-Jun)

**Industry
- 1980 to '22 historically RV shipments from have enjoyed a ~3-4% unit growth CAGR
- '10-'20 RV faced a steady growth recovering from the previous crisis: RV shipments +6.1% CAGR, reached a peak in '17 w/ towable ~88% of shipments
- '20-22' surging demand driven by the pandemic, pull-forward record backlog
- '23-24' RVIA Association assumes demand for RV back to the '12-level
- Strong competition and low barrier to entry in the RV industry environment w/ four mains players Thor, Winnebago, as well as private competitors Forest River and Jayco
    - WGO is weighted towards motorized w/ 20% market share
    - WGO has gained market shares in a growing industry but reached a plateau w/ 12.7% since '20
- Consumer financing ownership rely on US regional banks, since the SBV and First Republic crisis, banks remain under pressure and more cautious, on top of the inflationary environment

**Company Fundamentals
- '10-'22 WGO track record: +18% revenue CAGR, +72% EBITDA CAGR, +18 EPS CAGR, punctuated by terrific results in '21-'22 due to RV demand surge during the pandemic
- '21-'23 WGO has been in a strong environment supported by temporary industry tailwind

**Thesis Point
- **#1. Unit demand**: According to RVIA, shipments will drop by -40% in '23 aligned w/ previous cyclical impact from '08. WGO revenue declined by 30% in '08 and 65% in '09. Assumes that temporary tailwind will dissipate leading to Inventory 101 cycle: weak demand, weak consumer pill-trough, heavy inventories, weak pricing drives weak gross margin
- **#2. ASP:** '19-'22, ASP rose by +71% questioning the level of sustainable in the future in a weak consumer demand/recession scenario, ultimately driven by unit demand, influenced by the backlog, dealer inventories. Assumes pricing competition during the fall season (stales inventory, drives discounts)
- **#3. Gross margin:** GM compression as less demand from end-users and dealers. '08 crisis GM -15% down from 11.4%, operating margin -30% down from 6.3%, w/ compressing incremental margin

**Risk Point
- #1. **Consumer demand**: power may strengthen, but RVIA is predicting a -40% decline in '23 and +17% recovery in '24
- #2. **Algorithm Shift:** EPS algorithm growth 10-12% CAGR, but headwind emerges as demand is back to normal level. Also, inflation is reducing purchasing power of consumer
- #3. **M&A acquisition:** market consolidation**,** acquire smaller player w/ accretive EPS effect

**Valuation
- Current valuation at trough NTM P/E 8.4x and near to median EV/EBITDA 8.4x
- P/E was 20.6x in July '20 before temporary tailwinds dissipate – since July '20, the P/E declined to trough at 4.8x (July '22). EPS rose from $2.59 to $13.82. Absolute valuation metrics at peak – 8.2% dividend yield (10% payout ratio), 16.1% FCF yield

**Estimates vs. Street
- Consensus assumes meaningful revenue and margin contraction in '23 then stability in '24
- However, lessons learnt from 08' crisis and the seeming over-earning and deteriorating business momentum urge caution. As result, my base case is below '24 consensus due to:
    - Mean reversion scenario from strong to back-to-normal fundamental w/ dissipation of temporary tailwind in '23 –'24
    - More normalization in ASP especially motorhomes, which feeds into margin compression

**Upside, Downside, Risk/Reward
- Share price $67 (as of 10 July), w/ TP $44
- 2-Y reward case is -34% and risk +9% for a nearly 3.8x R/R

2 Year Return Scenarios

	2025 EPS	P/E	12m Target	% return
Bull	$8.11	12.0x	$97.32	46.1%
Base	$6.42	10.0x	$64.22	(3.6%)
Bear	$5.50	8.0x	$44.00	(33.9%)
				0.1x
Reward (25% bull, 75% base)			$72.50	8.9%
Risk			$44.00	(33.9%)
R/R				*3.8x*