

WINNEBAGO INDUSTRIES INC
Form 10-Q
March 26, 2019

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 23, 2019
or

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

For the transition period from _____ to _____

Commission File Number: 001-06403

WINNEBAGO
INDUSTRIES,
INC.

(Exact name of
registrant as
specified in its
charter)

Iowa 42-0802678

(State

or

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

or

organization)

P. 50436

O.

Box

152,

Forest

City,

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

(641)
585-3535

(Registrant's telephone
number, including area
code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer,"

"accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

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

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

The number of shares of common stock, par value \$0.50 per share, outstanding on March 20, 2019 was 31,873,494.

Winnebago Industries, Inc.
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PART I. FINANCIAL INFORMATION.

Item 1. Condensed Consolidated Financial Statements

Winnebago Industries, Inc.

Condensed Consolidated Statements of Income and Comprehensive Income

(Unaudited)

(in thousands, except per share data)	Three Months Ended		Six Months Ended	
	February 23, 2019	February 24, 2018	February 23, 2019	February 24, 2018
Net revenues	\$432,690	\$ 468,359	\$926,338	\$ 918,380
Cost of goods sold	366,261	400,698	788,913	787,888
Gross profit	66,429	67,661	137,425	130,492
Selling, general, and administrative expenses	35,259	30,477	70,971	60,077
Amortization of intangible assets	2,267	1,933	4,926	3,988
Total operating expenses	37,526	32,410	75,897	64,065
Operating income	28,903	35,251	61,528	66,427
Interest expense	4,346	4,918	8,847	9,699
Non-operating (income) expense	(207	) 11	(970	) (112
Income before income taxes	24,764	30,322	53,651	56,840
Provision for income taxes	3,166	8,234	9,892	16,794
Net income	\$21,598	\$ 22,088	\$43,759	\$ 40,046
Income per common share:				
Basic	\$0.68	\$ 0.70	\$ 1.39	\$ 1.27
Diluted	\$0.68	\$ 0.69	\$ 1.38	\$ 1.26
Weighted average common shares outstanding:				
Basic	31,577	31,654	31,572	31,634
Diluted	31,724	31,854	31,755	31,852
Net income	\$21,598	\$ 22,088	\$43,759	\$ 40,046
Other comprehensive income (loss):				
Amortization of net actuarial loss (net of tax of \$2, \$2, \$5, and \$6)	8	7	16	13
Change in fair value of interest rate swap (net of tax of \$206, \$448, \$213, and \$835)	(634	) 1,283	(656	) 1,917
Total other comprehensive income (loss)	(626	) 1,290	(640	) 1,930
Comprehensive income	\$20,972	\$ 23,378	\$43,119	\$ 41,976

See Notes to Condensed Consolidated Financial Statements.

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Winnebago Industries, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

(in thousands, except per share data)	February 23, 2019	August 25, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$3,017	\$2,342
Receivables, less allowance for doubtful accounts (\$163 and \$197, respectively)	179,940	164,585
Inventories, net	189,611	195,128
Prepaid expenses and other assets	15,217	9,883
Total current assets	387,785	371,938
Property, plant, and equipment, net	117,761	101,193
Other assets:		
Goodwill	275,072	274,370
Other intangible assets, net	260,791	265,717
Investment in life insurance	26,963	28,297
Other assets	9,764	10,290
Total assets	\$1,078,136	\$1,051,805
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$92,592	\$81,039
Income taxes payable	472	15,655
Accrued expenses:		
Accrued compensation	25,112	29,350
Product warranties	40,305	40,498
Self-insurance	14,488	12,262
Promotional	21,333	11,017
Accrued interest	3,002	3,095
Other	12,463	11,269
Current maturities of long-term debt	2,750	—
Total current liabilities	212,517	204,185
Non-current liabilities:		
Long-term debt, less current maturities	274,168	291,441
Deferred income taxes	4,595	4,457
Unrecognized tax benefits	1,712	1,745
Deferred compensation benefits, net of current portion	14,228	15,282
Other	250	250
Total non-current liabilities	294,953	313,175
Contingent liabilities and commitments (Note 11)		
Stockholders' equity:		
Preferred stock, par value \$0.01: Authorized-10,000 shares; Issued-none	—	—
Common stock, par value \$0.50: Authorized-60,000 shares; Issued-51,776 shares	25,888	25,888
Additional paid-in capital	89,682	86,223
Retained earnings	805,851	768,816
Accumulated other comprehensive income	252	892
Treasury stock, at cost: 20,292 and 20,243 shares, respectively	(351,007)	(347,374)
Total stockholders' equity	570,666	534,445

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Total liabilities and stockholders' equity	\$1,078,136	\$1,051,805
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See Notes to Condensed Consolidated Financial Statements.

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Winnebago Industries, Inc.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in thousands)	Six Months Ended	
	February 23, 2019	February 24, 2018
Operating activities:		
Net income	\$43,759	\$ 40,046
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,268	4,328
Amortization of intangible assets	4,926	3,988
Amortization of debt issuance costs	790	826
Last in, first-out expense	1,029	598
Stock-based compensation	4,605	3,553
Deferred income taxes	346	2,080
Other, net	(170)	80
Change in assets and liabilities:		
Receivables	(15,355)	(33,017)
Inventories	4,488	(36,379)
Prepaid expenses and other assets	(4,926)	1,921
Accounts payable	11,992	20,542
Income taxes and unrecognized tax benefits	(15,216)	(4,510)
Accrued expenses and other liabilities	9,402	10,989
Net cash provided by operating activities	51,938	15,045
Investing activities:		
Purchases of property and equipment	(23,366)	(11,675)
Acquisition of business, net of cash acquired	(702)	—
Proceeds from the sale of property	32	299
Other, net	1,012	(18)
Net cash used in investing activities	(23,024)	(11,394)
Financing activities:		
Borrowings on credit agreement	218,720	19,700
Repayments of credit agreement	(233,922)	(24,000)
Payments of cash dividends	(6,713)	(6,375)
Payments for repurchases of common stock	(6,620)	(1,478)
Other, net	296	—
Net cash used in financing activities	(28,239)	(12,153)
Net increase (decrease) in cash and cash equivalents	675	(8,502)
Cash and cash equivalents at beginning of year	2,342	35,945
Cash and cash equivalents at end of year	\$3,017	\$ 27,443
Supplement cash flow disclosure:		
Income taxes paid, net	\$30,262	\$ 19,290
Interest paid	\$7,469	\$ 8,906
Non-cash transactions:		
Capital expenditures in accounts payable	\$259	\$ 1,012

See Notes to Condensed Consolidated Financial Statements.

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Winnebago Industries, Inc.

Condensed Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

(in thousands, except per share data)	Three Months Ended February 23, 2019							
	Common Shares	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Stockholders' Equity	
	Number	Amount			Number	Amount		
Balances at November 24, 2018	51,776	\$25,888	\$88,288	\$787,794	\$ 878	(20,178)	\$(346,370)	\$ 556,478
Stock-based compensation	—	—	2,117	—	—	1	16	2,133
Issuance of restricted stock	—	—	(769)	—	—	45	769	—
Issuance of stock under ESPP	—	—	46	—	—	15	250	296
Repurchase of common stock	—	—	—	—	—	(175)	(5,672)	(5,672)
Common stock dividends; \$0.11 per share	—	—	—	(3,541)	—	—	—	(3,541)
Actuarial loss, net of tax	—	—	—	—	8	—	—	8
Change in fair value of interest rate swap, net of tax	—	—	—	—	(634)	—	—	(634)
Net income	—	—	—	21,598	—	—	—	21,598
Balances at February 23, 2019	51,776	\$25,888	\$89,682	\$805,851	\$ 252	(20,292)	\$(351,007)	\$ 570,666

(in thousands, except per share data)	Six Months Ended February 23, 2019							
	Common Shares	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Stockholders' Equity	
	Number	Amount			Number	Amount		
Balances at August 25, 2018	51,776	\$25,888	\$86,223	\$768,816	\$ 892	(20,243)	\$(347,374)	\$ 534,445
Stock-based compensation	—	—	4,565	—	—	3	57	4,622
Issuance of restricted stock	—	—	(1,152)	—	—	156	2,680	1,528
Issuance of stock under ESPP	—	—	46	—	—	15	250	296
Repurchase of common stock	—	—	—	—	—	(223)	(6,620)	(6,620)
Common stock dividends; \$0.21 per share	—	—	—	(6,724)	—	—	—	(6,724)
Actuarial loss, net of tax	—	—	—	—	16	—	—	16
Change in fair value of interest rate swap, net of tax	—	—	—	—	(656)	—	—	(656)
Net income	—	—	—	43,759	—	—	—	43,759
Balances at February 23, 2019	51,776	\$25,888	\$89,682	\$805,851	\$ 252	(20,292)	\$(351,007)	\$ 570,666

(in thousands, except per share data)	Three Months Ended February 24, 2018							
	Common Shares	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Stockholders' Equity	
	Number	Amount			Number	Amount		
Balances at November 25, 2017	51,776	\$25,888	\$80,040	\$693,909	\$ (383)	(20,140)	\$(342,823)	\$ 456,631
Stock-based compensation	—	—	1,084	—	—	1	19	1,103

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Issuance of restricted stock	—	—	(403)—	—	24	403	—
Repurchase of common stock	—	—	—	—	—	(2)(115)(115
Common stock dividends; \$0.10 per share	—	—	—	(3,188	)—	—	—	(3,188
Actuarial loss, net of tax	—	—	—	—	7	—	—	7
Change in fair value of interest rate swap, net of tax	—	—	—	—	1,283	—	—	1,283
Net income	—	—	—	22,088	—	—	—	22,088
Balances at February 24, 2018	51,776	\$25,888	\$80,721	\$712,809	\$ 907	(20,117)	\$(342,516)	\$ 477,809

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Winnebago Industries, Inc.

Condensed Consolidated Statements of Changes in Stockholders' Equity (continued)

(Unaudited)

(in thousands, except per share data)	Six Months Ended February 24, 2018							Total Stockholders' Equity
	Common Shares Number	Additional Paid-In Capital Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Number	Treasury Stock Amount		
Balances at August 26, 2017	51,776	\$25,888	\$ 80,401	\$ 679,138	\$ (1,023)	(20,183)	\$(342,730)	\$ 441,674
Stock-based compensation	—	—	1,888	—	—	2	38	1,926
Issuance of restricted stock	—	—	(1,568)	—	—	97	1,654	86
Repurchase of common stock	—	—	—	—	—	(33)	(1,478)	(1,478)
Common stock dividends; \$0.20 per share	—	—	—	(6,375)	—	—	—	(6,375)
Actuarial loss, net of tax	—	—	—	—	13	—	—	13
Change in fair value of interest rate swap, net of tax	—	—	—	—	1,917	—	—	1,917
Net income	—	—	—	40,046	—	—	—	40,046
Balances at February 24, 2018	51,776	\$25,888	\$ 80,721	\$ 712,809	\$ 907	(20,117)	\$(342,516)	\$ 477,809

See Notes to Condensed Consolidated Financial Statements.

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

Note 1: Basis of Presentation

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

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

Interim results are not necessarily indicative of the results to be expected for the full year. The interim Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended August 25, 2018.

Fiscal Period

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

Subsequent Events

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

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-02, Leases (Topic 842), which requires an entity to recognize both assets and liabilities arising from financing and operating leases, along with additional qualitative and quantitative disclosures. This ASU and the related amendments must be adopted on a modified retrospective basis to either each prior reporting period presented or as of the beginning of the period of adoption. Based on the effective dates, we expect to adopt the new guidance in the first quarter of Fiscal 2020 using the modified retrospective basis as of the beginning of the period of adoption. We have established an implementation plan and are in the process of surveying our businesses, assessing our lease population, and compiling information on our active leases. In addition, we are determining needed changes to our policies, business processes, internal controls, and disclosures. While we continue to make progress on our implementation, we are still evaluating the impact of the adoption on our consolidated financial statements.

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

Recently Adopted Accounting Pronouncements

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

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

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Note 2: Business Segments

In the fourth quarter of Fiscal 2018, we revised our segment presentation. We have five operating segments: 1) Winnebago motorhomes, 2) Winnebago towables, 3) Grand Design towables, 4) Winnebago specialty vehicles, and 5) Chris-Craft marine. We evaluate performance based on each operating segment's Adjusted EBITDA, as defined below, which excludes certain corporate administration expenses and non-operating income and expense.

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

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

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

Prior period segment information has been reclassified to conform to the current reportable segment presentation. The reclassifications included removing the corporate administration expenses from both the Motorhome and Towable reportable segments and removing Winnebago specialty vehicles from the Motorhome reportable segment, as we began to dedicate leadership and focus on these operations separately from our Winnebago motorhomes operations.

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

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

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The following table shows information by reportable segment:

(in thousands)	Three Months Ended		Six Months Ended	
	February 23, 2019	February 24, 2018	February 23, 2019	February 24, 2018
Net Revenues				
Motorhome	\$ 164,662	\$ 199,081	\$ 345,990	\$ 387,278
Towable	250,691	266,358	543,524	526,023
Corporate / All Other	17,337	2,920	36,824	5,079
Consolidated	\$ 432,690	\$ 468,359	\$ 926,338	\$ 918,380

Adjusted EBITDA

Motorhome	\$ 4,359	\$ 5,687	\$ 16,335	\$ 10,587
Towable	33,638	36,296	64,466	69,688
Corporate / All Other	(3,509)	(2,601)	(7,860)	(5,482)
Consolidated	\$ 34,488	\$ 39,382	\$ 72,941	\$ 74,793

Capital Expenditures

Motorhome	\$ 2,198	\$ 1,633	\$ 5,390	\$ 4,740
Towable	7,648	4,685	16,525	6,935
Corporate / All Other	749	—	1,451	—
Consolidated	\$ 10,595	\$ 6,318	\$ 23,366	\$ 11,675

(in thousands)	February 23, August 25, 2019 2018	
Total Assets		
Motorhome	\$ 324,627	\$ 322,048
Towable	647,504	626,588
Corporate / All Other	106,005	103,169
Consolidated	\$ 1,078,136	\$ 1,051,805

Reconciliation of net income to consolidated Adjusted EBITDA:

(in thousands)	Three Months Ended		Six Months Ended	
	February 23, 2019	February 24, 2018	February 23, 2019	February 24, 2018
Net income	\$ 21,598	\$ 22,088	\$ 43,759	\$ 40,046
Interest expense	4,346	4,918	8,847	9,699
Provision for income taxes	3,166	8,234	9,892	16,794
Depreciation	3,099	2,198	6,268	4,328
Amortization of intangible assets	2,267	1,933	4,926	3,988
EBITDA	34,476	39,371	73,692	74,855
Acquisition-related costs	—	—	—	50
Restructuring expenses	219	—	219	—
Non-operating (income) expense	(207)	11	(970)	(112)
Adjusted EBITDA	\$ 34,488	\$ 39,382	\$ 72,941	\$ 74,793

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Note 3: Revenue

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

(in thousands)	Three Months Ended		Six Months Ended	
	February 28, 2019	February 24, 2018	February 28, 2019	February 24, 2018
Net Revenues				
Motorhome:				
Class A	\$55,000	\$ 87,382	\$103,678	\$ 161,587
Class B	52,260	33,457	120,980	62,577
Class C	52,243	72,685	108,385	149,460
Other ⁽¹⁾	5,159	5,557	12,947	13,654
Total Motorhome	164,662	199,081	345,990	387,278
Towable:				
Fifth Wheel	154,783	150,915	317,532	295,029
Travel Trailer	92,162	112,670	217,788	225,395
Other ⁽¹⁾	3,746	2,773	8,204	5,599
Total Towable	250,691	266,358	543,524	526,023
Corporate / All Other:				
Other ⁽²⁾	17,337	2,920	36,824	5,079
Total Corporate / All Other	17,337	2,920	36,824	5,079
Consolidated	\$432,690	\$ 468,359	\$926,338	\$ 918,380

(1) Relates to parts, accessories, and services.

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

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

Unit revenue

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

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

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

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Concentration of Risk

One of our dealer organizations accounted for more than 10% of our net revenue for the second quarter of Fiscal 2019 and for the second quarter of Fiscal 2018. However, none of our dealer organizations accounted for more than 10% of our net revenue for the first six months of Fiscal 2019 or the first six months of Fiscal 2018.

Note 4: Derivatives, Investments, and Fair Value Measurements

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

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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy contains three levels as follows:

Level 1 - Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 - Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in nonactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

The following tables set forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis at February 23, 2019 and August 25, 2018 according to the valuation techniques we used to determine their fair values:

(in thousands)	Fair Value	Fair Value		
	at February 23, 2019	Level 1	Level 2	Level 3
Assets that fund deferred compensation:				
Domestic equity funds	\$ 830	\$750	\$80	\$ —
International equity funds	147	92	55	—
Fixed income funds	162	24	138	—
Interest rate swap contract	1,090	—	1,090	—
Total assets at fair value	\$ 2,229	\$866	\$1,363	\$ —

Fair Value Hierarchy

(in thousands)	Fair Value			
	at August 25, 2018	Level 1	Level 2	Level 3
Assets that fund deferred compensation:				
Domestic equity funds	\$ 1,143	\$1,114	\$29	\$ —
International equity funds	139	120	19	—
Fixed income funds	223	132	91	—
Interest rate swap contract	1,959	—	1,959	—
Total assets at fair value	\$ 3,464	\$1,366	\$2,098	\$ —

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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. These securities are primarily 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 and the Executive Deferred Compensation Plan. Refer to Note 10, Employee and Retiree Benefits, of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended August 25, 2018 for additional information regarding these plans.

The proportion of the assets that will fund options which expire within a year are included in Prepaid expenses and other assets in the accompanying Condensed Consolidated Balance Sheets. The remaining assets are classified as non-current and are included in Other assets.

Interest Rate Swap Contract

Under the terms of our Credit Agreement, as defined in Note 9, Long-Term Debt, we were previously required to hedge a portion of the floating interest rate exposure. In accordance with this requirement, on January 23, 2017, we entered into an interest rate swap contract, which effectively fixed our interest rate on our \$300.0 million term loan agreement ("Term Loan") for a notional amount that reduces each December during the swap contract. As of February 23, 2019, we had \$120.0 million of our Term Loan fixed at an interest rate of 5.32%. As of August 25, 2018, we had \$170.0 million of our Term Loan fixed at an interest rate of 5.32%. The swap contract expires on December 8, 2020.

The fair value of the interest rate swap is classified as Level 2 as it is determined based on observable market data. The asset is included in Other assets on the Condensed Consolidated Balance Sheets. The change in value was predominately recorded to Accumulated other comprehensive income on the Condensed Consolidated Balance Sheets since the interest rate swap has been designated for hedge accounting.

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

Our non-financial assets, which include goodwill, intangible assets, 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 has occurred, the asset is required to be recorded at the estimated fair value. No impairments were recorded for non-financial assets in the second quarter of Fiscal 2019 or the second quarter of Fiscal 2018.

Fair Value of Financial Instruments

Our financial instruments, other than those presented in the disclosures above, include cash, receivables, accounts payable, other payables, and long-term debt. The fair values of cash, receivables, accounts payable, and other payables approximated carrying values because of the short-term nature of these instruments. If these instruments were measured at fair value in the financial statements, they would be classified as Level 1 in the fair value hierarchy. See Note 9, Long-Term Debt, for information about the fair value of our long-term debt.

Note 5: Inventories

Inventories consist of the following:
(in thousands)

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	February 23, August 25,	
	2019	2018
Finished goods	\$ 43,453	\$ 26,513
Work-in-process	89,904	68,339
Raw materials	96,046	139,039
Total	229,403	233,891
Less last-in, first-out ("LIFO") reserve	39,792	38,763
Inventories, net	\$ 189,611	\$ 195,128

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Inventory valuation methods consist of the following:

(in thousands)	February 23, 2019	August 25, 2018
LIFO basis	\$ 174,157	\$ 176,215
First-in, first-out basis	55,246	57,676
Total	\$ 229,403	\$ 233,891

The above value of inventories, before reduction for the LIFO reserve, approximates replacement cost at the respective dates.

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 23, 2019	August 25, 2018
Land	\$ 6,747	\$ 6,747
Buildings and building improvements	110,441	94,622
Machinery and equipment	108,529	105,663
Software	26,432	23,388
Transportation	9,102	8,837
Property, plant, and equipment, gross	261,251	239,257
Less accumulated depreciation	143,490	138,064
Property, plant, and equipment, net	\$ 117,761	\$ 101,193

Depreciation expense was \$3.1 million and \$2.2 million during the second quarters of Fiscal 2019 and 2018, respectively, and \$6.3 million and \$4.3 million during the first six months of Fiscal 2019 and 2018, respectively.

Note 7: Goodwill and Intangible Assets

The changes in the carrying amount of goodwill by segment were as follows for the first six months of Fiscal 2019 and 2018, of which there are no accumulated impairment losses:

(in thousands)	Corporate		Total
	Towable	/ All Other	
Balances at August 26, 2017	\$242,728	\$ —	\$242,728
Grand Design purchase price adjustment ⁽¹⁾	1,956	—	1,956
Balances at February 24, 2018	\$244,684	\$ —	\$244,684
Balances at August 25, 2018	\$244,684	\$ 29,686	\$274,370
Chris-Craft purchase price adjustment ⁽²⁾	—	702	702
Balances at February 23, 2019	\$244,684	\$ 30,388	\$275,072

(1) Refer to Note 2, Business Combinations, of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended August 25, 2018 for additional information.

Purchase price adjustments made for working capital. For additional information related to the acquisition of (2)Chris-Craft USA, Inc., refer to Note 2, Business Combinations, of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended August 25, 2018.

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Other intangible assets, net of accumulated amortization, consist of the following:

(in thousands)	Weighted Average Life-Years	February 23, 2019		August 25, 2018	
		Cost	Accumulated Amortization	Cost	Accumulated Amortization
Trade names	Indefinite	\$177,250		\$177,250	
Dealer networks	12.2	95,581	\$ 16,253	95,581	\$ 12,328
Backlog	0.5	19,527	19,527	19,527	19,135
Non-compete agreements	4.1	5,347	2,571	5,347	2,084
Leasehold interest-favorable	8.1	2,000	563	2,000	441
Other intangible assets, gross		299,705	38,914	299,705	33,988
Less accumulated amortization		38,914		33,988	
Other intangible assets, net		\$260,791		\$265,717	

The weighted average remaining amortization period for intangible assets as of February 23, 2019 was approximately 11 years.

Remaining estimated aggregate annual amortization expense by fiscal year is as follows:

(in thousands)	Amount
Fiscal 2019	\$4,561
Fiscal 2020	9,032
Fiscal 2021	9,032
Fiscal 2022	8,405
Fiscal 2023	8,197
Thereafter	44,314
Total amortization expense remaining	\$83,541

Note 8: Warranty

We provide certain service and warranty on our products. From time to time, we also voluntarily incur costs for certain warranty-type expenses occurring after the normal warranty period 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 historical warranty and service claims experience. Adjustments are made to accruals as claim data and cost experience becomes available.

In addition to the costs associated with the contractual warranty coverage provided on our products, we also occasionally incur costs as a result of additional service actions not covered by our warranties, including product recalls and customer satisfaction actions. Although we estimate and reserve for the cost of these service actions, there can be no assurance that expense levels will remain at current levels or such reserves will continue to be adequate.

Changes in our product warranty liability are as follows:

(in thousands)	Three Months Ended		Six Months Ended	
	February 23, 2019	February 24, 2018	February 23, 2019	February 24, 2018
Balance at beginning of period	\$41,303	\$ 32,500	\$40,498	\$ 30,805
Provision	9,194	10,283	19,951	20,236
Claims paid	(10,192)	(7,795)	(20,144)	(16,053)
Balance at end of period	\$40,305	\$ 34,988	\$40,305	\$ 34,988

Note 9: Long-Term Debt

On November 8, 2016, we entered into a \$125.0 million credit facility ("ABL") and a \$300.0 million Term Loan with JPMorgan Chase Bank, N.A. ("Credit Agreement"). On December 8, 2017, we amended our Credit Agreement, which decreased the interest rate spread on the Term Loan and the ABL. As of September 21, 2018, the amount that may be borrowed under the ABL was increased to \$165.0 million.

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The Credit Agreement contains certain financial covenants. As of February 23, 2019, we are in compliance with all financial covenants of the Credit Agreement.

The components of long-term debt are as follows:

(in thousands)	February 23, 2019	August 25, 2018
ABL	\$ 23,330	\$ 38,532
Term Loan	260,000	260,000
Long-term debt, excluding debt issuance costs	283,330	298,532
Debt issuance cost, net	(6,412)	(7,091)
Long-term debt	276,918	291,441
Less current maturities	2,750	—
Long-term debt, less current maturities	\$ 274,168	\$ 291,441

As of February 23, 2019, the fair value of long-term debt, excluding debt issuance costs, was \$278.1 million. As of August 25, 2018, the fair value of long-term debt, excluding debt issuance costs, approximated the carrying value.

Aggregate contractual maturities of debt in future fiscal years are as follows:

(in thousands)	Amount
Fiscal 2019	\$—
Fiscal 2020	10,250
Fiscal 2021	15,000
Fiscal 2022	15,000
Fiscal 2023	219,750
Total Term Loan	\$260,000

Note 10: Employee and Retiree Benefits

Deferred compensation liabilities are as follows:

(in thousands)	February 23, 2019	August 25, 2018
Non-qualified deferred compensation	\$ 14,292	\$ 14,831
Supplemental executive retirement plan	2,339	2,309
Executive share option plan	517	935
Executive deferred compensation plan	580	421
Officer stock-based compensation	—	1,528
Deferred compensation benefits	17,728	20,024
Less current portion ⁽¹⁾	3,500	4,742
Deferred compensation benefits, net of current portion	\$ 14,228	\$ 15,282

(1) Included in Accrued compensation on the Condensed Consolidated Balance Sheets.

Note 11: Contingent Liabilities and Commitments

Repurchase Commitments

Generally, manufacturers in our industries enter into repurchase agreements with lending institutions which have provided wholesale floorplan financing to dealers. Most dealers are financed on a "floorplan" basis under which a bank or finance company lends the dealer all, or substantially all, of the purchase price, collateralized by a security interest in the units purchased.

Our repurchase agreements generally 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 24 months, provide that our liability will be the lesser of remaining principal owed by the dealer to the lending institution, or dealer invoice less periodic reductions based on the time since the date of the original invoice. Our liability cannot exceed 100% of the dealer invoice. 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

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that require manufacturers of recreational vehicles or boats to repurchase current inventory if a dealership exits the business. Our total contingent liability on all repurchase agreements was approximately \$1.0 billion and \$879.0 million at February 23, 2019 and August 25, 2018, respectively.

Repurchased sales are not recorded as a revenue transaction, but the net difference between the original repurchase price and the resale price are recorded against the loss reserve, which is a deduction from gross revenue. Our loss reserve for repurchase commitments contains uncertainties because the calculation requires management to make assumptions and apply judgment regarding a number of factors. Our risk of loss related to these 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 these repurchase agreements and our historical loss experience, we establish an associated loss reserve which is included in Accrued expenses: Other on the Condensed Consolidated Balance Sheets. Our accrued losses on repurchases were \$0.9 million and \$0.9 million at February 23, 2019 and August 25, 2018, respectively. Repurchase risk is affected by the credit worthiness of our dealer network, and we do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to establish the loss reserve for repurchase commitments.

There was no material activity related to repurchase agreements during the three and six months ended February 23, 2019 and February 24, 2018.

Litigation

We are involved in various legal proceedings which are ordinary and routine litigation incidental to our business, some of which are covered in whole or in part by insurance. While we believe the ultimate disposition of litigation will not have a material adverse effect on our financial position, results of operations or liquidity, there exists the possibility that such litigation may have an impact on our results for a particular reporting period in which litigation effects become probable and reasonably estimable. Though we do not believe there is a reasonable likelihood that there will be a material change related to these matters, litigation is subject to inherent uncertainties and management's view of these matters may change in the future.

Note 12: Stock-Based Compensation

On December 11, 2018, our shareholders approved the Winnebago Industries, Inc. 2019 Omnibus Incentive Plan ("2019 Plan") as detailed in our Proxy Statement for the 2018 Annual Meeting of Shareholders. The 2019 Plan 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. The 2019 Plan replaces our 2014 Omnibus Equity, Performance Award, and Incentive Compensation Plan (as amended, the "2014 Plan").

The number of shares of our Common Stock that may be the subject of awards and issued under the 2019 Plan is 4.1 million, plus the shares subject to any awards outstanding under the 2014 Plan and our predecessor plan, the 2004 Incentive Compensation Plan (the "2004 Plan"), on December 11, 2018 that subsequently expire, are forfeited or canceled, or are settled for cash. Until such time, however, awards under the 2014 Plan and the 2004 Plan, respectively, that are outstanding on December 11, 2018 will continue to be subject to the terms of the 2014 Plan or 2004 Plan, as applicable. Shares remaining available for future awards under the 2014 Plan were not carried over into the 2019 Plan.

Beginning with our annual grant of restricted stock units in October 2018, we attach dividend equivalents to our restricted stock units equal to dividends payable on the same number of shares of WGO common stock during the

applicable period. Dividend equivalents, settled in cash, accrue on restricted stock unit awards during the vesting period. No dividend equivalents are paid on any restricted stock units that are forfeited prior to the vesting date.

Stock-based compensation expense was \$2.1 million and \$2.7 million during the second quarters of Fiscal 2019 and 2018, respectively, and \$4.6 million and \$3.6 million during the first six months of Fiscal 2019 and 2018, respectively. Compensation expense is recognized over the requisite service period of the award.

Note 13: Restructuring

On February 4, 2019, we announced our intent to move our diesel production from Junction City, OR to Forest City, IA to enable more effective product development and improve our cost structure. These restructuring activities resulted in pretax charges included within Selling, general, and administrative expenses of \$0.2 million for the three and six months ended February 23, 2019. These expenses are included in our Motorhome segment. Included in these restructuring charges are primarily employee-related costs. We expect additional expenses of approximately \$2.0 million in Fiscal 2019 and \$1.0 million in Fiscal 2020, primarily related to employee and asset-related charges. We expect these expenses to be partially offset by the corresponding savings generated by the project.

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Note 14: 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.

Our effective tax rate decreased to 18.4% for the six months ended February 23, 2019 from 29.5% for the six months ended February 24, 2018 due to the enactment of the 2017 Tax Cuts and Jobs Act ("Tax Act") on December 22, 2017 and certain favorable discrete items, primarily due to R&D-related tax credits, which totaled \$2.5 million.

ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, provided guidance for companies that allowed for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts under ASC 740, Income Taxes. In accordance with this guidance, a company was required to reflect the income tax effect of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act was incomplete, but it was able to determine a reasonable estimate, the company was required to record a provisional estimate in the financial statements.

In accordance with ASC 740, we recorded non-cash provisional estimates to income tax expense in Fiscal 2018 as a result of revaluing all deferred tax assets and liabilities at the newly enacted Federal corporate income tax rate. We have not made any measurement period adjustments related to these items during the first six months of Fiscal 2019 and are complete in analyzing and recording all aspects of the enactment of the Tax Act.

We file a U.S. Federal tax return as well as returns in various international and state jurisdictions. Although certain years are no longer subject to examination by the Internal Revenue Service ("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. As of February 23, 2019, our Federal returns from Fiscal 2015 to present continue to be subject to review by the IRS. With limited exception, our state returns from Fiscal 2014 to present continue to be subject to review by the state taxing jurisdictions. Several years may lapse before an uncertain tax position is audited and finally resolved, and it is difficult to predict the outcome of such audits.

It is our policy to recognize interest and penalties accrued relative to unrecognized tax benefits in income tax expense. Total reserves for uncertain tax positions were not material.

Note 15: Income 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 23, 2019	February 24, 2018	February 23, 2019	February 24, 2018
Numerator				
Net income	\$21,598	\$ 22,088	\$43,759	\$ 40,046
Denominator				
Weighted average common shares outstanding	31,577	31,654	31,572	31,634
Dilutive impact of stock compensation awards	147	200	183	218
Weighted average common shares outstanding, assuming dilution	31,724	31,854	31,755	31,852
Anti-dilutive securities excluded from Weighted average common shares outstanding, assuming dilution	243	73	212	73

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Basic income per common share	\$0.68	\$ 0.70	\$1.39	\$ 1.27
Diluted income per common share	\$0.68	\$ 0.69	\$1.38	\$ 1.26

Anti-dilutive securities were not included in the computation of diluted income per common share because they are considered anti-dilutive under the treasury stock method.

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Note 16: Accumulated Other Comprehensive Income (Loss)

Changes in Accumulated Other Comprehensive Income ("AOCI") by component, net of tax, were:

(in thousands)	Three Months Ended			February 24, 2018		
	February 23, 2019	February 23, 2019	February 23, 2019	February 24, 2018	February 24, 2018	February 24, 2018
	Defined Benefit Pension Items	Interest Rate Swap	Total	Defined Benefit Pension Items	Interest Rate Swap	Total
Balance at beginning of period	\$(583)	\$1,461	\$878	\$(503)	\$120	\$(383)
Other comprehensive income ("OCI") before reclassifications	—	(634)	(634)	—	1,283	1,283
Amounts reclassified from AOCI	8	—	8	7	—	7
Net current-period OCI	8	(634)	(626)	7	1,283	1,290
Balance at end of period	\$(575)	\$827	\$252	\$(496)	\$1,403	\$907

(in thousands)	Six Months Ended			February 24, 2018		
	February 23, 2019	February 23, 2019	February 23, 2019	February 24, 2018	February 24, 2018	February 24, 2018
	Defined Benefit Pension Items	Interest Rate Swap	Total	Defined Benefit Pension Items	Interest Rate Swap	Total
Balance at beginning of period	\$(591)	\$1,483	\$892	\$(509)	\$(514)	\$(1,023)
Other comprehensive income before reclassifications	—	(656)	(656)	—	1,917	1,917
Amounts reclassified from AOCI	16	—	16	13	—	13
Net current-period OCI	16	(656)	(640)	13	1,917	1,930
Balance at end of period	\$(575)	\$827	\$252	\$(496)	\$1,403	\$907

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

(in thousands)	Location on Consolidated Statements of Income and Comprehensive Income	Three Months Ended		Six Months Ended	
		February 23, 2019	February 24, 2018	February 23, 2019	February 24, 2018
Amortization of net actuarial loss	SG&A	\$ 8	\$ 7	\$ 16	\$ 13

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

Unless the context otherwise requires, the use of the terms "Winnebago Industries," "we," "us," and "our" refers to Winnebago Industries, Inc. and its wholly-owned subsidiaries.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity, and certain other factors that may affect our future results. Unless otherwise noted, transactions and other factors significantly impacting our financial condition, results of operations, and liquidity are discussed in order of magnitude.

Our MD&A should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended August 25, 2018, (including the information presented therein under Risk Factors), as well as our reports on Forms 10-Q and 8-K and other publicly available information. All amounts herein are unaudited.

Overview

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

Non-GAAP Reconciliation

This MD&A includes financial information prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP"), as well as certain adjusted or non-GAAP financial measures such as EBITDA and Adjusted EBITDA. EBITDA is defined as net income before interest expense, provision for income taxes, and depreciation and amortization expense. Adjusted EBITDA is defined as net income before interest expense, provision for income taxes, depreciation and amortization expense, and other adjustments made in order to present comparable results from period to period. These non-GAAP financial measures, which are not calculated or presented in accordance with GAAP, have been provided as information supplemental and in addition to the financial measures presented in accordance with GAAP. Such non-GAAP financial measures should not be considered superior to, as a substitute for, or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented herein. The non-GAAP financial measures presented may differ from similar measures used by other companies.

Refer to the Results of Operations - Current Quarter Compared to the Comparable Prior Year Quarter and the Results of Operations - First Six Months of Fiscal 2019 Compared to the First Six Months of Fiscal 2018 for a detailed reconciliation of items that impacted EBITDA and Adjusted EBITDA. We have included this non-GAAP performance measure as a comparable measure to illustrate the effect of non-recurring transactions occurring during the reported periods and improve comparability of our results from period to period. We believe Adjusted EBITDA provides meaningful supplemental information about our operating performance because this measure excludes amounts that we do not consider part of our core operating results when assessing our performance. Examples of items excluded from Adjusted EBITDA include acquisition-related costs, restructuring expenses, and non-operating income.

Management uses these non-GAAP financial measures (a) to evaluate our historical and prospective financial performance and trends as well as our performance relative to competitors and peers; (b) to measure operational profitability on a consistent basis; (c) in presentations to the members of our board of directors to enable our board of

directors to have the same measurement basis of operating performance as is used by management in its assessments of performance and in forecasting and budgeting for our company; (d) to evaluate potential acquisitions; and (e) to ensure compliance with covenants and restricted activities under the terms of our Credit Agreement. We believe these non-GAAP financial measures are frequently used by securities analysts, investors, and other interested parties to evaluate companies in our industry.

Reportable Segments

In the fourth quarter of Fiscal 2018, we revised our segment presentation. We have five operating segments: 1) Winnebago motorhomes, 2) Winnebago towables, 3) Grand Design towables, 4) Winnebago specialty vehicles, and 5) Chris-Craft marine. We evaluate performance based on each operating segment's Adjusted EBITDA, as defined above, which excludes certain corporate administration expenses and non-operating income and expense.

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

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

Prior year segment information has been reclassified to conform to the current reportable segment presentation. The reclassifications included removing the corporate administration expenses from both the Motorhome and Towable reportable segments and removing Winnebago specialty vehicles from the Motorhome reportable segment, as we began to dedicate leadership and focus on these operations separately from our Winnebago motorhomes operations.

Industry Trends

Key reported statistics for the North American RV industry are as follows:

• Wholesale unit shipments: RV product delivered to the dealers, which is reported monthly by the Recreation Vehicle Industry Association ("RVIA")

• Retail unit registrations: consumer purchases of RVs from dealers, which is reported by Stat Surveys

We track RV Industry conditions using these key statistics to monitor trends and evaluate and understand our performance relative to the overall industry. The following is an analysis of changes in these key statistics for the rolling 12 months through January as of 2019 and 2018:

US and Canada Industry								
Wholesale Unit Shipments per RVIA				Retail Unit Registrations per Stat Surveys				
Rolling 12 Months through January								
	2019	2018	Unit Change	% Change	2019	2018	Unit Change	% Change
Motorhome ⁽¹⁾	55,683	63,529	(7,846)	(12.4)%	56,868	57,901	(1,033)	(1.8)%
Towable ⁽²⁾	399,768	437,229	(37,461)	(8.6)%	414,207	398,869	15,338	3.8%
Combined	455,451	500,758	(45,307)	(9.0)%	471,075	456,770	14,305	3.1%

(1) Motorhome: Class A, B and C products.

(2) Towable: Fifth wheel and travel trailer products.

The rolling twelve months shipments for 2019 and 2018 reflects a recent contraction in shipments as dealers rationalize inventory. The rolling twelve months retail information for 2019 and 2018 illustrates that the RV industry continues to grow at the retail level. We believe retail demand is the key driver to continued growth in the industry.

The most recent RVIA wholesale shipment forecasts for calendar year 2019, as noted in the table below, indicate that industry shipments are most likely expected to decline in 2019. The RV sales outlook is based on anticipated increases in inflation and interest rates and rising costs of production, partially offset by strong job and wage growth.

Wholesale Unit Shipment Forecast per RVIA ⁽¹⁾	Calendar Year			
	2019 Forecast	2018 Actual	Unit Change	% Change
Aggressive	475,500	483,700	(8,200)	(1.7)%
Most likely	460,100	483,700	(23,600)	(4.9)%
Conservative	444,500	483,700	(39,200)	(8.1)%

(1) Prepared by Dr. Richard Curtin of the University of Michigan Consumer Survey Research Center for RVIA and reported in the Roadsigns RV Spring 2019 Industry Forecast Issue.

Market Share

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.

	Rolling 12 Months through January		Calendar Year		
	2019	2018	2018	2017	2016 ⁽¹⁾
US and Canada					
Motorhome A, B, C	15.7%	16.2%	15.6%	16.2%	18.0 %
Travel trailer and fifth wheels	7.8 %	6.2 %	7.8 %	6.1 %	1.7 %
Total market share	8.8 %	7.5 %	8.7 %	7.4 %	3.7 %

(1) Includes retail unit market share for Grand Design since its acquisition on November 8, 2016.

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Facility Expansion

During Fiscal 2017, our Board of Directors approved two large facility expansion projects to increase production capacity in the fast growing Towable segment. The Grand Design expansion project consisted of two new production facilities, which were completed in Fiscal 2018. The facility expansion in the Winnebago towables division is expected to be completed in the third quarter of Fiscal 2019.

Enterprise Resource Planning System

In the second quarter of Fiscal 2015, our Board of Directors approved the strategic initiative of implementing an enterprise resource planning ("ERP") system to replace our legacy business applications. The new ERP platform will provide better support for our changing business needs and plans for future growth. Our initial cost estimates have grown for additional needs of the business, such as the opportunity to integrate the ERP system with additional manufacturing systems. The project includes software, external implementation assistance, and increased internal staffing directly related to this initiative. We anticipate that approximately 40% of the cost will be expensed in the period incurred and 60% will be capitalized and depreciated over its useful life.

The following table illustrates the cumulative project costs:

	Six Months Ended	Fiscal Year				Cumulative	
(in thousands)	February 23, 2019	2018	2017	2016	2015	Investment	
Capitalized	\$ 2,563	\$5,941	\$1,881	\$7,798	\$3,291	\$21,474	58.6 %
Expensed	2,026	2,107	2,601	5,930	2,528	15,192	41.4 %
Total	\$ 4,589	\$8,048	\$4,482	\$13,728	\$5,819	\$36,666	100.0 %

Restructuring

On February 4, 2019, we announced our intent to move our diesel production from Junction City, OR to Forest City, IA to enable more effective product development and improve our cost structure. These restructuring activities resulted in pretax charges included within Selling, general, and administrative expenses of \$0.2 million in the three and six months ended February 23, 2019. These expenses are included in our Motorhome segment. Included in these restructuring charges are primarily employee-related costs. We expect additional expenses of approximately \$2.0 million in Fiscal 2019 and \$1.0 million in Fiscal 2020, primarily related to employee and asset-related charges, and we expect these expenses to be partially offset by the corresponding savings generated by the project.

We currently estimate that upon completion of this restructuring plan in Fiscal 2020, these actions will reduce annual costs by approximately \$4.0 million, which is primarily due to lower employee-related costs, lower depreciation expense, and other manufacturing efficiencies. We expect a portion of these savings will be achieved in Fiscal 2019 and 2020, and the full annual benefit of these actions is expected in Fiscal 2021.

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Results of Operations - Current Quarter Compared to the Comparable Prior Year Quarter

Consolidated Performance Summary

The following is an analysis of changes in key items included in the consolidated statements of income and comprehensive income for the three months ended February 23, 2019 compared to the three months ended February 24, 2018:

(in thousands, except percent and per share data)	Three Months Ended					
	February 23, 2019			February 24, 2018		
	\$	% of Revenues ⁽¹⁾		% of Revenues ⁽¹⁾	\$ Change	% Change
Net revenues	\$432,690	100.0 %	\$ 468,359	100.0 %	\$(35,669)	(7.6) %
Cost of goods sold	366,261	84.6 %	400,698	85.6 %	(34,437)	(8.6) %
Gross profit	66,429	15.4 %	67,661	14.4 %	(1,232)	(1.8) %
Selling, general, and administrative expenses	35,259	8.1 %	30,477	6.5 %	4,782	15.7 %
Amortization of intangible assets	2,267	0.5 %	1,933	0.4 %	334	17.3 %
Total operating expenses	37,526	8.7 %	32,410	6.9 %	5,116	15.8 %
Operating income	28,903	6.7 %	35,251	7.5 %	(6,348)	(18.0) %
Interest expense	4,346	1.0 %	4,918	1.1 %	(572)	(11.6) %
Non-operating (income) expense	(207)	— %	11	— %	218	1,981.8 %
Income before income taxes	24,764	5.7 %	30,322	6.5 %	(5,558)	(18.3) %
Provision for income taxes	3,166	0.7 %	8,234	1.8 %	(5,068)	(61.5) %
Net income	\$21,598	5.0 %	\$ 22,088	4.7 %	\$(490)	(2.2) %
Diluted income per share	\$0.68		\$ 0.69		\$(0.01)	(1.4) %
Diluted average shares outstanding	31,724		31,854		(130)	(0.4) %

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

Net revenues decreased in the second quarter of Fiscal 2019 compared to the second quarter of Fiscal 2018 primarily due to declines in volume, partially offset by the acquisition of Chris-Craft in the fourth quarter of Fiscal 2018.

Gross profit as a percentage of revenue increased in the second quarter of Fiscal 2019 compared to the second quarter of Fiscal 2018 driven by revenue mix, pricing, and Motorhome segment operational improvements. This was partially offset by margin pressure from inflationary cost increases and heightened dealer incentives across all segments.

Operating expenses increased in the second quarter of Fiscal 2019 compared to the second quarter of Fiscal 2018 due to increased investments in our business as well as an increase in professional fees.

The effective tax rate decreased to 12.8% for the second quarter of Fiscal 2019 compared to 27.2% for the second quarter of Fiscal 2018 due primarily to \$2.5 million in certain favorable discrete items, primarily due to R&D-related tax credits, realized in the current period and the enactment of the 2017 Tax Cuts and Jobs Act ("Tax Act") on December 22, 2017. The reduction related to the enactment of the Tax Act is primarily attributable to the reduction in the Federal tax rate to 21%.

Net income and diluted income per share decreased in the second quarter of Fiscal 2019 compared to the second quarter of Fiscal 2018 primarily due to decreased sales and increased operating expenses, partially offset by a lower effective tax rate.

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Non-GAAP Reconciliation

The following table reconciles net income to consolidated EBITDA and Adjusted EBITDA for the three months ended February 23, 2019 and February 24, 2018:

(in thousands)	Three Months Ended	
	February 23, 2019	February 24, 2018
Net income	\$21,598	\$ 22,088
Interest expense	4,346	4,918
Provision for income taxes	3,166	8,234
Depreciation	3,099	2,198
Amortization of intangible assets	2,267	1,933
EBITDA	34,476	39,371
Restructuring expenses	219	—
Non-operating (income) expense	(207)	11
Adjusted EBITDA	\$34,488	\$ 39,382

Reportable Segment Performance Summary

Motorhome

The following is an analysis of key changes in our Motorhome segment for the three months ended February 23, 2019 compared to the three months ended February 24, 2018:

(in thousands, except ASP)	Three Months Ended					
	February 23, 2019	% of Revenues	February 24, 2018	% of Revenues	\$ Change	% Change
Net revenues	\$164,662		\$ 199,081		\$(34,419)	(17.3)%
Adjusted EBITDA	4,359	2.6 %	5,687	2.9 %	(1,328)	(23.4)%
Average Selling Price ("ASP") ⁽¹⁾	92,560		90,018		2,542	2.8 %

Unit deliveries	Three Months Ended					
	February 23, 2019	Product Mix ⁽²⁾	February 24, 2018	Product Mix ⁽²⁾	Unit Change	% Change
Class A	529	29.0 %	881	39.9 %	(352)	(40.0)%
Class B	613	33.6 %	411	18.6 %	202	49.1 %
Class C	683	37.4 %	918	41.5 %	(235)	(25.6)%
Total motorhomes	1,825	100.0 %	2,210	100.0 %	(385)	(17.4)%

(1) Average selling price excludes off-invoice dealer incentives.

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

Net revenues decreased in the second quarter of Fiscal 2019 compared to the second quarter of Fiscal 2018 due to a decrease in the number of units sold.

Adjusted EBITDA decreased in the second quarter of Fiscal 2019 compared to the second quarter of Fiscal 2018 due to reduced sales volume and investments in resources, partially offset by favorable product mix.

Unit deliveries decreased in the second quarter of Fiscal 2019 compared to the second quarter of Fiscal 2018 driven by declines in our Class A gas and Class C products, partially offset by the unit growth we have generated in our Class B

products.

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Towable

The following is an analysis of key changes in our Towable segment for the three months ended February 23, 2019 compared to the three months ended February 24, 2018:

(in thousands, except ASP)	Three Months Ended					
	February 23, 2019	% of Revenues	February 24, 2018	% of Revenues	\$ Change	% Change
Net revenues	\$250,691		\$ 266,358		\$(15,667)	(5.9)%
Adjusted EBITDA	33,638	13.4%	36,296	13.6%	(2,658)	(7.3)%
ASP ⁽¹⁾	33,003		31,648		1,355	4.3%

Unit deliveries	Three Months Ended					
	February 23, 2019	Product Mix ⁽²⁾	February 24, 2018	Product Mix ⁽²⁾	Unit Change	% Change
Travel trailer	4,543	59.8%	5,083	59.9%	(540)	(10.6)%
Fifth wheel	3,053	40.2%	3,398	40.1%	(345)	(10.2)%
Total towables	7,596	100.0%	8,481	100.0%	(885)	(10.4)%

(1) Average selling price excludes off-invoice dealer incentives.

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

Net revenues decreased in the second quarter of Fiscal 2019 compared to the second quarter of Fiscal 2018 due to reduced volume and mix, partially offset by pricing.

Adjusted EBITDA decreased in the second quarter of Fiscal 2019 compared to the second quarter of Fiscal 2018 due to reduced sales volume and pricing actions taken during the last 12 months, which did not fully recover increases to cost inputs.

Unit deliveries decreased in the second quarter of Fiscal 2019 compared to the second quarter of Fiscal 2018 primarily due to dealer network efforts to reduce inventory levels and comparing against strong performance in the prior year.

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Results of Operations - First Six Months of Fiscal 2019 Compared to the First Six Months of Fiscal 2018

Consolidated Performance Summary

The following is an analysis of changes in key items included in the consolidated statements of income and comprehensive income for the six months ended February 23, 2019 compared to the six months ended February 24, 2018:

(in thousands, except percent and per share data)	Six Months Ended				\$	%	Change	%
	February 23, 2019	% of Revenues ⁽¹⁾	February 24, 2018	% of Revenues ⁽¹⁾				
Net revenues	\$926,338	100.0 %	\$ 918,380	100.0 %	\$ 7,958	0.9 %		
Cost of goods sold	788,913	85.2 %	787,888	85.8 %	1,025	0.1 %		
Gross profit	137,425	14.8 %	130,492	14.2 %	6,933	5.3 %		
Selling, general, and administrative expenses	70,971	7.7 %	60,077	6.5 %	10,894	18.1 %		
Amortization of intangible assets	4,926	0.5 %	3,988	0.4 %	938	23.5 %		
Total operating expenses	75,897	8.2 %	64,065	7.0 %	11,832	18.5 %		
Operating income	61,528	6.6 %	66,427	7.2 %	(4,899)	(7.4)%		
Interest expense	8,847	1.0 %	9,699	1.1 %	(852)	(8.8)%		
Non-operating income	(970)	(0.1)%	(112)	—	858	(766.1)%		
Income before income taxes	53,651	5.8 %	56,840	6.2 %	(3,189)	(5.6)%		
Provision for income taxes	9,892	1.1 %	16,794	1.8 %	(6,902)	(41.1)%		
Net income	\$43,759	4.7 %	\$ 40,046	4.4 %	\$ 3,713	9.3 %		
Diluted income per share	\$ 1.38		\$ 1.26		\$ 0.12	9.5 %		
Diluted average shares outstanding	31,755		31,852		(97)	(0.3)%		

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

Net revenues increased in the first six months of Fiscal 2019 compared to the first six months of Fiscal 2018 primarily due to an increase in our Towable segment sales and the acquisition of Chris-Craft in the fourth quarter of Fiscal 2018. This was partially offset by a decrease in our Motorhome segment sales.

Gross profit as a percentage of revenue increased in the first six months of Fiscal 2019 compared to the first six months of Fiscal 2018 due to a decrease in our Motorhome manufacturing costs as a percentage of revenue due to higher costs in the prior year related to the ramp-up of our West Coast production facility and new product start-up. This was partially offset by margin pressure from inflationary cost increases and heightened dealer incentives across all segments.

Operating expenses increased in the first six months of Fiscal 2019 compared to the first six months of Fiscal 2018 due to increased investments in our business as well as an increase in professional fees.

Interest expense decreased in the first six months of Fiscal 2019 compared to the first six months of Fiscal 2018 due to the unamortized debt issuance costs expensed in Fiscal 2018 related to our voluntary prepayment on our Credit Agreement and our Credit Agreement amendment during the second quarter of Fiscal 2018, which resulted in a decrease to the interest rate spread by 1.0% on the Term Loan and 0.25% on the ABL.

Non-operating income increased in the first six months of Fiscal 2019 compared to the first six months of Fiscal 2018 due to net proceeds received from company-owned life insurance policies.

The effective tax rate decreased to 18.4% for the first six months of Fiscal 2019 compared to 29.5% for the first six months of Fiscal 2018 due primarily to the enactment of the Tax Act on December 22, 2017 and to \$2.5 million in certain favorable discrete items, primarily due to R&D-related tax credits, realized in the current period. The reduction related to the enactment of the Tax Act is primarily attributable to the reduction in the Federal statutory tax rate to 21%.

Net income and diluted income per share increased in the first six months of Fiscal 2019 compared to the first six months of Fiscal 2018 primarily due to improved profitability in our Motorhome segment and the lower effective income tax rate, offset slightly by a decrease in our Towable segment profitability and an increase in operating expenses.

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Non-GAAP Reconciliation

The following table reconciles net income to consolidated EBITDA and Adjusted EBITDA for the first six months ended February 23, 2019 and February 24, 2018:

(in thousands)	Six Months Ended	
	February 23, 2019	February 24, 2018
Net income	\$43,759	\$ 40,046
Interest expense	8,847	9,699
Provision for income taxes	9,892	16,794
Depreciation	6,268	4,328
Amortization of intangible assets	4,926	3,988
EBITDA	73,692	74,855
Acquisition-related costs	—	50
Restructuring expenses	219	—
Non-operating income	(970)	(112)
Adjusted EBITDA	\$72,941	\$ 74,793

Reportable Segment Performance Summary

Motorhome

The following is an analysis of key changes in our Motorhome segment for the first six months ended February 23, 2019 compared to the first six months ended February 24, 2018 and as of February 23, 2019 compared to February 24, 2018:

(in thousands, except ASP)	Six Months Ended		% of Revenues	February 24, 2018	% of Revenues	\$ Change	% Change
	February 23, 2019	February 24, 2018					
Net revenues	\$345,990	\$ 387,278				\$(41,288)	(10.7)%
Adjusted EBITDA	16,335	10,587	4.7 %	2.7 %		5,748	54.3 %
ASP ⁽¹⁾	95,620	90,604				5,016	5.5 %

Unit deliveries	Six Months Ended		February 24, 2018	Product Mix ⁽²⁾	Unit Change	% Change
	February 23, 2019	February 24, 2018				
Class A	951	1,604	37.9 %		(653)	(40.7)%
Class B	1,332	781	18.5 %		551	70.6 %
Class C	1,361	1,844	43.6 %		(483)	(26.2)%
Total motorhomes	3,644	4,229	100.0 %		(585)	(13.8)%

(\$ in thousands)	February 23, 2019	February 24, 2018	Change	% Change
Backlog ⁽³⁾				
Units	1,882	3,053	(1,171)	(38.4)%
Dollars	\$169,581	\$ 276,231	\$(106,650)	(38.6)%
Dealer Inventory				
Units	4,812	4,827	(15)	(0.3)%

(1) Average selling price excludes off-invoice dealer incentives.

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

We include in our backlog all accepted orders from dealers to generally be shipped within the next six months.

(3) Orders in backlog can be cancelled or postponed at the option of the dealer at any time without penalty and, therefore, backlog may not necessarily be an accurate measure of future sales.

Net revenues decreased in the first six months of Fiscal 2019 compared to the first six months of Fiscal 2018 due to a decrease in

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the number of units sold, partially offset by increased pricing.

ASP increased due to price increases during the second half of Fiscal 2018.

Adjusted EBITDA increased in the first six months of Fiscal 2019 compared to the first six months of Fiscal 2018 due to revenue mix, pricing, and operational improvements, partially offset by margin pressure from inflationary cost increases and heightened dealer incentives.

Unit deliveries decreased in the first six months of Fiscal 2019 compared to the first six months of Fiscal 2018 driven by decreases in our Class A gas and Class C products, partially offset by an increase in our Class B products.

Additionally, we have seen a decrease in the backlog volumes as of February 23, 2019 compared to February 24, 2018 due to the continuation of dealers right-sizing inventory levels and prior year Class B new product order timing.

Towable

The following is an analysis of key changes in our Towable segment for the first six months ended February 23, 2019 compared to the first six months ended February 24, 2018 and as of February 23, 2019 compared to February 24, 2018:

(in thousands, except ASP)	Six Months Ended		February 24, 2018		\$ Change	% Change
	February 23, 2019	% of Revenues	February 24, 2018	% of Revenues		
Net revenues	\$543,524		\$ 526,023		\$17,501	3.3 %
Adjusted EBITDA	64,466	11.9 %	69,688	13.2 %	(5,222)	(7.5)%
ASP ⁽¹⁾	32,008		31,096		912	2.9 %

Unit deliveries	Six Months Ended		February 24, 2018		Unit Change	% Change
	February 23, 2019	Product Mix ⁽²⁾	February 24, 2018	Product Mix ⁽²⁾		
Travel trailer	10,379	61.1 %	10,432	60.8 %	(53)	(0.5)%
Fifth wheel	6,602	38.9 %	6,725	39.2 %	(123)	(1.8)%
Total towables	16,981	100.0 %	17,157	100.0 %	(176)	(1.0)%

(\$ in thousands)	February 23, 2019	February 24, 2018	Change	% Change
Backlog ⁽³⁾				
Units	8,002	9,342	(1,340)	(14.3)%
Dollars	\$285,391	\$ 302,630	\$(17,239)	(5.7)%
Dealer Inventory				
Units	19,141	15,728	3,413	21.7 %

(1) Average selling price excludes off-invoice dealer incentives.

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

We include in our backlog all accepted orders from dealers to generally be shipped within the next six months.

(3) Orders in backlog can be cancelled or postponed at the option of the dealer at any time without penalty and, therefore, backlog may not necessarily be an accurate measure of future sales.

Net revenues increased in the first six months of Fiscal 2019 compared to the first six months of Fiscal 2018 due to increased pricing, partially offset by a decline in units sold.

ASP increased slightly due to price increases during the second half of Fiscal 2018.

Adjusted EBITDA decreased in the first six months of Fiscal 2019 compared to the first six months of Fiscal 2018 primarily due to increased material costs and higher dealer program costs, partially offset by sales growth.

Unit deliveries decreased in the first six months of Fiscal 2019 compared to the first six months of Fiscal 2018 primarily due to a slowing of retail demand and dealer inventory reductions. Our Towable segment market share increased from 6.2% to 7.8% when comparing retail registrations during the twelve-month trailing periods ended January 2018 and January 2019. Shipments grew faster than the industry as a result of greater penetration of our new products and further expansion of our products on dealer lots.

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We have seen a decrease in the backlog volumes as of February 23, 2019 compared to February 24, 2018 due to our utilization of additional capacity added during 2018 and re-balancing from high backlog levels in the prior year, in addition to a more challenging shipping environment in the current year. We believe dealer inventory increased due to our increased market share in the Towable segment.

Analysis of Financial Condition, Liquidity, and Resources

Cash Flows

The following table summarizes our cash flows from total operations for the first six months ended February 23, 2019 and February 24, 2018:

(in thousands)	Six Months Ended	
	February 23, 2019	February 24, 2018
Total cash provided by (used in):		
Operating activities	\$51,938	\$ 15,045
Investing activities	(23,024)	(11,394)
Financing activities	(28,239)	(12,153)
Net increase (decrease) in cash and cash equivalents	\$675	\$ (8,502)

Operating Activities

Cash provided by operating activities increased for the first six months ended February 23, 2019 compared to the first six months ended February 24, 2018 primarily due to an increase in net income and improvements in net working capital. This was partially offset by the timing of our estimated tax payments.

Investing Activities

Cash used in investing activities increased for the first six months ended February 23, 2019 compared to the first six months ended February 24, 2018 primarily due to increased capital expenditures related to the capacity expansions within our Towable segment.

Financing Activities

Cash used in financing activities increased for the first six months ended February 23, 2019 compared to the first six months ended February 24, 2018 primarily due to increased net payments on our Credit Agreement and increased share repurchases.

Debt and Capital

As of September 21, 2018, we have a debt agreement that consists of a \$300.0 million term loan agreement ("Term Loan") and a \$165.0 million asset-based revolving credit facility ("ABL") (collectively, the "Credit Agreement") with JPMorgan Chase Bank, N.A. Refer to Note 9, Long-Term Debt, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of our Annual Report on Form 10-K for the fiscal year ended August 25, 2018 for additional details. As of February 23, 2019, we had \$23.3 million in borrowings against the ABL.

We filed a Registration Statement on Form S-3, which was declared effective by the Securities and Exchange Commission on April 25, 2016. Subject to market conditions, this registration provides for 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 this Registration Statement.

Other Financial Measures

Working capital at February 23, 2019 and August 25, 2018 was \$175.3 million and \$167.8 million, respectively. We currently expect cash on hand, funds generated from operations, and the borrowing available under our Credit

Agreement to be sufficient to cover both short-term and long-term operating requirements.

Share Repurchases and Dividends

We repurchase our common stock and pay dividends pursuant to programs approved by our Board of Directors. Our long-term capital allocation strategy is to first fund operations and investments in growth, maintain a debt leverage ratio within our targeted zone, maintain reasonable liquidity, and then return excess cash over time to shareholders through dividends and share repurchases.

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On December 19, 2007, our Board of Directors authorized the repurchase of outstanding shares of our common stock, depending on market conditions, for an aggregate consideration of up to \$60.0 million. On October 18, 2017, our Board of Directors authorized a share repurchase program in the amount of \$70.0 million. There is no time restriction on either authorization. In the first six months ended February 23, 2019, we repurchased 0.2 million shares for \$5.3 million under this authorization. We continually evaluate if share repurchases reflect a prudent use of our capital and, subject to compliance with our Credit Agreement, we may purchase shares in the future. At February 23, 2019, we have \$60.7 million remaining on our board repurchase authorization.

On March 8, 2019, our Board of Directors approved a quarterly cash dividend of \$0.11 per share payable on April 17, 2019, to common stockholders of record at the close of business on April 3, 2019.

Contractual Obligations and Commercial Commitments

There has been no material change in our contractual obligations other than in the ordinary course of business since the end of Fiscal 2018. See our Annual Report on Form 10-K for the fiscal year ended August 25, 2018, for additional information regarding our contractual obligations and commercial commitments.

Significant Accounting Policies and Estimates

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 25, 2018. 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 25, 2018.

There have been no significant changes in our significant accounting policies or critical accounting estimates since the end of Fiscal 2018.

New Accounting Pronouncements

For a description of new applicable accounting pronouncements, see Note 1, Basis of Presentation, of the Notes to Condensed Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q.

Safe Harbor Statement Under the Private Securities Litigation Reform Act

Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), provide a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies. With the exception of historical information, the matters discussed in this Quarterly Report on Form 10-Q are forward-looking statements and may be identified by the use of words such as "anticipate," "assume," "believe," "estimate," "expect," "guidance," "intend," "outlook," "plan," "project," and other words and terms of similar meaning. Such statements reflect our current views and estimates with respect to future market conditions, company performance and financial results, operational investments, business prospects, new strategies, the competitive environment, and other events. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from the potential results discussed in such forward-looking statements. Readers should review Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended August 25, 2018, for a description of important factors that could cause our actual results to differ materially from those contemplated by the forward-looking statements made in this Quarterly Report on Form 10-Q. Among the factors that could cause actual results and outcomes to differ materially from those contained

in such forward-looking statements are the following: competition and new product introductions by competitors, our ability to attract and retain qualified personnel, business or production disruptions, sales order cancellations, risk related to compliance with debt covenants and leverage ratios, stock price volatility, availability of labor, a slowdown in the economy, low consumer confidence, the effect of global tensions, increases in interest rates, availability of credit, risk related to cyclical and seasonality, slower than anticipated sales of new or existing products, integration of operations relating to merger and acquisition activities generally, inadequate liquidity or capital resources, inventory and distribution channel management, our ability to innovate, our reliance on large dealer organizations, significant increase in repurchase obligations, availability and price of fuel, availability of chassis and other key component parts, increased material and component costs, exposure to warranty claims, ability to protect our intellectual property, exposure to product liability claims, dependence on information systems and web applications, any unexpected expenses related to ERP, risk related to data security, governmental regulation, including for climate change, and risk related to anti-takeover provisions applicable to us and other factors. We caution that the foregoing list of important factors is not complete. Any forward-looking statements speak only as of the date they are made, and we assume no obligation to update any forward-looking statement that we may make.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in our primary risk exposures or management of market risks from those previously disclosed in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, of our Annual Report on Form 10-K for the fiscal year ended August 25, 2018.

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 Securities and Exchange Commission 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 and believes that such controls and procedures are effective at the reasonable assurance level.

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated 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

We are implementing an ERP system, which is expected to improve the efficiency of certain financial and related transaction processes. The implementation of an ERP system will likely affect the processes that constitute our internal control over financial reporting and will require testing for effectiveness. As we have completed implementation of certain phases of the ERP, internal controls over financial reporting have been tested for effectiveness with respect to the scope of the phase completed. We concluded, as part of our evaluation described in the above paragraphs, that the implementation of ERP in these circumstances has not materially affected our internal control over financial reporting. The implementation is continuing in a phased approach and will continue to be evaluated for effect on our internal control over financial reporting.

There were no changes in our internal control over financial reporting that occurred during the second quarter of Fiscal 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION.

Item 1. Legal Proceedings.

For a description of our legal proceedings, see Note 11, Contingent Liabilities and Commitments, of the Notes to Condensed Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors.

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended August 25, 2018.

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

(c) Stock Repurchases

Purchases of our common stock during each fiscal month of the second quarter of Fiscal 2019 were:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs ⁽²⁾
11/25/18 - 12/29/18	636	\$ 20.63	—	\$65,685,000
12/30/18 - 01/26/19	102,924	\$ 29.55	101,637	\$62,683,000
01/27/19 - 02/23/19	70,759	\$ 29.62	67,445	\$60,682,000
Total	174,319	\$ 29.55	169,082	\$60,682,000

(1) Shares not purchased as part of a publicly announced program were repurchased from employees who vested in Company shares and elected to pay their payroll tax via the value of shares delivered as opposed to cash.

Pursuant to a combined \$130.0 million share repurchase program authorized by our Board of Directors. On (2)December 19, 2007, \$60.0 million was approved, and on October 18, 2017, \$70.0 million was approved. There is no time restriction on either authorization.

Our Credit Agreement, as defined in Note 9, Long-Term Debt, of the Notes to Condensed Consolidated Financial Statements, included in Item 1, Condensed Consolidated Financial Statements, of this Quarterly Report on Form 10-Q, contains restrictions that may limit our ability to make distributions or payments with respect to purchases of our common stock without consent of the lenders, except for limited purchases of our common stock from employees, in the event of a significant reduction in our EBITDA or in the event of a significant borrowing on our asset-based revolving credit agreement.

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Item 6. Exhibits.

- 3a. Articles of Incorporation of the Registrant previously filed as Exhibit 3a with the Registrant's Annual Report on Form 10-K for the fiscal year ended August 25, 2018 (Commission File Number 001-06403) and incorporated by reference herein.
- 3b. Amended By-Laws of the Registrant previously filed as Exhibit 3.1 with the Registrant's Current Report on Form 8-K dated March 16, 2016 (Commission File Number 001-06403) and incorporated by reference herein.
- 10a. Winnebago Industries, Inc. 2019 Omnibus Incentive Plan, previously filed as Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A filed on October 31, 2018 (Commission File Number 001-06403) and incorporated by reference herein.
- 31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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 23, 2019 formatted in XBRL: (i) the Unaudited Condensed Consolidated Statements of Income and Comprehensive Income, (ii) the Unaudited Condensed Consolidated Balance Sheets, (iii) the Unaudited Condensed Consolidated Statements of Cash Flows, (iv) the Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity, and (v) related Notes to Condensed Consolidated 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 26, 2019 By /s/ Michael J. Happe
Michael J. Happe
Chief Executive Officer, President
(Principal Executive Officer)

Date: March 26, 2019 By /s/ Bryan L. Hughes
Bryan L. Hughes
Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)