

Edgar Filing: THOR INDUSTRIES INC - Form 10-Q

THOR INDUSTRIES INC
Form 10-Q
November 28, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended October 31, 2016.

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 1-9235

THOR INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

93-0768752
(I.R.S. Employer
Identification No.)

601 E. Beardsley Ave., Elkhart, IN
(Address of principal executive offices)

46514-3305
(Zip Code)

(574) 970-7460

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

Edgar Filing: THOR INDUSTRIES INC - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at 10/31/2016
Common stock, par value \$.10 per share	52,586,041 shares

PART I FINANCIAL INFORMATION (Unless otherwise indicated, amounts in thousands except share and per share data.)**ITEM 1. FINANCIAL STATEMENTS****THOR INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	October 31, 2016	July 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 161,710	\$ 209,902
Accounts receivable, trade, less allowance for doubtful accounts of \$641 and \$625, respectively	445,623	370,085
Accounts receivable, other	33,921	22,454
Inventories, net	417,127	403,869
Prepaid income taxes, expenses and other	11,329	10,548
Total current assets	1,069,710	1,016,858
Property, plant and equipment, net	360,239	344,267
Other assets:		
Goodwill	377,693	377,693
Amortizable intangible assets, net	489,176	507,391
Deferred income taxes, net	55,714	53,417
Other	29,226	25,838
Total other assets	951,809	964,339
TOTAL ASSETS	\$ 2,381,758	\$ 2,325,464
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 257,810	\$ 263,774
Accrued liabilities:		
Compensation and related items	93,241	81,159
Product warranties	208,988	201,840
Income and other taxes	13,023	25,531
Promotions and rebates	37,782	40,452
Product, property and related liabilities	15,110	15,969
Dividends payable	17,352	
Other	21,477	22,927
Total current liabilities	664,783	651,652
Long-term debt	340,000	360,000
Unrecognized tax benefits	10,596	9,975
Other liabilities	40,729	38,615
Total long-term liabilities	391,325	408,590
Contingent liabilities and commitments		
Stockholders equity:		

Edgar Filing: THOR INDUSTRIES INC - Form 10-Q

Preferred stock	authorized 1,000,000 shares; none outstanding		
Common stock	par value of \$.10 per share; authorized 250,000,000 shares; issued 62,597,110 and 62,439,795 shares, respectively		
		6,260	6,244
Additional paid-in capital		228,087	224,496
Retained earnings		1,427,374	1,365,981
Less treasury shares of 10,011,069 and 9,957,180, respectively, at cost		(336,071)	(331,499)
Total stockholders' equity		1,325,650	1,265,222
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$ 2,381,758	\$ 2,325,464

See Notes to the Condensed Consolidated Financial Statements.

THOR INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**FOR THE THREE MONTHS ENDED OCTOBER 31, 2016 AND 2015 (UNAUDITED)**

	Three Months Ended October 31,	
	2016	2015
Net sales	\$ 1,708,531	\$ 1,030,351
Cost of products sold	1,471,779	878,135
Gross profit	236,752	152,216
Selling, general and administrative expenses	102,310	68,454
Amortization of intangible assets	18,215	6,028
Interest income	153	138
Interest expense	2,560	174
Other income (expense), net	1,980	(7)
Income from continuing operations before income taxes	115,800	77,691
Income taxes	37,055	26,955
Net income from continuing operations	78,745	50,736
Loss from discontinued operations, net of income taxes		(239)
Net income and comprehensive income	\$ 78,745	\$ 50,497
Weighted-average common shares outstanding:		
Basic	52,503,966	52,409,945
Diluted	52,705,942	52,545,560
Earnings per common share from continuing operations:		
Basic	\$ 1.50	\$ 0.97
Diluted	\$ 1.49	\$ 0.97
Earnings per common share:		
Basic	\$ 1.50	\$ 0.96
Diluted	\$ 1.49	\$ 0.96
Regular dividend declared and paid per common share	\$	\$ 0.30
Regular dividend declared per common share	\$ 0.33	\$

See Notes to the Condensed Consolidated Financial Statements.

THOR INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED OCTOBER 31, 2016 AND 2015 (UNAUDITED)

	Three Months Ended October 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 78,745	\$ 50,497
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	8,380	5,405
Amortization of intangible assets	18,215	6,028
Amortization of debt issuance costs	393	
Deferred income tax provision (benefit)	(2,297)	2,289
Gain on disposition of property, plant and equipment	(2,188)	(1)
Stock-based compensation expense	2,738	2,279
Excess tax benefits from stock-based awards		(291)
Changes in assets and liabilities (excluding acquisitions):		
Accounts receivable	(86,419)	(47,614)
Inventories	(13,258)	(25,255)
Prepaid income taxes, expenses and other	(2,648)	(5,889)
Accounts payable	(1,254)	28,667
Accrued liabilities	(1,966)	2,579
Other liabilities	2,822	198
Net cash provided by operating activities	1,263	18,892
Cash flows from investing activities:		
Purchases of property, plant and equipment	(26,164)	(15,922)
Proceeds from dispositions of property, plant and equipment	4,329	40
Proceeds from notes receivable		8,367
Acquisitions	(5,039)	
Other	(2,500)	
Net cash used in investing activities	(29,374)	(7,515)
Cash flows from financing activities:		
Principal payments on revolving credit facility	(20,000)	
Regular cash dividends paid		(15,743)
Principal payments on capital lease obligations	(81)	(86)
Excess tax benefits from stock-based awards		291
Net cash used in financing activities	(20,081)	(15,538)
Net decrease in cash and cash equivalents	(48,192)	(4,161)
Cash and cash equivalents, beginning of period	209,902	183,478
Cash and cash equivalents, end of period	\$ 161,710	\$ 179,317
Supplemental cash flow information:		
Income taxes paid	\$ 54,224	\$ 35,326
Interest paid	\$ 2,407	\$ 174

Edgar Filing: THOR INDUSTRIES INC - Form 10-Q

Non-cash transactions:

Capital expenditures in accounts payable	\$	3,867	\$	532
Regular quarterly dividend payable	\$	17,352	\$	

See Notes to the Condensed Consolidated Financial Statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(All dollar amounts presented in thousands except per share data)

1. Nature of Operations and Accounting Policies

Nature of Operations

Thor Industries, Inc. was founded in 1980 and, through its subsidiaries (collectively, the Company), manufactures a wide range of recreational vehicles (RVs) in the United States at various manufacturing facilities located primarily in Indiana and Ohio, with additional facilities in Oregon and Idaho. These products are sold to independent dealers primarily throughout the United States and Canada. Unless the context requires or indicates otherwise, all references to Thor, the Company, we, our and us refer to Thor Industries, Inc. and its subsidiaries.

The Company's ongoing business activities are primarily comprised of two distinct operations, which include the design, manufacture and sale of both towable recreational vehicles and motorized recreational vehicles. Accordingly, the Company has presented segment financial information for these two segments in Note 3 to the Condensed Consolidated Financial Statements. The accompanying financial statements (including footnote disclosures unless otherwise indicated) reflect the Company's former bus operations as discontinued operations apart from the Company's continuing operations. The accompanying Condensed Consolidated Financial Statements include the accounts of Thor Industries, Inc. and its wholly-owned subsidiaries. All intercompany transactions are eliminated upon consolidation.

The July 31, 2016 amounts are derived from the annual audited financial statements. The interim financial statements are unaudited. In the opinion of management, all adjustments (which consist of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented have been made. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2016. Due to seasonality within the recreational vehicle industry, annualizing the results of operations for the three months ended October 31, 2016 would not necessarily be indicative of the results for a full fiscal year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Key estimates include reserves for inventory, incurred but not reported medical claims, warranty claims, recall liabilities, workers' compensation claims, vehicle repurchases, uncertain tax positions, product and non-product litigation and assumptions made in asset impairment assessments. The Company bases its estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. The Company believes that such estimates are made using consistent and appropriate methods. Actual results could differ from these estimates.

Accounting Pronouncements

In March 2016, the FASB issued Accounting Standards Update No. 2016-09 (ASU 2016-09) Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for the related income taxes, forfeitures, statutory tax withholding requirements and classification in the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. Early adoption is permitted and the Company adopted the provisions of ASU 2016-09 as of August 1, 2016. Applicable provisions of the standard have been adopted prospectively as allowed under the standard. The provisions related to income taxes resulted in a tax benefit of \$1,843 for the three months ended October 31, 2016. The Company did not change its policy related to forfeitures, which is estimated based on historical forfeiture rates over the vesting period of employee awards. Provisions related to the statement of cash flows have been adopted prospectively and result in the recognition of the excess tax benefits from stock-based awards being reflected in cash provided by operating activities.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16 (ASU 2015-16) Business Combinations (Topic 805): Simplifying the Accounting for Measurement Period Adjustments, to simplify the accounting for measurement-period adjustments in a business combination. Under the new standard, an acquirer must recognize adjustments to provisional amounts in a business combination in the reporting period in which the adjustment amounts are determined, rather than retrospectively adjusting the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill as under current guidance. ASU 2015-16 is effective for fiscal years, and the interim periods within those years, beginning after December 15, 2015. The Company adopted ASU 2015-16 on August 1, 2016 and there was no impact from this standard for the three months ended October 31, 2016.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11 (ASU 2015-11) Inventory (Topic 330): Simplifying the Measurement of Inventory. ASU 2015-11 requires inventory measured using any method other than last-in, first-out (LIFO) or the retail inventory method to be subsequently measured at the lower of cost or net realizable value, rather than at the lower of cost or market. Under this ASU, subsequent measurement of inventory using the LIFO and retail inventory method is unchanged. ASU 2015-11 is effective prospectively for fiscal years, and for interim periods within those years, beginning after December 15, 2016. The standard is effective for the Company in its fiscal year 2018 beginning on August 1, 2017. Early adoption is permitted. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 Revenue from Contracts with Customers (Topic 606), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This standard will supersede most current revenue recognition guidance. Under the new standard, entities are required to identify the contract with a customer, identify the separate performance obligations in the contract, determine the transaction price, allocate the transaction price to the separate performance obligations in the contract and recognize the appropriate amount of revenue when (or as) the entity satisfies each performance obligation. The standard is effective for fiscal years, and the interim periods within those years, beginning after December 15, 2017. The standard is effective for the Company in its fiscal year 2019 beginning on August 1, 2018. Entities have the option of using either retrospective transition or a modified approach in applying the new standard. The Company is currently evaluating the approach it will use to apply the new standard and the impact that the adoption of the new standard will have on the Company's consolidated financial statements.

2. Acquisition

Jayco, Corp.

On June 30, 2016, the Company closed on a Stock Purchase Agreement (Jayco SPA) for the acquisition of all the issued and outstanding capital stock of towable and motorized recreational vehicle manufacturer Jayco, Corp. (Jayco) for initial cash consideration of \$576,060, subject to adjustment. This acquisition was funded from the Company's cash on hand and \$360,000 from an asset-based revolving credit facility as more fully described in Note 11 to the Condensed Consolidated Financial Statements. The final purchase price adjustment of \$5,039, included in accounts payable as of July 31, 2016, was based on the final determination of net assets as of the June 30, 2016 closing date and was paid during the first quarter of fiscal 2017. Jayco operates as an independent operation in the same manner as the Company's other recreational vehicle subsidiaries, and its towables operations are aggregated within the Company's towable recreational vehicle reportable segment and its motorized operations are aggregated within the Company's motorized recreational vehicle reportable segment. The Company purchased Jayco to complement its existing towable and motorized RV product offerings and dealer base.

Edgar Filing: THOR INDUSTRIES INC - Form 10-Q

The following table summarizes the preliminary fair values assigned to the Jayco net assets acquired, which are based on internal and independent external valuations, and subject to the finalization of certain current liabilities:

Cash	\$ 18,409
Other current assets	258,158
Property, plant and equipment	80,824
Dealer network	261,100
Trademarks	92,800
Backlog	12,400
Goodwill	74,184
Current liabilities	(216,776)
Total fair value of net assets acquired	581,099
Less cash acquired	(18,409)
Total cash consideration for acquisition, less cash acquired	\$ 562,690

On the acquisition date, amortizable intangible assets had a weighted-average useful life of 19.3 years. The dealer network was valued based on the Discounted Cash Flow Method and is amortized on an accelerated basis over 20 years. The trademarks were valued on the Relief from Royalty Method and are amortized on a straight-line basis over 20 years. Backlog was valued based on the Discounted Cash Flow Method and was amortized on a straight-line basis over 3 months. Goodwill is deductible for tax purposes.

The following unaudited pro forma information represents Thor's results of operations for the period presented as if the fiscal 2016 acquisition of Jayco had occurred at the beginning of fiscal 2015. These performance results may not be indicative of the actual results that would have occurred under the ownership and management of Thor.

	Three Months Ended October 31, 2015
Net sales	\$ 1,426,564
Net income	\$ 54,921
Basic earnings per common share	\$ 1.05
Diluted earnings per common share	\$ 1.05

3. Business Segments

The Company has two reportable segments: (1) towable recreational vehicles and (2) motorized recreational vehicles. The towable recreational vehicle reportable segment consists of the following operating segments that have been aggregated: Airstream (towable), Heartland (including Bison, CRV and DRV), Jayco (including Jayco towable, Starcraft and Highland Ridge), Keystone (including CrossRoads and Dutchmen) and KZ (including Livin Lite). The motorized recreational vehicle reportable segment consists of the following operating segments that have been aggregated: Airstream (motorized), Jayco (including Jayco motorized and Entegra Coach) and Thor Motor Coach.

The operations of the Company's Postle subsidiary are included in Other, which is a non-reportable segment. Net sales included in Other mainly relate to the sale of aluminum extrusions and specialized component products. Intercompany eliminations adjust for Postle sales to the Company's towable and motorized segments, which are consummated at established arm's-length transfer prices generally consistent with the selling prices of extrusion components to third-party customers.

All manufacturing is conducted within the United States. Total assets include those assets used in the operation of each reportable and non-reportable segment, and the Corporate assets consist primarily of cash and cash equivalents and deferred income tax assets.

	Three Months Ended October 31,	
	2016	2015
Net sales:		
Recreational vehicles:		
Towables	\$ 1,210,873	\$ 744,679
Motorized	461,454	251,099
Total recreational vehicles	1,672,327	995,778
Other	58,996	50,382
Intercompany eliminations	(22,792)	(15,809)
Total	\$ 1,708,531	\$ 1,030,351

	Three Months Ended October 31,	
	2016	2015
Income (loss) from continuing operations before income taxes:		
Recreational vehicles:		
Towables	\$ 94,173	\$ 63,224
Motorized	28,923	21,653
Total recreational vehicles	123,096	84,877
Other, net	6,378	2,656
Corporate	(13,674)	(9,842)
Total	\$ 115,800	\$ 77,691

	October 31, 2016	July 31, 2016
	Total assets:	
Recreational vehicles:		
Towables	\$ 1,459,849	\$ 1,425,168
Motorized	511,529	476,973
Total recreational vehicles	1,971,378	1,902,141
Other, net	157,019	156,822
Corporate	253,361	266,501
Total	\$ 2,381,758	\$ 2,325,464

	Three Months Ended October 31,	
	2016	2015
Depreciation and amortization expense:		
Recreational vehicles		
Towables	\$ 20,926	\$ 7,456
Motorized	2,343	643
Total recreational vehicles	23,269	8,099
Other	3,004	3,056
Corporate	322	278
Total	\$ 26,595	\$ 11,433

Three Months Ended
October 31,

Edgar Filing: THOR INDUSTRIES INC - Form 10-Q

Capital acquisitions:	2016	2015
Recreational vehicles		
Towables	\$ 20,865	\$ 12,806
Motorized	5,156	993
Total recreational vehicles	26,021	13,799
Other	296	773
Corporate	176	342
Total	\$ 26,493	\$ 14,914

4. Earnings Per Common Share

The following table reflects the weighted-average common shares used to compute the basic and diluted earnings per common share as included on the Condensed Consolidated Statements of Income and Comprehensive Income:

	Three Months Ended	
	October 31, 2016	October 31, 2015
Weighted-average common shares outstanding for basic earnings per common share	52,503,966	52,409,945
Unvested restricted stock and restricted stock units	201,976	135,615
Weighted-average common shares outstanding for diluted earnings per common share	52,705,942	52,545,560

At October 31, 2016 and 2015, the Company had 52,098 and 48,119, respectively, of unvested restricted stock and restricted stock units outstanding which were excluded from this calculation as their effect would be antidilutive.

5. Inventories

Major classifications of inventories are as follows:

	October 31, 2016	July 31, 2016
Finished goods RV	\$ 48,128	\$ 39,943
Finished goods other	23,613	20,141
Work in process	107,442	97,872
Raw materials	183,500	173,362
Chassis	84,579	102,686
Total	447,262	434,004
Excess of FIFO costs over LIFO costs	(30,135)	(30,135)
Total inventories, net	\$ 417,127	\$ 403,869

Of the \$447,262 and \$434,004 of inventories at October 31, 2016 and July 31, 2016, \$230,481 and \$219,050, respectively, was valued on the last-in, first-out (LIFO) basis, and \$216,781 and \$214,954, respectively, was valued on the first-in, first-out (FIFO) method.

6. Property, Plant and Equipment

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

	October 31, 2016	July 31, 2016
Land	\$ 46,171	\$ 46,422
Buildings and improvements	315,947	300,902
Machinery and equipment	140,170	133,112
Total cost	502,288	480,436
Less accumulated depreciation	(142,049)	(136,169)
Property, plant and equipment, net	\$ 360,239	\$ 344,267

Edgar Filing: THOR INDUSTRIES INC - Form 10-Q

Property, plant and equipment at both October 31, 2016 and July 31, 2016 includes buildings and improvements under capital leases of \$6,527, and includes related amortization included in accumulated depreciation of \$816 and \$680 at October 31, 2016 and July 31, 2016, respectively.

7. Intangible Assets and Goodwill

The components of amortizable intangible assets, net, are as follows:

	Weighted-Average				
	Remaining Life in Years at October 31, 2016	October 31, 2016		July 31, 2016	
		Cost	Accumulated Amortization	Cost	Accumulated Amortization
Dealer networks/customer relationships	16	\$ 404,960	\$ 62,876	\$ 404,960	\$ 55,191
Trademarks	19	148,117	12,422	148,117	10,539
Design technology and other intangibles	9	19,300	8,128	22,400	10,870
Non-compete agreements	3	450	225	450	203
Backlog				12,400	4,133
Total amortizable intangible assets		\$ 572,827	\$ 83,651	\$ 588,327	\$ 80,936

The dealer networks and customer relationships are being amortized on an accelerated basis. Trademarks, design technology and other intangibles and non-compete agreements are amortized on a straight-line basis. The backlog at July 31, 2016 related to the Jayco acquisition, and the remaining unamortized backlog of \$8,267 at that date was fully amortized in the three-month period ended October 31, 2016 and therefore removed from this schedule.

Estimated annual amortization expense is as follows:

For the fiscal year ending July 31, 2017	\$ 63,925
For the fiscal year ending July 31, 2018	54,463
For the fiscal year ending July 31, 2019	50,367
For the fiscal year ending July 31, 2020	46,480
For the fiscal year ending July 31, 2021	43,131
For the fiscal year ending July 31, 2022 and thereafter	249,025
	\$ 507,391

Of the recorded goodwill of \$377,693 at both October 31, 2016 and July 31, 2016, \$334,822 resides in the towable recreational vehicle segment and \$42,871 resides in the other non-reportable segment.

Goodwill is not subject to amortization, but instead is reviewed for impairment by applying a fair-value based test to the Company's reporting units on an annual basis as of April 30, or more frequently if events or circumstances indicate a potential impairment. The Company's reporting units are generally the same as its operating segments, which are identified in Note 3 to the Condensed Consolidated Financial Statements. Fair values are determined by a discounted cash flow model. These estimates are subject to significant management judgment, including the determination of many factors such as sales growth rates, gross margin patterns, cost growth rates, terminal value assumptions and discount rates, and therefore largely represent Level 3 inputs as defined by ASC 820. Changes in these estimates can have a significant impact on the determination of cash flows and fair value and could potentially result in future material impairments.

8. Concentration of Risk

One dealer, FreedomRoads, LLC, accounted for 17% and 18% of the Company's continuing consolidated net sales for the three-month periods ended October 31, 2016 and October 31, 2015, respectively. This dealer also accounted for 19% of the Company's consolidated trade accounts receivable at October 31, 2016 and 18% at July 31, 2016. The loss of this dealer could have a significant effect on the Company's business.

9. Investments and Fair Value Measurements

The Company carries at fair value its investments in securities (primarily mutual funds) held for the benefit of certain employees of the Company as part of a deferred compensation plan. These investments are measured with Level 1 inputs as prescribed by ASC 820, which include quoted prices in active markets for identical assets or liabilities and are the most observable inputs. Deferred compensation plan asset balances of \$17,487 and \$15,529 were recorded as of October 31, 2016 and July 31, 2016, respectively, as components of Other long-term assets in the Condensed Consolidated Balance Sheets. An equal and offsetting liability is also recorded in regards to the deferred compensation plan as a component of Other long-term liabilities in the Condensed Consolidated Balance Sheets. Changes in the fair value of the plan assets and the related liability are reflected in Other income (expense), net and Selling, general and administrative expenses, respectively, in the Condensed Consolidated Statements of Income and Comprehensive Income.

10. Product Warranties

The Company generally provides retail customers of its products with a one-year or two-year warranty covering defects in material or workmanship, with longer warranties on certain structural components. The Company records a liability based on its best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. Factors used in estimating the warranty liability include a history of units sold, existing dealer inventory, average cost incurred and a profile of the distribution of warranty expenditures over the warranty period. Management believes that the warranty reserves are adequate, however, actual claims incurred could differ from estimates, requiring adjustments to the reserves. Warranty reserves are reviewed and adjusted as necessary on at least a quarterly basis.

Changes in our product warranty reserves are as follows:

	Three Months Ended October 31,	
	2016	2015
Beginning balance	\$ 201,840	\$ 108,206
Provision	51,947	26,233
Payments	(44,799)	(26,592)
Ending balance	\$ 208,988	\$ 107,847

11. Long-Term Debt

The Company has a five-year credit agreement, which was entered into on June 30, 2016 and matures on June 30, 2021. The agreement provides for a \$500,000 asset-based revolving credit facility and a \$100,000 expansion option, subject to certain conditions. Borrowings outstanding on this facility totaled \$340,000 at October 31, 2016 and \$360,000 at July 31, 2016, and are subject to a variable pricing structure which can result in increases or decreases to the borrowing spread. Depending on the Company's borrowing availability as a percentage of the revolving credit commitment, pricing spreads can range from 1.25% to 1.75% in the case of loans bearing interest at LIBOR, and from 0.25% to 0.75% for loans bearing interest at the base rate. As of October 31, 2016, the borrowing spread on the LIBOR-based borrowings of \$335,000 was 1.50%, resulting in a total rate of approximately 2.03%, and the spread on the base loans of \$5,000 was 0.5%, resulting in a total rate of 4.00%. In addition, a 0.25% annual fee is payable quarterly on the unused portion of the credit line under the revolver. As of October 31, 2016, the available and unused credit line under the revolver was \$157,825. The revolving credit facility, which is secured by substantially all of the Company's tangible and intangible assets excluding real property, contains customary limits and restrictions concerning investments, sales of assets, liens on assets, stock repurchases and dividend and other payments depending on adjusted excess cash availability as defined in the agreement and summarized below. The terms of the facility permit prepayment without penalty at any time, subject to customary breakage costs relative to the LIBOR-based loans.

Borrowing availability under the credit agreement is limited to the lesser of the facility total and the monthly calculated borrowing base, which is based on stipulated loan percentages applied to the Company's eligible trade accounts receivable and eligible inventories plus a defined amount related to certain machinery and equipment. The credit agreement has no financial covenant restrictions for borrowings as long as the Company has adjusted excess availability under the facility that exceeds 10% of the lesser of the line commitment or the borrowing base total, with a floor of \$40,000. Adjusted excess availability consists of the calculated borrowing base availability plus eligible cash on deposit as specified in the facility agreement. If the adjusted excess availability is less than the stipulated amount, then the Company must comply with one financial covenant, a trailing twelve-month minimum fixed charge coverage ratio of 1:1. The Company was in compliance with its financial covenant in place at October 31, 2016. As of October 31, 2016, the Company had borrowing availability in excess of the outstanding loan balances of \$157,825 and adjusted excess availability for covenant purposes of \$289,420.

In the first quarter of fiscal 2017, the total LIBOR and base rate interest expense on the facility was \$1,878 and the weighted-average interest rate on borrowings from the facility was 2.11%. The Company incurred fees to secure the facility of \$7,850 in fiscal 2016, and those fees will be amortized ratably over the five-year term of the agreement, or a shorter period if the credit agreement period is shortened for any reason. The Company recorded charges related to the amortization of these fees, which are recorded in interest expense, of \$393 in the first quarter of fiscal 2017, and the unamortized balance of these facility fees was \$7,327 at October 31, 2016 and is included in Other long-term assets in the Condensed Consolidated Balance Sheet.

The carrying value of the Company's long-term debt at October 31, 2016 approximates fair value as the entire balance is subject to variable market interest rates that the Company believes are market rates for a similarly situated Company. The fair value of debt is largely estimated using level 2 inputs as defined by ASC 820.

12. Provision for Income Taxes

The overall effective income tax rate for the three months ended October 31, 2016 was 32.0% compared with 34.7% for the three months ended October 31, 2015. The primary reason for the decrease in the effective income tax rate was due to an income tax provision benefit of \$1,843 resulting from the adoption of ASU 2016-09 related to share-based compensation as discussed in Note 1 to the Condensed Consolidated Financial Statements. In addition, various uncertain tax benefits settled favorably in the three months ended October 31, 2016, while no such settlements occurred in the three months ended October 31, 2015.

It is the Company's policy to recognize interest and penalties accrued relative to unrecognized tax benefits in income tax expense. For the three months ended October 31, 2016, the Company released \$892 of gross uncertain tax positions and related interest recorded at July 31, 2016 related to the effective settlement of various uncertain tax positions which resulted in a net income tax benefit of \$580. The Company accrued \$96 in interest and penalties related to the remaining uncertain tax positions recorded at July 31, 2016.

The Company anticipates a decrease of approximately \$4,556 in unrecognized tax benefits, and \$922 in accrued interest related to unrecognized tax benefits recorded as of October 31, 2016, within the next 12 months from expected settlements or payments of uncertain tax positions and lapses of the applicable statutes of limitations. Actual results may differ from these estimates.

Generally, fiscal years 2013, 2014 and 2015 remain open for federal income tax purposes and fiscal years 2012, 2013, 2014 and 2015 remain open for state and Canadian income tax purposes. The Company and its subsidiaries file a consolidated U.S. federal income tax return and multiple state income tax returns. The Company is currently being audited by the IRS for tax year end July 31, 2014 and the state of California for tax years ended July 31, 2013 and 2014. In addition, the Company is currently disputing the audit results by the state of Indiana for tax years ended July 31, 2008, 2009 and 2010. The Company believes it has adequately reserved for its exposure to additional payments for uncertain tax positions related to its federal, California and Indiana income tax returns in its liability for unrecognized tax benefits.

13. Contingent Liabilities, Commitments and Legal Matters

The Company is contingently liable under terms of repurchase agreements with financial institutions providing inventory financing for certain dealers of certain of its products. These arrangements, which are customary in the industry, provide for the repurchase of products sold to dealers in the event of default by the dealer on the agreement to pay the financial institution. The repurchase price is generally determined by the original sales price of the product and pre-defined curtailment arrangements. The Company typically resells the repurchased product at a discount from its repurchase price. The risk of loss from these agreements is spread over numerous dealers. In addition to the guarantee under these repurchase agreements, we may also be required to repurchase inventory relative to dealer terminations in certain states in accordance with state laws or regulatory requirements. The repurchase activity related to dealer terminations in certain states has been insignificant in relation to our repurchase obligation with financial institutions.

The Company's total commercial commitments under standby repurchase obligations on dealer inventory financing as of October 31, 2016 and July 31, 2016 were \$1,919,329 and \$1,898,307, respectively. The commitment term is generally up to eighteen months.

The Company accounts for the guarantee under repurchase agreements of dealers' financing by deferring a portion of the related product sale that represents the estimated fair value of the guarantee at inception. The estimated fair value takes into account an estimate of the losses that may be incurred upon resale of any repurchases. This estimate is based on recent historical experience supplemented by the Company's assessment of current economic and other conditions affecting its dealers. This deferred amount is included in the repurchase and guarantee reserve balances of \$5,834 and \$6,068 as of October 31, 2016 and July 31, 2016, respectively, which are included in Other current liabilities on the Condensed Consolidated Balance Sheets.

The following table reflects losses incurred related to repurchase agreements that were settled in the periods noted. The Company believes that any future losses under these agreements will not have a significant effect on the Company's consolidated financial position, results of operations or cash flows.

	Three Months Ended	
	October 31,	
	2016	2015
Cost of units repurchased	\$ 1,552	\$ 819
Realization of units resold	1,544	687
Losses due to repurchase	\$ 8	\$ 132

The Company is also involved in certain litigation arising out of its operations in the normal course of its business, most of which is based upon state lemon laws, warranty claims and vehicle accidents (for which the Company carries insurance above a specified self-insured retention or deductible amount). The outcomes of legal proceedings and claims brought against the Company are subject to significant uncertainty. There is significant judgment required in assessing both the probability of an adverse outcome and the determination as to whether an exposure can be reasonably estimated. In management's opinion, the ultimate disposition of any current legal proceedings or claims against the Company will not have a material effect on the Company's financial condition, operating results or cash flows. Litigation is, however, inherently uncertain and an adverse outcome from such litigation could have a material effect on the operating results of a particular reporting period.

14. Stockholders' Equity
Stock-Based Compensation

During fiscal 2013, the Compensation and Development Committee of the Board (the Committee) approved a program to award restricted stock units (RSU program) to certain employees at the operating subsidiary and corporate levels. This program was subsequently modified for awards granted in fiscal 2017 and subsequent years to include a double-trigger change in control provision. The double-trigger provision stipulates that immediate vesting of an outstanding grant would occur only upon the occurrence of both a change in control, as defined by the plan, and a corresponding change in employment status.

Under the RSU program, the Committee has approved awards each October related to the financial performance of the most recently completed fiscal year since 2012. The awarded employee restricted stock units vest, and shares of common stock are issued, in equal installments on the first, second and third anniversaries of the date of grant. In addition, concurrent with the timing of the employee awards, the Nominating and Governance Committee of the Board has awarded restricted stock units to Board members that will vest, and shares of common stock will be issued, on the first anniversary of the date of the grant.

Total expense recognized in the three-month periods ended October 31, 2016 and October 31, 2015 for stock-based compensation was \$2,738 and \$2,279, respectively.

For the restricted stock units that vested during the three-month period ended October 31, 2016, a portion of the vested shares awarded were withheld as treasury shares to cover the recipients' estimated withholding taxes. The total related taxes withheld of \$4,572, to be paid by the Company on behalf of the recipients of these awards, is included in accrued compensation and related items in the Condensed Consolidated Balance Sheet and will be paid in the second quarter of fiscal 2017.

In the case of any awards related to fiscal 2017 financial performance, the grant of an award is conditioned upon approval of the 2016 Equity and Incentive Plan ("2016 Plan") by the shareholders of the Company, and no such grant shall be paid unless and until such time as the shareholders have approved the 2016 Plan by vote at the Company's annual meeting to be held on December 9, 2016, and any such grants related to 2017 financial performance shall be null and void if the shareholders do not approve the 2016 Plan.

Retained Earnings

The components of the change in retained earnings are as follows:

Balance as of July 31, 2016	\$ 1,365,981
Net income	78,745
Dividends declared but not paid	(17,352)
 Balance as of October 31, 2016	 \$ 1,427,374

During the first quarter of fiscal 2017, the Company's Board of Directors approved and declared the payment of a regular quarterly dividend of \$0.33 per share for the first quarter of fiscal 2017. This dividend totaled \$17,352 and was paid in the second quarter of fiscal 2017.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless otherwise indicated, all dollar amounts are presented in thousands except per share data.

Forward Looking Statements

This report includes certain statements that are forward looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward looking statements are made based on management's current expectations and beliefs regarding future and anticipated developments and their effects upon Thor Industries, Inc., and inherently involve uncertainties and risks. These forward looking statements are not a guarantee of future performance. We cannot assure you that actual results will not differ from our expectations. Factors which could cause materially different results include, among others, raw material and commodity price fluctuations, material or chassis supply restrictions, legislative and regulatory developments, the impact of rising interest rates on our operating results, the costs of compliance with increased governmental regulation, legal and compliance issues including those that may arise in conjunction with recent transactions, the potential impact of increased tax burdens on our dealers and retail consumers, lower consumer confidence and the level of discretionary consumer spending, interest rate fluctuations and the potential economic impact of rising interest rates, restrictive lending practices, management changes, the success of new product introductions, the pace of obtaining and producing at new production facilities, the pace of acquisitions, the potential loss of existing customers of acquisitions, the integration of new acquisitions, our ability to retain key management personnel of acquired companies, the loss or reduction of sales to key dealers, the availability of delivery personnel, asset impairment charges, cost structure changes, competition, the impact of potential losses under repurchase agreements, the potential impact of the strengthening U.S. dollar on international demand, general economic, market and political conditions and the other risks and uncertainties discussed more fully in ITEM 1A of our Annual Report on Form 10-K for the year ended July 31, 2016.

We disclaim any obligation or undertaking to disseminate any updates or revisions to any forward looking statements contained in this report or to reflect any change in our expectations after the date hereof or any change in events, conditions or circumstances on which any statement is based, except as required by law.

Executive Overview

We were founded in 1980 and have grown to be one of the largest manufacturers of RVs in North America. According to Statistical Surveys, Inc., for the nine months ended September 30, 2016, Thor's combined U.S. and Canadian market share, excluding Jayco, was approximately 36.0% for travel trailers and fifth wheels and approximately 27.0% for motorhomes. For the nine months ended September 30, 2016, Jayco's combined U.S. and Canadian market share, which includes results prior to its acquisition by Thor, was 14.5% for travel trailers and fifth wheels and approximately 9.2% for motorhomes. For the three months ended September 30, 2016, Thor's combined U.S. and Canadian market share, including Jayco, was approximately 50.6% for travel trailers and fifth wheels and approximately 37.8% for motorhomes.

Our business model includes decentralized operating units, and we compensate operating management with a combination of cash and restricted stock units, based primarily upon the profitability of the business unit which they manage. Our corporate staff provides financial management, insurance, legal, human resource, risk management and internal audit functions to our operating units. Senior corporate management interacts regularly with operating management to assure that corporate objectives are understood and are monitored appropriately.

Our RV products are sold to dealers who, in turn, retail those products. We generally do not finance dealers directly, but do provide industry-customary repurchase agreements to certain of the dealers' floor plan lenders.

Our growth has been achieved both organically and by acquisition. Our strategy is designed to increase our profitability by driving innovation, servicing our customers, manufacturing quality products, improving the efficiencies of our facilities and by acquisitions.

We have historically relied on internally generated cash flows from operations to finance substantially all of our growth, however, we obtained a revolving asset-based credit facility to partially fund the fiscal 2016 acquisition of Jayco as discussed in Notes 2 and 11 to the Condensed Consolidated Financial Statements. Capital expenditures of \$26,164 for the three months ended October 31, 2016 were made primarily for land and production building additions and improvements, as well as for replacing machinery and equipment used in the ordinary course of business.

Recent Events

On June 30, 2016, the Company closed on a Stock Purchase Agreement (Jayco SPA) for the acquisition of all the issued and outstanding capital stock of towable and motorized recreational vehicle manufacturer Jayco, Corp. (Jayco) for total cash consideration of \$581,099. This acquisition was funded from the Company s cash on hand and \$360,000 from an asset-based revolving credit facility as more fully described in Notes 2 and 11 to the Condensed Consolidated Financial Statements. Jayco operates as an independent operation in the same manner as the Company s other recreational vehicle subsidiaries. The Company purchased Jayco to complement its existing towable and motorized RV product offerings and dealer base.

Industry Outlook

The Company monitors the industry conditions in the RV market through the use of monthly wholesale shipment data as reported by the Recreation Vehicle Industry Association (RVIA), which is typically issued on a one-month lag and represents manufacturers RV production and delivery to dealers. In addition, we also monitor monthly retail sales trends as reported by Stat Surveys, whose data is typically issued on a month-and-a-half lag. The Company believes that monthly RV retail sales data is important as consumer purchases impact future dealer orders and ultimately our production.

We believe our dealer inventory levels are appropriate for seasonal consumer demand. RV dealer inventory of Thor products as of October 31, 2016 increased 49.7% to approximately 99,100 units from approximately 66,200 units as of October 31, 2015. The acquisition of Jayco accounted for 27,500 of the 32,900 unit increase and 41.5% of the 49.7% percentage increase.

Thor s RV backlog as of October 31, 2016 increased \$1,055,771, or 100.5%, to \$2,106,794 from \$1,051,023 as of October 31, 2015, with Jayco s backlog accounting for \$577,495 and 54.9% of these increases, respectively.

Industry Wholesale Statistics

Key wholesale statistics for the RV industry, as reported by RVIA, are as follows:

	U.S. and Canada Wholesale Unit Shipments			
	Nine Months Ended		Increase	% Change
	September 30, 2016	2015		
Towable Units	282,687	249,136	33,551	13.5
Motorized Units	41,599	35,913	5,686	15.8
Total	324,286	285,049	39,237	13.8

According to the most recent RVIA forecast in August 2016, 2016 shipments for towable and motorized units for the 2016 calendar year will approximate 353,100 and 52,200 units, respectively, which are 8.0% and 10.4% higher, respectively, than the corresponding 2015 calendar year wholesale shipments. The combined record total of 405,300 surpasses the previous peak level, which was achieved in 2006. Travel trailers and fifth wheels are expected to account for approximately 84% of all RV shipments in calendar year 2016. The outlook for calendar year 2016 growth in RV sales is based on the expectation of continued gains in job and disposable income as well as low inflation, and takes into account the impact of slowly rising interest rates, a strong U.S. dollar and continued stability in energy production and prices. RVIA has also forecasted that 2017 calendar year shipments for towables and motorized units will approximate 357,100 and 53,900 units, respectively, which are 1.1% and 3.3% higher, respectively, than expected 2016 calendar year shipments.

Industry Retail Statistics

We believe that retail demand is the key to continued growth in the RV industry, and that annual RV industry wholesale shipments will generally be in line with annual retail sales going forward.

Edgar Filing: THOR INDUSTRIES INC - Form 10-Q

Key retail statistics for the RV industry, as reported by Stat Surveys, are as follows:

	U.S. and Canada Retail Unit Registrations			
	Nine Months Ended			
	September 30,			
	2016	2015	Increase	% Change
Towable Units	302,445	278,672	23,773	8.5
Motorized Units	39,915	36,092	3,823	10.6
Total	342,360	314,764	27,596	8.8

Note: Data reported by Stat Surveys is based on official state records. This information is subject to adjustment and is continuously updated.

Company Wholesale Statistics

The Company's wholesale RV shipments, for the nine-month periods ended September 30, 2016 and 2015 to correspond to the industry periods denoted above, were as follows (includes Jayco results only from the date of acquisition forward):

	U.S. and Canada Wholesale Unit Shipments			
	Nine Months Ended			
	September 30,			
	2016	2015	Increase	% Change
Towable Units	115,514	90,611	24,903	27.5
Motorized Units	12,508	8,866	3,642	41.1
Total	128,022	99,477	28,545	28.7

Company Retail Statistics

Retail statistics of the Company's RV products, as reported by Stat Surveys, for the nine-month periods ended September 30, 2016 and 2015 to correspond to the industry periods denoted above (and adjusted to include Jayco's results only from the date of acquisition forward), were as follows:

	U.S. and Canada Retail Unit Registrations			
	Nine Months Ended			
	September 30,			
	2016	2015	Increase	% Change
Towable Units	121,119	99,340	21,779	21.9
Motorized Units	12,150	8,873	3,277	36.9
Total	133,269	108,213	25,056	23.2

Our outlook for future growth in retail sales is dependent upon various economic conditions faced by consumers such as the rate of unemployment, the level of consumer confidence, the growth in disposable income of consumers, changes in interest rates, credit availability, the pace of recovery in the housing market, the impact of rising taxes and changes in fuel prices. With continued stability or improvement in consumer confidence, availability of retail and wholesale credit, low interest rates and the absence of negative economic factors, we would expect to see incremental improvements in RV sales.

A positive future outlook for the RV segment is supported by favorable demographics, as more people reach the age brackets that historically have accounted for the bulk of retail RV sales. The number of consumers between the ages of 55 and 74 will total 79 million by 2025, 15% higher than in 2015 according to the RVIA. In addition, in recent years the industry has benefited from growing retail sales to younger consumers with new product offerings targeted to younger, more active families, as they place a higher value on family outdoor recreation than any prior generation. Based on a study from the Pew Research Center, the Millennial generation, defined as those currently between the ages of 18 and 34, consisted of more than 75 million people in 2015. In general, these consumers are more technologically savvy, but still value active outdoor experiences shared with family and friends, making them strong potential customers for our industry in the decades to come. Based on reports published by the Kampgrounds of America (KOA), campers in this age group have grown from 18% of total campers to 23% of total campers between 2012 and 2015. Younger RV consumers are generally attracted to lower and moderately priced travel trailers, as affordability is a key driver at this stage in their lives.

As the first generation of the internet age, Millennials are more comfortable gathering information online, and are therefore generally more knowledgeable about products and competitive pricing than any prior generation. This generation is camping more as they view camping as an opportunity to spend time with family and friends as well as a way to reduce stress, escape the pressures of everyday life, be more active and lead a healthier lifestyle. In addition to younger age demographics, there are opportunities to expand sales to a more ethnically diverse customer base. In our efforts to connect with RV consumers of all generations, during the first quarter of fiscal 2017 we launched a new consumer-facing website designed to inspire consumers to explore the RV lifestyle. The new website includes video and interactive features to help consumers determine the type of RV which may suit their specific camping needs, while providing video footage that can be utilized by dealers to market our products. We will continue to evaluate additional marketing opportunities to younger and more diverse consumers over the coming year.

Economic or industry-wide factors affecting our RV business include the costs of commodities used in the manufacture of our products. Material cost is the primary factor determining our cost of products sold, and any future increases in raw material costs would impact our profit margins negatively if we were unable to raise the prices for our products by corresponding amounts. Historically, we have been able to pass along those cost increases to customers.

Recently, we have not experienced any unusual cost increases or supply constraints from our chassis suppliers. The recreational vehicle industry has, from time to time, experienced shortages of chassis for various reasons, including component shortages, production delays and work stoppages at the chassis manufacturers. These shortages have had a negative impact on our sales and earnings in the past. We believe that the current supply of chassis used in our motorized RV production is adequate for current production levels and that available inventory would compensate for short-term changes in supply schedules if they occur.

Edgar Filing: THOR INDUSTRIES INC - Form 10-Q

Three Months Ended October 31, 2016 vs. Three Months Ended October 31, 2015

	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Change Amount	% Change
NET SALES:				
Recreational vehicles				
Towables				
Motorized	\$ 1,210,873	\$ 744,679	\$ 466,194	62.6
	461,454	251,099	210,355	83.8
Total recreational vehicles	1,672,327	995,778	676,549	67.9
Other	58,996	50,382	8,614	17.1
Intercompany eliminations	(22,792)	(15,809)	(6,983)	(44.2)
Total	\$ 1,708,531	\$ 1,030,351	\$ 678,180	65.8

OF UNITS:

Recreational vehicles				
Towables	51,174	28,933	22,241	76.9
Motorized	5,419	3,069	2,350	76.6
Total	56,593	32,002	24,591	76.8

		% of Segment Net Sales		% of Segment Net Sales	Change Amount	% Change
GROSS PROFIT:						
Recreational vehicles						
Towables	\$ 174,978	14.5	\$ 110,765	14.9	\$ 64,213	58.0
Motorized	51,437	11.1	35,362	14.1	16,075	45.5
Total recreational vehicles	226,415	13.5	146,127	14.7	80,288	54.9
Other, net	10,337	17.5	6,089	12.1	4,248	69.8
Total	\$ 236,752	13.9	\$ 152,216	14.8	\$ 84,536	55.5

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:

Recreational vehicles						
Towables	\$ 67,588	5.6	\$ 43,342	5.8	\$ 24,246	55.9
Motorized	21,314	4.6	13,710	5.5	7,604	55.5
Total recreational vehicles	88,902	5.3	57,052	5.7	31,850	55.8
Other	2,320	3.9	1,602	3.2	718	44.8
Corporate	11,088		9,800		1,288	13.1
Total	\$ 102,310	6.0	\$ 68,454	6.6	\$ 33,856	49.5

INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES:

Recreational vehicles						
Towables	\$ 94,173	7.8	\$ 63,224	8.5	\$ 30,949	49.0

Edgar Filing: THOR INDUSTRIES INC - Form 10-Q

Motorized	28,923	6.3	21,653	8.6	7,270	33.6
Total recreational vehicles	123,096	7.4	84,877	8.5	38,219	45.0
Other, net	6,378	10.8	2,656	5.3	3,722	140.1
Corporate	(13,674)		(9,842)		(3,832)	(38.9)
Total	\$ 115,800	6.8	\$ 77,691	7.5	\$ 38,109	49.1

	As of October 31, 2016	As of October 31, 2015	Change Amount	% Change
ORDER BACKLOG:				
Recreational vehicles				
Towables	\$ 1,400,403	\$ 710,013	\$ 690,390	97.2
Motorized	706,391	341,010	365,381	107.1
Total	\$ 2,106,794	\$ 1,051,023	\$ 1,055,771	100.5

CONSOLIDATED

Consolidated net sales for the three months ended October 31, 2016 increased \$678,180, or 65.8%, compared to the three months ended October 31, 2015. Recently acquired Jayco accounted for \$467,143 of the \$678,180 increase and 45.3% of the 65.8% increase in consolidated net sales. Consolidated gross profit for the three months ended October 31, 2016 increased \$84,536, or 55.5%, compared to the three months ended October 31, 2015, with Jayco accounting for \$44,703 of the \$84,536 increase and 29.4% of the 55.5% increase. Jayco's gross profit for the three months ended October 31, 2016 was adversely affected by one-time purchase accounting charges related to inventory of \$2,604, which primarily related to the motorized segment. Consolidated gross profit was 13.9% of consolidated net sales for the three months ended October 31, 2016 and 14.8% for the three months ended October 31, 2015, with the decrease in gross profit percentage due to the impact of Jayco's gross profit percentage of 9.6%.

Selling, general and administrative expenses for the three months ended October 31, 2016 increased 49.5% compared to the three months ended October 31, 2015. Amortization of intangible assets expense for the three months ended October 31, 2016 increased \$12,187 compared to the three months ended October 31, 2015, primarily due to Jayco's total amortization expense of \$12,885. Income from continuing operations before income taxes for the three months ended October 31, 2016 was \$115,800, as compared to \$77,691 for the three months ended October 31, 2015, an increase of \$38,109 or 49.1%. The reasons for the changes in net sales, gross profit, selling, general and administrative expenses and income before income taxes are addressed in the segment reporting that follows.

Corporate costs included in selling, general and administrative expenses increased \$1,288 to \$11,088 for the three months ended October 31, 2016 compared to \$9,800 for the three months ended October 31, 2015. The increase is primarily due to an increase in compensation costs, as incentive compensation increased \$995 in correlation with the increase in income from continuing operations before income taxes compared to the prior year, and stock-based compensation increased \$459. The stock-based compensation increase is due to increasing income from continuing operations before income taxes over the past three years, as most stock awards vest ratably over a three-year period. Costs related to workers' compensation reserves recorded at Corporate also increased by a total of \$743. These increases were partially offset by a decrease of \$1,211 in legal, professional and marketing fees, primarily due to non-recurring fees in the prior-year period related to the development of long-term strategic growth initiatives.

Corporate interest and other income and expense was \$2,586 of net expense for the three months ended October 31, 2016 compared to \$42 of net expense for the three months ended October 31, 2015. This increase in net expense of \$2,544 is primarily due to interest expense and fees related to the revolving credit facility of \$2,398 in the current period, as there were no such charges in the prior-year period.

The overall effective income tax rate for the three months ended October 31, 2016 was 32.0% compared with 34.7% for the three months ended October 31, 2015. The primary reason for the decrease in the effective income tax rate was due to an income tax provision benefit of \$1,843 resulting from the adoption of ASU 2016-09 related to share-based compensation as discussed in Note 1 to the Condensed Consolidated Financial Statements. In addition, various uncertain tax benefits settled favorably in the three months ended October 31, 2016, while no such settlements occurred in the three months ended October 31, 2015.

Segment Reporting

TOWABLE RECREATIONAL VEHICLES

Analysis of the change in net sales for the three months ended October 31, 2016 vs. the three months ended October 31, 2015:

	Three Months Ended October 31, 2016	% of Segment Net Sales	Three Months Ended October 31, 2015	% of Segment Net Sales	Change Amount	% Change
NET SALES:						
Towables						
Travel Trailers and Other	\$ 723,349	59.7	\$ 417,263	56.0	\$ 306,086	73.4
Fifth Wheels	487,524	40.3	327,416	44.0	160,108	48.9
Total Towables	\$ 1,210,873	100.0	\$ 744,679	100.0	\$ 466,194	62.6

	Three Months Ended October 31, 2016	% of Segment Shipments	Three Months Ended October 31, 2015	% of Segment Shipments	Change Amount	% Change
# OF UNITS:						
Towables						
Travel Trailers and Other	39,644	77.5	21,396	74.0	18,248	85.3
Fifth Wheels	11,530	22.5	7,537	26.0	3,993	53.0
Total Towables	51,174	100.0	28,933	100.0	22,241	76.9

Impact of Change in Mix and Price on Net Sales:	% (Decrease)
Towables	
Travel Trailers and Other	(11.9)
Fifth Wheels	(4.1)
Total Towables	(14.3)

The increase in total towables net sales of 62.6% compared to the prior-year period resulted from a 76.9% increase in unit shipments and a 14.3% decrease in the impact of the change in the overall net price per unit. Recently acquired Jayco accounted for 43.5% of the 62.6% increase and \$324,300 of the \$466,194 increase in total towable net sales. Jayco also accounted for 54.4% of the 76.9% increase and 15,739 of the 22,241 increase in total towable unit shipments. The 14.3% decrease in the overall towables net price per unit is greater than the percentage decreases within the travel trailer and fifth wheel product lines due to a higher concentration of more moderately priced travel trailers and other units, as compared to fifth wheels, in the current-year quarter as compared to the prior-year quarter. The overall industry increase in combined travel trailer and fifth wheel wholesale unit shipments for the three months ended October 31, 2016 was 22.7% compared to the same period last year according to statistics published by RVIA.

The decreases in the overall net price per unit within the travel trailer and other product lines of 11.9% and the fifth wheel product lines of 4.1% were both primarily due to a change in product mix attributable to the acquisition of Jayco and market-driven changes in product mix toward smaller and lower-priced units.

Cost of products sold increased \$401,981 to \$1,035,895, or 85.5% of towables net sales, for the three months ended October 31, 2016 compared to \$633,914, or 85.1% of towables net sales, for the three months ended October 31, 2015. The change in material, labor, freight-out and warranty comprised \$377,268 of the \$401,981 increase in cost of products sold. Material, labor, freight-out and warranty as a combined percentage of towables net sales increased to 79.9% for the three months ended October 31, 2016 compared to 79.2% for the three months ended October 31, 2015. This increase in percentage was primarily the result of increases in both warranty and freight-out percentages to sales, which are primarily attributable to the acquisition of Jayco. Total manufacturing overhead increased \$24,713 with the increase in sales, but decreased as a percentage of towables net sales from 5.9% to 5.6% as the increased production resulted in better absorption of fixed overhead costs.

Edgar Filing: THOR INDUSTRIES INC - Form 10-Q

Towables gross profit increased \$64,213 to \$174,978, or 14.5% of towables net sales, for the three months ended October 31, 2016 compared to \$110,765, or 14.9% of towables net sales, for the three months ended October 31, 2015. The increase in gross profit is primarily due to the increase in sales, while the decrease in gross profit percentage is primarily due to the increase in the cost of products sold percentage noted above.

Edgar Filing: THOR INDUSTRIES INC - Form 10-Q

Selling, general and administrative expenses were \$67,588, or 5.6% of towables net sales, for the three months ended October 31, 2016 compared to \$43,342, or 5.8% of towables net sales, for the three months ended October 31, 2015. The primary reason for the \$24,246 increase was increased towables net sales and towables income before income taxes, which caused related commissions, bonuses and other compensation to increase by \$17,072. These costs, however, decreased as a percentage of towables net sales by 0.2% compared to the prior-year period. Sales-related travel, advertising and promotional costs also increased \$3,700 in correlation with the sales increase.

Towables income before income taxes was \$94,173, or 7.8% of towables net sales, for the three months ended October 31, 2016 compared to \$63,224, or 8.5% of towables net sales, for the three months ended October 31, 2015. The primary reasons for this decrease in percentage was the impact of the increase in the cost of products sold percentage as noted above. In addition, amortization costs as a percentage of towables net sales also increased due to the addition of \$11,686 in amortization costs as a result of the Jayco acquisition. These cost increases were partially offset by a gain of \$2,165 from the sale of certain towable RV land and buildings and improvements during the three months ended October 31, 2016 that is included in Other income (expense), net in the Condensed Consolidated Statements of Income and Comprehensive Income.

MOTORIZED RECREATIONAL VEHICLES

Analysis of the change in net sales for the three months ended October 31, 2016 vs. the three months ended October 31, 2015:

	Three Months Ended October 31, 2016	% of Segment Net Sales	Three Months Ended October 31, 2015	% of Segment Net Sales	Change Amount	% Change
NET SALES:						
Motorized						
Class A	\$ 240,114	52.0	\$ 145,431	57.9	\$ 94,683	65.1
Class C	199,895	43.3	82,427	32.8	117,468	142.5
Class B	21,445	4.7	23,241	9.3	(1,796)	(7.7)
Total Motorized	\$ 461,454	100.0	\$ 251,099	100.0	\$ 210,355	83.8

	Three Months Ended October 31, 2016	% of Segment Shipments	Three Months Ended October 31, 2015	% of Segment Shipments	Change Amount	% Change
# OF UNITS:						
Motorized						
Class A	2,189	40.4	1,537	50.1	652	42.4
Class C	3,059	56.4	1,341	43.7	1,718	128.1
Class B	171	3.2	191	6.2	(20)	(10.5)
Total Motorized	5,419	100.0	3,069	100.0	2,350	76.6

Impact of Change in Mix and Price on Net Sales:	% Increase
Motorized	
Class A	22.7
Class C	14.4
Class B	2.8
Total Motorized	7.2

The increase in total motorized net sales of 83.8% compared to the prior-year period resulted from a 76.6% increase in unit shipments and a 7.2% increase in the impact of the change in the overall net price per unit. Recently acquired Jayco accounted for 56.9% of the 83.8% increase and \$142,843 of the \$210,355 increase in total motorized net sales. Jayco also accounted for 43.6% of the 76.6% increase and for 1,337 of the 2,350 increase in total motorized unit shipments. The 7.2% increase in the overall motorized net price per unit, in spite of much larger percentage increases within the Class A and Class C product lines, is primarily due to a higher concentration of the more moderately priced Class C units, as compared to Class A units, in the current-year quarter as compared to the prior-year quarter. The overall industry increase in

Edgar Filing: THOR INDUSTRIES INC - Form 10-Q

wholesale unit shipments of motorhomes for the three months ended October 31, 2016 was 13.9% compared to the same period last year according to statistics published by RVIA.

The increase in the overall net price per unit within the Class A product line of 22.7% was primarily due to a higher concentration of sales of larger and generally more expensive diesel units compared to the more moderately priced gas units in the current-year quarter compared to the prior-year quarter. This increase was primarily due to the change in product mix attributable to the acquisition of Jayco's high-end Class A diesel products. The increase in the overall net price per unit within the Class C product line of 14.4% is primarily due to a higher concentration of sales of the generally more expensive high-end Class C diesel units in the current period compared to a year ago, also due to the change in product mix attributable to the acquisition of Jayco. The increase in the overall net price per unit within the Class B product line of 2.8% is primarily due to changes in product mix.

Cost of products sold increased \$194,280 to \$410,017, or 88.9% of motorized net sales, for the three months ended October 31, 2016 compared to \$215,737, or 85.9% of motorized net sales, for the three months ended October 31, 2015. The change in material, labor, freight-out and warranty comprised \$186,280 of the \$194,280 increase due to increased sales volume. Material, labor, freight-out and warranty as a combined percentage of motorized net sales increased to 84.8% for the three months ended October 31, 2016 as compared to 81.7% for the prior year period. This increase in percentage was primarily due to an increase in the material cost percentage to sales due to changes in product mix, which is primarily attributable to the acquisition of Jayco, and partially due to one-time purchase accounting charges related to Jayco. There was also an increase in certain raw material costs as well as warranty costs compared to the prior-year period. Total manufacturing overhead increased \$8,000 with the volume increase, but decreased slightly as a percentage of motorized net sales from 4.2% to 4.0%, as the increased production resulted in better absorption of fixed overhead costs.

Motorized gross profit increased \$16,075 to \$51,437, or 11.1% of motorized net sales, for the three months ended October 31, 2016 compared to \$35,362, or 14.1% of motorized net sales, for the three months ended October 31, 2015. The \$16,075 increase in gross profit was due primarily to the impact of the 76.6% increase in unit sales volume noted above, and the decrease as a percentage of motorized net sales is due to the increase in the cost of products sold percentage noted above.

Selling, general and administrative expenses were \$21,314, or 4.6% of motorized net sales, for the three months ended October 31, 2016 compared to \$13,710, or 5.5% of motorized net sales, for the three months ended October 31, 2015. The primary reason for the \$7,604 increase was increased motorized net sales and motorized income before income taxes, which caused related commissions, bonuses and other compensation to increase by \$5,429. These costs, however, decreased as a percentage of motorized net sales by 0.7% compared to the prior-year period, partially attributable to the impact of the Jayco acquisition. Sales related travel, advertising and promotional costs also increased \$1,616 in correlation with the sales increase.

Motorized income before income taxes was \$28,923, or 6.3% of motorized net sales, for the three months ended October 31, 2016 compared to \$21,653, or 8.6% of motorized net sales, for the three months ended October 31, 2015. The primary reasons for this decrease in percentage were the impact of the increase in the cost of products sold percentage noted above and an increase in amortization costs as a percentage of motorized net sales due to the addition of \$1,199 in amortization costs as a result of the Jayco acquisition.

Financial Condition and Liquidity

As of October 31, 2016, we had \$161,710 in cash and cash equivalents compared to \$209,902 on July 31, 2016. The components of this \$48,192 decrease in cash and cash equivalents are described in more detail below, but the decrease is primarily attributable to \$26,164 paid for capital expenditures and \$20,000 in principal payments on long-term debt, as cash provided by net income adjusted for non-cash items was essentially offset by seasonal increases in working capital usage.

Working capital at October 31, 2016 was \$404,927 compared to \$365,206 at July 31, 2016, with the increase primarily attributable to an increase in accounts receivable in correlation with the increase in sales. Capital expenditures of \$26,164 for the three months ended October 31, 2016 were made primarily for land and production building additions and improvements, as well as replacing machinery and equipment used in the ordinary course of business.

We strive to maintain adequate cash balances to ensure we have sufficient resources to respond to opportunities and changing business conditions. We believe our on-hand cash and cash equivalents, and funds generated from continuing operations, along with funds available under the revolving asset-based credit facility, will be sufficient to fund expected future operational requirements. We have historically relied on internally generated cash flows from operations to finance substantially all our growth, however, we obtained a revolving asset-based credit facility to partially fund the fiscal 2016 acquisition of Jayco as discussed in Notes 2 and 11 to the Condensed Consolidated Financial Statements.

Our main priorities for the use of current and future available cash generated from operations include supporting and growing our core businesses, both organically and through acquisitions, maintaining and growing our regular dividends over time, and reducing indebtedness. Strategic share repurchases or special dividends as determined by the Company's Board will also continue to be considered.

In regard to supporting and growing our business, we anticipate capital expenditures during the remainder of fiscal 2017 of approximately \$75,000, primarily for the continued expansion of our facilities and replacing and upgrading machinery, equipment and other assets to be used in the ordinary course of business. We may also consider additional strategic growth acquisitions that complement or expand our ongoing operations.

The Company's Board currently intends to continue regular quarterly cash dividend payments in the future. As is customary under asset-based lines of credit, certain actions, including our ability to pay dividends, are subject to the satisfaction of certain payment conditions prior to payment. The conditions for the payments of dividends include a minimum level of adjusted excess cash availability and a fixed charge coverage ratio test, both as defined in the credit agreement. The declaration of future dividends and the establishment of the per share amounts, record dates and payment dates for any such future dividends are subject to the determination of the Board, and will be dependent upon future earnings, cash flows and other factors.

Future purchases of the Company's common stock or special cash dividends may occur based upon market and business conditions and excess cash availability, subject to potential customary limits and restrictions pursuant to its credit facility, applicable legal limitations and determination by the Board.

Operating Activities

Net cash provided by operating activities for the three months ended October 31, 2016 was \$1,263 as compared to net cash provided by operating activities of \$18,892 for the three months ended October 31, 2015.

For the three months ended October 31, 2016, net income adjusted for non-cash items (primarily depreciation, amortization of intangibles, deferred income tax provision and stock-based compensation) provided \$103,986 of operating cash. The changes in working capital used \$102,723 of operating cash during that period, primarily due to a larger than usual seasonal increase in accounts receivable in correlation with the increase in current sales, production levels and backlog, as well as a typical seasonal increase in inventory. In addition, required income tax payments exceeded income tax provisions during the period.

For the three months ended October 31, 2015, net income adjusted for non-cash items (primarily depreciation, amortization of intangibles, deferred income tax provision and stock-based compensation) provided \$66,206 of operating cash. The changes in working capital used \$47,314 of operating cash during that period, primarily due to a seasonal increase in accounts receivable and inventory in correlation with the increase in current sales, production levels and backlog, partially offset by an increase in accounts payable.

Investing Activities

Net cash used in investing activities for the three months ended October 31, 2016 was \$29,374, primarily due to capital expenditures of \$26,164 and a final purchase price adjustment payment of \$5,039 related to the fiscal 2016 acquisition of Jayco, partially offset by proceeds received on the dispositions of property, plant and equipment of \$4,329.

Net cash used in investing activities for the three months ended October 31, 2015 was \$7,515, primarily due to capital expenditures of \$15,922, partially offset by proceeds received on notes receivable of \$8,367.

Financing Activities

Net cash used in financing activities for the three months ended October 31, 2016 was \$20,081, primarily for principal payments on the revolving credit facility totaling \$20,000. During the first quarter of fiscal 2017, the Company's Board of Directors approved and declared the payment of a regular quarterly dividend of \$0.33 per share for the first quarter of fiscal 2017, but this dividend totaling \$17,352 was not paid until the second quarter of fiscal 2017.

Net cash used in financing activities for the three months ended October 31, 2015 was \$15,538, primarily for the regular quarterly cash dividend payments of \$0.30 per share for the first quarter of fiscal 2016 totaling \$15,743.

The Company increased its previous regular quarterly dividend of \$0.30 per share to \$0.33 per share in October 2016. In October 2015, the Company increased its previous regular quarterly dividend of \$0.27 per share to \$0.30 per share.

Accounting Pronouncements

Reference is made to Note 1 of our Condensed Consolidated Financial Statements contained in this report for a summary of recently issued accounting pronouncements, which summary is hereby incorporated by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have exposure to market risk from changes in short-term interest rates on our variable-rate debt. Depending upon the borrowing option chosen, the interest charged is based upon either the Base Rate or LIBOR of a selected time period, plus an applicable margin. If interest rates increased by 0.25% (which approximates a 10% increase of the weighted-average interest rate on our borrowings as of October 31, 2016), our results of operations and cash flows for the three months ended October 31, 2016 would not be materially affected.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures, as such term is defined under Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and our management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company has carried out an evaluation, as of the end of the period covered by this report, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at attaining the level of reasonable assurance noted above.

During the quarter ended October 31, 2016, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in certain litigation arising out of its operations in the normal course of its business, most of which is based upon state lemon laws, warranty claims and vehicle accidents (for which the Company carries insurance above a specified self-insured retention or deductible amount). The outcomes of legal proceedings and claims brought against the Company are subject to significant uncertainty. There is significant judgment required in assessing both the probability of an adverse outcome and the determination as to whether an exposure can be reasonably estimated. In management's opinion, the ultimate disposition of any current legal proceedings or claims against the Company will not have a material effect on the Company's financial condition, operating results or cash flows. Litigation is, however, inherently uncertain and an adverse outcome from such litigation could have a material effect on the operating results of a particular reporting period.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended July 31, 2016.

ITEM 6. EXHIBITS

Exhibit	Description
31.1	Chief Executive Officer's Certification filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer's Certification filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer's Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer's Certification furnished 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 Calculation Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

Attached as Exhibits 101 to this report are the following financial statements from the Company's Quarterly report on Form 10-Q for the quarter ended October 31, 2016 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income and Comprehensive Income, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) related notes to these financial statements.

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.

THOR INDUSTRIES, INC.
(Registrant)

DATE: November 28, 2016

/s/ Robert W. Martin
Robert W. Martin
President and Chief Executive Officer

DATE: November 28, 2016

/s/ Colleen Zuhl
Colleen Zuhl
Senior Vice President and Chief Financial Officer