

Thor Industries Inc. : (THO)

Sam Gerardi

Sector: Consumer Discretionary

Industry: Recreational Vehicles

Current Price: 60.18

Target Price: 61.44

Thor Industries, Inc. produces and sells a wide range of recreation vehicles. The Company offers motorhomes, camping, fifth-wheel, and travel trailers. Thor Industries serves customers in the United States and Canada.

SELL

Current Price: \$60.18
Target Price: 68.64
Market Cap: 3,396.0M

Adj. NI margin 5.2%

ROIC: 29.2%

Total Debt: 0

Kd: 5.85%

Credit rating: bbb-

WACC: 10.7%



Thesis: THO is in a contracting sector of the economy and only shows signs of following the downward trend. This is not company specific. The recreational vehicle market has taken a hit in the past year. At the beginning of 2018, THO was trading a high of 161.1 and now is at its lowest point of 55.50. As the economy shows signs of transitioning into a bearish market, their target demographic of middle class Americans have less discretionary income to spend on large invests such as recreational vehicles.



















Catalysts:

- Successfully acquire Erwin Hymer Group for 2.1 B
- Marco economic conditions
- Invest in organic growth opportunities

Thor Industries Current Position

THO is going all in on expanding their business to incorporate more market share around the globe. The scope of the business is limited to the North America and with the acquisition of Erwin Hymer Group (EHG), this has allowed THO to become one of the biggest RV retailers in the world. Erwin Hymer Group is the #1 manufacturer in Europe (based on revenue) with forecasted FY18 sales of \$2.9 billion at current exchange rate. Thor and the shareholders of EHG have entered into a definitive agreement for Thor to acquire EHG for an enterprise value of approximately €2.1 billion, with the purchase price to be funded with cash and equity. Equity consideration will consist of approximately 2.3 million shares of Thor. Thor is the #1 manufacturer in North America with over \$8.3 billion in revenue. In 2018 Thor has taken a major hit as far as the stock price. YTD Thor has dropped 59.05% compared to last year. This is due to underwhelming earnings calls that deflated consumer confidence in the stock. Looking at their financials position, there are a few red flags that jump out. Their revenue growth YoY is only at 1.1%. Their gross profit has down from last year at a margin of 13.2% compared to 14% last year. Their EBITDA is following a similar trend. It has gone down from 8.7% to 8.1%. Their net income margin more or less stagnated at 4.9% compared to 5.2% the year prior. Lastly, due to the contraction of their business, Thor's EPS has gone down significantly. Last year the EPS was at \$8.12 and it is

now at \$7.23, which represents a -9.8% change. Overall, Thor has been contracting for a full year and it is reflected in their stock price and a decrease in consumer confidence.

11) Adj Highlights	12) GAAP Highlights	13) Earnings	14) Enterprise Value	15) Multiples	16) Per Share	17) Stock Value		
In Millions of USD		2015 Y	2016 Y	2017 Y	2018 Y	Current/LTM	2019 Y Est	2020 Y Est
12 Months Ending		07/31/2015	07/31/2016	07/31/2017	07/31/2018	10/31/2018	07/31/2019	07/31/2020
 Market Capitalization		2,927.8	4,017.0	5,539.9	5,003.8	3,259.2		
 - Cash & Equivalents		183.5	209.9	223.3	275.2	224.9		
 + Preferred & Other		0.0	0.0	0.0	0.0	0.0		
 + Total Debt		7.1	366.8	151.5	6.1	0.0		
 Enterprise Value		2,751.5	4,173.9	5,468.2	4,734.6	3,034.3		
 Revenue, Adj		4,006.8	4,582.1	7,247.0	8,328.9	7,853.2	8,068.5	8,842.9
 Growth %, YoY		13.7	14.4	58.2	14.9	1.1	-3.1	9.6
 Gross Profit, Adj		557.5	726.3	1,043.6	1,164.7	1,038.7	1,031.6	1,168.5
 Margin %		13.9	15.9	14.4	14.0	13.2	12.8	13.2
 EBITDA, Adj		322.0	444.6	655.8	723.9	632.3	643.2	784.6
 Margin %		8.0	9.7	9.0	8.7	8.1	8.0	8.9
 Net Income, Adj		202.0	263.8	372.8	429.1	382.3	346.9	422.0
 Margin %		5.0	5.8	5.1	5.2	4.9	4.3	4.8
 EPS, Adj		3.80	5.02	7.06	8.12	7.23	7.13	8.08
 Growth %, YoY		14.9	32.1	40.7	15.0	-9.8	-12.1	13.2
 Cash from Operations		247.9	341.2	419.3	466.5	437.3		
 Capital Expenditures		-42.3	-52.0	-115.0	-138.2	-138.4	-138.3	-108.5
 Free Cash Flow		205.6	289.2	304.3	328.3	298.9	133,439.0	454.6

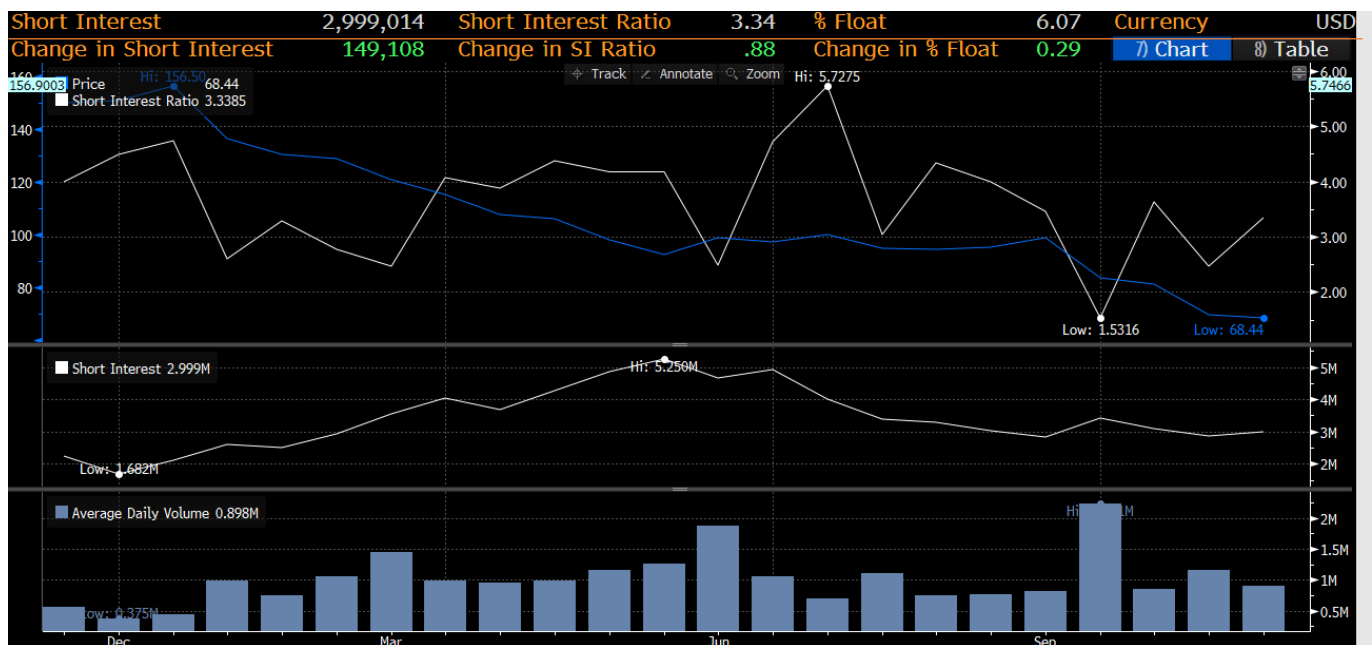
Ownership:

With the recent contraction in THO, there has been significant change in the ownership positions. The four biggest Geographic owners has decreased. The U.S, Sweden, U.K and Canada has decreased. The U.S is the most significant because this is where 100% of Thor's business is located. Looking towards the top ownership type, hedge fund managers have liquidated 0.03% of their position, which reinforces the negative sentiment for future growth. Pension funds have also changed their position by 1 basis point, which shows a lack of faith in the company's perceived risk.

With an average daily trade volume of 1.4 million, Thor is a fairly liquid stock. The trade volume typically doubles during the earning calls. This is advantageous to us because it would allow the fund to easily liquidate its position to get some much needed cash for the fund.

The short interest for THO has gone up in recent days, but is still lower than it was last year. The short interest is currently at 3 million shares or 6.07% of the float. The short interest ratio is at 3.34 days to cover and it has had a positive .88 day change.

Compare Current Stats Against 12/02/18							
Institutional - Based on Current Filings				Insider - Based on Last 6 Months			
51) Institutional	12/02/18	Curr	Change	52) Insider	12/02/18	Curr	Change
11) % of Shares Held	99.73	100.02	+0.29%	21) % of Shares Held	4.54	4.53	-0.01%
12) % of Float Held	104.57	104.86	+0.29%	22) % Chg Insider Positions	+4.55	+4.33	-0.22%
13) # of Institutions	678	678	0.00%	23) # of Insiders	12	12	0.00%
14) # of Buyers	224	228	+1.79%	24) # of Buyers Opn Mkt	1	1	0.00%
15) # of Sellers	204	206	+0.98%	25) # of Sellers Opn Mkt	0	1	
16) # of New Buyers	82	77	-6.10%	26) # of Shrs Bought Opn Mkt	505,000	505,000	0.00%
17) # of Selloffs	107	106	-0.93%	27) # of Shrs Sold Opn Mkt	500,000	505,028	+1.01%
18) % Chg in Inst Positions	+0.44	+0.33	-0.11%	28) Avg Opn Mkt Buy Price	81.09	81.09	0.00%
				29) Avg Opn Mkt Sell Price	81.08	80.97	-0.11%
Top Geographic Ownership (%)				Top Ownership Type (%)			
53) Geographic	12/02/18	Curr	Change	54) Ownership Type	12/02/18	Curr	Change
31) UNITED STATES	75.78	75.74	-0.04%	41) Investment Advisor	71.48	71.52	+0.04%
32) SWEDEN	8.38	8.37	-0.01%	42) Hedge Fund Manager	9.58	9.55	-0.03%
33) UNITED KINGDOM	5.73	5.72	-0.01%	43) Bank	6.99	7	+0.01%
34) Unknown	4.33	4.31	-0.02%	44) Individual	4.33	4.31	-0.02%
35) CANADA	2.44	2.43	-0.01%	45) Pension Fund	2.62	2.61	-0.01%
36) NORWAY	0.93	0.93	0.00%	46) Foundation	1.9	1.89	-0.01%
37) LUXEMBOURG	0.76	0.81	+0.05%	47) Insurance Company	1.01	1.01	0.00%
38) SWITZERLAND	0.53	0.53	0.00%	48) Sovereign Wealth Fund	0.92	0.92	0.00%
39) GERMANY	0.37	0.42	+0.05%	49) Corporation	0.43	0.43	0.00%



Growth potential

With Thor soon being the largest RV manufacturer in the world, it would seem that it would be a given that it has value. Thor has an emphasis on organic growth, which is one of their main focuses in this coming year. In their recent earnings call, Thor states that the macro outlook on the industry is positive. With many baby boomers coming of retirement age, this demographic is an integral part of their business. Another key aspect of their marketing strategy is trying to attract younger buyer in order to make a life time customer. Their recent ad campaign, "Go Your Own Way" and "Go RVing", targets younger first time buyers to the lifestyle choice of an RV. Thor is also placing an emphasis on continuous investments in new products, features and floorplans. With short product development cycle enables Thor to introduce new models every year, reinforcing the consumer trade-in cycle. As far as expansion, recent new and expanded campuses added over the last two years as allowed Thor is become a major force in the industry. By investing in future campus expansions underway in Ohio and Idaho, this will allow Thor to reinforce its presence in the market.


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Threats

Although Thor's presentation says that the macro outlook seems positive, over the course of the most recent year the fluctuation in stock price shows that its assumptions may be flawed. In recent months, the macroeconomic environment has hinted that we may be facing an impending bear market. This would have a substantial impact on Thor's business. Companies within the recreational vehicle industry are subject to volatility in operating results due to external factors, such as general economic conditions, credit availability, consumer confidence, employment rates, prevailing interest rates, inflation, other economic conditions affecting consumer attitudes and disposable consumer income, demographic changes and political changes. With signs pointing to an economic contraction with things such as interest rate increases paired with a down turning market, this could have a material impact on their business. Thor's product require financing in most instances due to the high price point. If discretionary spending decreases while credit facilities tightening credit requirement could be a recipe for economic hardship for Thor.

Competition

The industry in which Thor is engaged is highly competitive. The recreational vehicle industry is generally characterized by low barriers to entry, which result in numerous existing and potential recreational vehicle manufacturing competitors. A number of their operating subsidiaries also compete with each other. Competition is based upon price, design, value, quality and service as well as other factors. Competitive pressures have, from time to time, resulted in a reduction of Thor's profit margins and a reduction in our market share. Sustained increases in these competitive pressures could have a material adverse effect on their results of operations.



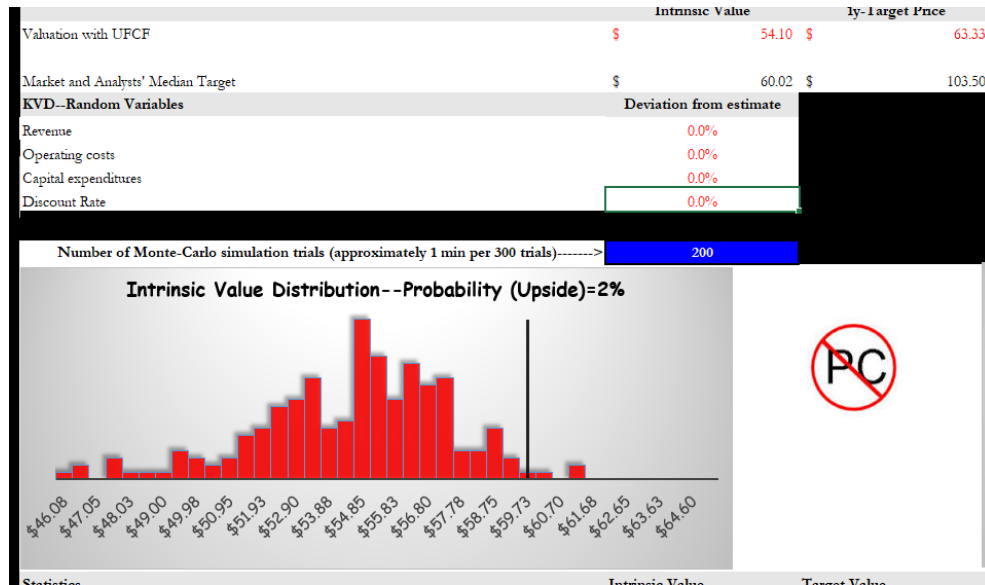
*Before anticipated synergies, purchase accounting adjustments and transaction related expenses

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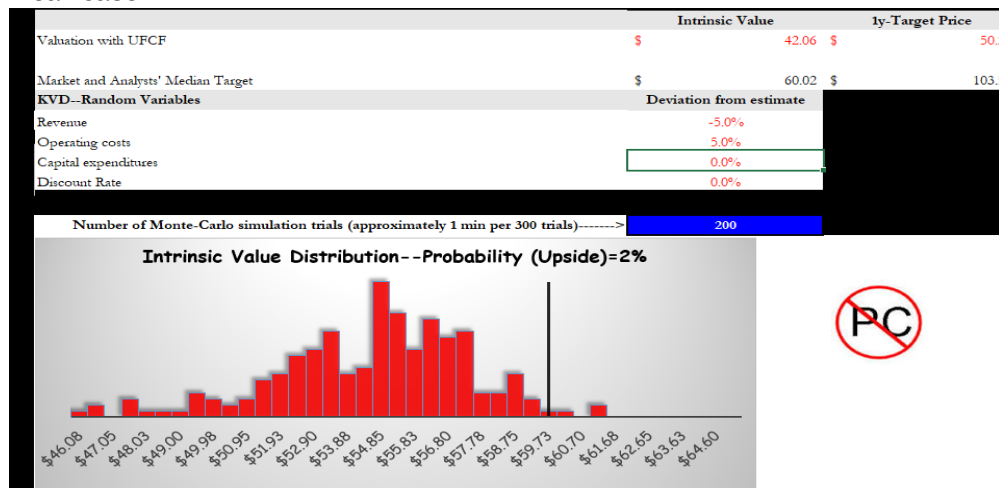
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Base/Bear/Bull cases

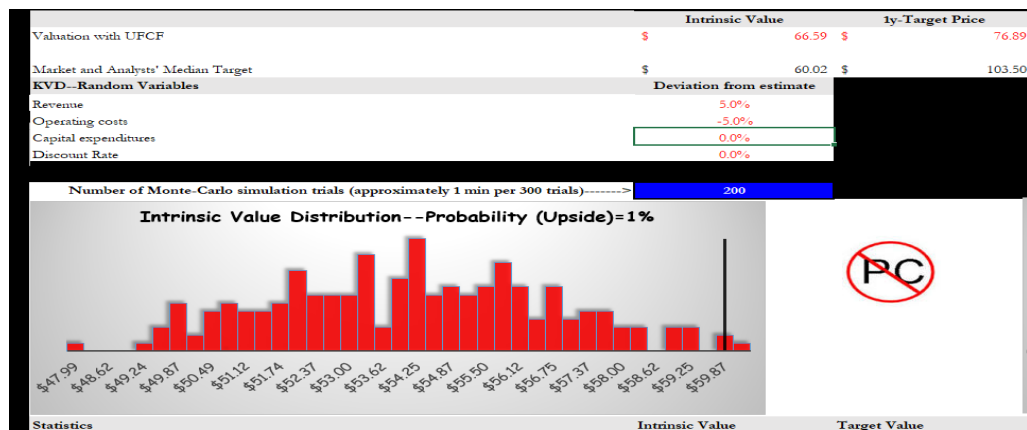
Base case:



Bear case



Bull case:



Conclusion:

Due to our current position with this company as well as our need for cash in the fund, we are left with two options. The first and safer option is that we liquidate our position and realize our losses, which are significant, and use the cash that we get from the sale to reinvest into a different business. Option 2 is we stretch the time horizon and see if this year was just a hiccup as far as the financials are concerned. Thor will soon be the largest manufacturer of RVs and can capitalize on the economies of scale associated with it. We have lost about half of our initial investment, so it may be worthwhile to see if the stock rebounds. In my opinion, we should follow through with the first option and recoup our losses with a more lucrative investment.

Thor Industries, Inc. (THO)

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NEUTRAL

Analysis by Al Capone
12/18/2018

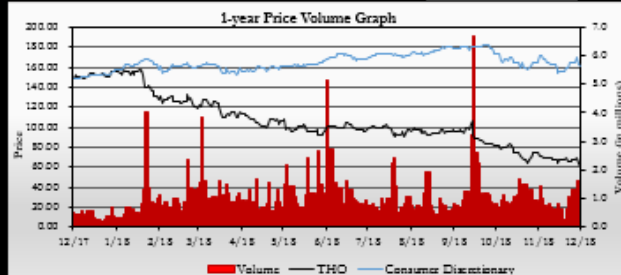
Current Price:
Dividend Yield:

\$60.02
2.4%

Intrinsic Value
Target Price:

\$53.50
\$62.79

Target 1 year Return: 7.05%
Probability of Price Increase: 1%



Description	
Thor Industries, Inc., through its subsidiaries, designs, manufactures, and sells recreational vehicles (RVs), and related parts and accessories primarily in the United States and Canada.	
General Information	
Sector	Consumer Discretionary
Industry	Automobiles
Last Guidance	May 8, 2018
Next earnings date	December 6, 2018
Market Assumptions	
Estimated Equity Risk Premium	5.63%
Effective Tax rate	24%

Market Data	
Market Capitalization	\$3,396.02
Daily volume (mil)	2.66
Shares outstanding (mil)	52.81
Diluted shares outstanding (mil)	52.87
% shares held by institutions	88%
% shares held by investments Managers	72%
% shares held by hedge funds	3%
% shares held by insiders	4.17%
Short interest	5.68%
Days to cover short interest	0.00
52 week high	\$161.48
52-week low	\$63.32
Volatility	27.66%

Quarter ending		Revenue	EBITDA
10/31/2017		12.83%	31.12%
1/31/2018		3.43%	-1.50%
4/30/2018		-0.06%	0.61%
7/31/2018		4.25%	-22.48%
10/31/2018		-7.64%	-27.01%
Mean		2.57%	-3.85%
Standard error		1.0%	3.7%

Management		Position	Total Compensation Growth
Orthwein, Peter		Co-Founder & Executive Chairman of the Board	1.27% per annum over 6y
Martin, Robert		President, CEO & Director	16.25% per annum over 6y
Zuhl, Colleen		Senior VP & CFO	33.33% per annum over 6y
Julian, Kenneth		Senior Vice President of Administration & Human Resources	23.71% per annum over 5y
Woelfel, W.		Senior VP, General Counsel & Corporate Secretary	22.63% per annum over 6y
Trinske, Mark		Vice President of Investor Relations	

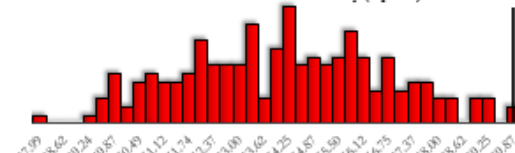
Profitability		THO (LTM)	THO Historical	Peers' Median (LTM)
Return on Capital (GAAP)		22.1%	23.97%	14.77%
Operating Margin		6%	5.55%	8.33%
Revenue/Capital (GAAP)		3.85	4.32	1.77
ROE (GAAP)		23.2%	27.8%	21.8%
Net margin		4.3%	6.0%	5.2%
Revenue/Book Value (GAAP)		4.712487683	4.65	4.19

Invested Funds		THO (LTM)	THO Historical	Peers' Median (LTM)
Cash/Capital		15.8%	15.6%	6.3%
NWC/Capital		13.0%	15.3%	23.0%
Operating Assets/Capital		51.3%	44.7%	48.3%
Goodwill/Capital		19.3%	24.7%	21.1%

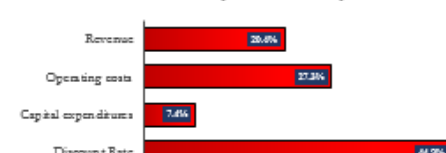
Capital Structure		THO (LTM)	THO Historical	Peers' Median (LTM)
Total Debt/Market Capitalization		0.01	0.01	0.33
Cost of Debt		5.0%	5.0%	5.0%
CGFS Rating (F-score, Z-score, and default Probability)		AA		
WACC		8.3%	10.7%	8.6%

Forecast Assumptions		Explicit Period (12 years)	Continuing Period
Revenue Growth CAGR		3%	2.5%
Average Operating Margin		8%	8%
Average Net Margin		5%	5%
Growth in Capital CAGR		10%	3%
Growth in Claims CAGR		3%	3%
Average Return on Capital		12%	7%
Average Return on Equity		13%	7%
Average Cost of Capital		10%	11%
Average Cost of Equity		12%	12%

Intrinsic Value Distribution--Probability (Upside)=1%



Sensitivity Attribution Analysis



Market and Credit Scores	
Recommendation (STARS) Value--2	
Recommendation (STARS) Description--Sell	
Quality Ranking Value--A-	
Quality Ranking Description--Above Average	
Short Score--2	
Market Signal Probability of Default % (Non-Ratings)--5.11%	
CreditModel Score (Non-Ratings)--bbb+	

Industry and Segment Information	
LTM Revenues by Geographic Segment	
North America--100%	
LTM Revenues by Business Segments	
Recreation Vehicles - Towables--72%	
Recreation Vehicles - Motorized--26%	
Other--4%	
Intercompany Eliminations--2%	

Peers	
Winnebago Industries, Inc.	KABE Group AB (publ.)
Polaris Industries Inc.	Newmar Corporation
Brunswick Corporation	Jayco Corporation Pty. Ltd.
MNC Corporation	--
Trigano S.A.	--

