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

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:		

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

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.

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