

THOR INDUSTRIES INC  
Form 10-K  
September 20, 2018  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D. C. 20549**

**FORM 10-K**

(Mark one)

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

For the fiscal year ended July 31, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-09235

**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 Number)

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

46514-3305  
(Zip Code)

Registrant's telephone number, including area code: (574) 970-7460

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class: Common Stock (par value \$.10 per share) Securities registered pursuant to Section 12(g) of the Exchange Act: None	Name of each exchange on which registered: New York Stock Exchange
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 the filing requirements for the past 90 days. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
Emerging growth company <input type="checkbox"/>	

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 126-2 of the Exchange Act.)

Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of January 31, 2018 was approximately \$6.895 billion based on the closing price of the registrant's common shares on January 31, 2018, the last business day of the registrant's most recently completed second fiscal quarter. Solely for the purpose of this calculation and for no other purpose, the non-affiliates of the registrant are assumed to be all shareholders of the registrant other than (i) directors of the registrant (ii) current executive officers of the registrant who are identified as named executive officers pursuant to Item 11 of the registrant's Form 10-K for the fiscal year ended July 31, 2017 and (iii) any shareholder that beneficially owns 10% or more of the registrant's common stock. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant. The number of common shares of registrant's stock outstanding as of August 31, 2018 was 52,695,365.

Documents incorporated by reference:

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on December 14, 2018 are incorporated by reference in Part III of this Annual Report on Form 10-K.



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**PART I**

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

**ITEM 1. BUSINESS**

The following discussion of our business solely relates to ongoing operations.

**General Development of Business**

Our company was founded in 1980 and, through its subsidiaries, primarily manufactures a wide range of recreational vehicles ( RVs ) in the United States and sells those vehicles primarily in the United States and Canada. We are incorporated in Delaware and are the successor to a corporation of the same name which was incorporated in Nevada on July 29, 1980. Our principal executive office is located at 601 East Beardsley Avenue, Elkhart, Indiana 46514 and our telephone number is (574) 970-7460. Our Internet address is [www.thorindustries.com](http://www.thorindustries.com). We maintain copies of our recent filings with the Securities and Exchange Commission ( SEC ), available free of charge, on our web site. Unless the context otherwise requires or indicates, all references to Thor , the Company , we , our and us refer to Thor Industries, Inc. and its subsidiaries.

Our principal recreational vehicle and other operating subsidiaries are Airstream, Inc. ( *Airstream* ), Thor Motor Coach, Inc. ( *Thor Motor Coach* ), Keystone RV Company ( *Keystone* , which includes CrossRoads and Dutchmen), Heartland Recreational Vehicles, LLC ( *Heartland* , which includes Bison Horse Trailers, LLC dba Bison Coach ( *Bison* ), Cruiser RV, LLC ( *CRV* ) and DRV, LLC ( *DRV* )), K.Z., Inc. ( *KZ* , which includes Venture RV), Postle Operating, LLC ( *Postle* ) and Jayco, Inc. ( *Jayco* , which includes Jayco, StarCraft, Highland Ridge and Entegra Coach).

**Acquisitions and Other Significant Events**

***Fiscal 2018***

**Share Repurchase Program**

On June 19, 2018, the Company's Board of Directors authorized Company management to utilize up to \$250,000 to purchase shares of the Company's common stock through June 19, 2020.

Under the share repurchase plan, the Company is authorized to repurchase, from time-to-time, outstanding shares of its common stock in the open market or in privately negotiated transactions. The timing and amount of share repurchases will be determined by the Company's management team based upon its evaluation of market conditions and other factors. The share repurchase plan may be suspended, modified or discontinued at any time, and the Company has no obligation to repurchase any amount of its common stock under the plan. The Company intends to make all repurchases and to administer the plan in accordance with applicable laws and regulatory guidelines, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended.

**Joint Venture**

On February 15, 2018, the Company announced the formation of a joint venture with Tourism Holdings Limited ( *thl* ) called TH2connect, LLC ( *TH2* ). The Company and *thl* each have a 50% ownership position in TH2 and equal representation on the board of directors of TH2. The Company contributed cash totaling \$46,902 to TH2 in early March 2018 while *thl* contributed various assets with the same approximate fair value. The Company's investment in TH2 was funded entirely from cash on hand. In accordance with the operating agreement, TH2's future capital needs, which are not expected to be material to the Company, will be funded proportionally by *thl* and the Company, and an additional \$3,500 was contributed to TH2 by both Thor and *thl* in June 2018. The Company's investment in TH2 is accounted for under the equity method of accounting, and the results of this joint venture are recorded on a one-month lag basis.

TH2 was formed to own, improve and sell innovative and comprehensive digital applications through a platform designed for the global RV industry. TH2 will offer a variety of products focused on enhancing the enjoyment, safety, connectivity and convenience of RV ownership and use.



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### **Tax Reform**

On December 22, 2017, the Tax Cuts and Jobs Act (the Tax Act), was signed into law. The Tax Act includes numerous changes to tax laws impacting business, the most significant being a permanent reduction in the federal corporate income tax rate from 35.0% to 21.0%. The rate reduction took effect on January 1, 2018. As the Company's 2018 fiscal year ended on July 31, 2018, the Company's federal blended corporate income tax rate for fiscal year 2018 is 26.9%, based on the applicable tax rates before and after the Tax Act and the number of days in the fiscal year to which the two different rates applied. As a result of other Tax Act changes, the Company's income tax rate for fiscal year 2019 will be negatively impacted by the repeal of the domestic production activities (Code Section 199) deduction and limitations on the deductibility of executive compensation.

As a result of the reduction of the federal corporate income tax rate, the Company was required to perform a revaluation of its net deferred tax assets. Based on currently available information, the Company has performed an analysis of the impact of the Tax Act and has recorded a non-recurring, non-cash reduction of its net deferred tax assets due to the reduced federal income tax rate, and a corresponding charge to income tax expense, of approximately \$34,000 for the year ended July 31, 2018. The Company also recorded a provisional amount of \$2,000 of additional income tax expense in the fourth quarter of fiscal 2018 as a result of recent guidance related to limitations on the deductibility of executive compensation as provided under the Tax Act. The Company is still analyzing the impacts of the Tax Act which potentially could affect the measurement of the deferred tax balances.

The reduction in the statutory U.S. federal income tax rate is expected to positively impact the Company's future U.S. after-tax earnings. For fiscal 2019, after considering the lower federal income tax rate of 21.0%, an estimated blended state income tax rate, the elimination of the Code Section 199 deduction and the limitations on the deductibility of executive compensation, the Company currently estimates an overall effective income tax rate between 23.0% and 25.0%, before consideration of any discrete tax items.

### ***Fiscal 2016***

#### **Jayco Acquisition**

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 for cash consideration of \$562,690, net of cash acquired. 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 [12](#) to the Consolidated Financial Statements. The Company purchased Jayco to complement its existing towable and motorized RV product offerings and dealer base. The fiscal 2016 results included in the Consolidated Statements of Income and Comprehensive Income only include one month of Jayco's operating results.

#### **Discontinued Operations**

On July 31, 2013, we entered into a definitive Stock Purchase Agreement and sold our bus business to Allied Specialty Vehicles, Inc. The sale closed on October 20, 2013. Thor's bus business included Champion Bus, Inc., General Coach America, Inc., Goshen Coach, Inc., El Dorado National (California), Inc., and El Dorado National (Kansas), Inc. As a result of the divestiture of the bus business, the results of operations of the bus business are reported as a loss from discontinued operations, net of income taxes, on the Consolidated Statements of Income and Comprehensive Income for the year ended July 31, 2016.

#### **Recreational Vehicles**

Thor, through its operating subsidiaries, is currently the largest manufacturer of RVs in North America, by units sold and revenue, based on retail statistics published by Statistical Surveys, Inc. and other reported data. Our operating subsidiaries are as follows:

##### ***Airstream***

Airstream manufactures and sells premium quality travel trailers and motorhomes. Airstream travel trailers are distinguished by their rounded shape and bright aluminum finish and, in our opinion, constitute the most recognized product in the recreational vehicle industry. Airstream manufactures and sells travel trailers under the trade names *Airstream Classic*, *International*, *Tommy Bahama*<sup>®</sup>, *Flying Cloud*, *Sport*, *Basecamp*, and the recently launched *Nest* travel trailer. Airstream also sells the *Interstate* series of Class B motorhomes.





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***Thor Motor Coach***

Thor Motor Coach manufactures and sells gasoline and diesel Class A and Class C motorhomes. Its products are sold under trade names such as *Four Winds, Freedom Elite, Majestic, Hurricane, Chateau, Windsport, Axis, Vegas, Tuscany, Palazzo, Aria, Quantum, Compass, Gemini* and *A.C.E.*

***Keystone***

Keystone manufactures and sells conventional travel trailers and fifth wheels and includes the operations of Keystone, Dutchmen and CrossRoads. Keystone manufactures and sells conventional travel trailers and fifth wheels under trade names such as *Montana, Springdale, Hideout, Sprinter, Outback, Laredo, Bullet, Fuzion, Raptor, Passport* and *Cougar*, while the Dutchmen travel trailer and fifth wheel trade names include *Coleman, Kodiak, Aspen Trail, Aerolite* and *Voltage*. CrossRoads manufactures and sells conventional travel trailers and fifth wheels under trade names such as *Cruiser, Volante, Sunset Trail* and *Zinger* and luxury fifth wheels under the trade name *Redwood*.

***Heartland***

Heartland manufactures and sells conventional travel trailers and fifth wheels, as well as equestrian recreational vehicle products with living quarters, and includes the operations of Heartland, Bison, Cruiser RV and DRV. Heartland, including Cruiser RV and DRV, manufactures and sells conventional travel trailers and fifth wheels under trade names such as *Landmark, Bighorn, Elkridge, Trail Runner, North Trail, Cyclone, Torque, Prowler, Wilderness, Shadow Cruiser, Fun Finder, MPG, Radiance* and *Stryker* and luxury fifth wheels under the trade name *DRV Mobile Suites*. Bison manufactures and sells equestrian recreational vehicle products with living quarters under trade names such as *Premiere, Silverado, Ranger, Laredo, Trail Boss* and *Trail Hand*.

***KZ***

KZ manufactures and sells conventional travel trailers and fifth wheels and includes the operations of KZ and Venture RV. KZ manufactures and sells conventional travel trailers and fifth wheels under trade names such as *Escape, Sportsmen, Connect, Venom, Durango*, and *Sportster*, while Venture RV manufactures and sells conventional travel trailers under trade names such as *Stratus, SportTrek* and *Sonic*.

***Jayco***

Jayco manufactures and sells conventional travel trailers, fifth wheels, camping trailers and motorhomes, and includes the operations of Jayco, Starcraft, Highland Ridge and Entegra Coach. Jayco manufactures and sells conventional travel trailers and fifth wheels under trade names such as *Jay Flight, Jay Feather, Eagle, Pinnacle* and *Talon*, and also manufactures Class A and Class C motorhomes under trade names such as *Alante, Precept, Greyhawk* and *Redhawk*. Starcraft manufactures and sells conventional travel trailers and fifth wheels under trade names such as *Launch, Autumn Ridge* and *Telluride*. Highland Ridge manufactures and sells conventional travel trailers and fifth wheels under trade names such as *Highlander, Mesa Ridge* and *Open Range*. Entegra Coach manufactures and sells luxury Class A motorhomes under trade names such as *Insignia, Aspire, Anthem* and *Cornerstone* and Class C and A motorhomes under trade names such as *Odyssey, Esteem*, and *Emblem*.

***Postle***

Postle manufactures and sells aluminum extrusions and specialized component products to RV and other manufacturers.

**Product Line Sales and Segment Information**

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, Cruiser RV and DRV), Jayco (including Jayco towable, Starcraft and Highland Ridge), Keystone (including CrossRoads and Dutchmen) and KZ (including Venture RV). 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. Postle sales to the Company's towables and motorized segments are consummated at established transfer prices generally consistent with the selling prices of extrusion components to third-party customers and are adjusted as part of intercompany eliminations.



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The table below sets forth the contribution of each of the Company's reportable segments to net sales in each of the last three fiscal years:

	2018		2017		2016	
	Amount	%	Amount	%	Amount	%
<b>Recreational vehicles:</b>						
Towables	\$ 6,008,700	72.1	\$ 5,127,491	70.8	\$ 3,338,659	72.8
Motorized	2,146,315	25.8	1,971,466	27.2	1,094,250	23.9
Total recreational vehicles	8,155,015	97.9	7,098,957	98.0	4,432,909	96.7
Other	305,947	3.7	253,557	3.5	218,673	4.8
Intercompany eliminations	(132,053)	(1.6)	(105,562)	(1.5)	(69,470)	(1.5)
<b>Total</b>	<b>\$ 8,328,909</b>	<b>100.0</b>	<b>\$ 7,246,952</b>	<b>100.0</b>	<b>\$ 4,582,112</b>	<b>100.0</b>

For additional information regarding our segments, see [Note 4](#) to the Consolidated Financial Statements.

**Recreational Vehicles****Overview**

We manufacture a wide variety of recreational vehicles in the United States and sell those vehicles primarily throughout the United States and Canada, as well as related parts and accessories. Recreational vehicle classifications are based upon standards established by the RV Industry Association (RVIA). The principal types of towable recreational vehicles that we produce include conventional travel trailers and fifth wheels. In addition, we also produce equestrian and other specialty towable recreational vehicles, as well as Class A, Class C and Class B motorhomes.

Travel trailers are non-motorized vehicles which are designed to be towed by passenger automobiles, pickup trucks, SUVs or vans. Travel trailers provide comfortable, self-contained living facilities for camping and vacationing purposes. We produce conventional and fifth wheel travel trailers. Conventional trailers are towed by means of a frame hitch attached to the towing vehicle. Fifth wheel trailers, designed to be towed by pickup trucks, are constructed with a raised forward section that is attached to a receiver in the bed area of the pickup truck.

A motorhome is a self-powered vehicle built on a motor vehicle chassis. Motorhomes are self-contained with their own lighting, heating, cooking, refrigeration, sewage holding and water storage facilities, so that they can be utilized without being attached to utilities.

Class A motorhomes, generally constructed on medium-duty truck chassis, are supplied complete with engine and drivetrain components by motor vehicle manufacturers such as Ford, Freightliner and Spartan Motors. We design, manufacture and install the living area and driver's compartment of Class A motorhomes. Class C and Class B motorhomes are generally built on a Ford, General Motors or Mercedes Benz small truck or van chassis, which includes an engine, drivetrain components and a finished cab section. We construct a living area which has access to the driver's compartment and attaches to the cab section. Although they are not designed for permanent or semi-permanent living, motorhomes can provide comfortable living facilities for camping and vacationing purposes.

**Production**

In order to minimize finished inventory, our recreational vehicles generally are produced to dealer order. Our facilities are designed to provide efficient assembly-line manufacturing of products. Capacity increases can generally be achieved relatively quickly and at relatively low cost, largely by acquiring, leasing, or building additional facilities and equipment and increasing the number of production employees. Similarly, capacity decreases can generally be achieved relatively quickly and at relatively low cost, mainly by decreasing the number of production employees.

We purchase many of the components used in the production of our recreational vehicles in finished form. The principal raw materials used in the manufacturing processes for motorhomes and travel trailers are aluminum, lumber, plywood, plastic, fiberglass and steel purchased from numerous suppliers. We believe that, except for chassis and certain key towable RV components sourced from one major supplier, substitute sources for raw materials and components are generally available with no material impact on our operations.



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Our relationship with our chassis suppliers is similar to our other RV vendor relationships in that no long-term contractual commitments are entered into by either party. Historically, chassis manufacturers resort to an industry-wide allocation system during periods when chassis supply is restricted. These allocations are generally based on the volume of chassis previously purchased. Sales of motorhomes rely on these chassis and are affected accordingly, as approximately half of the material cost of our motorhomes relates to chassis. We have not experienced any recent significant cost increases from our chassis suppliers.

Generally, all of our RV operating subsidiaries introduce new or improved lines or models of recreational vehicles each year. Changes typically include new sizes and floor plans, different decors or design features and engineering and technological improvements.

### ***Seasonality***

Since recreational vehicles are used primarily by vacationers and campers, our recreational vehicle sales tend to be seasonal and, in most geographical areas, tend to be lower during the winter months than in other periods. As a result, our recreational vehicle sales are historically lowest during our second fiscal quarter, which ends on January 31 of each year.

### ***Marketing and Distribution***

We sell our recreational vehicles to independent, non-franchise dealers located primarily throughout the United States and Canada. Each of our recreational vehicle operating subsidiaries sell to their own network of independent dealers, with many dealers carrying more than one of our product lines, as well as products from other manufacturers. As of July 31, 2018, there were approximately 2,300 dealerships carrying our products in the U.S. and Canada. We believe that the working relationships between our management and sales personnel and the independent dealers provide us with valuable information on customer preferences and the quality and marketability of our products.

While each of our recreational vehicle operating subsidiaries has an independent sales force, the most important retail sales events occur at the major recreational vehicle shows which take place throughout the year at different locations across the country. We also benefit from the recreational vehicle awareness advertising and major marketing programs sponsored by the RVIA in national print media and television.

In our selection of individual dealers, we emphasize the dealer's ability to maintain a sufficient inventory of our products, as well as their financial stability, credit worthiness, reputation, experience and ability to provide service to the end customer. Many dealers carry the recreational vehicle lines of one or more of our competitors. Generally, each of our recreational vehicle operating subsidiaries have separate agreements with their dealers.

One of our dealers, FreedomRoads, LLC, accounted for 20% of our continuing consolidated net sales in each of fiscal 2018, fiscal 2017 and fiscal 2016. This dealer also accounted for 26% of the Company's consolidated trade accounts receivable at July 31, 2018 and 30% at July 31, 2017.

We generally do not finance dealer purchases. Most dealers are financed on a floor plan basis by an unrelated bank or financing company, which lends the dealer all or substantially all of the wholesale purchase price and retains a security interest in the vehicles purchased. As is customary in the recreational vehicle industry, we will execute a repurchase agreement with a lending institution financing a dealer's purchase of our products upon the lending institution's request. Repurchase agreements provide that, typically for a period of up to eighteen months after a unit is financed and in the event of default by the dealer and notification from the lending institution of the dealer default, we will repurchase all the dealer units repossessed by the lending institution for the amount then due, which is often less than 100% of the dealer's cost. The risk of loss under repurchase agreements is spread over numerous dealers and is further reduced by the resale value of the units which we would be required to repurchase. We believe that any future losses under these agreements would not have a material adverse effect on our Company. The Company's total commercial commitments under standby repurchase obligations on dealer inventory financing as of July 31, 2018 and July 31, 2017 were \$2,748,465 and \$2,200,544, respectively. The losses incurred due to repurchase were not material in fiscal 2018, 2017 and 2016.

### ***Backlog***

As of July 31, 2018, the backlog for towable and motorized recreational vehicle orders was \$766,965 and \$634,092, respectively, compared to \$1,416,240 and \$915,559, respectively, at July 31, 2017, reflecting decreases of 45.8% and 30.7%, respectively. These decreases are mainly attributable to our capacity expansions since the prior year allowing for increased production and therefore quicker delivery of units to dealers, elevated existing dealer inventory levels in certain locations and a more typical seasonal order pattern compared to the elevated order levels from the prior year.

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Backlog represents unfilled dealer orders on a particular day which can and do fluctuate on a seasonal basis. The manufacturing time in the recreational vehicle business is relatively short. The existing backlog of towable and motorized recreational vehicles is expected to be filled in fiscal 2019.

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### ***Product Warranties***

We generally provide retail purchasers of our recreational vehicles with a one-year or two-year limited warranty against defects in materials and workmanship with longer warranties on certain structural components. The chassis and engines of our motorhomes are generally warranted for various periods in excess of one year by their manufacturers.

### **Regulation**

We are subject to the provisions of the National Traffic and Motor Vehicle Safety Act ( NTMVSA ) and the safety standards for recreational vehicles and recreational vehicle components which have been promulgated thereunder by the U.S. Department of Transportation. Because of our sales in Canada, we are also governed by similar laws and regulations issued by the Canadian government.

We are a member of the RVIA, a voluntary association of recreational vehicle manufacturers which promulgates recreational vehicle safety standards. We place an RVIA seal on each of our recreational vehicles to certify that the RVIA s standards have been met.

Both federal and state authorities have various environmental control standards relating to air, water and noise pollution which affect our business and operations. For example, these standards, which are generally applicable to all companies, control our choice of paints, our air compressor discharge, our waste water and the noise emitted by our factories. We rely upon certifications obtained by chassis manufacturers with respect to compliance by our vehicles with all applicable emission control standards.

We are also subject to the regulations promulgated by the Occupational Safety and Health Administration ( OSHA ). Our plants are periodically inspected by federal agencies concerned with health and safety in the work place, and by the RVIA, to ensure that our plants and products comply with applicable governmental and industry standards.

We believe that our products and facilities comply in all material respects with applicable vehicle safety, environmental, RVIA and OSHA regulations.

We do not believe that ongoing compliance with the regulations discussed above will have a material effect in the foreseeable future on our capital expenditures, earnings or competitive position.

### **Competition**

The recreational vehicle industry is generally characterized by low barriers to entry. The recreational vehicle market is intensely competitive, with several other manufacturers selling products that compete directly with our products. We also experience a certain level of competition between our own operating subsidiaries. Increased activity in the market for used recreational vehicles also impacts manufacturers sales of new products. Competition in the recreational vehicle industry is based upon price, design, value, quality and service. We believe that the price, design, value and quality of our products and the warranty coverage and service that we provide allow us to compete favorably for retail purchasers of recreational vehicles. There are approximately 60 RV manufacturers in the U.S. and Canada, according to RVIA.

Our primary competitors within the towable and motorized segments are Forest River, Inc. and Winnebago Industries, Inc. We are the largest recreational vehicle manufacturer in North America in terms of both units produced and revenue. According to Statistical Surveys, Inc., for the six months ended June 30, 2018, Thor s combined U.S. and Canadian market share was approximately 49.6% for travel trailers and fifth wheels combined and approximately 40.0% for motorhomes.

### **Trademarks and Patents**

We have registered United States trademarks, Canadian trademarks, certain international trademarks and licenses carrying the principal trade names and model lines under which our products are marketed. We hold and protect certain patents related to our business. We are not dependent upon any patents or technology licenses of others for the conduct of our business.

### **Employee Relations**

At July 31, 2018, we employed approximately 17,500 full-time employees in the United States, of which approximately 1,950 were salaried. None of our employees are represented by certified labor organizations. We believe that we maintain a good working relationship with our employees.





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### **Information about Foreign and Domestic Operations and Export Sales**

We manufacture all of our recreational vehicles in the United States. Export sales, predominantly to Canada, were \$788,894, \$628,176 and \$368,426 in fiscal 2018, 2017 and 2016, respectively, and accounted for 9.5%, 8.7% and 8.0% of the Company's consolidated net sales for those respective years.

### **Forward Looking Statements**

This Annual Report on Form 10-K 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, 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 materially from our expectations. Factors which could cause materially different results include, among others, raw material and commodity price fluctuations; raw material, commodity or chassis supply restrictions; the level of warranty claims incurred; legislative, regulatory and tax law and/or policy developments including their potential impact on our dealers and their retail customers or on our suppliers; the costs of compliance with governmental regulation; legal and compliance issues including those that may arise in conjunction with recent transactions; lower consumer confidence and the level of discretionary consumer spending; interest rate fluctuations; the potential impact of interest rate fluctuations on the general economy and specifically on our dealers and consumers; restrictive lending practices; management changes; the success of new and existing products and services; consumer preferences; the ability to efficiently utilize production facilities; the pace of acquisitions and the successful closing, integration and financial impact thereof; the potential loss of existing customers of acquisitions; our ability to retain key management personnel of acquired companies; a shortage of necessary personnel for production; the loss or reduction of sales to key dealers; disruption of the delivery of units to dealers; asset impairment charges; cost structure changes; competition; the impact of potential losses under repurchase agreements; the potential impact of the strength of the U.S. dollar on international demand; general economic, market and political conditions; and changes to investment and capital allocation strategies or other facets of our strategic plan. Additional risks and uncertainties surrounding the acquisition of Erwin Hymer Group SE (the Erwin Hymer Group) include risks regarding the anticipated timing of the closing of the acquisition, the potential benefits of the proposed acquisition and the anticipated operating synergies, the satisfaction of the conditions to closing the acquisition (including obtaining necessary regulatory approvals) in the anticipated timeframe or at all, the integration of the business, the impact of exchange rate fluctuations and unknown or understated liabilities related to the acquisition and Erwin Hymer Group's business. These and other risks and uncertainties are discussed more fully in ITEM 1A. RISK FACTORS below.

We disclaim any obligation or undertaking to disseminate any updates or revisions to any forward looking statements contained in this Annual Report on Form 10-K or to reflect any change in our expectations after the date of this Annual Report on Form 10-K or any change in events, conditions or circumstances on which any statement is based, except as required by law.

### **Available Information**

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports and the Proxy Statement for our Annual Meeting of Stockholders are made available, free of charge, on our website, [www.thorindustries.com](http://www.thorindustries.com), as soon as reasonably practicable after such reports have been filed with or furnished to the SEC. You may also read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website that contains reports, proxy and information statements and other information that is filed electronically with the SEC. The website can be accessed at [www.sec.gov](http://www.sec.gov).

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**ITEM 1A. RISK FACTORS**

The following risk factors should be considered carefully in addition to the other information contained in this filing.

The risks and uncertainties described below are not the only ones we face and represent risks that our management believes are material to our Company and our business. Additional risks and uncertainties not presently known to us or that we currently deem not material may also harm our business. If any of the following risks actually occur, our business, financial condition or results of operations could be harmed.

**Risks Relating To Our Business**

***The industry in which we operate is highly competitive.***

The industry in which we are 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 our 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 our profit margins and/or a reduction in our market share. Sustained increases in these competitive pressures could have a material adverse effect on our results of operations. If existing or new competitors develop products that are superior to ours or that achieve better consumer acceptance, our market share, sales volume and profit margins may be adversely affected.

In addition to direct manufacturing competitors, we also compete against consumer demand for used recreational vehicles, particularly during periods of economic downturn. The availability of used recreational vehicles and the pricing differential between used and new recreational vehicles are among the primary factors which impact the competitiveness of used vehicle sales.

***The industry in which we operate is primarily centered in northern Indiana.***

The majority of our operations are located in one region. The geographic centrality of the RV industry in northern Indiana, where the majority of our facilities are located, creates certain risks, including:

Competition for workers skilled in the industry, especially during times of increasing RV production, which may increase the cost of our labor or limit the speed at which we can expand production;

Employee retention and recruitment challenges, as employees with industry knowledge and experience may be attracted to the most lucrative positions and their ability to change employers is relatively easy;

Potential for greater adverse impact from natural disasters; and

Competition for desirable production facilities, especially during times of increasing RV production, may increase the cost of acquiring production facilities or limit the availability of such facilities.

***Our business is seasonal and leads to fluctuations in sales, production and net income.***

We have experienced, and expect to continue to experience, significant variability in quarterly sales, production and net income as a result of annual seasonality in our business. Since recreational vehicles are used primarily by vacationers and campers, demand in the recreational vehicle industry generally declines during the fall and winter months, while sales and profits are generally highest during the spring and summer months. Dealer demand and buying patterns also impact the timing of shipments from one quarter to another. In addition, severe weather conditions in some geographic areas may delay the timing of shipments from one quarter to another. The seasonality of our business may negatively impact quarterly operating results.

***Our business may be affected by certain external factors beyond our control.***

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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. Specific external factors affecting our business include:

Overall consumer confidence and the level of discretionary consumer spending;

Raw material and commodity price fluctuations;

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Availability of raw materials and components used in production;

Level of warranty claims incurred;

Legislative, regulatory and tax law and/or policy developments including their potential impact on our dealers and their retail customers or on our suppliers;

Interest rate fluctuations and the availability of credit;

Success of new and existing products and services;

Consumer preferences;

Dealer confidence and stocking levels;

RV retail consumer demographics;

Employment and wage trends;

Consolidation of RV dealerships;

Global, domestic or regional financial turmoil;

Natural disasters;

Relative or perceived cost, availability and comfort of recreational vehicle use versus other modes of travel, such as car, air or rail travel; and

General economic, market and political conditions, including war, terrorism and military conflict.

***The loss of our largest dealer could have a significant effect on our business.***

Sales to FreedomRoads, LLC accounted for 20% of our consolidated net sales for fiscal 2018. During recent years, FreedomRoads, LLC has acquired a number of formerly independent RV dealerships which has impacted our sales to FreedomRoads, LLC. Future consolidation of dealerships by FreedomRoads, LLC could impact our sales, concentration of sales to this key dealer and our exposure under repurchase obligations.

The loss of this dealer could have a significant adverse effect on our business. In addition, deterioration in the liquidity or credit worthiness of FreedomRoads, LLC could negatively impact our sales and accounts receivable and could trigger repurchase obligations under our repurchase agreements.

*Fuel shortages, or high prices for fuel, could have a negative effect on sales of our recreational vehicles.*

Gasoline or diesel fuel is required for the operation of our vehicles or the vehicles which tow our products. Shortages or rationing of gasoline and diesel fuel, and significant, sudden increases in the price of fuel have had a material adverse effect on the recreational vehicle industry as a whole in the past and could have a material adverse effect on our business in the future.

*Business acquisitions pose integration risks.*

Our growth has been both internal and by acquisition. Business acquisitions, joint ventures and the merger of subsidiaries within Thor, pose a number of potential integration risks that may result in negative consequences to our business, financial condition or results of operations. The pace and significance of acquisitions; the integration of acquired companies, assets, operations and joint venture arrangements and the merger of subsidiaries within Thor involve a number of related risks, including, but not limited to:

The diversion of management's attention from the management of daily operations to various transaction and integration activities;

The potential for disruption to existing operations and plans;

The assimilation and retention of employees, including key employees;

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The ability of our management teams to manage expanded operations to meet operational and financial expectations;

The integration of departments and systems, including accounting systems, technologies, books and records and procedures;

The adverse impact on profitability if expanded or combined operations do not achieve expected financial results;

The potential loss of, or adverse effects on, existing business relationships with suppliers and customers;

The assumption of liabilities of the acquired businesses, which could be greater than anticipated; and

The potential adverse impact on operating results due to the use of estimates, which are subject to significant management judgment, in the accounting for acquisitions, incurrence of non-recurring charges, and write-offs of significant amounts of goodwill and other assets.

***Our business depends on the performance of independent dealers and transportation carriers.***

We distribute our products through a system of independent, authorized dealers, many of whom sell products from competing manufacturers. The Company depends on the capability of these independent authorized dealers to develop and implement effective retail sales plans to create demand among retail purchasers for the products that the dealers purchase from the Company. If the Company's independent dealers are not successful in these endeavors, then the Company may be unable to maintain or grow its revenues and meet its financial expectations. The geographic coverage of our dealers and their individual business conditions can affect the ability of our authorized dealers to sell our products to consumers. If dealers are unsuccessful, they may exit or be forced to exit the business or, in some cases, the Company may seek to terminate relationships with certain dealerships. As a result, the Company could face additional adverse consequences related to the termination of dealer relationships. For example, the unplanned loss of any of the Company's independent dealers could lead to inadequate market coverage of our products. In addition, recent consolidation of dealers, as well as the growth of larger, multi-location dealers, may result in increased bargaining power on the part of dealers.

Our products are generally delivered to our dealers via a system of independent transportation contractors. The network of carriers is limited and, in times of high demand and limited availability, can create risk in, and disruption of, our distribution channel.

***Our business is affected by the availability and terms of financing to dealers and retail purchasers.***

Generally, recreational vehicle dealers finance their purchases of inventory with financing provided by lending institutions. A decrease in the availability of this type of wholesale financing, more restrictive lending practices or an increase in the cost of such wholesale financing can prevent dealers from carrying adequate levels of inventory, which limits product offerings and could lead to reduced demand. Three major floor plan financial institutions held approximately 82% of our portion of our dealers' total floored dollars outstanding at July 31, 2018. In the event that any of these lending institutions limit or discontinue dealer financing, we could experience a material adverse effect on our results of operations.

Substantial or sudden increases in interest rates and decreases in the general availability of credit have had an adverse impact on our business and results of operations in the past and may do so in the future. Further, a decrease in availability of consumer credit resulting from unfavorable economic conditions, or an increase in the cost of consumer credit, may cause consumers to reduce discretionary spending which could, in turn, reduce demand for our products and negatively affect our sales and profitability.

***Changes in consumer preferences for our products or our failure to gauge those preferences could lead to reduced sales.***

We cannot be certain that historical consumer preferences for recreational vehicles in general, and our products in particular, will remain unchanged. Recreational vehicles are generally used for recreational purposes, and demand for our products may be adversely affected by competition from other activities that occupy consumers' leisure time and by changes in consumer lifestyle, usage pattern, or taste. Similarly, an overall decrease in consumer leisure time may reduce consumers' willingness to purchase our products.



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Our ability to remain competitive depends heavily on our ability to provide a continuing and timely introduction of innovative product offerings. We believe that the introduction of new features, designs and models will be critical to the future success of our recreational vehicle operations. Managing frequent product introductions poses inherent risks. Delays in the introduction or market acceptance of new models, designs or product features could have a material adverse effect on our business. Products may not be accepted for a number of reasons, including changes in consumer preferences or our failure to properly gauge consumer preferences. Further, we cannot be certain that new product introductions will not reduce revenues from existing models and adversely affect our results of operations. In addition, our revenues may be adversely affected if our new models and products are not introduced to the market on time or are not successful when introduced. Finally, our competitors' new products may obtain better market acceptance or render our products obsolete.

***If the frequency and size of product liability and other claims against us increase, our business, results of operations and financial condition may be harmed.***

We are subject, in the ordinary course of business, to litigation involving product liability and other claims against us, including, without limitation, wrongful death, personal injury and warranties. We generally self-insure a portion of our product liability and other claims and also purchase product liability and other insurance in the commercial insurance market. We cannot be certain that our insurance coverage will be sufficient to cover all future claims against us. We have a self-insured retention ( SIR ) for products liability and personal injury matters ranging from \$500 to \$7,500 depending on the product type and when the occurrence took place. Generally, any occurrence (as defined by our insurance policies) after March 31, 2015 is subject to the \$500 SIR, while matters occurring after March 31, 2014 and through March 31, 2015 are subject to a \$1,000 SIR.

Amounts above the SIR, up to a certain dollar amount, are covered by our excess insurance policy. Currently, we maintain excess liability insurance aggregating \$50,000 with outside insurance carriers to minimize our risks related to catastrophic claims in excess of our self-insured positions for products liability and personal injury matters. Any material change in the aforementioned factors could have an adverse impact on our operating results. Any increase in the frequency and size of claims, as compared to our experience in prior years, may cause the premium that we are required to pay for insurance to increase significantly and may negatively impact future SIR levels. It may also increase the amounts we pay in punitive damages, not all of which are covered by our insurance.

***An introduction of new products into the marketplace or extended warranty coverage of our products, may result in expenses that we did not anticipate, which, in turn, can result in reduced earnings.***

The introduction of new models, floor plans and features are critical to our future success. We may incur unexpected expenses, however, when we introduce new models, floor plans or features. For example, we may experience unexpected engineering or design flaws that will force a recall of a new product or may cause increased warranty costs. The costs resulting from these types of problems could be substantial and could have a significant adverse effect on our earnings. Estimated warranty costs are provided at the time of product sale to reflect our best estimate of the amounts necessary to settle future and existing claims on products. An increase in actual warranty claims costs as compared to our estimates, due to either the introduction of new products or extended warranty coverage, could result in increased warranty reserves and expense which could have an adverse impact on our earnings.

***Our repurchase agreements with floor plan lenders could result in increased costs.***

In accordance with customary practice in the recreational vehicle industry, upon the request of a lending institution financing a dealer's purchase of our products, we will generally execute a repurchase agreement with the lending institution. Repurchase agreements provide that, typically for a period of up to 18 months after a recreational vehicle is financed and in the event of default by the dealer, we will repurchase the recreational vehicle repossessed by the lending institution for the amount then due, which is usually less than 100% of the dealer's cost.

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 difference between the gross repurchase price and the price at which the repurchased product can then be resold, which is typically at a discount to the original sale price, is an expense to us. Thus, if we are obligated to repurchase a substantially greater number of recreational vehicles, or incur substantially greater discounting to resell these units in the future, those circumstances would increase our costs. In difficult economic times this amount could increase significantly compared to recent years.

***For some of the components used in production, we depend on a small group of suppliers and the loss of any of these suppliers could affect our ability to obtain components timely or at competitive prices, which would decrease our sales and profit margins. Additionally, continued consolidation of our major suppliers further limits alternative supply sources, which could increase costs and decrease our sales and profit margins. Finally, certain raw material components are sourced from foreign sources, and delays in obtaining these components, along with***



*added tariffs, could result in increased costs and decreased sales and profit margins.*

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We depend on timely and sufficient delivery of components from our suppliers. Most components are readily available from a variety of sources. However, a few key components are currently produced by only a small group of suppliers that have the capacity to supply large quantities, primarily occurring in the case of: 1) motorized chassis, where there are a limited number of chassis suppliers, and 2) windows and doors, towable chassis and slide-out mechanisms, axles and upholstered furniture for our recreational vehicles, where LCI Industries is a major supplier for these items within the RV industry.

The recreational vehicle industry as a whole has, from time to time, experienced shortages of motorized chassis due to the concentration or allocation of available resources by suppliers of these chassis. Historically, in the event of an industry-wide restriction of supply, suppliers have generally allocated chassis among us and our competitors based on the volume of chassis previously purchased. If certain suppliers were to discontinue the manufacturing of motorhome chassis, or if, as a group, our chassis suppliers significantly reduced the availability of chassis to the industry, our business would be adversely affected. Similarly, shortages at, or production delays or work stoppages by the employees of chassis suppliers, could have a material adverse effect on our sales. If the condition of the U.S. auto industry were to significantly deteriorate, that deterioration could also result in supply interruptions and a decrease in our sales and earnings while we obtain replacement chassis from other sources.

LCI Industries is a major supplier of a number of key components of our recreational vehicles such as windows and doors, towable chassis and slide-out mechanisms, axles and upholstered furniture. We have not experienced any significant shortages or delays in delivery related to these items; however, if industry demand were to increase faster than LCI Industries can respond, or other factors impact their ability to continue to supply our needs for these key components, our business could be adversely affected.

Continued consolidation of our major suppliers may inhibit our ability to source from alternative suppliers and could result in increased component costs, which may result in decreased margins or higher wholesale product costs, which could result in decreased sales.

In addition, certain RV components are sourced from foreign locations. Changes in U.S. trade policy and resulting tariffs that have or may be imposed, along with port, production or other delays, could cause increased costs for, or shortages of, certain RV components or sub-components. We may not be able to source alternative supplies as necessary without increased costs or at all. If alternatives are not readily available, that unavailability could lead to potential decreases in our sales and earnings.

Finally, as is standard in the industry, arrangements with chassis and other suppliers are generally terminable at any time by either our Company or the supplier. If we cannot obtain an adequate supply of chassis or other key components, this could result in a decrease in our sales and earnings.

### ***Commodity price fluctuations, including those caused by recent steel and aluminum tariffs, may impact operating results.***

Commodity costs, including aluminum which is utilized extensively by certain of our subsidiaries, are subject to price fluctuations outside of our control. The price of aluminum is typically influenced by macroeconomic factors, global supply and demand of aluminum (including expectations for growth and contraction and the level of global inventories); the level of activity by financial investors and, more recently, by tariffs. In addition, the price of aluminum is influenced by the supply of, and demand for, metal in a particular region and associated transportation costs. Similarly, other commodities, such as steel and wood or wood products, are also subject to price fluctuations outside of our control, including fluctuations resulting from the imposition of tariffs or other regulatory actions. Pricing changes for aluminum, steel, wood, and other relevant commodities, and the level of aluminum, steel, wood or other commodity inventory maintained by the Company, may ultimately adversely impact our operating results.

### ***Our products and services may experience quality problems from time to time that can result in decreased sales and gross margin and could harm our reputation.***

Our products contain thousands of parts, many of which are supplied by a network of approved vendors. As with all of our competitors, defects may occur in our products, including those purchased from our vendors. We cannot assure you that we will detect all such defects prior to distribution of our products. In addition, although we endeavor to compel our suppliers to maintain appropriate levels of insurance coverage, we cannot assure you that if a defect in a vendor-supplied part were to occur that the vendor would have the ability to financially rectify the defect. Failure to detect defects in our products, including vendor-supplied parts, could result in lost revenue, increased warranty and related costs and could harm our reputation.

### ***Our business is subject to numerous federal, state and local regulations.***

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We are subject to numerous federal, state and local regulations governing the manufacture and sale of our products, including the provisions of NTMVSA and the safety standards for vehicles and components which have been promulgated under the NTMVSA by the U.S. Department of Transportation.

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The NTMVSA authorizes the National Highway Traffic Safety Administration to require a manufacturer to recall and repair vehicles which contain certain hazards or defects. Sales into foreign countries may be subject to similar regulations. Any recalls of our vehicles, voluntary or involuntary, could have a material adverse effect on our results of operations and could harm our reputation. Additionally, changes in policy, regulations or the imposition of additional regulations could have a material adverse effect on our Company.

We are also subject to federal and numerous state consumer protection and unfair trade practice laws and regulations relating to the sale, transportation and marketing of motor vehicles, including so-called "lemon laws". Federal, state and foreign laws and regulations impose upon vehicle operators various restrictions on the weight, length and width of motor vehicles that may be operated in certain jurisdictions or on certain roadways. Certain jurisdictions also prohibit the sale of vehicles exceeding length restrictions. Federal and state authorities have various environmental control standards relating to air, water, noise pollution and hazardous waste generation and disposal which affect our business and operations.

Further, certain other U.S. and foreign laws and regulations affect the Company's activities. Areas of our business affected by such laws and regulations include, but are not limited to, labor, advertising, real estate, promotions, quality of services, intellectual property, tax, import and export duties, tariffs, anti-corruption, anti-competition, environmental, health and safety. Compliance with these laws and others may be onerous and costly, at times, and may be inconsistent from jurisdiction to jurisdiction, which further complicates compliance efforts. Violations of these laws and regulations could lead to significant penalties, including restraints on our export or import privileges, monetary fines, criminal or civil proceedings and regulatory or other actions that could materially adversely affect our operating results.

### ***Changes in U.S. trade policy could result in retaliatory trade policies by one or more U.S. trading partners.***

The U.S. government has indicated its intent to adopt a new approach to trade policy and in some cases to renegotiate, or potentially terminate, certain existing bilateral or multi-lateral trade agreements. It has also initiated or is considering the imposition of tariffs on certain foreign goods, including steel and aluminum. Changes in U.S. trade policy could result in one or more U.S. trading partners, including Canada and China, adopting responsive trade policy making it more difficult or costly for us to export our products to those countries. These measures could also result in increased costs for RV components that we import into the United States. Increased costs for imported RV components could require us to increase prices to our customers which may reduce demand, or, if we are unable to increase prices, may result in lower margin on products sold.

### ***As a publicly-traded company, we are subject to rules and regulations promulgated by the Securities and Exchange Commission and the New York Stock Exchange.***

Failure as a public company to comply with relevant rules and regulations of the Securities and Exchange Commission or the New York Stock Exchange could have an adverse impact on our business. Additionally, amendments to these rules or regulations and the implementation of new rules or regulations could increase the compliance, reporting, or other operating or administrative costs, and therefore could have an adverse impact on our business.

As a public company, we may be required to disclose certain information that may put us at a competitive disadvantage compared to certain of our competitors.

### ***Interruption of information service or misappropriation or breach of our information systems could cause disruption to our operations and the accumulation and reporting of operating results, cause disclosure of confidential information or cause damage to our reputation.***

Our business relies on information systems and other technology ( "information systems" ) to support aspects of our business operations, including but not limited to, procurement, supply chain management, manufacturing, design, distribution, invoicing and collection of payments. We use information systems to accumulate, analyze and report our operational results. In connection with our use of information systems, we obtain, create and maintain confidential information. Additionally, we rely upon information systems in our marketing and communication efforts. Due to our reliance on our information systems, we have established various levels of security, backup and disaster recovery procedures. Our business processes and operations may, however, be negatively impacted in the event of a substantial disruption of service or cyber-attacks.

The methods and technologies used to obtain unauthorized access to our information systems are constantly changing and may be difficult to anticipate. While we have implemented and periodically review security measures and processes designed to prevent unauthorized access to our information systems, we may not be able to anticipate and effectively prevent unauthorized access or data loss in the future. The misuse, leakage, unauthorized access or falsification of information could result in a violation of privacy laws, including the European Union's General Data Protection Regulation (GDPR), and damage to our reputation which could, in turn, have a significant, negative impact on our results of operations.



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***We may not be able to protect our intellectual property and may be subject to infringement claims.***

Our intellectual property, including our patents, trademarks, copyrights, trade secrets, and other proprietary rights, constitutes a significant part of our value. Our success depends, in part, on our ability to protect our intellectual property against infringement and misappropriation by defending our intellectual property rights. To protect these rights, we rely on intellectual property laws of the U.S., Canada, and other countries, as well as contractual and other legal rights. We seek to acquire the rights to intellectual property necessary for our operations. However, our measures may not be successful in any given instance, particularly in countries outside the U.S. We endeavor to protect our rights; however, third parties may infringe upon our intellectual property rights. We may be forced to take steps to protect our rights, including through litigation, which could result in a diversion of resources.

The inability to protect our intellectual property rights could result in competitors undermining the value of our brands by, among other initiatives, manufacturing and marketing similar products, which could adversely affect our market share and results of operations. Moreover, competitors or other third parties may challenge or seek to invalidate or avoid the application of our existing or future intellectual property rights that we receive or license. The loss of protection for our intellectual property could reduce the market value of our brands and our products and services, lower our profits, and could otherwise have a material adverse effect on our business, financial condition, cash flows or results of operation.

We also face the risk of claims that we have infringed third parties' intellectual property rights. Any claims of intellectual property infringement, even those without merit, could be expensive and time consuming to defend, cause us to cease making, licensing, or using products that incorporate the challenged intellectual property, require us to redesign, reengineer, or rebrand our products, if feasible, divert management's attention and resources, or require us to enter into royalty or licensing agreements in order to obtain the right to use a third party's intellectual property. Any royalty or licensing agreements, if required, may not be available to us on acceptable terms or at all. A successful claim of infringement against us could result in our being required to pay significant damages, enter into costly license or royalty agreements, or stop the sale of certain products, any of which could have a negative impact on our business, financial condition, and results of operations.

***We could incur asset impairment charges for goodwill, intangible assets or other long-lived assets.***

We have a significant amount of goodwill, intangible assets and other long-lived assets. At least annually, we review goodwill for impairment. Long-lived assets, identifiable intangible assets and goodwill are also reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable from future cash flows. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors. If the carrying value of a long-lived asset is considered impaired, a non-cash impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. Our determination of future cash flows, future recoverability and fair value of our long-lived assets includes significant estimates and assumptions. Changes in those estimates or assumptions or lower-than-anticipated future financial performance may result in the identification of an impaired asset and a non-cash impairment charge, which could be material. Any such charge could adversely affect our operating results and financial condition.

***Our ability to meet our manufacturing workforce needs is crucial.***

We rely on the existence of an available, qualified workforce to manufacture our products. Competition for qualified employees could require us to pay higher wages to attract and retain a sufficient number of qualified employees. We cannot assure you that we will be able to attract and retain qualified employees to meet current or future manufacturing needs at a reasonable cost, or at all.

***Our operations are dependent upon the services of executive management and other key individuals, and their loss could materially harm us.***

We rely upon the knowledge, experience and skills of our executive management and other key employees to compete effectively in our business and manage our operations. Our future success depends on, among other factors, our ability to attract and retain executive management, key employees and other qualified personnel. Upon the departure of such employees, our success may depend upon the existence of adequate succession plans. The loss of our executive management and other key employees or the failure to attract or retain qualified employees could have a material adverse effect on us in the event that our succession plans prove inadequate.

***Production efficiency related to new or re-configured facilities may not be realized or may incur unanticipated costs or delays that could adversely affect operating results.***

The development and/or expansion of certain products and models may require the construction, improvement, re-configuration, relocation or expansion of production facilities. These development and expansion activities may be delayed, or we may incur unanticipated costs or not

achieve the intended efficiencies, which could have a material adverse effect on our operating results and financial condition.

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### ***The relative strength of the U.S. dollar may impact sales.***

We have historically generated considerable sales in Canada and sales to Canadian dealers are made in U.S. dollars. The strength of the U.S. dollar relative to the Canadian dollar has, in the past, and could in the future, adversely impact sales in Canada. Should the U.S. dollar remain strong or further strengthen relative to the Canadian dollar, our Canadian sales may be negatively impacted.

### ***Our risk management policies and procedures may not be fully effective in achieving their purposes.***

Our policies, procedures, controls and oversight to monitor and manage our enterprise risks may not be fully effective in achieving their purpose and may leave exposure to identified or unidentified risks. Past or future misconduct by our employees or vendors could result in violations of law by us, regulatory sanctions and/or serious reputational or financial harm. The Company monitors its policies, procedures and controls; however, our policies, procedures and controls may not be sufficient to prevent all forms of misconduct. We review our compensation policies and practices as part of our overall enterprise risk management program, but it is possible that our compensation policies could incentivize inappropriate risk taking or misconduct. If such inappropriate risk taking or misconduct occurs, it is possible that it could have a material adverse effect on our results of operations and/or our financial condition.

### ***Increases in healthcare, workers compensation or other employee benefit costs could negatively impact our results of operations and financial condition.***

The Company incurs significant costs with respect to employee healthcare and workers compensation benefits. The Company is self-insured for employee healthcare and workers compensation benefits up to certain defined retention limits. If costs related to these or other employee benefits increase as a result of increased healthcare costs, increased utilization of such benefits as a result of increased claims, new or revised governmental mandates or otherwise, our operating results and financial condition may suffer.

## **Risks Relating To Our Company**

### ***Provisions in our charter documents and Delaware law may make it difficult for a third party to acquire our Company and could depress the price of our common stock.***

Our Restated Certificate of Incorporation contains certain supermajority voting provisions that could delay, defer or prevent a change in control of our Company. These provisions could also make it more difficult for shareholders to elect directors, amend our Restated Certificate of Incorporation or take other corporate actions.

We are also subject to certain provisions of the Delaware General Corporation Law that could delay, deter or prevent us from entering into an acquisition, including provisions which prohibit a Delaware corporation from engaging in a business combination with an interested shareholder unless specific conditions are met. The existence of these provisions could limit the price that investors are willing to pay in the future for shares of our common stock and may deprive investors of an opportunity to sell shares at a premium over prevailing prices.

### ***Our stock price may fluctuate in response to various conditions, many of which are beyond our control.***

The stock market, in general, experiences volatility that has often been unrelated to the underlying operating performance of companies. If this volatility continues, the trading price of our common stock could decline significantly, independent of our actual operating performance. The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including the following:

Development of new products and features by our competitors;

Development of new collaborative arrangements by us, our competitors or other parties;

Changes in government regulations applicable to our business;



Changes in investor perception of our business and/or management;

Changes in global economic conditions or general market conditions in our industry;

Occurrence of major catastrophic events; and

Sales of our common stock held by certain equity investors or members of management.

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Price volatility over a given period may cause the average price at which the Company repurchases its own stock to exceed the stock's price at a given point in time. The Company stock price may reflect expectations of future growth and profitability. The Company's stock price may also reflect expectations that its cash dividend will continue at current levels or grow and that its current share repurchase program will be fully consummated. Future dividends are subject to declaration by the Company's Board of Directors, and the Company's share repurchase program does not obligate it to acquire any specific number of shares. If the Company fails to meet expectations related to future growth, profitability, dividends, share repurchases or other market expectations, the Company might miss investor expectations or independent analyst estimates, which might result in analysts or investors changing their opinions and/or recommendations regarding our stock and our stock price may decline, which could have a material adverse impact on investor confidence and employee retention.

### **Risks Related to the Acquisition of the Erwin Hymer Group**

As discussed in Note 18 to the Consolidated Financial Statements, on September 18, 2018, the Company entered into a definitive agreement to acquire all of the issued and outstanding capital stock of Erwin Hymer Group SE (the "Erwin Hymer Group"). Unanticipated developments, including delays in obtaining various regulatory approvals, could delay or prevent the acquisition. In the event the transaction does not close, significant breakup fees or other monetary damages could be incurred. Additional risks related to the acquisition include:

*The Company may fail to realize the anticipated strategic and financial benefits currently anticipated from the acquisition.*

The Company may not realize all of the anticipated benefits of the acquisition, we may not further our business strategy as we expect, we may fail to realize the synergies and other benefits we expect from the acquisition or we may otherwise not realize the expected return on our investment, any one of which outcomes could adversely affect our business or operating results and potentially cause impairment to assets that would be recorded as a part of the acquisition, including intangible assets and goodwill.

*Our due diligence of the Erwin Hymer Group may not have identified all pertinent risks, which could materially affect our business, financial condition, liquidity and results of operations.*

As part of our due diligence, we utilized information provided by the sellers, and, in some cases, our direct access to information was limited due to anti-trust considerations. As is true with any transaction of this nature, there can be no guarantee that we are aware of all liabilities of the acquired company. Potential incremental liabilities and additional risks and uncertainties related to the acquired company not known or fully appreciated by us could negatively impact our future business, financial condition and results of operations.

*The acquisition of Erwin Hymer Group poses certain incremental risks to the Company.*

The incremental risks posed by the acquisition of the Erwin Hymer Group include, but are not limited to:

The diversion of management's attention from the management of daily operations to various transaction and integration activities;

Possible deficiencies in internal control over financial reporting, including but not limited to, deficiencies associated with the IT system of the Erwin Hymer Group;

Possible deficiencies in operational processes and procedures;

Possible unanticipated, significant expenses related to integration;

Increased indebtedness that may negatively affect our capital structure and credit rating;

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Risks related to transacting business in new geographies and regulatory environments in which we are unaccustomed, including but not limited to: foreign currency exchange rate changes, expanded macro-economic risks due to operations in and sales to a wide base of countries, political and regulatory exposures to countries in which we currently do not do business;

Foreign currency exposures;

Risks associated with forward currency fluctuations, as we have entered into a forward currency contract to offset the US Dollar cash impact of currency fluctuations related to the cash consideration to be paid in Euros upon closing the transaction. This derivative instrument does not qualify for hedge accounting treatment. Fluctuations in the value of the forward contract will receive mark-to-market accounting treatment which may significantly impact the Company's earnings.

Risks associated with a more capital intense business;

Risks associated with carrying a relatively significant level of debt in a cyclical business;

The potential for disruption to existing Thor operations and plans;

The assimilation and retention of employees, including key employees;

The ability of our management team to manage expanded operations to meet operational and financial expectations;

The integration of departments and systems, including accounting systems, technologies, books and records and procedures;

The potential loss of, or adverse effects on, existing business relationships Erwin Hymer Group has with suppliers and customers.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**Table of Contents****ITEM 2. PROPERTIES**

As of July 31, 2018, we owned or leased approximately 14,047,000 square feet of total manufacturing plant and office space. We believe that our present facilities, consisting primarily of steel clad, steel or wood frame and masonry construction, and the machinery and equipment contained in these facilities, are generally well maintained and in good condition. As a result of our recent expansion efforts, we added 864,000 square feet in facilities in fiscal 2018 and 882,000 in fiscal 2017. We believe that our facilities are suitable and adequate for their intended purposes and that we would be able to obtain replacements for our leased premises at acceptable costs should our leases not be renewed.

The following table describes the location, number and size of our principal manufacturing plants and other materially important physical properties as of July 31, 2018:

Locations	Owned or Leased	No. of Buildings	Approximate Building Area Square Feet
<b>RVs:</b>			
Jackson Center, OH (Airstream) (A)(B)	Owned	11	613,000
Elkhart, IN (Thor Motor Coach) (B)	Owned	14	826,000
Bristol, IN (Thor Motor Coach) (B)	Owned	2	192,000
Wakarusa, IN (Thor Motor Coach) (B)	Owned	1	52,000
Middlebury, IN (Keystone) (A)	Owned	2	181,000
Goshen, IN (Keystone) (A)	Owned	29	2,318,000
Topeka, IN (Keystone) (A)	Owned	11	742,000
Syracuse, IN (Keystone) (A)	Owned	1	138,000
Pendleton, OR (Keystone) (A)	Owned	5	371,000
Elkhart, IN (Heartland) (A)	Owned	17	1,171,000
Elkhart, IN (Heartland) (A)	Leased	1	53,000
Middlebury, IN (Heartland) (A)	Owned	1	143,000
Nappanee, IN (Heartland) (A)	Owned	2	111,000
Howe, IN (Heartland) (A)	Owned	4	465,000
LaGrange, IN (Heartland) (A)	Leased	1	126,000
Nampa, ID (Heartland) (A)	Owned	1	252,000
Shipshewana, IN (KZ) (A)	Owned	14	555,000
Middlebury, IN (Jayco) (A)(B)	Owned	31	2,419,000
Topeka, IN (Jayco) (A)	Owned	7	446,000
Shipshewana, IN (Jayco) (A)	Owned	6	289,000
Twin Falls, ID (Jayco) (A)	Owned	<u>3</u>	<u>162,000</u>
<b>RV Subtotal</b>		164	11,625,000
<b>Other:</b>			
Cassopolis, MI (C)	Owned	1	10,000
Elkhart, IN (C)	Owned	1	50,000
Cassopolis, MI (C)	Leased	4	270,000
Elkhart, IN (C)	Leased	<u>5</u>	<u>464,000</u>
<b>Other Subtotal</b>		11	794,000
<b>Corporate:</b>			
Elkhart, IN (Corporate)	Owned	1	21,000
Milford, IN (utilized by Heartland)	Owned	7	138,000
Elkhart, IN (utilized by Thor Motor Coach)	Owned	3	223,000
Wakarusa, IN (utilized by Keystone and Thor Motor Coach)	Owned	<u>18</u>	<u>1,246,000</u>
<b>Corporate Subtotal</b>		<u>29</u>	<u>1,628,000</u>
<b>Total</b>		<u>204</u>	<u>14,047,000</u>

(A) Included in the towable recreational vehicles reportable segment.

(B) Included in the motorized recreational vehicles reportable segment.

(C) Included in the other non-reportable segment.

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**ITEM 3. LEGAL PROCEEDINGS**

At July 31, 2018, 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 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

The Company's Common Stock, par value \$0.10 per share (the "Common Stock"), is traded on the New York Stock Exchange ("NYSE"). Set forth below is the range of high and low market prices for the Common Stock for each quarter during the Company's two most recent fiscal years, as quoted in the NYSE Monthly Market Statistics and Trading Reports:

	Fiscal 2018		Fiscal 2017	
	High	Low	High	Low
First Quarter	\$ 136.37	\$ 101.00	\$ 87.08	\$ 74.75
Second Quarter	161.48	127.29	108.45	74.00
Third Quarter	138.64	98.03	115.74	88.87
Fourth Quarter	111.39	87.62	109.91	87.96

 **Holders**

As of August 31, 2018, the number of holders of record of the Common Stock was 105.

**Dividends**

In fiscal 2018, we paid a \$0.37 per share dividend for each fiscal quarter. In fiscal 2017, we paid a \$0.33 per share dividend for each fiscal quarter.

The Company's Board currently intends to continue cash dividends for each quarter in the foreseeable 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.

**Issuer Purchases of Equity Securities**

There were no purchases of equity securities during the fourth quarter of fiscal 2018.

**Equity Compensation Plan Information** see ITEM 12

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

	<b>Fiscal Years Ended July 31,</b>					
	<b>2018</b>	<b>2017</b>	<b>2016(1)(2)</b>	<b>2015(3)</b>	<b>2014(4)</b>	
<b>Income statement data:</b>						
Net sales	\$ 8,328,909	\$ 7,246,952	\$ 4,582,112	\$ 4,006,819	\$ 3,525,456	
Net income from continuing operations	430,151	374,254	258,022	202,009	175,516	
Net income	430,151	374,254	256,519	199,385	179,002	
<b>Earnings per common share from continuing operations:</b>						
Basic	\$ 8.17	\$ 7.12	\$ 4.92	\$ 3.80	\$ 3.29	
Diluted	\$ 8.14	\$ 7.09	\$ 4.91	\$ 3.79	\$ 3.29	
<b>Earnings per common share:</b>						
Basic	\$ 8.17	\$ 7.12	\$ 4.89	\$ 3.75	\$ 3.36	
Diluted	\$ 8.14	\$ 7.09	\$ 4.88	\$ 3.74	\$ 3.35	
<b>Dividends paid per common share:</b>						
Regular	\$ 1.48	\$ 1.32	\$ 1.20	\$ 1.08	\$ 0.92	
Special	\$	\$	\$	\$	\$ 1.00	
<b>Balance sheet data:</b>						
Total assets	\$ 2,778,665	\$ 2,557,931	\$ 2,325,464	\$ 1,503,248	\$ 1,408,718	
Long-term liabilities	71,594	200,345	408,590	59,726	60,306	

- (1) Includes a non-cash goodwill impairment of \$9,113 associated with a subsidiary in our towable segment.
- (2) Includes one month of the operations of Jayco from the date of its acquisition during the fiscal year.
- (3) Includes three and seven months of the operations of Postle and CRV/DRV, respectively, from the dates of their acquisitions during the fiscal year.
- (4) Includes three, nine and eleven months of the operations of KZ, Bison and Livin Lite, respectively, from the dates of their acquisitions during the fiscal year.



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### **ITEM 7. 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.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto included in ITEM 8 of this Report.

#### ***Executive Overview***

We were founded in 1980 and have grown to be the largest manufacturer of RVs in North America. According to Statistical Surveys, Inc., for the six months ended June 30, 2018, Thor's combined U.S. and Canadian market share was approximately 49.6% for travel trailers and fifth wheels combined and approximately 40.0% for motorhomes.

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

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

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

We generally rely on internally generated cash flows from operations to finance our growth, however, we did obtain a credit facility to partially fund the Jayco, Corp. acquisition as more fully described in Notes 2 and 12 to the Consolidated Financial Statements. Capital expenditures of \$138,197 in fiscal 2018 were made primarily for purchases of land, production building additions and improvements and replacing machinery and equipment used in the ordinary course of business.

#### ***Significant Events***

##### **Recent Events**

##### **Subsequent Event**

On September 18, 2018, the Company and the shareholders of Erwin Hymer Group SE ( Erwin Hymer Group ) announced that they entered into a definitive agreement for the Company to acquire Erwin Hymer Group. In accordance with the agreement, consideration to be paid to the sellers at closing will consist of approximately EUR 1.7 billion cash (\$2.0 billion at current exchange rate) and equity consisting of approximately 2.3 million shares of the Company. The Company will also assume responsibility for the debt of the Erwin Hymer Group of approximately EUR 300 million (\$350 million at current exchange rate).

The Erwin Hymer Group is headquartered in Bad Waldsee, Germany and is the largest RV manufacturer in Europe, by revenue. The transaction is subject to customary closing conditions, including regulatory approvals. The transaction is expected to close near the end of calendar year 2018.

The Company plans to finance the acquisition primarily through debt financing. In connection with the planned acquisition, the Company has obtained financing commitments for a 5 year, \$750 million asset-based credit facility and a 7 year, \$2.3 billion term loan.

##### **Fiscal 2018**

##### **Share Repurchase Program**

On June 19, 2018, the Company's Board of Directors authorized Company management to utilize up to \$250,000 to purchase shares of the Company's common stock through June 19, 2020.

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Under the share repurchase plan, the Company is authorized to repurchase, from time-to-time, outstanding shares of its common stock in the open market or in privately negotiated transactions. The timing and amount of share repurchases will be determined by the Company's management team based upon its evaluation of market conditions and other factors. The share repurchase plan may be suspended, modified or discontinued at any time, and the Company has no obligation to repurchase any amount of its common stock under the plan. The Company intends to make all repurchases and to administer the plan in accordance with applicable laws and regulatory guidelines, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended.

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**Table of Contents****Joint Venture**

On February 15, 2018, the Company announced the formation of a joint venture with Tourism Holdings Limited ( *thl* ) called TH2connect, LLC ( TH2 ). The Company and *thl* each have a 50% ownership position in TH2 and equal representation on the board of directors of TH2. The Company contributed cash totaling \$46,902 to TH2 in early March 2018 while *thl* contributed various assets with the same approximate fair value. The Company's investment in TH2 was funded entirely from cash on hand. In accordance with the operating agreement, TH2's future capital needs, which are not expected to be material to the Company, will be funded proportionally by *thl* and the Company, and an additional \$3,500 was contributed to TH2 by both Thor and *thl* in June 2018. The Company's investment in TH2 is accounted for under the equity method of accounting, and the results of this joint venture are recorded on a one-month lag basis.

TH2 was formed to own, improve and sell innovative and comprehensive digital applications through a platform designed for the global RV industry. TH2 will offer a variety of products focused on enhancing the enjoyment, safety, connectivity and convenience of RV ownership and use.

**Tax Reform**

On December 22, 2017, the Tax Cuts and Jobs Act (the Tax Act ), was signed into law. The Tax Act includes numerous changes to tax laws impacting business, the most significant being a permanent reduction in the federal corporate income tax rate from 35.0% to 21.0%. The rate reduction took effect on January 1, 2018. As the Company's 2018 fiscal year ended on July 31, 2018, the Company's federal blended corporate income tax rate for fiscal year 2018 is 26.9%, based on the applicable tax rates before and after the Tax Act and the number of days in the fiscal year to which the two different rates applied. As a result of other Tax Act changes, the Company's income tax rate for fiscal year 2019 will be negatively impacted by the repeal of the domestic production activities ( Code Section 199 ) deduction and limitations on the deductibility of executive compensation.

As a result of the reduction of the federal corporate income tax rate, the Company was required to perform a revaluation of its net deferred tax assets. Based on currently available information, the Company has performed an analysis of the impact of the Tax Act and has recorded a non-recurring, non-cash reduction of its net deferred tax assets due to the reduced federal income tax rate, and a corresponding charge to income tax expense, of approximately \$34,000 for the year ended July 31, 2018. The Company also recorded a provisional amount of \$2,000 of additional income tax expense in the fourth quarter of fiscal 2018 as a result of recent guidance related to limitations on the deductibility of executive compensation as provided under the Tax Act. The Company is still analyzing the impacts of the Tax Act which potentially could affect the measurement of the deferred tax balances.

The reduction in the statutory U.S. federal income tax rate is expected to positively impact the Company's future U.S. after-tax earnings. For fiscal 2019, after considering the lower federal income tax rate of 21.0%, an estimated blended state income tax rate, the elimination of the Code Section 199 deduction and the limitations on the deductibility of executive compensation, the Company currently estimates an overall effective income tax rate between 23.0% and 25.0%, before consideration of any discrete tax items.

**Fiscal 2016****Jayco Acquisition**

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 cash consideration of \$562,690, net of cash acquired. 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 12 to the 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.

***Discontinued Operations***

On July 31, 2013, the Company entered into a definitive Stock Purchase Agreement and sold our bus business to Allied Specialty Vehicles, Inc. The sale closed on October 20, 2013. Thor's bus business included Champion Bus, Inc., General Coach America, Inc., Goshen Coach, Inc., El Dorado National (California), Inc., and El Dorado National (Kansas), Inc. As a result of the sale, the results of operations of the bus business are reported as loss from discontinued operations, net of income taxes on the Consolidated Statements of Income and Comprehensive Income for the fiscal year ended July 31, 2016.

***Industry Outlook***

The Company monitors industry conditions in the RV market through the use of monthly wholesale shipment data as reported by the RVIA, which is typically issued on a one-month lag and represents the manufacturers' RV production and delivery to dealers. In addition, the Company monitors monthly retail (end user) sales trends as reported by Statistical Surveys, Inc., whose data is typically issued on a month-and-a-half lag. We believe that monthly RV retail sales data is important as consumer purchases impact future dealer orders and ultimately our production and sales.

We believe RV dealer inventory of Thor products is generally at appropriate levels for seasonal consumer demand, although slightly elevated in certain locations due to several factors. RV dealer inventory of Thor products as of July 31, 2018 increased 26.3% to approximately 138,500 units from approximately 109,700 units as of July 31, 2017, and we believe this increase is partially due to the July 31, 2017 dealer inventory total being low based on retail demand at that time. Thor's total RV backlog as of July 31, 2018 decreased \$930,742 or 39.9% to \$1,401,057 from \$2,331,799 as of July 31, 2017, with the decrease mainly attributable to our capacity expansions since the prior year allowing for increased production and therefore quicker delivery of units to dealers, the increase in existing dealer inventories noted above and a more typical seasonal order pattern compared to the elevated order levels from the prior year.

**Table of Contents****Industry Wholesale Statistics – Calendar YTD**

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

		<b>U.S. and Canada Wholesale Unit Shipments</b>			
		<b>Six Months Ended June 30,</b>			
		<b>2018</b>	<b>2017</b>	<b>Increase</b>	<b>Change</b>
Towables	Units	238,502	223,644	14,858	6.6%
Motorized	Units	33,086	32,786	300	0.9%
<b>Total</b>		<b>271,588</b>	<b>256,430</b>	<b>15,158</b>	<b>5.9%</b>

According to the most recent RVIA forecast in August 2018, shipments for towable and motorized units for the 2018 calendar year will approximate 444,000 and 61,900 units, respectively, which are 0.5% higher and 1.2% lower, respectively, than the corresponding 2017 calendar year wholesale shipments. The combined total of 505,900 units is 0.3% higher than the total 2017 wholesale shipments of 504,599. Travel trailers and fifth wheels are expected to account for approximately 86% of all RV shipments in calendar year 2018. The outlook for calendar year 2018 growth in RV sales is based on the expectation of continued gains in jobs and disposable income. It also takes into account the impact of slowly rising interest rates, inflation and geopolitical risks.

RVIA has also forecasted that 2019 calendar year shipments for towables and motorized units will ease back to approximately 442,200 and 54,900 units, respectively, for a total of 497,100 units, a decline of 1.7% from the expected 2018 calendar year shipments. This decline is primarily related to motorized units. RVIA noted that the enduring preference of consumers for the RV lifestyle has not changed, which will support a long-term upward trend in RV sales.

**Industry Retail Statistics – Calendar YTD**

We believe that retail demand is the key to continued growth in the RV industry. We also believe that RV industry wholesale shipments will generally approximate a one-to-one replenishment ratio with retail sales once dealer inventory levels are adjusted to generally normalized levels, which we expect to happen by the end of calendar year 2018.

Key retail statistics for the RV industry, as reported by Statistical Surveys, Inc. for the periods indicated, are as follows:

		<b>U.S. and Canada Retail Unit Registrations</b>			
		<b>Six Months Ended June 30,</b>			
		<b>2018</b>	<b>2017</b>	<b>Increase</b>	<b>Change</b>
Towables	Units	235,059	219,156	15,903	7.3%
Motorized	Units	32,093	30,842	1,251	4.1%
<b>Total</b>		<b>267,152</b>	<b>249,998</b>	<b>17,154</b>	<b>6.9%</b>

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

**Company Wholesale Statistics – Calendar YTD**

The Company's wholesale RV shipments, for the six-month periods ended June 30, 2018 and 2017, to correspond to the industry periods denoted above, were as follows:

**U.S. and Canada Wholesale Unit Shipments**

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		Six Months Ended June 30,			
		2018	2017	Increase	Change
Towables	Units	121,968	116,278	5,690	4.9%
Motorized	Units	13,200	13,484	(284)	(2.1)%
<b>Total</b>		<b>135,168</b>	<b>129,762</b>	<b>5,406</b>	<b>4.2%</b>

**Table of Contents****Company Retail Statistics – Calendar YTD**

Retail shipments of the Company's RV products, as reported by Statistical Surveys, Inc., were as follows for the six-month periods ended June 30, 2018 and 2017, to correspond to the industry periods denoted above:

		<b>U.S. and Canada Retail Unit Registrations</b>			
		<b>Six Months Ended June 30,</b>			
		<b>2018</b>	<b>2017</b>	<b>Increase</b>	<b>Change</b>
Towables	Units	114,055	108,262	5,793	5.4%
Motorized	Units	12,825	12,224	601	4.9%
<b>Total</b>		<b>126,880</b>	<b>120,486</b>	<b>6,394</b>	<b>5.3%</b>

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

**Company Wholesale Statistics – Fiscal Year**

For the fiscal years ended July 31, 2018 and 2017, the Company's wholesale RV shipments were as follows:

		<b>U.S. and Canada Wholesale Unit Shipments</b>			
		<b>Fiscal Year Ended July 31,</b>			
		<b>2018</b>	<b>2017</b>	<b>Increase</b>	<b>Change</b>
Towables	Units	240,865	213,562	27,303	12.8%
Motorized	Units	25,355	24,133	1,222	5.1%
<b>Total</b>		<b>266,220</b>	<b>237,695</b>	<b>28,525</b>	<b>12.0%</b>

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 health of the housing market and changes in tax rates and fuel prices. Assuming 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 continued growth in the RV industry.

A positive outlook for the RV segment is supported by continued demographic diversification. While consumers between the ages of 55 and 74 still account for the majority of RV retail sales, there is strong interest and growing retail momentum with the younger generation X and millennials segments. Not surprisingly, behavioral attributes confirm these groups as being more active, tech savvy, well researched, open to new ideas, and very family centric, specifically when it comes to cross generational family activities like RVing, camping and time spent outdoors.

Since 2014, Kampgrounds of America (KOA) has measured an increase of 6 million new camper households and in 2018 projects a 45% rise in frequency among all camping families; largely driven by millennials with 6 in 10 having tried a new camping destination in 2017. Younger consumers are also redefining cultural views on vacation and opting instead for 50 to 100 mile getaways within driving distance to home or school. Given the importance younger consumers and millennial households place on family, quality experiences, technology and time, we are well-positioned to provide the innovative product offerings which deliver the lifestyle experiences that complement millennial expectations.

In addition to younger age demographics, there are opportunities to expand sales to a more ethnically diverse and global customer base through lifestyle, lifestage and data-driven marketing. We intend to expand upon our recent marketing initiatives that focused on diversity, women, families, millennials and the RV lifestyle across social, digital, web, acquisition, mobile and content marketing. In addition to providing best-in-class marketing and research assets to our dealers, we intend to provide consumers with technology tools and RV lifestyle resources through our joint venture, TH2.

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Economic or industry-wide factors affecting our RV business include the costs of commodities and the labor used in the manufacture of our products. Material and labor costs are the primary factors determining our cost of products sold, and any future increases in raw material or labor costs would impact our profit margins negatively if we were unable to offset those cost increases through a combination of product decontending, material sourcing strategies, efficiency improvements or raising the selling prices for our products by corresponding amounts. Historically, we have generally been able to offset net cost increases over time.



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We have not experienced any recent 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 generally adequate for current production levels, and that available inventory would compensate for short-term changes in supply schedules if they occur.

**Table of Contents****FISCAL 2018 VS. FISCAL 2017**

	<b>Fiscal 2018</b>		<b>Fiscal 2017</b>		<b>Change</b>	<b>%</b>
					<b>Amount</b>	<b>Change</b>
<b>NET SALES</b>						
Recreational vehicles						
Towables	\$	6,008,700	\$	5,127,491	\$	881,209 17.2
Motorized		2,146,315		1,971,466		174,849 8.9
Total recreational vehicles		8,155,015		7,098,957		1,056,058 14.9
Other		305,947		253,557		52,390 20.7
Intercompany eliminations		(132,053)		(105,562)		(26,491) (25.1)
Total	\$	8,328,909	\$	7,246,952	\$	1,081,957 14.9

**# OF UNITS**

Recreational vehicles						
Towables		240,865		213,562		27,303 12.8
Motorized		25,355		24,133		1,222 5.1
Total		266,220		237,695		28,525 12.0

	<b>Fiscal 2018</b>		<b>Fiscal 2017</b>		<b>Change</b>	<b>%</b>
		<b>Net Sales</b>		<b>Net Sales</b>	<b>Amount</b>	<b>Change</b>
<b>GROSS PROFIT</b>						
Recreational vehicles						
Towables	\$	882,232 14.7	\$	783,752 15.3	\$	98,480 12.6
Motorized		234,108 10.9		215,324 10.9		18,784 8.7
Total recreational vehicles		1,116,340 13.7		999,076 14.1		117,264 11.7
Other		48,632 15.9		44,702 17.6		3,930 8.8
Intercompany eliminations		(306)		(195)		(111)
Total	\$	1,164,666 14.0	\$	1,043,583 14.4	\$	121,083 11.6

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Recreational vehicles						
Towables	\$	304,554 5.1	\$	273,550 5.3	\$	31,004 11.3
Motorized		96,370 4.5		86,009 4.4		10,361 12.0
Total recreational vehicles		400,924 4.9		359,559 5.1		41,365 11.5
Other		10,047 3.3		8,935 3.5		1,112 12.4
Corporate		66,473		51,353		15,120 29.4
Total	\$	477,444 5.7	\$	419,847 5.8	\$	57,597 13.7

<b>INCOME (LOSS) BEFORE INCOME TAXES</b>							
Recreational vehicles							
Towables	\$	532,657	8.9	\$	458,915	9.0	\$ 73,742 16.1
Motorized		134,785	6.3		125,323	6.4	9,462 7.6
Total recreational vehicles		667,442	8.2		584,238	8.2	83,204 14.2
Other		32,973	10.8		28,909	11.4	4,064 14.1
Intercompany eliminations		(306)			(195)		(111)
Corporate		(67,080)			(56,566)		(10,514) (18.6)
Total	\$	633,029	7.6	\$	556,386	7.7	\$ 76,643 13.8

	As of	As of	Change	%
<b>ORDER BACKLOG</b>	<b>July 31, 2018</b>	<b>July 31, 2017</b>	<b>Amount</b>	<b>Change</b>
Recreational vehicles				
Towables	\$ 766,965	\$ 1,416,240	\$ (649,275)	(45.8)
Motorized	634,092	915,559	(281,467)	(30.7)
Total	\$ 1,401,057	\$ 2,331,799	\$ (930,742)	(39.9)

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**CONSOLIDATED**

Consolidated net sales for fiscal 2018 increased \$1,081,957, or 14.9%, compared to fiscal 2017. Consolidated gross profit for fiscal 2018 increased \$121,083, or 11.6%, compared to fiscal 2017. Consolidated gross profit was 14.0% of consolidated net sales for fiscal 2018 and 14.4% for fiscal 2017.

Consolidated selling, general and administrative expenses for fiscal 2018 increased \$57,597, or 13.7%, compared to fiscal 2017. Amortization of intangible assets expense for fiscal 2018 decreased \$8,807, or 13.8%, compared to fiscal 2017, primarily due to lower dealer network amortization as compared to the prior-year period. Consolidated income before income taxes for fiscal 2018 was \$633,029, as compared to \$556,386 for fiscal 2017, an increase of \$76,643, or 13.8%. Consolidated income before income taxes was 7.6% of consolidated net sales for fiscal 2018 and 7.7% for fiscal 2017.

Additional information concerning the changes in net sales, gross profit, selling, general and administrative expenses, amortization of intangible assets expense and income before income taxes are addressed in the segment reporting that follows.

Corporate costs included in selling, general and administrative expenses increased \$15,120 to \$66,473 for fiscal 2018 compared to \$51,353 for fiscal 2017. The increase is due in part to an increase in compensation costs, as incentive compensation increased \$1,809 in correlation with the increase in income before income taxes compared to the prior year, and stock-based compensation increased \$4,500. The stock-based compensation increase is due to increasing income before income taxes over the past three years, as most stock awards are based on that metric and vest ratably over a three-year period. Deferred compensation expense also increased \$928, which relates to the equal and offsetting increase in other income noted below due to the increase in the related deferred compensation plan assets. In addition, legal and professional fees, including costs related to sales and marketing initiatives as well as the joint venture and the strategic growth opportunity as discussed in Notes 8 and 18, respectively, to the Consolidated Financial Statements, increased \$5,786.

Corporate interest and other income and expense was \$607 of net expense for fiscal 2018 compared to \$5,213 of net expense for fiscal 2017. This favorable change of \$4,606 is primarily due to interest expense and fees on the revolving credit facility decreasing \$4,512 compared to the prior-year period as a result of the lower average outstanding debt balance. Interest income also increased \$1,264 in fiscal 2018 due primarily to increased rates of return on invested cash balances. In addition, the change in the fair value of the Company's deferred compensation plan assets due to market fluctuations and investment income resulted in an increase in income of \$928 in the current-year period as compared to the prior-year period. These increases were partially offset by losses of \$1,939 related to the Company's equity investment made in fiscal 2018 as discussed in Note 8 to the Consolidated Financial Statements.

The overall annual effective tax rate for fiscal 2018 is 32.0% on \$633,029 of income before income taxes, compared with 32.7% on \$556,386 of income before income taxes for fiscal 2017. The Tax Cuts and Jobs Act (the Tax Act) was signed into law on December 22, 2017. Under the Tax Act, the federal corporate income tax rate has been reduced from 35.0% to 21.0% starting January 1, 2018, which results in the use of a blended federal corporate income tax rate of 26.9% for the Company's 2018 fiscal year. The benefit of the lower blended tax rate for fiscal 2018 was mostly offset by approximately \$34,000 of additional income tax expense in fiscal 2018 resulting from the revaluation of the Company's net deferred tax assets to reflect the impact of the lower tax rates in connection with the Tax Act.

**Table of Contents****SEGMENT REPORTING****Towable Recreational Vehicles****Analysis of Change in Net Sales for Fiscal 2018 vs. Fiscal 2017**

	Fiscal 2018	% of Segment Net Sales	Fiscal 2017	% of Segment Net Sales	Change Amount	% Change
<b>NET SALES:</b>						
Towables						
Travel Trailers and Other	\$ 3,646,581	60.7	\$ 3,088,561	60.2	\$ 558,020	18.1
Fifth Wheels	2,362,119	39.3	2,038,930	39.8	323,189	15.9
Total Towables	\$ 6,008,700	100.0	\$ 5,127,491	100.0	\$ 881,209	17.2

	Fiscal 2018	% of Segment Net Sales	Fiscal 2017	% of Segment Net Sales	Change Amount	% Change
<b># OF UNITS:</b>						
Towables						
Travel Trailers and Other	186,710	77.5	166,140	77.8	20,570	12.4
Fifth Wheels	54,155	22.5	47,422	22.2	6,733	14.2
Total Towables	240,865	100.0	213,562	100.0	27,303	12.8

	% Increase
<b>IMPACT OF CHANGE IN PRODUCT MIX AND PRICE ON NET SALES:</b>	
Towables	
Travel Trailers and Other	5.7
Fifth Wheels	1.7
Total Towables	4.4

The increase in total towables net sales of 17.2% compared to the prior fiscal year resulted from a 12.8% increase in unit shipments and a 4.4% increase in the overall net price per unit due to the impact of changes in product mix and price. The Other units within the Travel Trailers and Other category consists primarily of truck and folding campers and other specialty vehicles. According to statistics published by RVIA, for the twelve months ended July 31, 2018, combined travel trailer and fifth wheel wholesale unit shipments for the industry increased 13.8% compared to the same period last year.

The increases in the net price per unit within the travel trailer and other product lines of 5.7% and the fifth wheel product lines of 1.7% were both primarily due to changes in product mix and selective net price increases since the prior fiscal year.

Cost of products sold increased \$782,729 to \$5,126,468, or 85.3% of towables net sales, for fiscal 2018 compared to \$4,343,739, or 84.7% of towables net sales, for fiscal 2017. The changes in material, labor, freight-out and warranty costs comprised \$735,323 of the \$782,729 increase in cost of products sold. Material, labor, freight-out and warranty costs as a combined percentage of towables net sales increased to 79.6% for fiscal 2018 compared to 78.9% for fiscal 2017. This increase in percentage was primarily the result of increases in the labor cost percentage, due to the continued competitive RV labor market, and the warranty cost percentage, which was partially due to offering extended coverage on certain structural components of certain products since the prior-year period.

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Variable costs in manufacturing overhead increased \$43,386 to \$317,793, or 5.3% of towable net sales, for fiscal 2018 compared to \$274,407, or 5.4% of towable net sales, for fiscal 2017 as a result of the increase in net sales. Fixed costs in manufacturing overhead, which consist primarily of facility costs, property taxes and depreciation, increased \$4,020 to \$27,123 in fiscal 2018 from \$23,103 in fiscal 2017 primarily due to the increase in manufacturing facilities and production lines.

Towables gross profit increased \$98,480 to \$882,232, or 14.7% of towables net sales, for fiscal 2018 compared to \$783,752, or 15.3% of towables net sales, for fiscal 2017. The increase in gross profit is primarily due to the 12.8% increase in unit sales volume noted above, while the decrease in gross profit percentage is due to the increase in the cost of products sold percentage noted above.

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Selling, general and administrative expenses were \$304,554, or 5.1% of towables net sales, for fiscal 2018 compared to \$273,550, or 5.3% of towables net sales, for fiscal 2017. The primary reason for the \$31,004 increase was increased towables net sales and towables income before income taxes, which caused related commissions, bonuses and other compensation to increase by \$22,885. Legal, professional and settlement costs increased \$2,938, primarily due to product liability and legal settlement costs. In addition, sales-related travel, advertising and promotional costs also increased \$3,963 in correlation with the sales increase. The overall selling, general and administrative expense as a percentage of towables net sales decreased by 0.2% due to the significant increase in towables net sales.

Towables income before income taxes was \$532,657, or 8.9% of towables net sales, for fiscal 2018 compared to \$458,915, or 9.0% of towables net sales, for fiscal 2017. The primary reasons for the slight decrease in percentage was the increase in the cost of products sold percentage noted above, which was partially offset by the decrease in the selling, general and administrative expense percentage to net sales noted above and the towables amortization cost percentage decrease of 0.3%.

**Motorized Recreational Vehicles****Analysis of Change in Net Sales for Fiscal 2018 vs. Fiscal 2017**

	Fiscal 2018	% of Segment Net Sales	Fiscal 2017	% of Segment Net Sales	Change Amount	% Change
<b>NET SALES:</b>						
Motorized						
Class A	\$ 1,000,881	46.6	\$ 914,681	46.4	\$ 86,200	9.4
Class C	1,047,376	48.8	968,899	49.1	78,477	8.1
Class B	98,058	4.6	87,886	4.5	10,172	11.6
Total Motorized	\$ 2,146,315	100.0	\$ 1,971,466	100.0	\$ 174,849	8.9

	Fiscal 2018	% of Segment Net Sales	Fiscal 2017	% of Segment Net Sales	Change Amount	% Change
<b># OF UNITS:</b>						
Motorized						
Class A	8,754	34.5	8,264	34.2	490	5.9
Class C	15,875	62.6	15,181	62.9	694	4.6
Class B	726	2.9	688	2.9	38	5.5
Total Motorized	25,355	100.0	24,133	100.0	1,222	5.1

	% Increase
<b>IMPACT OF CHANGE IN PRODUCT MIX AND PRICE ON NET SALES:</b>	
Motorized	
Class A	3.5
Class C	3.5
Class B	6.1
Total Motorized	3.8

The increase in total motorized net sales of 8.9% compared to the prior fiscal year resulted from a 5.1% increase in unit shipments and a 3.8% increase in the overall net price per unit due to the impact of changes in product mix and price. According to statistics published by RVIA, for the twelve months ended July 31, 2018, combined motorhome wholesale unit shipments for the industry increased 6.0% compared to the same period last year.





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The increase in the net price per unit within both the Class A and Class C product lines of 3.5% is primarily due to the net impact of product mix changes and selective net price increases. The increase in the overall net price per unit within the Class B product line of 6.1% is primarily due to the introduction of a new, higher-priced model since the prior-year period, and more option content per unit in the current fiscal year.

Cost of products sold increased \$156,065 to \$1,912,207, or 89.1% of motorized net sales, for fiscal 2018 compared to \$1,756,142, or 89.1% of motorized net sales, for fiscal 2017. The changes in material, labor, freight-out and warranty costs comprised \$150,762 of the \$156,065 increase due to increased sales volume. Material, labor, freight-out and warranty costs as a combined percentage of motorized net sales was 84.9% for fiscal 2018 and 84.8% for fiscal 2017. The primary reasons for this slight increase in percentage were increases in labor costs associated with increasing employment levels and the continued competitive RV labor market and an increase in the warranty cost percentage, but these increases were mostly offset by a reduction in the material cost percentage due to operating efficiencies attained in the past year, primarily at Jayco, and selective net price increases.

Variable costs in manufacturing overhead increased \$2,644 to \$80,073, or 3.7% of motorized net sales, for fiscal 2018 compared to \$77,429, or 3.9% of motorized net sales, for fiscal 2017 as a result of the increase in net sales. Fixed costs in manufacturing overhead, which consist primarily of facility costs, property taxes and depreciation, increased \$2,659 to \$9,466 in fiscal 2018 from \$6,807 in fiscal 2017 primarily due to the increase in manufacturing facilities and production lines.

Motorized gross profit increased \$18,784 to \$234,108, or 10.9% of motorized net sales, for fiscal 2018 compared to \$215,324, or 10.9% of motorized net sales, for fiscal 2017. The increase in gross profit was primarily due to the 5.1% increase in unit sales volume noted above.

Selling, general and administrative expenses were \$96,370 or 4.5% of motorized net sales, for fiscal 2018 compared to \$86,009, or 4.4% of motorized net sales, for fiscal 2017. The \$10,361 increase was partially due to increased motorized net sales and motorized income before income taxes, which caused related commissions, bonuses and other compensation to increase by \$3,285. In addition, legal, professional and related settlement costs increased \$5,393, primarily due to product liability and legal settlement costs. Sales related travel, advertising and promotional costs also increased \$1,174 in connection with the sales increase.

Motorized income before income taxes was \$134,785, or 6.3% of motorized net sales, for fiscal 2018 compared to \$125,323, or 6.4% of motorized net sales, for fiscal 2017. The primary reason for this slight decrease in percentage was the impact of the increase in the selling, general and administrative expense percentage noted above.

**Table of Contents****FISCAL 2017 VS. FISCAL 2016**

	<u>Fiscal 2017</u>		<u>Fiscal 2016</u>		<u>Change</u>	<u>%</u>	
					<u>Amount</u>	<u>Change</u>	
<b>NET SALES</b>							
Recreational vehicles							
Towables	\$	5,127,491	\$	3,338,659	\$ 1,788,832	53.6	
Motorized		1,971,466		1,094,250	877,216	80.2	
Total recreational vehicles		7,098,957		4,432,909	2,666,048	60.1	
Other		253,557		218,673	34,884	16.0	
Intercompany eliminations		(105,562)		(69,470)	(36,092)	(52.0)	
Total	\$	7,246,952	\$	4,582,112	\$ 2,664,840	58.2	
<b># OF UNITS</b>							
Recreational vehicles							
Towables		213,562		128,932	84,630	65.6	
Motorized		24,133		13,815	10,318	74.7	
Total		237,695		142,747	94,948	66.5	
		<b>% of</b>		<b>% of</b>			
		<b>Segment</b>		<b>Segment</b>	<b>Change</b>	<b>%</b>	
		<b>Fiscal 2017</b>	<b>Net Sales</b>	<b>Fiscal 2016</b>	<b>Net Sales</b>	<b>Amount</b>	<b>Change</b>
<b>GROSS PROFIT</b>							
Recreational vehicles							
Towables	\$	783,752	15.3	\$ 547,460	16.4	\$ 236,292	43.2
Motorized		215,324	10.9	144,913	13.2	70,411	48.6
Total recreational vehicles		999,076	14.1	692,373	15.6	306,703	44.3
Other		44,702	17.6	33,975	15.5	10,727	31.6
Intercompany eliminations		(195)		(23)		(172)	
Total	\$	1,043,583	14.4	\$ 726,325	15.9	\$ 317,258	43.7
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>							
Recreational vehicles							
Towables	\$	273,550	5.3	\$ 195,983	5.9	\$ 77,567	39.6
Motorized		86,009	4.4	56,214	5.1	29,795	53.0
Total recreational vehicles		359,559	5.1	252,197	5.7	107,362	42.6
Other		8,935	3.5	8,162	3.7	773	9.5
Corporate		51,353		45,910		5,443	11.9
Total	\$	419,847	5.8	\$ 306,269	6.7	\$ 113,578	37.1
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>							
Recreational vehicles							
Towables	\$	458,915	9.0	\$ 321,874	9.6	\$ 137,041	42.6

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Motorized	125,323	6.4	88,523	8.1	36,800	41.6
Total recreational vehicles	584,238	8.2	410,397	9.3	173,841	42.4
Other	28,909	11.4	18,547	8.5	10,362	55.9
Intercompany eliminations	(195)		(23)		(172)	
Corporate	(56,566)		(45,608)		(10,958)	(24.0)
Total	\$ 556,386	7.7	\$ 383,313	8.4	\$ 173,073	45.2

	<b>As of</b>		<b>As of</b>		<b>Change</b>	<b>%</b>
	<b>July 31, 2017</b>		<b>July 31, 2016</b>		<b>Amount</b>	<b>Change</b>

**ORDER BACKLOG**

Recreational vehicles						
Towables	\$ 1,416,240		\$ 735,085		\$ 681,155	92.7
Motorized	915,559		461,762		453,797	98.3
Total	\$ 2,331,799		\$ 1,196,847		\$ 1,134,952	94.8

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**Table of Contents****CONSOLIDATED**

Consolidated net sales for fiscal 2017 increased \$2,664,840, or 58.2%, compared to fiscal 2016. Jayco accounted for \$1,814,048 of the \$2,664,840 increase and 39.6% of the 58.2% increase in consolidated net sales due to the inclusion of twelve months of Jayco's operations in fiscal 2017 as compared to one month in fiscal 2016 from the date of acquisition. Consolidated gross profit for fiscal 2017 increased \$317,258, or 43.7%, compared to fiscal 2016, with Jayco accounting for \$212,050 of the \$317,258 increase and 29.2% of the 43.7% increase. Consolidated gross profit was 14.4% of consolidated net sales for fiscal 2017 and 15.9% for fiscal 2016. The decrease in gross profit percentage is primarily due to the dilutive impact of both Jayco's gross profit percentage of 11.5% and the overall market-driven changes in product mix toward generally smaller and lower-priced units, which typically have lower gross margins. In addition, there was a higher concentration of motorized net sales to consolidated net sales in fiscal 2017 as compared to fiscal 2016, and motorized products typically carry a lower gross margin as compared to towable products.

Selling, general and administrative expenses for fiscal 2017 increased \$113,578 or 37.1% compared to fiscal 2016. Amortization of intangible assets expense for fiscal 2017 increased \$35,963 compared to fiscal 2016, primarily due to the increase in Jayco's total amortization expense of \$38,386. Income from continuing operations before income taxes for fiscal 2017 was \$556,386, as compared to \$383,313 for fiscal 2016, an increase of \$173,073 or 45.2%.

Additional information concerning 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 \$5,443 to \$51,353 for fiscal 2017 compared to \$45,910 for fiscal 2016. The increase is primarily due to an increase in compensation costs, as incentive compensation increased \$2,973 in correlation with the increase in income from continuing operations before income taxes compared to the prior year, and stock-based compensation increased \$3,113. 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. Deferred compensation expense also increased \$2,432, which relates to the equal and offsetting increase in other income noted below due to the increase in the related deferred compensation plan assets. Costs related to sales and marketing initiatives also increased \$1,366. These increases were partially offset by a decrease of \$4,882 in legal and professional fees, primarily due to non-recurring professional fees incurred in fiscal 2016 related to the Jayco acquisition and the development of long-term strategic growth initiatives.

Corporate interest and other income and expense was \$5,213 of net expense for fiscal 2017 compared to \$302 of net income for fiscal 2016. This increase in net expense of \$5,515 is primarily due to an increase in interest expense and fees of \$8,172 related to the revolving credit facility, as there were twelve months of these expenses in fiscal 2017 as compared to one month in fiscal 2016 from the date of the establishment of the facility and the related Jayco acquisition. This increase in expense was partially offset by the investment income and market value appreciation on the Company's deferred compensation plan assets totaling \$2,879 in fiscal 2017 as compared to \$537 in fiscal 2016, an increase in income of \$2,342.

The overall annual effective tax rate for fiscal 2017 remained constant at 32.7% on \$556,386 of income before income taxes, compared with 32.7% on \$383,313 of income before income taxes for fiscal 2016. The effective income tax rate for fiscal 2017 includes a benefit of \$1,898 related to the adoption of ASU 2016-09 as discussed in [Note 1](#) to the Consolidated Financial Statements. The effective income tax rates for the fiscal 2017 and fiscal 2016 periods were both favorably impacted by various uncertain tax benefit settlements and expirations.

**Table of Contents****SEGMENT REPORTING****Towable Recreational Vehicles****Analysis of Change in Net Sales for Fiscal 2017 vs. Fiscal 2016**

	<b>Fiscal 2017</b>	<b>% of Segment Net Sales</b>	<b>Fiscal 2016</b>	<b>% of Segment Net Sales</b>	<b>Change Amount</b>	<b>% Change</b>
<b>NET SALES:</b>						
Towables						
Travel Trailers and Other	\$ 3,088,561	60.2	\$ 1,884,128	56.4	\$ 1,204,433	63.9
Fifth Wheels	2,038,930	39.8	1,454,531	43.6	584,399	40.2
<b>Total Towables</b>	<b>\$ 5,127,491</b>	<b>100.0</b>	<b>\$ 3,338,659</b>	<b>100.0</b>	<b>\$ 1,788,832</b>	<b>53.6</b>

	<b>Fiscal 2017</b>	<b>% of Segment Net Sales</b>	<b>Fiscal 2016</b>	<b>% of Segment Net Sales</b>	<b>Change Amount</b>	<b>% Change</b>
<b># OF UNITS:</b>						
Towables						
Travel Trailers and Other	166,140	77.8	95,561	74.1	70,579	73.9
Fifth Wheels	47,422	22.2	33,371	25.9	14,051	42.1
<b>Total Towables</b>	<b>213,562</b>	<b>100.0</b>	<b>128,932</b>	<b>100.0</b>	<b>84,630</b>	<b>65.6</b>

<b>IMPACT OF CHANGE IN MIX AND PRICE ON NET SALES:</b>	<b>% (Decrease)</b>
Towables	
Travel Trailers and Other	(10.0)
Fifth Wheels	(1.9)
<b>Total Towables</b>	<b>(12.0)</b>

The increase in total towables net sales of 53.6% compared to the prior fiscal year resulted from a 65.6% increase in unit shipments partially offset by a 12.0% decrease in the overall net price per unit due to the impact of changes in product mix and price. Jayco accounted for 37.7% of the 53.6% increase in total towable net sales and for \$1,257,659 of the \$1,788,832 increase due to the inclusion of twelve months of Jayco's operations in fiscal 2017 as compared to one month in fiscal 2016 from the date of acquisition. Jayco also accounted for 45.8% of the 65.6% increase in total towable unit shipments and for 59,065 of the 84,630 unit increase. The 12.0% 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 the more moderately priced travel trailers and other units, as compared to fifth wheels, in the current-year period as compared to the prior-year period. The Other units within the travel trailer and other category consist primarily of truck and folding campers and other specialty vehicles. The overall industry increase in combined travel trailer and fifth wheel wholesale unit shipments for the twelve months ended July 31, 2017 was 17.7% 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 10.0% and the fifth wheel product lines of 1.9% were both primarily due to a change in product mix, attributable to both the acquisition of Jayco and market-driven changes in product mix toward generally smaller and lower-priced units.

Cost of products sold increased \$1,552,540 to \$4,343,739, or 84.7% of towables net sales, for fiscal 2017 compared to \$2,791,199, or 83.6% of towables net sales, for fiscal 2016. The change in material, labor, freight-out and warranty costs comprised \$1,450,503 of the \$1,552,540 increase in cost of products sold. Material, labor, freight-out and warranty costs as a combined percentage of towables net sales increased to

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78.9% for fiscal 2017 compared to 77.7% for fiscal 2016. This increase in percentage was primarily the result of increases in both the material and freight-out percentages to sales due to changes in product mix, which is partially attributable to the acquisition of Jayco. There was also a modest increase in labor costs due to both the current competitive RV labor market and training an increasing workforce. Total manufacturing overhead increased \$102,037 with the increase in sales, but decreased slightly as a percentage of towables net sales from 5.9% to 5.8%.

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Variable costs in manufacturing overhead increased \$95,035 to \$274,407, or 5.4% of towable net sales, for fiscal 2017 compared to \$179,372, or 5.4% of towable net sales, for fiscal 2016 as a result of the increase in net sales. Fixed costs in manufacturing overhead, which consist primarily of facility costs, property taxes and depreciation, increased \$7,002 to \$23,103 in fiscal 2017 from \$16,101 in fiscal 2016 primarily due to the increase in manufacturing facilities and production lines.

Towables gross profit increased \$236,292 to \$783,752, or 15.3% of towables net sales, in fiscal 2017 compared to \$547,460, or 16.4% of towables net sales, in fiscal 2016. The increase in gross profit is primarily due to the 65.6% increase in unit sales volume noted above, while the decrease in the gross profit percentage is primarily due to the increase in the cost of products sold percentage noted above.

Selling, general and administrative expenses were \$273,550, or 5.3% of towables net sales, for fiscal 2017 compared to \$195,983, or 5.9% of towables net sales, for fiscal 2016. The primary reason for the \$77,567 increase was increased towables net sales and towables income before income taxes, which caused related commissions, bonuses and other compensation to increase by \$55,791. These costs, however, decreased as a percentage of towables net sales by 0.4% compared to the prior fiscal year. Sales-related travel, advertising and promotional costs also increased \$11,296 in correlation with the sales increase and legal, professional and related settlement cost increased \$4,033.

Towables income before income taxes was \$458,915, or 9.0% of towables net sales, for fiscal 2017 compared to \$321,874, or 9.6% of towables net sales, for fiscal 2016. The primary reason for the 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 0.4% due to the increase of \$34,581 in Jayco's amortization costs. These increases in cost percentages were partially offset by the one-time goodwill impairment charge of \$9,113 included in the results for fiscal 2016 as discussed in [Note 7](#) to the Consolidated Financial Statements, and the decrease in the selling, general and administrative expense percentage noted above.

**Motorized Recreational Vehicles****Analysis of Change in Net Sales for Fiscal 2017 vs. Fiscal 2016**

	Fiscal 2017	% of Segment Net Sales	Fiscal 2016	% of Segment Net Sales	Change Amount	% Change
<b>NET SALES:</b>						
Motorized						
Class A	\$ 914,681	46.4	\$ 583,252	53.3	\$ 331,429	56.8
Class C	968,899	49.1	427,951	39.1	540,948	126.4
Class B	87,886	4.5	83,047	7.6	4,839	5.8
Total Motorized	\$ 1,971,466	100.0	\$ 1,094,250	100.0	\$ 877,216	80.2

	Fiscal 2017	% of Segment Net Sales	Fiscal 2016	% of Segment Net Sales	Change Amount	% Change
<b># OF UNITS:</b>						
Motorized						
Class A	8,264	34.2	6,114	44.3	2,150	35.2
Class C	15,181	62.9	7,023	50.8	8,158	116.2
Class B	688	2.9	678	4.9	10	1.5
Total Motorized	24,133	100.0	13,815	100.0	10,318	74.7

**IMPACT OF CHANGE IN MIX AND PRICE ON NET SALES:**

%  
Increase

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Motorized	
Class A	21.6
Class C	10.2
Class B	4.3
Total Motorized	5.5



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The increase in total motorized net sales of 80.2% compared to the prior fiscal year resulted from a 74.7% increase in unit shipments and a 5.5% increase in the overall net price per unit due to the impact of changes in product mix and price. Jayco accounted for 50.8% of the 80.2% increase in total motorized net sales and for \$556,389 of the \$877,216 increase due to the inclusion of twelve months of Jayco's operations in fiscal 2017 as compared to one month in fiscal 2016 from the date of acquisition. Jayco accounted for 39.2% of the 74.7% increase in total motorized unit shipments and for 5,411 of the 10,318 unit increase. The 5.5% 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 significantly higher concentration of the more moderately priced Class C units, as compared to Class A units, in the current-year period as compared to the prior-year period. The overall industry increase in wholesale unit shipments of motorhomes for the twelve months ended July 31, 2017 was 14.2% 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 21.6% was primarily due to a higher concentration of sales of the larger and generally more expensive diesel units compared to the more moderately priced gas units in the current-year period compared to the prior-year period. 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 10.2% 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 4.3% is primarily due to changes in product mix.

Cost of products sold increased \$806,805 to \$1,756,142, or 89.1% of motorized net sales, for fiscal 2017 compared to \$949,337, or 86.8% of motorized net sales, for fiscal 2016. The change in material, labor, freight-out and warranty costs comprised \$770,629 of the \$806,805 increase due to increased sales volume. Material, labor, freight-out and warranty costs as a combined percentage of motorized net sales increased to 84.8% for fiscal 2017 as compared to 82.4% for fiscal 2016. 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. The labor cost percentage also increased due to both the current competitive RV labor market and training an increasing workforce. The combination of assimilating and training an increasing workforce while expanding production lines and product offerings also led to an increase in the warranty cost percentage. Total manufacturing overhead increased \$36,176 with the volume increase, but decreased slightly as a percentage of motorized net sales from 4.4% to 4.3%.

Variable costs in manufacturing overhead increased \$33,384 to \$77,429, or 3.9% of motorized net sales, for fiscal 2017 compared to \$44,045, or 4.0% of motorized net sales, for fiscal 2016 as a result of the increase in net sales. This slight decrease as a percentage of motorized net sales is primarily due to a lower percentage to sales of employee medical benefit costs. Fixed costs in manufacturing overhead, which consist primarily of facility costs, property taxes and depreciation, increased \$2,792 to \$6,807 in fiscal 2017 from \$4,015 in fiscal 2016 primarily due to the increase in manufacturing facilities and production lines.

Motorized gross profit increased \$70,411 to \$215,324, or 10.9% of motorized net sales, in fiscal 2017 compared to \$144,913, or 13.2% of motorized net sales in fiscal 2016. The \$70,411 increase in gross profit was due primarily to the impact of the 74.7% increase in unit sales volume noted above, while the decrease in gross profit as a percentage of motorized net sales was due to the increase in the costs of products sold percentage noted above.

Selling, general and administrative expenses were \$86,009, or 4.4% of motorized net sales, for fiscal 2017 compared to \$56,214, or 5.1% of motorized net sales, for fiscal 2016. The primary reason for the \$29,795 increase was increased motorized net sales and motorized income before income taxes, which caused related commissions, bonuses and other compensation to increase by \$20,799. These costs, however, decreased as a percentage of motorized net sales by 0.7% compared to the prior fiscal year. Sales related travel, advertising and promotional costs also increased \$5,006 in correlation with the sales increase.

Motorized income before income taxes was \$125,323, or 6.4% of motorized net sales, for fiscal 2017 compared to \$88,523, or 8.1% of motorized net sales, for fiscal 2016. 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 of 0.2% due to the increase of \$3,805 in Jayco's amortization costs, partially offset by the decrease in the selling, general and administrative expense percentage to sales noted above.

## **Financial Condition and Liquidity**

As of July 31, 2018, we had cash and cash equivalents of \$275,249 compared to \$223,258 on July 31, 2017. The components of this \$51,991 increase in fiscal 2018 are described in more detail below, but the increase is primarily due to the \$466,508 of cash provided by operations being mostly offset by cash uses of \$145,000 for principal payments on long-term debt, \$138,197 for capital expenditures, \$50,402 for an equity investment in a joint venture and \$77,989 for cash dividends to our stockholders.



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Working capital at July 31, 2018 was \$542,344 compared to \$399,121 at July 31, 2017 with the increase primarily due to increased inventory levels from additional production lines and increased cash. Capital expenditures of \$138,197 for the fiscal year ended July 31, 2018 were made primarily to purchase land, to expand our RV production facilities and to replace 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 operations, along with funds available under the revolving asset-based credit facility, will be sufficient to fund expected operational requirements for the foreseeable future. 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 [12](#) to the Consolidated Financial Statements.

Our main priorities for the use of current and future available cash generated from operations include funding our growth, both organically and through acquisitions, maintaining and growing our regular dividends over time, reducing indebtedness incurred in connection with the acquisition of the Erwin Hymer Group as discussed in Note 18 to the Consolidated Financial Statements and repurchasing shares under the share repurchase program as discussed in Note 17 to the Consolidated Financial Statements. Strategic share repurchases or special dividends as determined by the Company's Board will also continue to be considered.

In regard to growing our business, we anticipate capital expenditures in fiscal 2019 of approximately \$130,000, primarily for the continued expansion of our facilities, including the previously announced expansions at our Airstream and Jayco subsidiaries, 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 foreseeable 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 the credit facility, applicable legal limitations and determination by the Board.

### ***Operating Activities***

Net cash provided by operating activities for fiscal 2018 was \$466,508 as compared to net cash provided by operating activities of \$419,333 for fiscal 2017 and cash provided of \$341,209 for fiscal 2016. For fiscal 2018, net income adjusted for non-cash items (primarily depreciation, amortization of intangibles, deferred income tax expense and stock-based compensation) resulted in \$555,019 of operating cash. Changes in working capital used \$88,511 of operating cash during fiscal 2018, primarily due to an increase in inventory in correlation with the increases in sales and production capacity and a decrease in accounts payable, primarily resulting from the timing of inventory purchases and the related payments. These cash uses were partially offset by an increase in accrued liabilities primarily due to the timing of payments.

For fiscal 2017, net income adjusted for non-cash items (primarily depreciation, amortization of intangibles, deferred income tax benefit and stock-based compensation) resulted in \$444,799 of operating cash. Changes in working capital used \$25,466 of operating cash during fiscal 2017, primarily due to a larger than usual increase in accounts receivable and inventory in correlation with the increases in sales, backlog and production lines, partially offset by increases in accounts payable and accrued liabilities primarily resulting from the timing of payments.

For fiscal 2016, net income adjusted for non-cash items (primarily depreciation, amortization of intangibles, impairment charges, deferred income tax benefit and stock-based compensation) resulted in \$313,254 of operating cash. Changes in working capital provided \$27,955 of operating cash during fiscal 2016, primarily due to an increase in accounts payable and accrued liabilities primarily resulting from the timing of payments.

### ***Investing Activities***

Net cash used in investing activities for fiscal 2018 was \$183,493, primarily due to capital expenditures of \$138,197 and \$50,402 for an equity investment in TH2, our joint venture, partially offset by proceeds from the dispositions of property, plant and equipment of \$3,835. The capital

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expenditures total of \$138,197 included approximately \$97,900 for land and production building additions and improvements, with the remainder primarily to replace machinery and equipment used in the ordinary course of business.

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Net cash used in investing activities for fiscal 2017 was \$116,655, primarily due to capital expenditures of \$115,027 and a final purchase price adjustment payment of \$5,039 related to the fiscal 2016 acquisition of Jayco, partially offset by proceeds from the dispositions of property, plant and equipment of \$4,682. The capital expenditures total of \$115,027 included approximately \$85,600 for land and production building additions and improvements, with the remainder primarily to replace machinery and equipment used in the ordinary course of business.

Net cash used in investing activities for fiscal 2016 was \$601,473, primarily due to \$557,651 of net cash consideration paid for the acquisition of Jayco and \$51,976 for capital expenditures. The capital expenditures of \$51,976 included approximately \$39,500 for land and production building additions and improvements, with the remainder primarily to replace machinery and equipment used in the ordinary course of business.

### ***Financing Activities***

Net cash used in financing activities of \$231,024 for fiscal 2018 was primarily due to \$145,000 in principal payments on the revolving credit facility, as more fully described in [Note 12](#) to the Consolidated Financial Statements in this report, and cash dividend payments of \$77,989, which included a regular quarterly \$0.37 per share dividend for each of the four quarters of fiscal 2018.

Net cash used in financing activities of \$289,322 for fiscal 2017 was primarily due to \$215,000 in principal payments on the revolving credit facility, as more fully described in [Note 12](#) to the Consolidated Financial Statements in this report, and cash dividend payments of \$69,409, which included a regular quarterly \$0.33 per share dividend for each of the four quarters of fiscal 2017.

Net cash provided by financing activities of \$286,688 for fiscal 2016 was primarily from \$360,000 in borrowings from our asset-based revolving credit facility, as more fully described in [Note 12](#) to the Consolidated Financial Statements in this report. Those borrowings were partially offset by cash dividend payments of \$62,970, which included a regular quarterly \$0.30 per share dividend for each of the four quarters of fiscal 2016, and \$7,850 paid for debt issuance costs, as more fully described in [Note 12](#) to the Consolidated Financial Statements in this report.

The Company increased its previous regular quarterly dividend of \$0.30 per share to \$0.33 per share in October 2016 and then to \$0.37 per share in October 2017.

### ***Critical Accounting Policies***

The Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates, judgments 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 periods presented. We believe that of our accounting policies, the following may involve a higher degree of judgment, estimates and complexity:

#### ***Impairment of Goodwill, Intangible and Long-Lived Assets***

Goodwill is not amortized but is tested for impairment annually and whenever events or changes in circumstances indicate that an impairment may have occurred. We utilize a two-step quantitative assessment to test for impairment. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying value of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the implied fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

We review our long-lived assets (individually or in a related group as appropriate) for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable from future cash flows attributable to the assets. Additionally, we review our goodwill for impairment at least annually. Accordingly, we continually assess whether events or changes in circumstances represent a triggering event that would require us to complete an impairment assessment. Factors that we consider in determining whether a triggering event has occurred include, among other things, whether there has been a significant adverse change in legal factors, business climate or competition related to the operation of the asset, whether there has been a significant decrease in actual or expected operating results related to the asset and whether there are current plans to sell or dispose of the asset. The determination of whether a triggering event has occurred is subject to significant management judgment, including at which point or fiscal quarter a triggering event has occurred when the relevant adverse factors persist over extended periods.

Should a triggering event be deemed to occur, and for each of the annual goodwill impairment assessments, management is required to estimate the expected net cash flows to be realized over the life of the asset and/or the asset's fair value. Fair values are generally determined by a discounted cash flow model. These estimates are also 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. Changes in these estimates

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can have a significant impact on the determination of cash flows and fair value and could potentially result in future material impairments. Management engaged an independent valuation firm to assist in certain of its impairment assessments.

See Note 7 to the Consolidated Financial Statements for discussion regarding our goodwill impairment assessments.

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### ***Insurance Reserves***

Generally, we are self-insured for workers' compensation, products liability and group medical insurance. Under these plans, liabilities are recognized for claims incurred, including an estimate for those incurred but not reported. The liability for workers' compensation claims is determined by the Company with the assistance of a third party administrator and actuary using various state statutes and historical claims experience. Group medical reserves are estimated using historical claims experience. We have a self-insured retention ( SIR ) for products liability and personal injury matters ranging from \$500 to \$7,500 depending on the product type and when the occurrence took place. Generally, any occurrence (as defined by our insurance policies) after March 31, 2015 is subject to the \$500 SIR, while matters occurring after March 31, 2014 and through March 31, 2015 are subject to a \$1,000 SIR. We have established a liability on our balance sheet for such occurrences based on historical data, known cases and actuarial information. Amounts above the SIR, up to a certain dollar amount, are covered by our excess insurance policy. Currently, we maintain excess liability insurance aggregating \$50,000 with outside insurance carriers to minimize our risks related to catastrophic claims in excess of our self-insured positions for products liability and personal injury matters. Any material change in the aforementioned factors could have an adverse impact on our operating results.

### ***Product Warranty***

We generally provide retail customers of our products with either a one-year or two-year warranty covering defects in material or workmanship, with longer warranties on certain structural components. We record a liability based on our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. Factors we use 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. A significant increase in dealer shop rates, the cost of parts or the frequency of claims could have a material adverse impact on our operating results for the period or periods in which such additional claims or costs materialize. Management believes that the warranty liability is adequate; however, actual claims incurred could differ from estimates, requiring adjustments to the reserves. Warranty liabilities are reviewed and adjusted as necessary on at least a quarterly basis.

### ***Income Taxes***

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Fluctuations in the actual outcome of these tax consequences could materially impact our financial position or results of operations.

We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, voluntary settlements and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

Significant judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and the valuation allowance recorded against our deferred tax assets, if any. Valuation allowances must be considered due to the uncertainty of realizing deferred tax assets. Companies must assess whether valuation allowances should be established against their deferred tax assets on a tax jurisdictional basis based on the consideration of all available evidence, using a more likely than not standard. We have evaluated the realizability of our deferred tax assets on our Consolidated Balance Sheets which includes the assessment of the cumulative income over recent prior periods.

### ***Revenue Recognition***

Revenues from the sale of recreational vehicles are recorded primarily when all of the following conditions have been met:

- 1) An order for a product has been received from a dealer;
- 2) Written or oral approval for payment has been received from the dealer's financing institution, if applicable;
- 3) A common carrier signs the delivery ticket accepting responsibility for the product as agent for the dealer; and

4) The product is removed from our property for delivery to the dealer who placed the order.



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These conditions are generally met when title passes, which is when vehicles are shipped to dealers in accordance with shipping terms, which are primarily FOB shipping point. Most sales are made to dealers financing their purchases under flooring arrangements with banks or finance companies. Certain shipments are sold to customers on credit or cash on delivery ( COD ) terms. We recognize revenue on credit sales upon shipment and COD sales upon payment and delivery.

Products are not sold on consignment, dealers do not have the right to return products and dealers are responsible for interest costs to floor plan lenders.

Revenues from the sale of extruded aluminum components are recognized when title to products and the risk of loss are transferred to the customer. Intercompany sales are eliminated upon consolidation.

**Repurchase Commitments**

We are contingently liable under terms of repurchase agreements with financial institutions providing inventory financing for certain dealers of certain of our RV products. These arrangements, which are customary in the RV industry, provide for the repurchase of products sold to dealers in the event of default by the dealer. In addition to the guarantee under these repurchase agreements, we may also be required to repurchase RV inventory relative to dealer terminations in certain states in accordance with state laws or regulatory requirements. The repurchase price is generally determined by the original sales price of the product and pre-defined curtailment arrangements and we typically resell the repurchased product at a discount from its repurchase price. We account for the guarantee under our repurchase agreements with our dealers financing institutions by estimating and deferring a portion of the related product sale that represents the estimated fair value of the repurchase obligation. The estimated fair value takes into account our estimate of the loss we will incur upon resale of any repurchases. This estimate is based on recent historical experience supplemented by management's assessment of current economic and other conditions affecting our dealers. This deferred amount is included in our repurchase and guarantee reserve.

Our risk of loss under these repurchase agreements is reduced because (a) we sell our products to a large number of dealers under these arrangements, (b) the repurchase price we are obligated to pay declines over the period of the agreements (generally up to eighteen months) while the value of the related product may not decline ratably and (c) we have historically been able to readily resell any repurchased product. We believe that any future losses under these agreements will not have a significant effect on our consolidated financial position or results of operations.

**Principal Contractual Obligations and Commercial Commitments**

Our principal contractual obligations and commercial commitments at July 31, 2018 are summarized in the following charts. Unrecognized income tax benefits in the amount of \$12,446 have been excluded from the table because we are unable to determine a reasonably reliable estimate of the timing of future payment. We have no other material off balance sheet commitments:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Fiscal 2019</b>	<b>Payments Due By Period</b>		
			<b>Fiscal 2020-2021</b>	<b>Fiscal 2022-2023</b>	<b>After 5 Years</b>
Capital leases (1)	\$ 9,094	\$ 977	\$ 1,967	\$ 2,052	\$ 4,098
Operating leases (1)	13,884	2,301	2,803	2,057	6,723
Purchase obligations (2)	69,566	69,566			
Total contractual cash obligations	\$ 92,544	\$ 72,844	\$ 4,770	\$ 4,109	\$ 10,821

(1) See [Note 15](#) to the Consolidated Financial Statements for additional information.

(2)