

Motor Homes Outpace Trailers As RVs Rebound

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Midway through the summer driving season, signs of the U.S. recovery go by in a blur as vacationers ply the byways either driving or towing proud new recreational vehicles. Shipments of motor homes jumped more than 30% this year through May vs. the same period in 2012, according to the Recreation Vehicle Industry Association. Shipments of comparatively less expensive travel trailers rose 11%. Trailers make up a bigger slice of the RV fleet, with sales of 128,037 through May vs. just over 15,000 motor homes.

Most of the units are being bought by dealers to place in inventory, rather than sales to the final owner. Still, the rise in confidence is a welcome change after the industry rolled over early and hard when the economy tumbled. RV sales fell off nearly 50% from peak to trough. The industry is particularly sensitive to factors such as consumer discretionary spending and rising fuel prices. It "rolled over" before housing and other sectors, and "was in an all-out free fall" by 2006, said Kathryn Thompson, CEO of Thompson Research Group. "This industry is about as discretionary as you can get," Thompson said.

Pent-Up Demand

The RV industry started upshifting somewhat in 2010. Sales accelerated in the second half of last year.

"You're seeing a release of pent-up demand," said analyst Gerrick Johnson of BMO Capital Markets.

"People who hadn't bought anything are now replacing (aging RVs)," he said.

Much of that rebound is due to increasing consumer confidence, buoyed by rising home prices and the stock market's advance to new highs.

Winnebago (WGO) is the leading manufacturer of bus-sized Class A motor homes. Its sales rose 35% or more over the past three quarters.

Thor (THO) leads the market in towables. Its sales surged 30% in its fiscal first quarter, which ended in October, but slowed to a 13% gain in the April quarter. **Drew Industries** (DW) supplies slide-out mechanisms and other RV components. It saw sales jump 36% in its September quarter, then slow to 13% growth for the quarter ended in March.

The three are the largest companies in IBD's Building - Mobile/Manufactured Homes & RV group. The highly cyclical group on Friday ranked No. 58 out of 197 industries tracked by IBD, up from No. 171 at the start of May.

The group also includes modular-home manufacturer **Cavco Industries** (CVCO) and **Patrick Industries** (PATK), maker of wall and ceiling panels for RVs and manufactured homes.

Soaring Backlog

Thor claims it is No. 1 in overall market share, with a 37.8% share of the towables market and a 26.2% share in motor homes. Brands include the iconic **Airstream** as well as **Cruiser**, **Bighorn** and **Dutchmen** and others.

Thor also builds lots of buses, making **Winnebago** more of a "pure play" on the RV side.

Winnebago has outpaced the industry, with shipments growing 55% to 1,978 units in its May quarter. Its backlog, a barometer of future sales, leaped 130% to 2,846 units.

"In many ways a motor home is like a second or vacation home," said **Winnebago** CEO **Randy Potts**. "For tax purposes, it can be treated like a second home.

Interest on most RV loans is deductible. Terms are typically arranged for up to 20 years.

Equity Vs. Interest Rates

Like home mortgages, interest rates on RV loans have gone up recently — to around 4.5% to 5%.

But the rise hasn't hurt sales, Potts says, at least not yet.

Analysts agree, but aren't sure how further rate increases might affect sales. Johnson says customers are making larger down payments, which could offset the impact of higher rates. "They've been holding on to their RVs longer so they have more equity built up so when they trade in they can make a bigger down payment on their next one," he said. "The equity goes up faster than the value goes down.

In addition, about 30% of customers are cash buyers, according to Potts.

"When a third of your buyers are cash buyers, it puts you in a unique class of consumer," he said.

Younger Buyers

Retirees are still drawn to RVs, as always. But customers age 35 to 54 have shown the largest gains in ownership rates and are now the largest group of buyers, according to the RVIA, the industry trade group.

More than 9 million American households now own an RV, the highest ever recorded and a 16% increase since 2001, the trade group says.

"Not only are you getting a lot of retirees with time and money, but a lot of young families are interested in RVs," said Johnson, the analyst with BMO Capital.

He notes that KOA campgrounds are reporting strong growth this year, with overnight reservations for RV spots up 9% from Memorial Day to Labor Day vs. last year's peak summer season.

RV owners said in recent surveys that RVs make it easier to take more frequent weekend getaways or mini-vacations and accommodate busy family schedules.

Products And Pricing

Motor homes are the fastest-growing category of the RV industry.

Prices range from \$43,000 for basic Class C models to more than \$500,000 for amenity-filled Class-A luxury models. Towable RVs are priced anywhere from \$5,000 to under \$200,000, according to the RVIA.

"The towable market is poised to exceed prior peaks, but we see more cyclical upside in the motor home market as consumer balance sheets heal," wrote Robert W. Baird analysts recently.

Thor's unit shipments rose 4.6% in its April-ending quarter vs. the same time last year.

Overall earnings rose 24% — the slowest pace in three quarters.

Thor's management team outlined a new strategy to expand margins via quality control, tamping down costs and growing motorized sales.

The company will get a new chief executive, effective Aug. 1, as Thor's co-founder and CEO Peter Orthwein passes the mantle to President and Chief Operating Officer Bob Martin.

Winnebago, which posted a 107% spike in earnings in its latest quarter, has been especially aggressive in rolling out new models, such as the new "Minnie Winnie" and Itasca Spirit.

It plans to launch a host of new 2014 models starting later this year, such as an all-new Winnebago Touring Coach line, including a Class B entry with improved fuel mileage at 15 to 18 miles per gallon.

Winnebago has had trouble turning a profit from its small business in towables, which it acquired in 2010.

Management hopes to break even in the fourth fiscal quarter and says the category remains a "big opportunity.

Outlook

"We're still in the early stage of the cycle," said Johnson, who pegs the current cycle's start time to mid-2012.

Despite double-digit year-over-year-growth early in the year, the RVIA projects RV shipments to grow 7.5% for the full year as comparisons get tougher in the second half of 2013.

Meanwhile, demographics are working in the industry's favor. People in the "sweet spot" of the RV industry — age 55 to 64 — are expected to grow 15% over the next several years, or 2.9% on a compounded annual basis, noted the Baird analysts. That's more than double the growth rate of the overall population.

Meanwhile, profits at the two top RV makers are expected to grow in double digits at least through 2014. Winnebago's is seen surging 304% this year and 22% next year while Thor's are forecasted to rise 29% this year and 20% next.