G.research, LLC.
One Corporate Center
Rye, NY 10580-1435
Tel. (914) 921-8358
www.gabelli.com

September 14, 2015

Gabelli & Company

Recreational Vehicles









Source: Thor & Winnebago Industries

Investors, Rest Easy Camping Here

Companies	Ticker	Price	Exchange
Thor Industries Inc.	(THO	- $ 54.12	- NYSE)
Winnebago Industries Inc.	(WGO	- 19.67	- ")

Matthew T. Paige
(914) 921-8358

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INTRODUCTION

We are initiating coverage and recommending investors Buy shares of Thor Industries (THO) and Hold shares of Winnebago Industries (WGO). The RV industry was impacted significantly during the economic downturn of 2008-2009, and has yet to recover to prerecession peak shipment levels (356,735 in 2014 vs 390,362 in 2006). Additionally, multiple major competitors were forced to into bankruptcy and their operations were largely sold or shuttered, allowing the remaining manufacturers to expand their market share. These dynamics also worked to reduce industry capacity, creating a strong pricing environment. The remaining players are robust cash flow generators, which stand to benefit from changing demographics (especially growing Boomer and Millennial populations), as well as positive economic indicators. Both publicly traded competitors, Winnebago and Thor Industries, represent fundamentally strong competitors in a growing cyclical market.

RV BASICS

Recreational Vehicles, commonly known as RVs, come in two basic forms: towable and motorized. Towable RVs are the most popular version, wholesaling 312,784 units in 2014. Within towables, there are multiple configurations including Fifth-Wheel trailers (which have a raised forward section and attach to a special hitch in the bed of a pick-up truck), travel trailers, pop-up trailer and pickup campers (those that fit into the bed of a pickup truck).

Exhibit 1 Popular RV Types

Class A Motorhome



Class B Motorhome



Class C Motorhome



Traditional Travel Trailer



Fifth-Wheel Trailer



Source: GoRVing.com

Motorized RVs, which had unit wholesales of 43,951 in 2014, are organized into three classes: A, B and C. Class A is thought of as the more traditional motorhome and is available in gas or diesel, while Class C can be recognized by the sleeping areas above the cab of the vehicle. Class B motorhomes look like a typical van, but utilize features such as raised ceilings, lowered floors and pop-up spaces. Classes B & C typically are only offered in a gasoline variety.

The average "RVer" is 48 years old with a median income of $62,000. 39% have children living at home. The purchase price of an RV can range from $15,000 for a small pop-up trailer to well over $500,000 for a Class A Motorhome. Alternatively, consumers can also choose to rent from a wide array of regional players; rental companies typically charge a fee per night ($100-200) as well as a (for motorized RVs) per mile charge (cost dependent on location, but ~$0.50/ mile). Another factor into the rental decision is fuel costs, as RVs average ~10 miles per gallon.

MARKET OVERVIEW

According to a 2013 study by the University of Michigan, there are 9 million RVs on the road in the United States. Overall, 8.9 million households own an RV, representing 8.5% of domestic households in the US. Sales have recovered strongly after experiencing a severe decline during the recession. 2015 shipments are expected to reach 380,000 units (+6.5%) following industry-wide wholesale shipments of 356,735 RVs in 2014, according to the Recreation Vehicle Industry Association (RVIA). The trade-group further predicts that 2016 will be even stronger at 394,500 (+3.8%), which would surpass the prior peak set in 2006 of 390,362 shipments.

While much of the rebound in sales in years 2010-2016 can be attributed to the sharp pullback during the recession of 2008-09, we agree with the RVIA in noting that changing demographics, with increases both in the oldest and youngest generations (Baby Boomers and Millennials) are adding new consumers to RV markets.

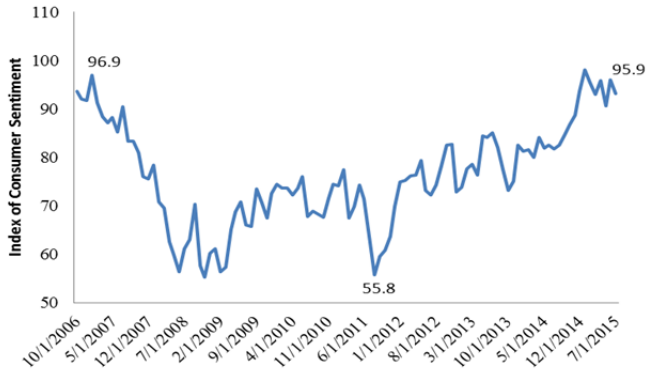
RV sales are highly seasonal, with many dealers placing orders at large shows which occur in both Spring and Summer, making 2Q and 3Q typically the strongest periods. Pricing has remained strong, as high sales have meant that most, if not all, manufacturers are running at or near capacity and therefore limiting the temptation to offer discounts. The true test of this discipline will come in the Fall season, when yearend inventory increases.

Towing capacity improvements of pickups are also regarded as a tailwind, as more households now have a vehicle that can tow the vast majority of products. Ford's F150 increased towing capacity from 9,500-10,200 lbs. For comparison purposes, management believes that the "bulk" of its product line falls between 6,000-7,000 lbs making them comfortably under the limit for many of today's full-sized pickups and SUVs.

CONSUMER CONFIDENCE: HAPPY CAMPERS

The RV industry counts Consumer confidence as the biggest indicator of future success; confident consumers are willing to make a large, luxury purchase such as an RV. Consumer confidence, as measured by the University of Michigan's Index of Consumer Confidence, has just now reached prerecession levels. Additionally, economic factors appear to demonstrate consumer confidence will continue to increase. For example, the IMF predicts 2015 GDP growth in the US will be 3%. Unemployment has fallen to recent lows of 5.3% and continues to fall toward 5%, the traditional metric for "full employment."

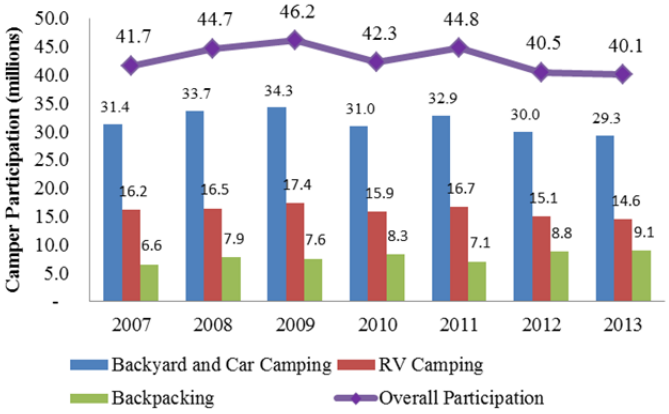
Exhibit 2 U of Mich. Consumer Confidence Index



Source: University of Michigan

Other key factors that the industry watches closely include interest rates (in order to finance the purchase), inflation and housing starts. While higher borrowing rates will probably negatively impact sales at the margin, manufacturers are confident that demand will remain strong because RVs, once purchased, represent a significantly cheaper option for a family vacation when compared to alternatives. Consumer disposable income is another major factor in the decision to purchase an RV, fuel prices are not a major driver at either the high or low ends of the spectrum. Even if gas prices were to rise to >$4.00/gal, an RV family vacation remains cheaper than most alternatives.

Exhibit 3 Camping Penetration in the U.S.



Source: American Camper Report

PKF Consulting recently found that a family of four can save between 23-59% once they own their RV. For example, the cost for a family of four to stay in a US-based campground for seven days is estimated to be about $2,150 using a Class C motorhome. In contrast, a similar trip with airfare, car rental, and restaurant meals could cost $4,045, 88% higher than an RV. Even after factoring in the costs of ownership, the RVIA stated that the study concluded RVs were still the cheaper option, though specific figures were not given as they vary widely.

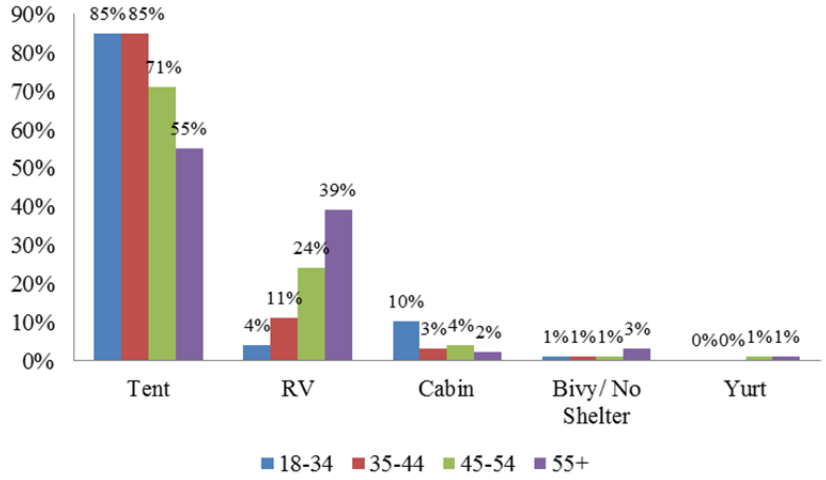
DEMOGRAPHICS ARE FAVORABLE

Camping popularity remains fairly stable, according to the American Camper Report, with an estimated 40 million Americans, or 14% of the US population, participating in some form of camping during 2013 (last available date). With 77% of the estimated 40 million who camp sleeping in tents (and just 16% sleeping in RVs, up from 12% in 2012), there is a large addressable market that the industry can transition into its RV products.

Currently, the percentage of people camping in tents vastly outnumbers those utilizing RVs (77% vs 16%). However, as the last of the Baby Boomers are now reaching 50, the wealthiest demographic will likely pay up for an RV in order to continue camping. Boomers make for a large addressable market, totaling an estimate 75 million people in 2015 within a total US population of ~319 million.

While camping in tents remains the most popular option for shelter, camping shelter preference data provided by the American Camper Report shows that the older people get the less they prefer tents, and the greater increase in preference to sleep in an RV (Ex. 4). Boomers spending is increasing; according to a November 2014 Gallup study, 34% of Boomers said they had increased spending from the prior year, an increase of 900 bps over the previous year's survey results. Boomers, with an estimated population of 75.4 million in 2014, were the largest generation, challenged only by Millennials. The youngest of the Boomers will turn 51 in 2015, and as a generation that appreciates the "great outdoors," it seems likely they will look to turn in their tent for amenities of an RV. To give further clarity of the magnitude, 11,000 of these Boomers will turn 65 every day until 2029, bringing more and more consumers to the market.

Exhibit 4 Camping Shelter Preferences by Age

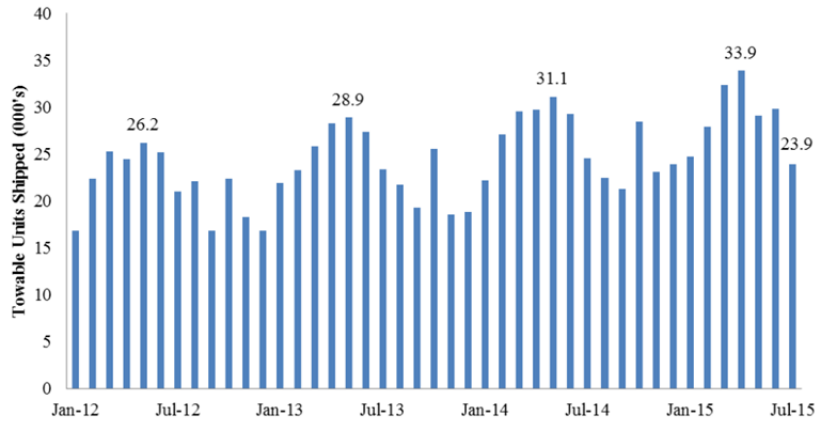


Source: American Camper Report

MILLENNIALS OPPORTUNITY

Baby Boomers are not the only consumers that RV manufactures are targeting. Notably, Thor has also expanded its offerings in recent years to broaden its appeal to younger (and less affluent) buyers. An example would be Thor's 2014 acquisition of Livin Lite (a manufacturer of Travel Trailers), whose offerings can be had for less than $15,000 compared to well over $400,000 for some motorhome offerings. These affordable options are expected to appeal to younger buyers, and introduce them to the "RV lifestyle." Affordability will be important moving forward as it is Millennials who are expected to drive the future of camping. With seven of ten RV owners expected to purchase an additional unit in 3-5 years, getting consumers into the industry earlier will add additional replacement demand to the industry for years to come.

Exhibit 5 Industry Monthly Towable RV Shipments



Source: RVIA

Millennials have shown the desire to camp. 16% of those aged 55-64 are now more interested in camping than the prior year vs 35% of those aged 25-34 who are now more interested in camping from the prior year. The gap persists when the question is posed in reverse as well, 20% of 55-64 year olds are less interested in camping vs just 4% of 25-34 year olds when compared to the prior year.

Increasing connectivity and other technological features are factors in favor of RV purchases among millennials. 64% of 25-34 year olds go online at least once a day while camping, while another 19% do so every other day. This demand for connectivity is not limited to Millennials, as 56% of those 65 years and older also uses the internet at least every other day. Despite camping being seen as a get-away, those choosing an RV want to take their comforts from home on the road with them, opening the door for manufactures to offer additional features on entry-level products or even upsell repeat consumers into a high-end models, improving mix.

Camping is thought of as the only use for RVs, however they can be used in other purposes, and may be used as a versatile home base for tailgating, potentially opening another avenue for customers who will continue to purchase products as they age. Managements noted consumers were using their products outside of the campground, which will allow more potential buyers to rationalize the (potentially large) purchase.

CYCLE COMMENTARY

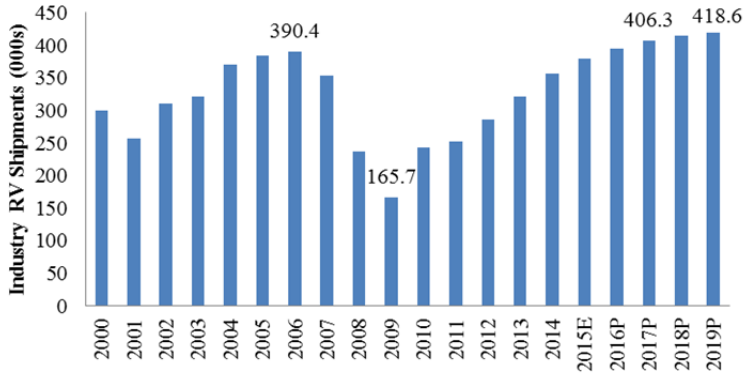
The RV industry has rebounded from the lows of 2008-09, and is currently experiencing an "extended upcycle." Support for this growth has been (and continues to be) led by the aging of the Baby Boomer population. As discussed above, Boomers have reached a point where they prefer not to sleep on the ground, and would like the convenience of an RV. This so called "RV-lifestyle" appears to have taken hold across generations, as consumers prefer to have the amenities of home with them on the road and at the campsite. That said, while strong demand and favorable demographic shifts have driven the industry higher, the underlying cyclicality of the business boils down to replacement. RV consumers tend to continue to purchase an additional, or replacement RV, with seven out of ten RV owners intending to buy more than one additional RV in their lifetime. The typical replacement cycle of RVs is 3-5 years according to industry participants. As demonstrated in Exhibit 6, we believe that 2016 production figures will surpass prior peaks.

Table 1 **Annual RV Production by Segment**

	2014	2015E	2016P	2017P	2018P	2019P
Towable	298,900	320,945	337,578	347,572	351,720	350,783
Motorized	43,900	46,470	48,545	50,337	52,183	52,183
Total RV Production	342,800	367,415	386,123	397,909	403,903	402,966

Source: Drew Industries and Gabelli & Company Estimates

Exhibit 6 Annual Industry Total RV Shipments (2000-2019P)



Source: Recreation Vehicle Industry Association and Gabelli & Company Estimates

Replacement demand spurred by weak sales years in 2007-2009 is now flowing throughout the industry. Tighter budgets and credit standards turned consumers towards the lower end of the market, where Thor was able to benefit by increasing production of its entry-level products.

Additionally, since high end products were impacted the most during the downturn in the cycle; due to the magnitude of lost sales, those products also initially recovered the strongest. That being said, Winnebago recently has experienced relative weakness as demand returns to a more normalized level. After facing challenges of a richer product mix, low-mid level manufacturers such as Thor (and BRK's Forest River) stand to benefit from this normalized mix at the expense of manufacturers of higher-end (and pricier motorized) offerings such as Winnebago.

Finally, sales are set to grow in 2016. Exhibit 6 illustrates sales trends (which closely mimic the trends in production). We estimate that wholesales will surpass the prior peak of 3,904 units in 2006, with shipments of ~4,063 in 2017. Moving through 2019, we believe shipments will continue to grow as both additional Baby Boomers and Millennials move into the market.

MAJOR RV MANUFACTURERS

There are four main RV competitors: Thor (THO) and Winnebago (WGO), as well as private competitors Forest River and Jayco. While each of these companies participates in both towables and motorized, Thor and Forest River are the only two with significant share in each. Winnebago is weighted towards motorized and Jayco skews toward towables. Despite its smaller size, Winnebago has historically been a strong participant in the motorized segment, only joining the towables segment with a small acquisition in 2010.

Exhibit 7 RV Manufacturers in Detail

	Thor Industries (NYSE- THO)	**Winnebago (NYSE- WGO)**	**Forest River, Inc.(a) Private**	**Jayco, Inc Private**
Noteable Brands:	Thor, Airstream, Bison, Crossroads, Dutchmen, Heartland, Keystone, KZ, Livin Lite	Winnebago, Itasca, Era	Forest River, Coachmen, Dynamax, Palomino, Prime Time, Shasta	Jayco
As of 12/31/14:				
Towable Shipments	108,704	2,502	113,853	40,349
Market Share	*36.1%*	*0.8%*	36.4%	12.9%
Motorized Shipments	10,923	9,142	10,900	*NA*
Market Share	*24.2%*	*20.8%*	24.8%	*NA*
Overall Share	**34.9%**	**3.4%**	**36.4%**	**NA**

(a) A Berkshire Hathaway Company

Source: RVIA, Company Filings and Gabelli & Company Estimates

A number of large competitors in the space, including Monoco Coach and Fleetwood Enterprises, filed for bankruptcy in 2009, assets were purchased by Navistar and Allied Specialty Vehicles respectively (NAV later sold its Monoco assets to ASV). The recession also allowed public players Thor and Winnebago to acquire smaller assets at steep discounts. It also ingrained a high-level of debt aversion at both manufacturers. While we believe value could be created by levering even to just 1x EBITDA and repurchasing shares, we are confident in both management's visions to grow their respective companies and do not see increasing leverage to repurchase shares as a necessary catalyst.

SUMMARY

Solid underlying fundamentals for the RV industry leave sales poised to surpass the previous peak (390,362) in 2016 where sales are predicted to reach 395,500 by the RVIA. Combined with the growing Boomers, who industry participants feel can generate significant growth for the next five years, younger buyers have been attracted to the 'RV Lifestyle' by affordable entry level products that manufacturers look to convert into long term demand. We are initiating coverage on both Thor Industries (Buy) and Winnebago Industries (Hold).

Other Companies Mentioned:

Berkshire Hathaway	(BRK'A – NYSE)
Ford	(F – ")
Navistar International	(NAV – ")
Thor Industries, Inc.	(THO – ")
Winnebago Industries, Inc.	(WGO – ")

I**, Matthew Paige,** the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

Matthew Paige (914) 921 8358

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Important Disclosures

ONE CORPORATE CENTER RYE, NY 10580 GABELLI & COMPANY TEL (914) 921-5130 FAX (914) 921-5098

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Ratings

Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.

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As of July 31, 2015, our affiliates beneficially own on behalf of their investment advisory clients or otherwise 12.76% of Navistar International and less than 1% of Berkshire Hathaway, Ford, Thor Industries and Winnebago. One of our affiliates serves as an investment adviser to Navistar or an affiliated entity and has received compensation within the past 12 months for these non-investment banking securities-related services Because the portfolio managers at our affiliates make individual investment decisions with respect to the client accounts they manage, these accounts may have transactions inconsistent with the recommendations in this report. These portfolio managers may know the substance of our research reports prior to their publication as a result of joint participation in research meetings or otherwise. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. The analyst, who wrote this report, or members of his household, owns no shares of the above mentioned companies.

G.research, LLC.
One Corporate Center
Rye, NY 10580-1435
Tel. (914) 921-8358
www.gabelli.com

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INITIAL REPORT
BUY

Thor Industries, Inc.
(THO-NYSE)

Investment Summary

Thor Industries, located in Elkhart, IN, is a North American manufacturer of both towable and motorized recreational vehicles (RVs). We are initiating coverage of THO with a Buy recommendation and a 2016 PMV of $67 per share, growing to $72 per share in 2017. We estimate THO will generate $325 million of adjusted EBITDA and earn $3.80 per share on $4.1 billion in revenues in 2015 (FYE 7/31).

We consider THO to be attractive:

- **Free cash flow.** We estimate THO will generate $181 million, or $3.45 per share, of FCF in FY'15, growing to $219 million, or $4.20, in FY'16. FCF strength has allowed Thor to operate debt free throughout its history even while returning significant capital and making acquisitions.
- **Solid Capital Allocation.** Over the last five years, THO has returned $500 million to shareholders through a balanced combination of dividends, special dividends and share repurchases. At the same time, THO has acquired nine companies for $500 million and has no debt on its balance sheet. In July 2013, THO sold its luxury bus assets for $100 million in order to better focus the organization on operating and growing its RV business.
- **Favorable demographics.** As Baby Boomers continue to age, the youngest of which are now entering their 50s, these consumers will begin to trade their tents in for RVs. Consumers have recently shifted their preference to the heart of Thor's lineup: entry and mid-level products.
- **Valuation Compelling.** THO is currently trading at just 7.2x FY 2016P EBITDA and just 12.4x FY 2016P EPS. Further, shares trades at over a 17.5% discount to our FY 2016P PMV of $67 per share, growing to $72 per share in FY 2017P. We believe margin of safety is more than sufficient and recommend investors Buy shares.

Current Price:	$54.12
52 Week Range:	$64.65- $49.03
Earnings Per Share (adj.):	
2017P	$4.70
2016P	4.50
2015E	3.80
Price/Earnings Ratio:	
2017P	11.5x
2016P	12.0
2015E	14.2
Dividend:	$1.08
Yield:	2.0%
Capitalization (4/30/15):	($ billions)
Common Stock (52.4 mil shares o/s)	$2.9
Net Cash	(0.25)
Total Capitalization	$2.67

Matthew T. Paige

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Table 2 **Thor Industries Earnings Model 2014-2019P**

FYE 7/31 *(in millions, except per share data)*	2014A	2015E	2016P	2017P	2018P	2019P	CAGR 2014A-19P
Net Sales	$ 3,525	$ 4,090	$ 4,425	$ 4,605	$ 4,695	$ 4,730	*6.1%*
EBITDA	275	325	370	385	385	390	*7.3*
EPS, adjusted	$ 3.36	$ 3.80	$ 4.50	$ 4.70	$ 4.70	$ 4.75	*7.1*
CapEx	30	33	36	37	37	38	*4.4*

Source: Company filings, Gabelli & Company Estimates

COMPANY HISTORY

Thor Industries was founded August 1980 in Jackson Center, OH through the acquisition of Airstream by Wade Thompson and Peter Orthwein. Its headquarters was moved in March 2013 to Elkhart, IN in order to be closer to 70% of THO's operating activities. Since then, THO has grown organically and through acquisitions. Targets have included trailer manufactures General Coach (1982), Dutchmen Manufacturing (1991), as well as Komfort Corporation (1995). Though Trailable RVs are still the largest segment, THO has also ventured into the motorized versions with acquisitions of Four Winds International in 1992. Additionally, Thor had acquired assets in the small bus market, but divested that segment to Allied Specialty Vehicles for $100 million in July 2013. Thor originally became a public company in 1984, before listing on the NYSE in 1986. Bob Martin was promoted to CEO in June 2013 after serving as President & COO since August 2012. Mr. Martin, who joined Thor in 2001 when Keystone RV was acquired, replaced co-founder Peter Orthwein, who will remain Chairman.

SEGMENTS

Thor operates in two segments: Motorized and Towable RVs. Most of Thor's business is in the United States, but Canada accounted for $521 million in FY'14 sales (14.8%).

Towable RVs ($2.7 billion in FY-2014 sales, 77% of total)

Towable revenue is generated through the sale of travel trailers and fifth wheels under the Airstream, Bison Coach, Crossroads RV, Cruiser RV, DRV, Dutchmen Manufacturing, Heartland RV, Keystone RV, KZ RV and Livin Lite businesses and their respective brands. THO is currently the #2 player in Travel Trailers with a market share of 32%, and the #1 manufacturer in Fifth Wheels with 48%. Thor competes against Forest River, Inc (owned by Berkshire Hathaway) and Jayco, Inc.

Exhibit 8 Fifth-Wheel Trailer



Source: Thor Industries

Motorized RVs ($800 million in FY-2014 sales, 23% of total)

Motorized RVs, also known as "Motorhomes" are sold under the Thor and Airstream brands, and represent a much smaller piece of the overall THO business. THO is the #1 player in motorhomes and holds a 27% market share. Thor's products are focused on the entry to mid-point of the segment and strongest in the sub-$100,000 market. THO competes with Forest River and Winnebago, though Winnebago is much more prevalent in the $250,000-500,000 segment of the market. Prior to July 2013, the motorized segment also contained a luxury bus business which Thor had built through acquisitions since 1988. Thor sold the business in October 2013 to Allied Specialty Vehicles for $100 million after determining the low-margin business to be noncore.

Exhibit 9 Type A Motorhome



Source: Thor Industries

Thor moved its headquarters in March 2013 from Jackson Center, OH to Elkhart, IN to be more in touch where 80% of industry RVs are produced in NA, as well as where 70% of THO's operations are located. This move has allowed THO's management greater visibility to the ground, as they are within 30 minutes of all of its factories and can more easily meet with the various heads of its subsidiaries to better understand its needs and the market conditions.

CAPITAL ALLOCATION

Thor's management has been a solid allocator of capital, utilizing a regular dividend, special dividends, share repurchases and strategic acquisitions in order to both return capital and generate value. Since 2010, Thor has returned almost $500 million to shareholders through dividends and repurchases and spent over an additional $500 million in acquisitions, reflecting its balanced capital deployment approach.

Without taking on debt, THO has been active in the M&A market, and is currently seeking to grow revenue mid-single digits through both acquisitions and organic means. Management notes that the acquisition pipeline now mostly consists of tack-on acquisitions for current brands, or segments from other manufacturers, as there are not many pure-play RV companies left of substantial size.

Exhibit 10 **Recent Acquisition History (2010- Present)**

Date	Target	Business Unit	Purchase Price ($ millions)	
March 2010	SJC Industries	Ambulance	$ 20.0	
September 2010	Heartland RV Company	Towable	200.0	
October 2012	Krystal Infinity, LLC	Bus	3.9	
December 2012	Federal Coach (bus assets)	"	6.8	
August 2013	Livin' Lite	Towable	*11.8*	*(a)*
October 2013	Bison Coach	"	16.7	
April 2014	K-Z, Inc	"	53.4	
January 2015	Cruiser RV & DRV Luxury Suites	"	47.4	
May 2015	Postle Aluminum Co.	Aluminum Supplier	$ 144.0	

Source: Thor Industries and Gabelli & Company Estimates

(a) Estimated purchase price

Most recently, THO acquired private equity-owned Postle Aluminum Co, an aluminum supplier for RVs in the Elkhart area. Postle generates 75% of its revenue from the RV market while the remaining 25% comes from specialty truck and trailers, as well as marine and fencing applications. While Thor is not looking to vertically integrate its operations, this action does give it reliable access to aluminum (Aluminum supports 80% of its products). THO will continue to operate Postle as a separate business that will still sell to outside customers (70% of sales are away from THO). The rationale behind the investment was to avoid another PE firm buying Postle and potentially moving its aluminum supply to other applications, such as automotive production.

Thor has spoken to its competitors (and fellow customers of Postle) following the acquisition to ensure a smooth transition. We expect Postle will still lose a small portion of its sales as competitors will look for a new supplier unaffiliated with the industry leader, and biggest competitor. Notwithstanding this, we feel Postle will be a solid investment and those customers who remain will in effect be lowering the cost basis for THO's aluminum supply.

We are, however, concerned that Thor has run out of acquisition targets, which has been a key driver of its growth in recent years. If it is unable to find additional domestic acquisition targets, or expand its focus overseas, growth targets may be too aggressive.

The priorities for capital deployment are 1) growth (including acquisitions) 2) maintaining and increasing the regular dividend (which has a 34% CAGR over the past five years) and 3) special dividends or buybacks as determined by the board.

INTERNATIONAL SALES

Thor's sales are mostly located in the United States, however in FY 2014, $521 million, or 14.8% of sales, were attributed to Canada, down from $535 million in FY 2013, due mostly to rising prices due to fluctuating exchange rates. THO's financials are fairly insulated against the currency market as all sales are conducted in US dollars. However, Canadian consumers will still feel the impact of a depreciating loonie.

INVENTORY SEASONALITY

Thor's dealer inventory stood at 81,335 units on April 30, 2015, up from 66,014 in April 2014 (+23.2%) largely due to acquisitions. Dealers increase their demand in the spring for the "spring showing season" and then continued to increase demand moving into the summer months for the "summer selling season." The YoY change can be explained in context of production constraints in 2014. Because severe winter weather in 2014 limited dealer availability, dealers ordered early for both the showing and selling seasons this year to prevent disruptions. This trend also had an impact on backlog, which decreased to $726,788 from $820,159 (-11.4%) as orders were placed and filled early. Additionally, backlog was negatively impacted by increased production capacity which allowed orders to be filled faster. We feel current dealer inventory levels are very healthy, and will sell down through the remainder of the summer into fiscal Q1.

REVENUE AND EARNINGS PROJECTIONS

We expect Thor to end their fiscal 2015 (FYE July 31) with $4.1 billion in sales (+16%), EBITDA of $325 million and EPS of $3.80. In FY'16, we expect THO to earn $4.50 per share and $370 million of EBITDA on $4.4 billion of sales, growing to $4.70 per share and $385 million of EBITDA on $4.7 billion of sales in FY' 2018. We expect THO to maintain market share as it works to draw new customers away from other methods of camping, as well as to use its entry-level products to entice younger and less affluent consumers to purchase their first RV. Due to recent shifts in industry mix, Thor stands to benefit as consumers gravitate towards a more normalized mix focused at the low-medium end products where Thor focuses its efforts. Through industry growth as well as expected tuck-in acquisitions, as well as the small sales boost from the acquisition of Postle Aluminum, we are confident in our prediction of the five-year revenue CAGR of 6.1%. This rate is in-line with the mid-single digit growth that THO is expecting moving forward.

Table 3 **Sales and Earnings Summary**

FYE 7/31							CAGR
(in millions, except per share data)	**2014A**	**2015E**	**2016P**	**2017P**	**2018P**	**2019P**	**2014A-19P**
Net Sales	$ 3,525	$ 4,090	$ 4,425	$ 4,605	$ 4,695	$ 4,730	*6.1%*
EBITDA	275	325	370	385	385	390	*7.3*
EPS, adjusted	$ 3.36	$ 3.80	$ 4.50	$ 4.70	$ 4.70	$ 4.75	*7.1*
CapEx	30	33	36	37	37	38	*4.4*

Source: Company filings, Gabelli & Company Estimates

INVESTMENT RECOMMENDATION

Thor has proven to be a top-tier allocator of capital and has been focused on both long-term value and returning of cash to shareholders. We expect Thor to maintain its status as the industry leader in both towable and motorized RVs, and as such have assigned a slightly higher multiple to it than other industry participants. In determining 8x as the appropriate multiple for towable RVs, we looked at historical transactions within the space, principally Berkshire Hathaway's 2005 acquisition of Forest River. Given the higher margin profile in Towables vs Motorized (9.1% vs 7.4% in FY'15E), we assign motorized an initial multiple 0.5x lower. We recommend investors Buy shares as Thor trades at under 7.5x EBITDA and at a >17.5% discount to our FY 2016 PMV of $66 per share.

Table 4

Thor Industries, Inc.
Private Market Value Analysis
2014A-2019P

(in millions, except per share data)	**2014A**	**2015E**	**2016P**	**2017P**	**2018P**	**2019P**
Towable RVs						
Revenue	$ 2,721	$ 3,202	$ 3,463	$ 3,600	$ 3,663	$ 3,685
EBITDA	243	292	320	335	335	338
Valuation Multiple	8.0x	8.0x	7.5x	7.0x	6.5x	6.5x
Segment Value	1947	2334	2400	2343	2179	2194
Motorized RVs						
Revenue	$ 804	$ 890	$ 963	$ 1,004	$ 1,030	$ 1,047
EBITDA	60	66	73	74	76	77
Valuation Multiple	7.5x	7.5x	7.5x	7.0x	7.0x	6.5x
Segment Value	448	497	547	518	534	501
Total Enterprise Value	$ 2,394	$ 2,831	$ 2,946	$ 2,861	$ 2,714	$ 2,695
Plus: Cash/(Net Debt)	289	352	502	658	808	953
Less: Minority Interest	-	-	-	-	-	-
Net Option Payments (a)	(1)	(2)	(2)	(2)	(2)	(2)
Equity Private Market Value (PMV)	$ 2,682	$ 3,181	$ 3,446	$ 3,516	$ 3,519	$ 3,646
Shares Outstanding (b)	53	52	52	52	52	52
PMV / SHARE	**$ 50**	**$ 61**	**$ 66**	**$ 67**	**$ 67**	**$ 70**
% Discount To PMV	*-7.6%*	*11.0%*	*17.8%*	*19.5%*	*19.5%*	*22.3%*

Source: Company filings, Gabelli & Company Estimates

(a) After-tax payments to buy out option and convertible holders at Private Market Value.

(b) Uses treasury method.

Other Companies Mentioned:

Berkshire Hathaway	(BRK'A – NYSE)
Thor Industries, Inc.	(THO – ")
Winnebago Industries, Inc.	(WGO – ")

I**, Matthew Paige,** the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

Matthew Paige (914) 921 8358

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ONE CORPORATE CENTER RYE, NY 10580 GABELLI & COMPANY TEL (914) 921-5130 FAX (914) 921-5098

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Ratings

Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.

A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

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G.research, LLC.
One Corporate Center
Rye, NY 10580-1435
Tel. (914) 921-8358
www.gabelli.com

INITIAL REPORT
HOLD

Gabelli & Company

Winnebago Industries, Inc. (WGO-NYSE)

Investment Summary

Winnebago Industries, located in Forest City, IA is a North American manufacturer of motorized and towable recreation vehicles (RVs). We are initiating coverage of WGO with a Hold recommendation and a FY 2016 PMV of $25 per share, growing to $28 per share in FY 2017. We estimate WGO will generate $68 million of adjusted EBITDA and earn $1.65 per share on $995 million in revenues in 2015 (FYE 8/31).

Despite industry favorable trends and a strategic focus on expanding into the towable segment of the market, we are initiating WGO with a Hold recommendation due to an insufficient margin of safety as the company faces significant labor capacity constraints and also currently has no CEO.

- **Favorable Demographic Shifts.** The aging of the Baby Boomers, as well as a recent sales boost following the most recent recession, provided a jolt to WGO's core product lines at the top of the market, though sales have yet to reach prerecession peaks.
- **Towing From The Rear.** WGO ventured into the towable space with the acquisition of SunnyBrook RV in 2010. While a small bet on the largest segment of the market, the company is now focused on growing from 1% to 5% market share, a revenue opportunity of $300 million (30% growth).
- **Labor Shortage**. After trimming its workforce from over 4,000 in 2009 to 1,600, many of the displaced workers left the Forest City area permanently. Now with ~2,900 employees WGO operating close to full labor utilization, but just 80% overall capacity. While working to partially unwind the vertical structure, this constraint will limit the upside WGO is able to realize in this upturn of the cycle.
- **Valuation**. Winnebago trades at under 8x FY 2016P (FYE 8/31) EBITDA and just over 12x EPS for the same year. These multiple support our FY 2016P PMV of $25 per share, a 12% discount to current levels. We find this discount insufficient at this time to recommend investors purchase shares for the reason discussed above.

Current Price:	$19.67
52 Week Range:	$26.44- $18.82
Earnings Per Share (adj.):	
2017P	$1.95
2016P	1.80
2015E	1.65
Price/Earnings Ratio:	
2017P	10.1x
2016P	10.9
2015E	11.9
Dividend:	$0.09
Yield:	0.5%
Capitalization (5/30/15):	($ millions)
Common Stock (26.9 mil shares o/s)	$590.4
Net Cash	(49.2)
Pension/Other	38.5
Total Capitalization	$579.7

Matthew T. Paige

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Table 5 **Winnebago Industries Earnings Model 2014-2019P**

FYE 8/31 *(in millions, except per share)*	2014A	2015E	2016P	2017P	2018P	2019P	CAGR '15-'19
Revenue	$ 945	$ 995	$ 1,030	$ 1,070	$ 1,125	$ 1,145	3.9%
EBITDA	68	68	74	80	84	86	4.8%
Adj. EPS	$ 1.61	$ 1.65	$ 1.80	$ 1.95	$ 2.05	$ 2.10	5.4%
Capital Expenditures	10	16	10	11	9	9	-3.9%

Source: Company reports, Gabelli & Company Estimates

COMPANY HISTORY

Winnebago was originally founded 1958 in Forest City, IA as a franchise of Modern Technologies, a California based travel trailer company by John K. Hanson. After some early struggles, a group of Forest City residents purchased the company in February 1961, named it Winnebago Industries and retained Hanson as president. For the next six years, the company produced travel trailers and the furniture made for them until 1966 when the company produced its first motorhome. WGO listed on the NYSE in 1970, and introduced the Itasca line in 1975. Randy Potts became President, Chairman & CEO in January 2011, after servings as Senior VP, Strategic planning as well as VP, Manufacturing. Potts retired August 8, 2015 after 33 years with the company, serving in a variety of manufacturing roles. The company is searching for a candidate with a different set of skills, suggesting a shift in board philosophy. Robert Olsen (previously Chairman & CEO 2008-2011 and board member until December 2014) took over as interim CEO, though he has announced he will resign from this position by September 24. Should the CEO position not be permanently filled by then, Chairman Larry Erickson will take over as interim CEO until the search be completed.

OVERVIEW

Exhibit 11 Class A Diesel RV



Source: Winnebago

Winnebago reports in a single segment, and produces motorhomes and towable RVs as well as related parts for the aftermarket. In its FY 2014 (FYE 8/30), WGO sold $854 million of motorhomes, and $58 million worth of towable RVs, meaning it is significantly skewed towards the motorized segment of the market. Motorized products are produced in Forest City, IA where most of the manufacturing is done as a vertically integrated enterprise. Towable units are produced in Elkhart, IN where 80% of industry production is. The primary competitors to Winnebago include Thor, Forest River and Jayco. Winnebago maintains 28% share in motorized and less than 1% share in towables.

TOWABLES GROWTH

Winnebago entered the Towables segment in December 2010 with the acquisition of SunnyBrook RV for $5.7 million. While it has only captured ~1% of the market so far, with current capacity WGO could generate an additional $100 million of revenue. Further, should WGO be able to capture 5% (which it believes it can do organically), incremental revenue would be $250-300 million. Winnebago is careful to note that SunnyBrook is a premium brand in the towable space, similar to WGO's market position in motorized. Thus, it does not intend to work towards a market share comparable with leaders Thor and Forest River.

The impetus behind this expansion is two-fold: 1) towables provide a less volatile shelter to motorized products and 2) 90% of motorized RV owners had previously owned a towable product. With buyers tending to be loyal, allowing consumers to enter the WGO product family early makes moving these consumers into a motorized unit easier than converting a rival's customer.

The biggest opportunity WGO sees to grow this segment is on the West Coast, where ~50% of its towable sales currently are. Because it is expensive to transport travel trailers, Winnebago may need to either acquire a small manufacturer, or greenfield production facilities west of the Rockies. Either way, we anticipate investment to be <$10 million as many of the targets that WGO sees have similar share to themselves.

Exhibit 12 Towable Revenue Growth

Market Share	**1%**	**5%**
Units (2017P)	3,476	17,379
Average Price	*$25,000*	*$25,000*
Revenue ($million)	87	434
Incremental Revenue ($ million)		$348

Source: Company filings and Gabelli & Company Estimates

The strategy for growth lies with distribution points, or dealers that offer the product. Past growth has been constrained because motorized dealers have had a right of first refusal. While some agreed to stock towable offerings, motorized dealers proved to be ineffective at selling towable products due to different clientele, as well as misaligned incentives (more profitable to sell the higher priced motorized offerings). Motorized RV dealers tend to be of fewer number and have more territory (spread further apart) than towable dealerships, forcing towable customers (who are less willing to travel far distances vs motorized counterparts due to the smaller investment) to buy from closer competitors. Moving forward, WGO seeks to have 3-4x as many towable dealers vs motorized dealers. Some will serve a dual purpose (currently WGO has 140 towable locations vs 290 motorized) and to add these dealers over the next twenty-four months.

LABOR CAPACITY

After cutting ~2,000 workers during the throws of the recession, Winnebago now faces a labor capacity issue. Most of the employees who were laid off left the area, and now, due to the small population and rural geography, WGO is operating at 98% labor utilization, but only ~80% of machinery capacity. This is clearly impacting WGO's ability to capture more motorized market share as the cycle continues to build strength. In order to mitigate the capacity constraints Winnebago is taking a number of actions:

- Focusing man hours on Class B vehicles which have a higher margin profile and require less time to complete
- Moving away from the traditional model of complete vertical integration by not only moving certain part production to satellite facilities, but also outsourcing more parts.
- For those parts that WGO continues to produce in Forest City, lines are running three shifts, compared to the one shift being used for the assembly of vehicles in order to match demand.

On an industry basis, management does not feel there is any issue in returning to 55,000- 60,000 motorized units average last seen in 2007. Excluding 2008-2010, historical lows for motorized units have been ~40,000 units.

MIX SHIFT

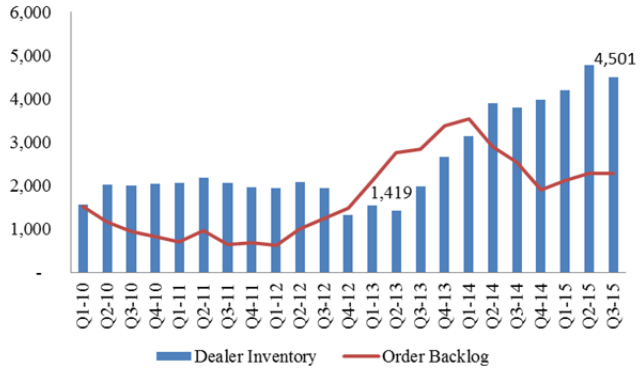
While releasing its fiscal 2015 Q3 earnings, Winnebago noted softness at the high-end of the market (Class A), particularly in the Class A gas vehicles demonstrated by declining backlog. The step off in Class A orders (741 vs 1,031 YoY) was because of an artificially inflated backlog in FY 2014 driven by a chassis shortage year in 2013; however Winnebago received a full supply of chassis from Ford this year and was able to fill orders. Deliveries for Class A motorhomes also grew 6.9% in fiscal Q3 on what management called more normalized demand after years of high demand following the 2008-10. Because of the ongoing labor issues discussed above, Winnebago has decided to focus the labor force on less labor-intensive (and higher margin) products such as Class B & C motorhomes in order to maximize workflow which also contributed to the decreasing delivery levels.

Slightly more telling of this downward pressure on mix is that overall motorhome backlog fell 3.3%, while backlog revenue dollars fell 10.4% for motorhomes. While the unit sales may be there overall, the mix is skewing towards lower revenue products, most prominently Class B. It is important to note that Class A sales have continued to gain YoY, and will face easier comps as the year progresses. Management is confident that Class A diesel products will recover.

INVENTORY STABILIZED

WGO increased its dealer inventory on a year-over-year basis as of 5/30/15 in motorhomes from 3,798 to 4,501. Management feels these levels are appropriate, and may even prove to be too light in certain locations. WGO has thirteen product offerings on the motorized side, and historically dealers could choose not to sell (and therefore stock) any number of these offerings in their territory, leaving WGO essentially "locked out" of the region. Under new agreements, should a dealer not sell any of the 13 product lines, WGO can (and has) offer those products to other dealers, a move that has left distribution points to increase from 1,783 to 2,583 as of the end of fiscal Q3. WGO feels this count is now fairly stable, and does not expect increases of a similar magnitude. While the inventory has naturally increased because of the increasing distribution points, we do not expect any more meaningful inventory increases on the motorhome side. Likewise, inventory also grew on the towables side as WGO distribution points increase. Inventory should continue to increase (from a very small base) as WGO ramps up its towable production in order to organically grow to ~5% share. At these levels we expect WGO will need 5x its current 140 dealerships, increasing inventory by a similar 5x.

Exhibit 13 Motorized Dealer Inventory



Source: Company filings and Gabelli & Company Estimates

UNLEVERED BALANCE SHEET

Winnebago is consistent and predicable in regards to its capital allocation. The business requires $8-10 million of CapEx for maintenance, though this number will be inflated for the new ERP system which will add an aggregate of $7-10 million of total capitalized spending through 2017.

With regard to priority of use, capacity expansion is most important to this management team. The dividends also remain of importance as WGO seeks to be a consistent dividend payer with no significant changes expected in the near term. Towables growth and share repurchases follow these uses of capital, and as a debt adverse organization, WGO will not take on debt to fund either initiative, relying instead on cash flow.

LEADERSHIP SHUFFLE

Randy Potts (age 57), who became Chairman & CEO in 2012, retired in early August. Potts held a variety of manufacturing roles during his 33 years with the company. As WGO has begun to outsource production for some components that it used to make in-house, as well expand its footprint outside of Forest City, we feel the company is likely looking for a candidate with a skill set more suited towards capital management and planning, instead of Potts' extensive manufacturing history. After laying off a significant portion of its workforce, WGO has been plagued by limited capacity as noted above. Along these lines, when we last met with the company it had expressed excitement regarding the success of its Towables acquisition in 2010 (purchase price of $5.7 million) and had only wished it had either done more deals or something more substantial. We feel the company is positioning themselves to move beyond their current Iowa-centric model and is looking for an open-minded CEO with that mentality; this desire may have been a sticking point which led to Potts' abrupt departure.

Further clouding the leadership situation, Interim CEO Bob Olson has announced that he will step down by September 24. While Olson provided a measure of stability to the company, it is likely that he was unwilling to implement any strategic decisions (whether that is due to his interim status or philosophical differences, we do not know). Following his resignation, Chairman Larry Erickson will fill the void as interim CEO until a permanent replacement is found.

REVENUE AND EARNINGS PROJECTIONS

Winnebago's sales and earnings will be largely driven by motorized unit sales and the mix of the three classes of RVs. Class B units have been strong of late, though management feels that recent weakness in the high-end Class diesel products is set to alleviate in coming quarters. Industry participants continue to see years of growth in the motorized (as well as towable) segment of the market, and we forecast sales to continue to accelerate through FY 2019.

With these conditions in mind, we estimate Winnebago will generate $68 million of EBITDA and earn $1.65 per share on $995 million of revenues in FY 2015 (FYE 8/31), growing to $74 million of EBITDA and $1.80 per share on $1.03 billion of revenues in FY 2016. Moving forward, we project WGO will earn a revenue FY 2014-2019 CAGR of ~4% compared to our estimates of motorized industry unit production growth of 3.5%. The difference can primarily be attributed to sales mix and towables growth, but also assumes small share gains of motorized products. Partially offsetting these positive factors is the company's labor shortage, with no end in sight, we see this issue limiting the company's sales (especially on the high end Class A Diesel) segment of the market.

Table 6 **Sales and Earnings Summary**

(in millions, except per share)	**2014A**	**2015E**	**2016P**	**2017P**	**2018P**	**2019P**	**'15-'19**
Revenue	$ 945	$ 995	$ 1,030	$ 1,070	$ 1,125	$ 1,145	3.9%
EBITDA	68	68	74	80	84	86	4.8%
Adj. EPS	$ 1.61	$ 1.65	$ 1.80	$ 1.95	$ 2.05	$ 2.10	5.4%
Capital Expenditures	10	16	10	11	9	9	-3.9%

Source: Company reports, Gabelli & Company Estimates

Incrementally, WGO is capable of adding up to $100 million of revenue with current towable capacity, and sees a multi-year plan of taking ~5% share in the Towables segment, a potential $250-300 million venture. We begin to layer in this opportunity in the back-half of FY 2017 and see this unit reaching its full potential beyond our current modeling period.

INVESTMENT RECOMMENDATION

The RV industry stands to benefit from demographic changes, as well as improvements in macroeconomic conditions. An aging population will require more camping enthusiasts to adopt the "RV lifestyle," and Winnebago has the product line waiting for the Baby Boomers. However, labor constraints will further pressure WGO's growth as the industry continues on an upward trajectory unless they can move more outsource more production and further unwind the vertical production machine that WGO has always been. Additionally, uncertainty over the replacement of Randy Potts as CEO will keep us on the sideline until a successor (and his or her priorities) is better known. Similarly to Thor, we utilize Berkshire Hathaway's 2005 acquisition of Forest River to establish 8x as a baseline multiple. We assign WGO a slightly lower multiple, 7.5x, due to the margin profile of the motorized business being materially lower than towable margins. Despite trading at a 12% discount to our FY 2016P PMV of $22 per share, we are initiating Winnebago Industries with a Hold recommendation. We need further clarification regarding solutions to the labor shortage before recommending investors purchase shares.

Table 7

Winnebago Industries, Inc.
Private Market Value Analysis
2014A- 2019P

(in millions, except per share data)	**2014A**	**2015E**	**2016P**	**2017P**	**2018P**	**2019P**
Revenue	$ 945	$ 995	$ 1,030	$ 1,070	$ 1,125	$ 1,145
EBITDA	68	68	74	80	84	86
Multiple	7.5x	7.5x	7.0x	6.5x	6.0x	6.0x
Total Private Market Value	510	510	518	520	504	516
Less: Net Debt	58	72	115	161	209	266
Less: Pension & OPEB	(41)	(39)	(37)	(35)	(33)	(32)
Less: Options Payments (a)	-	-	-	-	-	-
Equity Private Market Value (PMV)	527	544	596	646	680	750
Shares Outstanding (b)	28	27	27	27	27	27
PMV / SHARE	**$ 19**	**$ 20**	**$ 22**	**$ 24**	**$ 25**	**$ 28**
% Discount To PMV	*-4.5%*	*2.1%*	*11.9%*	*21.2%*	*27.7%*	*40.8%*

Source: Company reports, Gabelli & Company Estimates

(a) After-tax payments to buy out option and convertible holders at Private Market Value.

(b) Uses treasury method.

Other Companies Mentioned:

Berkshire Hathaway	(BRK'A – NYSE)
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I**, Matthew Paige,** the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

Matthew Paige (914) 921 8358

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A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

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