

THOR Industries, Inc.

THOR Innovation Event at Dealer Open House

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CORPORATE PARTICIPANTS

Bob Martin - *President and Chief Executive Officer*

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Todd Woelfer - *Senior Vice President and Chief Operating Officer*

McKay Featherstone - *Vice President of Global Innovation*

Mike Cieslak - *Investor Relations*

PRESENTATION

Mike Cieslak

Welcome to Open House and thank you for joining us here tonight at our new US Innovation Lab. Before we begin, just a few housekeeping items to cover. I'm sure most of you know, we did report our Q4 earnings after the market closed today. If interested, we do have hard copies of our earnings materials on that table in the back that you can take after tonight's event. After our prepared remarks, we will hold a Q&A session. We will allow our current analysts to ask their questions first before opening the floor to additional questions, time permitted. We will look to wrap Q&A up by 7:00 to ensure that you have ample time to walk through the displays and see what McKay and his innovation team have been focused on over the last 12 months.

Let me quickly cover the Safe Harbor. I'd like to remind everybody that statements made today related to the company's expected future performance, future business prospects, or future venture plans, may include forward-looking statements as defined on the Private Securities Litigation Reform Act of 1995. These forward-looking statements are made based on management's current expectations and beliefs regarding future anticipated developments and their effects upon THOR, and they inherently involve uncertainties and risks. Participants are directed to THOR's form 10-K, which was filed this afternoon, for a description of certain business risks, some of which may be outside of the control of the company, that may cause actual results materially differ from those expressed in the forward-looking statements. With that, I'll turn it over to Bob.

Bob Martin

Thank you, all. Thanks, everybody, for coming. Great to see a packed house. Great time of the year for us to have open house. But for me, just few weeks ago, we had the Dusseldorf show, which is in Germany, and just an incredible show, some wholesale but mostly retail. Heavy attendance, well over 200,000 people through during that week and great retail sales, again, in Europe. So Europe continues to be a strong point for us. For me, here, I just left open house, so I'm probably hot, sweaty and glistening from open house, but it was a good day. You'll notice some different things when you go out there, display not quite as big, down about 100 units, just be more conscious of our footprint out there. Everything that we put out there is a little bit more money.

Also, for those of you that were looking for concert tomorrow night, there's no concert. These things cost money. And for us, right now, our focus is on the product and helping our dealers move aged inventory, and then focusing on the new. And so everything we're doing this year at Open house is product, customer focused and so that's why you're not going to see a lot of frills. As I say that, you're here at our innovation lab. We are investing in the future heavily and that's where you're going to hear Todd come up behind me and explain a little bit more. But even though things are a little tougher, we're still looking long-term. We're always going to be that long-term company that Peter Orthwein, our prized guest in the crowd here, started back in 1980. And so we're going to hold true to that, and they're going to lay a little bit more information for you.

But following me, we're just going to have some short demonstrations here from Todd, Colleen and McKay. And then we'll end up with the Q&A, and then tours after that. So thank you again for coming. Here's Todd Woelfer.

Todd Woelfer

So there's an old proverb that says, when the winds of change blow, some people build walls, others build windmills. Welcome to THOR's windmill. This is the building in which THOR will build its future. We talked about this in June of 2022 at our Investor Day, when I told you, THOR is

thinking about innovation in ways that it never had before. Our investment, much more significant than it ever was before. What we're out to accomplish is creating a best-in-class user experience for the people to buy our RVs, so that those RVs are easier for our dealers to sell.

We're out to make sure that in this time of crazy transformation, the next 10 years will transform our industry like no other 10 years has. Think about electrification. You think about connected RVs. You think about all those developing technologies. It is incumbent upon THOR, as the industry leader, to make sure we lead this industry through those changes, that we create products that are best-in-class. And we can only do that through meaningful investment in innovation. I think about innovation, I think about a really simple formula. Knowledge creates innovation. Innovation then creates productivity. Productivity creates economic growth, and shareholder return.

The beginning of that equation is knowledge. And when Bob asked me to oversee the innovation team a year and a half ago, I knew that step one was making sure we got the right team in place, because you can have the best plan in the world, but if you don't execute, and you don't have the people to carry that out for you, it isn't going to drive the kind of value that you're after. To me, there was one person who I believed was uniquely qualified to lead THOR through this innovation time period, and that person was uniquely qualified because he had great experience outside of our industry. He had great experience within our industry at the industry's best company, Airstream. He is an engineer, who has led marketing teams. He's led product development teams. He's led strategy teams. He's got an incredible breadth of experience, and he was the perfect person, but I'll never forget the first discussion I had with McKay Featherstone.

He was working at Airstream at time, doing the same kind of job that he does today, but doing it for Airstream. And McKay, when I said to him, we were all in Tampa, by the way, when we rolled out the eStream. We had lunch and I said to him, McKay, I want you to lead this team for us. You're the guy, and you need to lead us. He looked up at me and he smiled and said, Todd, why would I do that? I have the coolest job in the world. I work at Airstream and I'm driving all these great changes at Airstream. Why would I want to change that? THOR has never shown a willingness to invest in innovation the way you're talking about. And I said to him, and this gives you some insight into who Mackay is. I said to him you're right. You could stay at Airstream and keep doing incredible things for Airstream, or you could accept the challenge for driving innovation for an industry globally at THOR. And you can trust that this management team is dead serious about our investment and our intention to create opportunity for THOR to differentiate itself from its competitors as we go through these next 10 years.

And McKay, thankfully, said yes. And he came and he has built out a best-in-class team. He'll talk about some of the initiatives. You'll get to see some of them live, significant investment from THOR. The investment community, I know that matters, but our investment is just that, it's investment with meaningful return. Think about the impact of automation, and the return that we're going to see from automation from better quality, repeatability, better efficiency. Those numbers at an enterprise the size of THOR, are staggering. The potential to positively impacted margins that we can drive are incredible through automation alone. McKay will talk about more of some of the innovation steps when he's up here in just a minute.

Before I bring him up, though, I want to acknowledge some key partners that are in the room with us today. Harbinger is the best-in-class electrical chassis solution for the RV industry. And THOR has partnered with Harbinger. We participated with Ridgeline recently and lead their Series A raise. And why is Harbinger best-in-class, you might ask, and there's a display back there. Ask them if you don't believe me, but here's why. They've got a solution that is uniquely designed for medium-duty usage, which is where we are.

Nobody else is really doing that. They're all looking for the mass play. And Harbinger has focused on the application that matters most to our viewers. It creates better customer experience. It creates easier to drive units, safer to drive units, and incredibly importantly to OEMs, although many don't understand this yet, is designs of electric chassis as will impinge upon our ability to design units and our ability to make sure that we get layouts that we believe customers will want to see. Harbinger has thought about them and created the most flexible layout for anybody. So they're a great partner to us.

Also here with us today is a long-term industry partner. Detroit Chassis has been supplying to this industry, the split rail chassis that we use for our Class As for decades, providing really important and high-quality products that has driven that space for decades. There's something different about Detroit Chassis here today. THOR is engaging with Detroit Chassis and Harbinger and we're talking through, as partners do, what is the next generation? How do we make this work better for our dealers and for our customers? And I'm thrilled to have Detroit Chassis and Harbinger here with us today. So thanks for coming, guys.

And with that, I'll turn us over to McKay Featherstone.

McKay Featherstone

Thanks, Todd, and welcome, everyone, to the US Innovation Lab. I'm looking forward--we're just going to spend a few minutes together, making this tangible and real. Todd talked about the value that we're creating. Hopefully, you'll see there are things that we've already implemented, so we've done. They're in production, adding value to our companies today and we have a roadmap and a pipeline of a lot of exciting things coming. I'm going to start with our mission, which is, for us, is really about where we focus to get the most value from our customers. This mission I'm going to share with you was created with our companies in partnership. That's an important point because the innovation team, it's not the ideas from us. It's all of our companies together, and its implementation through our companies.

The good news is, I know the mission by heart, so I don't have to read it off of the slide. Our mission is to find the partner and create technical and business innovation in a way that improves the RV experience and actually increases the overall size of the buy, while creating competitive advantage for our company. So like Todd said, kind of the challenge that we took on as a team. We take that seriously. It's finding partner in creating. So you'll see some examples of things we've engineered. We have intellectual property. We've protected those ideas, and also partnerships with world leading and exclusive to THOR technology. That's technical and business innovation. So you'll see an example, I think, here tonight, quite a few technical topics, but please come to the booth tomorrow. We're actually showing other innovations in the booth. We can show some use cases where it can really help that end customer and build brand loyalty, and drive the business on a long term basis, and it really is about improving the customer experience that builds brand loyalty.

The beautiful thing about our business is we're not selling just one product. There's number two, there's number three, there's number four, through that lifecycle. So we want to keep them in the THOR family of companies with those brands. We've got a lot of tools that we're rolling out to help do that and add value through the operating companies with differentiation for them. So with that mission, and maybe Chris, if you could work the slides for me, I want to share with you where are the value areas, so where are the focus where we see that we can help our operating companies? It breaks down into six different topics, advanced manufacturing engineering, major investment in the space. One reason we have a facility so big, is that as you'll see, we can actually build equipment in this building. We can prove it out here before we ever take it over to the line, and

we've done just that with a piece of equipment that's running production parts here today, so we're not interrupting the flow of operations.

That's about quality. That's about throughput. As you're saying, for really delivering value through automation. Our advanced product technology. This is really a better RV. This is creating points of differentiation for our companies. So they've got something that's performing better, it's more sustainable, it's a competitive advantage for them. Come to the booth tomorrow, You'll see examples of things like a solar awning that has the highest output with the best durability of anything that we've seen in the market, and we have patent protection on that. So creating those points of differentiation for our companies to bring the market.

We're going to dive into two topics and just two things as we talk and share a little more detail. We'll talk about e-mobility and connected vehicles. When you come over to the booth, you'll also be able to see our work in the digital customer experience. And our focus is really on supporting the customer after the sale because we know if that customer has a great experience. They're going to be loyal, get sale number two, number three, number four, and so is a huge revenue opportunity for us to keep them with our family of companies, and we're doing that through digital platforms. So this is a solution where THOR can help all of our companies by giving them the tools they can use to then deliver against that. And with all of these, the companies are in alignment, and they're really helping shape this vision. And frankly, they're hungry for those things.

And lastly, this is really the glue that holds it all together. We have to form the partnerships, find the best partners, and make sure we're aligned, that the goals are tied into the strategies and all the way down through the exact projects that we're doing. I'd like to think there's no ego. This is not our ideas. This is in support of the mission, in support of our companies and we're delivering the tools to them to make it happen and implement it.

So just two topics to focus on. One is electrification. Todd talked about the change going on in our industry. It's really chaotic time in terms of both the technology and the marketplace, but we're navigating that. So we are making strategic investments. In some areas, that's with great partners like Harbinger, and others on the trailer side, it's an actual developing products with our team. To meet early demand, so we're we know those paths to market where there are target customers that are ready for this, they are geographies that are ready for this technology, and to stay ahead of them regulatory factors. That's a whole other level of uncertainty, but it's our role to make sure that our companies have the tools they need, whatever happens with the EPA, or the political environment, that we're covered, and we've got the right solutions for our companies.

Through that, it is exclusive technology. So it's chassis platforms that are only available to THOR family of companies, battery systems, kind of those key suppliers that are exclusive to our operating companies. But it's really important and Todd talked about thinking about it differently. We're really taking a pretty aggressive and holistic approach, because it isn't just the batteries, kind of the power, high voltage supply. For this to work. First, we have to do the foundation. If you walked--anybody seen a model of a little, I think it was B+ vehicle that was in the hallway. That's an actual aerodynamics model that's been in the wind tunnel. First thing you do is you get the aerodynamics right. We've now gone through really 90% of our product categories, towables, and toy haulers, fifth wheels, Class As, to give our companies the tools to improve aerodynamics.

Come to the booth tomorrow, you'll see some pretty exciting things for light-weighting. So it's creating a great RV out have a great electric foundation, but we're also focusing on ecosystem. Because with all of that work, the campsite, those owners need to understand what happens when this vehicle rolls in my campsite. I hook it up. The good news is you can charge those overnight. But also, out on the road, we're very actively engaged, partnering with RVIA to push that--really,

it's the IRA funding through the state level to ensure that not only is it located where our customers are going, but just the basics of can they actually pull it in and fit in the spot? And so far, very successful in driving that.

So when the states have that funding going out, they're protecting for pull throughs. So if you've got a Class A vehicle, or you've got a towable, you'd actually pull through the charging station, instead of having a row of 50 cars, you can actually have an RV, charge it on the road, in the location where customers don't go. So very holistic approach for motorized and travel trailers.

So after that, dive a little bit into connected vehicles. I think it's important to start with the fact that although we're talking about connectivity, we're talking about vehicles, the products we manufacture, the real goal of this technology is to strengthen the relationship with the customer. And we've had really good success so far, so we have a platform operating in the US. We have one operating in Europe. So we're not just talking about it, we're doing it, there's live customers in the field. And so we know in the US, customers that have that connected vehicle technology, it's north of 70% active user rate. They bought a vehicle, it comes with the technology, and they're actively using it. That means they have an app that they're using to turn on the lights and check tanks and make it easier to operate the vehicle. But now that app that frequently used app is a brand connection for them.

So we've made a significant expansion in the app capabilities, so we know who the customer is. We know where the customer is, and we know everything about their vehicle, and we now have a platform to use that to strengthen the relationship. We're testing and learning new use cases. I'll say, the first, we talked about knowledge. We don't know everything, but our teams out there actually testing, can we get a customer to travel more? If we know where they are, and we know their background and their travel habits, can we actually connect that into a marketing program, get them there out on the road, and they want to use the product, they're going to stay in the lifecycle not drop out, they're going to buy the second, the third and the fourth. So we actually have a live 12-month pilot program that we just launched, and that program is going to let us test those use cases, measure them, and then refine them as we scale, because we'll be launching with multiple OEMs in the next calendar year off of this connected vehicle and app platform.

I believe, so this is McKay talking, that when you look at this from an owner's companion standpoint, so having an app that helps to manage the vehicle, there's a brand element, there's a customer support element, we can get to 100% of our customers that have that, really a great highly rated owner's companion app. And this 80% is that the technology and the vehicle is enriching it. Now, we have diagnostics information. We have all of your control and monitoring of the vehicle. So we'll be rolling this out. As you can tell, it's underway, we've got tests in the field. We've got companies launching, and it is our goal and shared with companies on board that this technology goes across the entire enterprise.

So little bit of sharing to specific areas. After we're done with the Q&A, we're going to have a chance to share more in person live here in the lab, just five different focuses. The first two is actual automated equipment, one of which is in production, another one that we're building. So you'll see the problems that we're solving with automation. Light-weight cabinetry design, that's not only helpful for the future of EV, but right now, our company is especially motorized. They need that weight capacity. They can add seated belted positions. They can add more features to the product today with the lighter weight cabinetry.

You'll actually will be able to learn more about Harbinger here, as well as in booth. And then as part of the--an important part of the tour, we wanted to include the materials lab, because we're innovating. We're pushing forward. We need to have the test capability to make sure that when

these innovations launch, they've been validated, they're ready for the market, they're actually going to improve quality. So we're building out our test capabilities in this facility.

So thank you. And with that, I'll have Colleen take next. Thanks.

Colleen Zuhl

Thanks, McKay. So I'll just spend a few minutes and go over, as Mike said, we released our Q4 and full year results this afternoon. There are hard copies on the back counter for anybody that would like those. For our fourth quarter, we are pleased with the results, and for the full-year, in what we achieved given the macro and industry conditions that we were facing throughout both the quarter and the full fiscal year. So for the quarter, we achieved net sales of \$2.7 billion. Gross margin of 14.4% and EPS of \$1.68. And we achieved those through a combination of being very prudent with our production here in North America, and then also our European segment really had a record quarter for the fourth quarter, and that was from a combination of things that the management team over there has been working very hard on.

Certainly helped with increased chassis supply, but also operating efficiencies, favorable pricing to cost conditions as well. And really, the team just coming together and really trying to maximize the value that we've always seen over there in the European segment. So achieving a 14.4% margin. We considered a success in this market for this quarter, despite the 28% decrease in net sales. And it really shows, I think, our effort that we've been talking about for a few years, is to our approach to margin and really trying to make that sustainable. And so having a 28% decrease in net sales and still being able to hold on to that margin is a success for us.

And then lastly, we also strengthened our balance sheet. We've paid down significant debt during the quarter, and we ended up with \$1.4 billion in liquidity as well. Then turning to the full year, \$11.1 billion in sales. Again, gross margin of 14.4%, EPS of \$6.95. And really, the highlight is the net cash that we generated from operations of almost \$982 million. Last year was \$990 million dollars. So our model works. It consistently works. We continuously utilize the methodologies that Peter and Wade established years ago. We're conservative on our balance sheet and this is what happens even in a down market, we can generate significant cash.

We utilize that cash with capex spending of about \$208 million. We increased our dividend that in October of '22 to 45 cents. Excuse me. As I mentioned, we reduced our debt, our term loan by over \$400 million, and also paid off our ABL of \$100 million. And that allowed us to achieve a long-term net debt leverage ratio target of one times. And then we also repurchased \$42 million of shares as well. So that's a quick snapshot of kind of looking back.

I'll turn it back to Todd for kind of a look forward, and then also after the Q&A, the really big look forward of all the cool innovation that McKay's got going on.

Todd Woelfer

Thanks, Colleen. So when we look forward, we think about--and we're talking--keep that in mind, we're talking about our fiscal year. You see other numbers that talk about next calendar year. We would have a different number if we talked calendar year, but our fiscal year, when we think about our market, we think we see it right now at about 350,000 to 365,000 units in our market. And we based our guidance off of that projection in the market. And there, we expect to hit net sales between \$10.5 billion and \$11 billion. We expect gross profit margins to improve slightly to 14.5% and upwards of 15%. And we expect diluted EPS between \$6.25 and \$7.25.

We still have big ranges, right, because we're in the macro environment that we're in. We're very aware of that. We know there's downside and risk. We know there's upside potential to these

numbers. But as we look at where we're at, what we expect, the feedback we get from our key dealers, we believe that this is a forecast, it's achievable for us. One of the things that makes it very relevant that we're here tonight is we intend to have a meaningful investment in what we're doing on the innovation side. That will impact our EPS in the short term. As I talked about earlier, that's an investment to what we're doing. The potential upside and the expected upside from that investment is substantial.

We still are anchored in our long-term goals that we put out as investor day, still believe that this is a 17% margin business. We still believe we can get to \$20 billion top line with our strategies that we have in place and that we're moving towards, but we're very mindful of the market we're in and we were tethered to reality when we sat down and considered, what is realistic for next fiscal year and that's where we sell.

Mike Cieslak

With that, we'll start Q&A.

John Healy, Northcoast Research

Yeah, thank you. Thanks for the comments, guys. I wanted to ask just about the expectations on ASPs for next year. I think in the Q&A slides or the Q&A script, you said up to a 10% decline on towables. What sort of reaction are you getting from the dealer community? Obviously, dealers are sitting on model years that are a little bit older than the '24s. And is there any way to help them get out of that more? What's the feedback been on the 10% cut?

Bob Martin

Yeah, I mean, we've been trying to work with them consistently over the last year, focused on age. And as we look at our ASPs being lower, a lot of it's mixed. So but there's no one silver bullet. Every deal was got kind of a different need, different case, depending on region. So we're really--there's no one set program that we go out with. We're really trying to work with them and find what, by dealer, what do they need to help move some of that age inventory? So overall, it's very easy, there's no one program we came out with. Some have in the past, come out with IR programs or something like that. We've not done anything like that. It's really just tailored to sitting down with dealers and that's what we're doing here at this open house, but we've really been doing it over the last year as well.

John Healy, Northcoast Research

There's no new programs to help move the '23s or something creative you guys have put there or has anyone else put anything in the market?

Bob Martin

I haven't really heard of anything even remote in Open House. For one, we're day one in and this is where there's no real set program. By companies, they'll have different things but really, it's tailored by, what do the dealers needed to kind of turn the dial?

Todd Woelfer

And consider where we are year-over-year, right? We've destocked 40,000 units on the market. We push through such a high percentage of the '22s that were there. This was a much bigger concern two quarters ago, and we've been very focused, very aggressive and working with our dealers as reasonably as we can to get that product pulled through. As we sit here now, you think there's a lot of pressure. The percentage of '23s in the market, we could draw out percentage and say, well, that's a high percentage, but the reality is, we just haven't put a lot out there. So the denominator is falsely making the aged inventory look higher than it actually is just because we've

been very prudent with production. So where we sit right now, it feels much different than where we did two quarters ago.

Fred Wightman, Wolfe Research

Yeah. Can you just dig into the G&A expense guidance for the year? I think you said over 8% was the number. Can you just unpack what that means, where it's going and how much of it is an expense number--whoop, sorry. Could you give us an innovation number?

Colleen Zuhl

Yeah. So a good chunk of the increase on a year-over-year basis is the R&D, and you'll see some of that year when you walk around on that. So that is something very different from us. Historically, our G&A class has been very steady, but we recognize in the current environment and with all the changes that's going on within the market, that we have to innovate to stay ahead of the pack, and that's what we're doing. So there is a cost to that. And it is going to be in the G&A.

Fred Wightman, Wolfe Research

Is that one time, or is that--?

Colleen Zuhl

No, it's most likely and certainly, an ongoing cost going forward, maybe not at that same extent, certainly, as they go through the innovation items. We'll evaluate it as we always do, as to where where it's best to utilize our excess cash, but certainly, that feels like best bet right now is certainly innovation.

Todd Woelfer

Yeah, there isn't anything--a ramp up to your point, Fred, that will make this year greater. As we look into the automation strategy, for example, of pushing that out across the enterprise because the return on it's so incredible that we are very dialed in, so unlike the RV industry in the way we've done it. We brought in our own team. We designed that robot back there you're going to see. We built and we made that happen here, and we did it for half the cost, twice as fast. And we learned that from our friends at Battle Born in Dragonfly, a battery company. That's how they manage their automation strategy, and we copied it, really, and it's working for us. And now that we've seen that it works and we know what that return is, our intention is to be pretty aggressive.

Tristan Thomas-Martin, BMO

Two quick ones. So the '23s, how long till it gets to a percentage that you think it's where it should be?

Todd Woelfer

Where I think it should be?

Tristan Thomas-Martin, BMO

So I'm assuming it hasn't come down, right? Its...its...

Todd Woelfer

Yeah, and more '24s will be built so that--the fraction gets changed dramatically, right? So as you grow the denominator, the '23 percentage is going to come down even if they don't sell. They will sell. And the concern over that, we're completely mindful of. We were mindful of that two plus quarters ago, when we got really aggressive to kind of clear it away. So in terms of a number, I don't have an exact number, Tristan. We shouldn't forget. We shouldn't let the current time

mislead us into thinking that we ever had a time at this time of the year where there's zero prior year models. That's just not the way this industry works. There is always overhang from the prior year. The question is, is it excess? And it was, and we got really aggressive, not just us, the industry.

Our dealers did phenomenal job getting product pulled through their lots and felt some of that pain with us and we did it. But now as we sit here now, we don't think that we're far out of whack on what's out there right now. Especially with the dealers being really prudent about what they're ordering. And so we think that'll all play out in the industry. What's there on their lots, we're down a lot on inventory, which is great thing. We love that position. We don't we don't see that as a significant issue to us.

Bob Martin

It is a lot to work through. You got to realize, '22 was the largest model year ever built. And so we had worked through that intentionally. Same time, we limited the number of '23 we built. We cut that off even sooner than we normally would. So the numbers, it's probably still a little bit higher than we want, but not by a lot because the focus was '22. I'm happy to say most dealers feel like they're in a good spot. And then '23, it's just not--the number was not very large produced in that model here.

Tristan Thomas-Martin, BMO

Similar one on chassis, you had a light-weight chassis you got on display, what's the plan with that? Is that more than just EV?

Todd Woelfer

Yeah. So that's a great example of our innovation team. Innovation is not production, and we are not at the stage where we are producing light-weight chassis, but understanding what that--as we model our future in an electrified world, that was crucial for us, right? And to make sure we've got a brilliant team doing great things here that can help drive those kinds of innovation and innovative steps to make those chassis more electrified friendly. And that's what we've done. So yes, we have an electric chassis, or a light-weight chassis out there that we have IP on. And it's important to us and to the future, and what we will ultimately build in this space, but we are not building towable chassis today.

Scott Stember, Roth MKM

Given the overhang that we might have on '23, which I guess remains to be seen what's gonna happen from a pricing standpoint, and not really knowing where the units are going to come in, where do you see the cadence of your guidance for the year? I mean, how should we look first and second quarter versus back here?

Todd Woelfer

Yeah. This a great question. And of course, the way we think about it is Q1 and Q2 are going to be--have tough comps year-over-year. We expect to be down year-over-year, Q1, Q2. Q3, Q4, for us, we expect to move back in the right direction. That's how we thought about it, Scott.

Michael Swartz, Truist

Just maybe touching on the European business, given, I think, a lot stronger than most people were anticipating fourth quarter, and obviously you've got some restocking still going on. But I think, Colleen, you said there was a benefit of positive price costs in the quarter. Maybe just frame the maybe the cadence through the year. But what's also built into your fiscal year '24 outlook that this is just at a high level from maybe a revenue and a margin standpoint?

Todd Woelfer

Sure. Make sure I understand the question, Mike. Do we think fiscal '23 was like an aberration?

Michael Swartz, Truist

More on just the fourth quarters, is that something we should expect the next two quarters before you start to (inaudible)?

Todd Woelfer

So there was opportunity at Hymer on dealer lots. So we had some in Q3 and Q4, we had opportunity there. I think the important thing--so the top line and what happens there is going to be dependent on what happens in retail. We're getting to that where our opportunity to fill a channel has been reduced. We enjoyed that last fiscal year, but their retail is still performing both. What we're most focused on at Hymer is what we can control. It's dialing in margins that they're realizing and how they're operating.

We did work on pricing there because they were behind, frankly. And proof of that is we didn't have any negative pushback in share when we raised the price. But more importantly, under the new leadership that we put in place, the way they're thinking about that business is much more in line with how we think about our business here, and that means focusing on efficiencies and driving improved margin profile. So that part, we think that is here to stay, with that Hymer team and ability to continue to improve their margin profile.

Top line, we'll see what retail does and what what happens there. We're kind of thinking about that similar to our market. We're not expecting any major bounce back or any major deep recession. It has pretty well publicized that that they're in a mild recession. We're still making sales there as an avenue.

Colleen Zuhl

The other thing to keep in mind is that ever since we've acquired Hymer, their first half is much less than their second half. That dynamic will continue, but that is the normal cadence with the holiday. Yeah.

Todd Woelfer

Because of the holiday. Q1 in particular. Everybody be mindful that. When we see a big sequential drop off, we all know that's coming. We should know that by now. It's never going to change. It's just the way Europe is.

Bob Martin

In a core year, it's an upside and we're still not there yet. But chassis were probably more consistent this quarter. We're getting chassis but many of our suppliers are building them out of sequence. So it's pretty different than the US where we may have three option packages where we're trying to get them to this, but they may have 40 options per chassis. And so we make it a chassis, and we can't build on for a couple of months. It's retail sold, but we take the chassis, but we can't build on that. So this quarter got a little bit better, but we're still anticipating a little bit more of that as we go into next year. But long-term goals, bring the number of skus down, and really just bring the chassis in line that we need.

Craig Kennison, Baird

With respect to innovation and the strategy you laid out, are there any holes in your portfolio where you need to make an acquisition to have that capability?

Todd Woelfer

Yeah, we're blessed. We've got an incredibly great partnership with Tech Nexus and remind you all, that's a venture collaborative that we work with to make really small investments in technologies that are aligned with our strategy. This venture, we're not playing an adventure game with shareholder money. We're finding companies that are early stage, and we find an opportunity to align with them. So we're constantly doing that, Craig. That's the key. And we are strategically aligning with some of those partners already to move the needle in a positive way for THOR. So that's already paying off in great ways.

But to answer your question really bluntly, and honestly, you think about the threat that the innovation landscape, potential that we may have an acquisition at some point that might help boost that strategy is very real. There's nothing on the board, there's nothing identified. We're not going to spend any significant money on an acquisition anytime soon.

Craig Kennison, Baird

Thank you. Just to follow up, are your suppliers aligned with this vision. A lot of times in the past, they have partnered with you on innovation, but it might happen with your supplier. If it happens with you, you could have some kind of redundant investment and just a lot of expenditures across the industry that aren't necessary?

Bob Martin

I mean, we are working with our suppliers. Definitely trying to be a good partner. There may be some things where they're competitive. And there may be some things where we take some opportunities to keep it in house within THOR. So we do have collaboration with just about every supplier. And I know there's definitely many innovation collaborations we're working on, so we're probably on both roads to go down.

Todd Woelfer

That's really and perfectly the right answer. And we have actually had our innovation team directly engaged with efforts and working on opportunities. But the reality at the same time, is we're we're differentiating ourselves. So it is important for us to be dialed in on innovation and not continue to rely on all of our suppliers to bring us the innovation because what we end up with is a bunch of sameness. And we are making these investments to differentiate ourselves, so there are crucial parts to our strategy that will be proprietary.

Bret Jordan, Jefferies

Yeah, I guess on pricing, when you think about the '24s fours and some of the dealers' stock down maybe 10% or 20%, from the '23, how much of that is content reduction versus same SKU price reduction?

Bob Martin

I don't think--we haven't really broke it out. It's different by brand, by products. Some products, they choose to do it a different way. They all looked at content. So I think everything probably had a little bit too much. So there was opportunity with content. Many of the lines chose loss leaders, some price competitive with just a few floorplans. And those are really the ones that were there for advertising, really helped get that first time buyer back in the market. So really, honestly, every company does it just a little bit differently. So there's part content or just commodities can come down, then in part just getting aggressive.

Bret Jordan, Jefferies

And then you made a comment about the European economy, maybe mild recession. What's the RVIA forecast assuming for the US economy for their '24 number? Is that, does it include a recession?

Todd Woelfer

No. No, it does not include a recession. And also doesn't include a big turnaround, either. Kind of a continuation, similar to us. And I would add, Bob's right. And I think Lippert and Patrick have put out where they thought--the percentage they think our input costs are going down, ranging between 5% and 7%. Across the board, that's pretty true. And then that plus recontenting it to our 10%.

Brian Biros, Thompson Research Group

Can you just talk about the potential retail buyer? There were a lot more than after COVID. Past two years, it's been tough to buy. Next year looks like it might be still tough to buy. So there might be someone interested that's been on the sidelines for three years. How do you kind of keep them involved, or get them to make a purchase, or say, hey, keep keep us in mind when you are able to buy instead of just exiting, and all right, I'm done with the outdoors?

Bob Martin

I think for us, COVID brought a pretty good percentage. Many estimate about 20%, and from our study, I'll let Todd talk to that a little bit more, but we brought people to the industry. They're younger, they're more diverse, and do your part, they probably had some of our true RV customers that kind of held off their buying or a couple of years, maybe just didn't want to go to shows or going to be outside and they were fine with theirs. So we see that as an opportunity. But back to your study, I mean, we literally, the segmentation study, the numbers were actually really good.

Todd Woelfer

Yeah. And the interest in the lifestyle to your point, Brian, it has not waned at all. So we've got a massive amount of pent up demand. And then your other part of your question is really how do you keep them interested? And then not having to go spend that--because we're competing for leisure dollars. And how do we do that? We rely heavily, frankly, on our marketing team, led by Renee Jones, where we're constantly putting out products to remind them of what this lifestyle means to a family, and what it can mean for them. And yes, we're going through a tough time, it turns into affordability.

And then on the other hand, we do what we've been talking about, is control what we can and try to find the sweet spot, so that we can relate to them sooner rather than later. But you're spot on. But our studies have consistently shown that not only is it not declining, it's growing still, the interest in the lifestyle. What happened, you can talk about the COVID bump all you want, but it was not a transient bump. These are people that came into lifestyle who have consistently said that they are here to stay and that they will tell other people to buy into the life. So we're incredibly confident that when all this macro craziness gives us a break, we are going to see a massive run on pent up demand.

Bob Martin

I think you'll see also just the way the products have changed over the last couple of years. As you walk the show, you'll see more Class B vans in our display than ever. And I saw it even Jayco had the deal on meeting earlier this year. Jayco had a non-presence in Class Bs two and a half years ago. They have 10 floorplans and 4 models and are growing wildly Bs. So that's a younger, that younger customer, the adventure van. That gives me confidence. I mean, those new buyers, they're buying smaller towables, Airstreams but then also the adventure van.

One other thing I allude to just make sure that mark is there, As I talked to Campgrounds of America and other campground groups, look at their stats, look at their numbers, they're fully booked. People are camping. Even though the market is off, campgrounds are fully booked, and people are out using their RV that they currently have to enjoy the vacation that they choose. And so I saw big drops there. That would be concerning but we're not. We're seeing people camping and using their RV. They may hold on to it for a year or two longer. Then you get into the normal cycle every three to five years.

Joseph Altobello, Raymond James

Yeah. A couple ones, actually. First on automation, you mentioned that a couple of times. What sort of investment are you contemplating in terms of the capex and over what time period and what's the payoff from a margin standpoint?

Todd Woelfer

Over what time period, Joe, from the payoff piece?

Joseph Altobello, Raymond James

Yeah. Over the next five years, sounds like.

Todd Woelfer

Yeah. If you think--by 2030, our automation strategy is in line with our long-term goals and those numbers. Our automation strategy could potentially offer a full percentage point of margin. And in the interim, we'll start to see pickup next year. And in our margins, what's our investment? It is a significant percentage of the increase of R&D. I don't have the exact number. When you see the numbers come out, (inaudible).

Joseph Altobello, Raymond James

And just staying on gross margin for a second, you obviously are expecting an expansion in fiscal '24. Can you talk about how do you see that across your different segments between those motorized in Europe, just directionally?

Todd Woelfer

In Europe, we expect to pretty much hold. And on motorized, we expect that come back a bit, because it kind of held longer. And in towables, we expect it to be a little bit better.

Sean Wagner, Citi

Yeah, I guess, how much do you expect the 10% price reduction to spur demand? Is that built into your outlook? And then, kind of when do you expect the industry to inflect positively?

Todd Woelfer

Let me answer the outlet question first, no. We didn't build in any spike from the ASPs coming down a bit. We looked at the overall market, the overall macro economy and we said--and we know that we destocked 40,000 units. We know there's pent up demand. We know that some of that will trickle into there, but we didn't do a mathematical exercise to try to calculate that.

How much do we expect it to increase? I think it depends on--this is my own personal opinion. I think it depends on everything else going around. Are rates going to start to come back? Are we going to start to get some positive news. I mean, apart from the impact on your pocketbook, it's the constant droning, negativity and how terrible things can be as rates get increased, that impact people's willingness to spend that kind of money on something. So there's so many factors like

that, that would make it hard, certainly, for me to kind of opine on how much do we think--we think it'll matter. We think it's going to life and will do better than we would have had we not done that. But how material that will be in the end, I think depends on a lot of factors.

Bob Martin

That's why I think as you go out into the showroom, you look, and you can look at the stats and you can see some of the moves we made last year. If you look at the Cougar brand, it's one of the top five brand for many years, price inched up and it got hung quite a bit. But last year towards the end of the year, the team repositioned it. They came out with Cougar Sport. And they opened several factories, and they built a lot of Cougar Sports, but they've got a lot of the standard Cougars as well. Cougar is now the number one fifth wheel in the nation. And we've got more products. As you look throughout, just sheer stats, where we're gaining and others, in a tight market, others are losing.

So when you go to the show, it's not always just about price. The Cougar was totally repositioned. They made it a little bit shorter. They made it leaner, but it still had a lot of the features that customers were looking for and it was lighter. We have a lot of examples out there at the show, that price didn't come down tremendously and maybe repositioned just in where it is in its market and its features. Go look at the Crossroads Hampton. It blew people away today and you see this resurgence of park models and you're going up against products that are like condos, cabins, things like that. There are a lot of big park models out there that are doing quite well.

It's something we've had in our arsenal for many years, we just didn't really push them that hard. Well, this year, you can see park models, or park trailers growing quite a bit. So a lot of our companies have some offerings. So for me, I'm always excited to come to the show and dealers are too. They don't come in--they're not always focused on price. Some of our competitors, that's all they have. We focus on innovation, product change, look, interiors, and that's why dealers come to the show, because they want to see everything that goes into it for the price.

Noah Zatzkin, Keybanc

Thanks. Can you talk about the ASP assumptions embedded in your guide. As it relates to the price reduction you talked about, is the 10% reduction kind of embedded across quarters, or is there something we shouldn't consider from a cadence perspective?

Todd Woelfer

We left it across quarters. We didn't get that granular.

Noah Zatzkin, Keybanc

So maybe just kind of high-level, what are some of the levers you have on the cost side that you can pull if the environment remains soft?

Todd Woelfer

Are you talking about production, or are you talking about all of it?

Noah Zatzkin, Keybanc

All of it.

Todd Woelfer

So much, right? That's who we are. The numbers, when we talk about production and innovation spend, we can say--if you imagine a much worse market, but we've demonstrated this. Those of you who have followed us long enough should know and kind of do know that this management

team will get really conservative with our dollars really quick. And that is exactly what we would do. We're not a significant fixed cost business by intention and that means much of our CapEx spend, some stuff were talking about with R&D, we can manage (inaudible).

Colleen Zuhl

And we have lots of liquidity. We don't have any required debt payments for quite a few years here and stuff. So we're in a very relative position. Todd said, with the levers that we can pull, we can conserve cash rather quickly.

Todd Woelfer

And if things don't get worse and our stock stays where it's at, we can also buy back stock. We'll continue to mine for opportunities there.

Mike Cieslak

Because it's 7:00 on the dot, we're going to conclude the Q&A for this evening.