

INTRODUCTION

In light of recent events in the recreational vehicle (RV) industry, the industry is expected to recover and continue its historical growth pattern. In the short term, recent news from leading RV manufacturers have showed that the industry has slowed down due to increased pressure from gas prices and interest rates. Yet, although the industry has experienced declining sales, total RV shipments for 2005 are expected to be one of the highest since 1978. As a result, coupled with strong fundamental indicators, Victory Partners views this industry has a long term buy.

INDUSTRY OVERVIEW

The RV industry has experienced stable growth over the last 14 years, averaging a CAGR of 9.52% (as measured by the total number of RV sales). The trend reached its pinnacle in 2004, when sales in the RV sector reached record highs of \$14.7 billion (as measured by retail value of wholesale shipments). Although factory-to-dealer shipments of RVs declined 0.6% during the first eight months of 2005 over the same period a year ago, Recreation Vehicle Industry Association (RVIA) reports during August 2005, RV wholesale shipments increased 3.7% over the same period last year. This suggests that, although RV sales have weakened due to high fuel prices, this bump may signal a strong recovery in the industry. The recent increase in the RV industry can be attributed to many factors including a \$59 million marketing campaign in 2003, featuring national broadcast and cable television, print, Internet and radio advertising, and an enhanced marketing expansion program in an effort to reach millions of potential buyers (www.GoRVing.com).

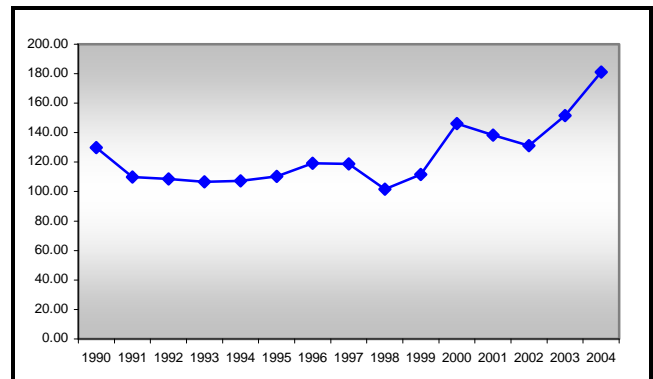
Consumer Confidence Index - 2005



Source: The Conference Board

Even though the current trend indicates stable growth in the RV industry, recent macroeconomic shifts in the economy have led to short-term declines in sales and revenues. The strength of the RV industry has been closely correlated to the consumer confidence index (CCI), whereas when the CCI rises, RV sales increase. When the CCI declines, decrease. From January 2005 to April 2005, the CCI consistently declined from 105 to 97. This drop coincided with recent results from the 2nd quarter (which is traditionally the busiest season for the RV industry) from leading RV resellers. Fleetwood's RV sales were off 21% at \$381 million for the quarter, compared with a year ago. At Winnebago Industries Inc., revenues fell 18% to \$255 million, and Monaco Coach Corp's sales dropped 14% to \$306 million. Yet, even though 2nd quarter results were less than favorable, as depicted in the graph above, the CCI has spiked up, indicating a more favorable economic outlook.

12 Month Average of Regular Gasoline Prices



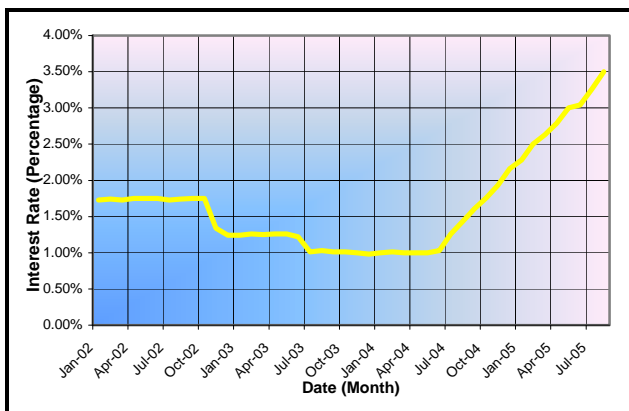
Source: Energy Information Administration

Although the current environment may be less than favorable for the RV manufacturing industry, Hurricane Katrina should spark an immediate jump in RV sales, which in turn, is expected to raise 3rd quarter revenues and expectations. For example, Winnebago's sales spiked 19% during last year's September-to-November quarter, after the four major hurricanes in Florida. Forbes reports that RVs are invaluable in emergencies – from moving families out of high-risk situations to keeping people comfortable and safe during power outages. The recent hurricane is expected to have an emanating effect and benefit to the RV manufacturing industry, as demand for RVs continues to rise as people seek temporary housing needs.

RISK FACTORS

Conditions in the short term are expected to be less than optimal as the fundamental risks in the industry continue to persist. Due to the dramatic increase in gasoline prices and a rising interest rate environment, the RV business has experienced declining results. In a recent research report, a majority of the respondents stated that “while we can all do the math and recognize that a \$0.50 increase in fuel price does not necessarily significantly increase the overall cost of an RV trip, every dealer we spoke with brought up higher fuel prices on an unprompted basis when asked what is holding the buyer back”. In conjunction with weak RV sales, RV manufacturers have seen a relative decline in demand for their products and services. This represents a short-term detriment towards the RV manufacturing industry as pressure continues to build based on future uncertainty in the economy. Yet, while the short-term RV market indicators are experiencing downward pressures, the long-term indicators suggest that the industry will strengthen and grow.

Monthly Interest Rates (2002-2005)



Source: Federal Reserve

RV BUSINESS INDICATORS

In order to understand the RV environment, there are fundamental drivers that influence the behavior and movement of the RV market. First, there has been a rising popularity of U.S. driving vacations versus traveling abroad. This may be due to recent macroeconomic events that may have led many people shifting their vacation destinations inside the US, at the same time, taking advantage of less risky means of transportation and perceived lower risk than traveling by air, given the current condition. Second, the demographics of the economy are shifting (everyday 11,000 Americans turn 50, according to U.S. Census figures) towards increased RV sales. According to a University of Michigan study, buyers aged 35-54 are the largest and fastest growing segment of RV owners. Third, Go RVing (www.GoRVing.com) recently implemented a \$59 million strategic marketing blitz in order to increase the presence of RV traveling to the population. Furthermore, in the last couple years, interest

rates have been at an all time low. This has allowed potential RV buyers the ability to leverage the low interest rates in order to purchase RV's with low interest expense incurred. In addition, the interest expense that is incurred through the loan can be tax deducted through the IRS as a second home mortgage loans. Potential RV owners, of course, view this as a benefit, resulting in lower total cost for their RV purchase. The University of Michigan reports that 8 million households are projected to own RVs by 2010, which would amount to a 15% increase between 2001-2010, outpacing overall U.S. household growth of 10%. These factors represent a very favorable outlook for the future demand and trend in the industry. RV industry forecaster Dr. Richard Curtin reports that an upward trend in RV shipments is projected over the next decade. In conclusion, the major drivers of the RV business indicate that the RV market is poised for substantial growth, due to favorable demographic changes and lifestyle shifts.

RECENT PUBLIC COMPARABLES IN THE RV MANUFACTURING INDUSTRY

The RV manufacturing industry is fairly stable with many large manufacturers poised to capture underserved market share from competitors. The average trailing P/E ratio for the last 12 months from the top 10 market capitalization companies in the industry was measured to be 15.38x. The group exhibited trailing P/E ratios from 3.91-32.70x. In contrast, the average forward P/E ratio from the same 10 companies is measured to be 12.81x. Even though the market believes that the RV manufacturing business will continue to be tested in its current environment, its future growth patterns and indicators are expected to outpace the current determinants related to the RV industry.

Company	Market Cap	Trailing P/E	Forward P/E	Debt/Equity	Price/Book
Johnson Controls	11.58B	12.965	11.95	0.389	2.001
Magna International	8.01B	10.737	9.49	0.149	1.262
Tomkins PLC	3.97B	N/A	11.47	0.604	3.608
Autoliv Inc.	3.89B	12.332	10.66	0.375	1.547
SPX Corp.	3.43B	3.912	15.79	0.293	1.251
BorgWarner Inc.	3.14B	13.984	10.81	0.530	2.028
TRW Automotive	2.75B	32.704	14.10	2.357	2.275
Gentex Corp.	2.54B	24.074	21.32	0.000	3.093
Average		15.38	12.81	0.459	1.994

Victory Partners, LLC is actively involved in analyzing and representing companies in the RV Manufacturing industry, having provided financial advisory services, performed recapitalizations, and completed M&A transactions for middle market companies.

For additional information, please contact Blaine Kauk at blaine@victorypartnersllc.com.