



UConn Student Managed Fund

Generac Holdings (NYSE: GNRC)

January 25th, 2022

Target Price: \$487.11 **Market Cap (\$B):** \$17.1 **P/E Ratio (TTM):** 38.49x **Current Price:** \$278.00 **ROIC:** 16.68% **5Y CAGR:** 13.54% **EV/EBITDA:** 25.86x **Stop Loss:** \$222.40 **Beta:** 1.10 **EBITDA Margin:** 23.81% **52 Week High-Low:** \$243.21-\$524.31
ROE: 30.21% **ROA:** 12.40%

Company Overview

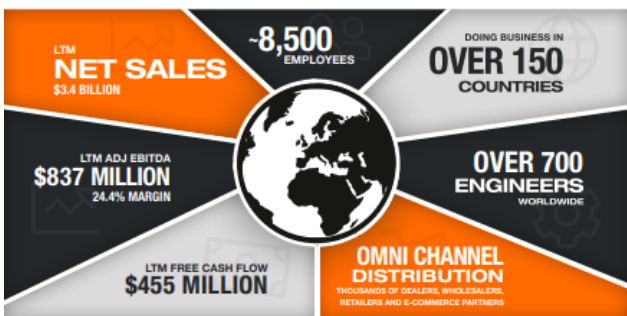
GNRC is a leading designer and manufacturer of products related to power generation and battery storage systems. Generac manufactures generators, transfer switches, pressure washers, water pumps, battery storage solutions, microinverters, and smart home security products. Generac was founded in 1959, by a true engineer named Robert D. Kern with just 5 employees in his garage in Wales Wisconsin.

In 1989, Generac launched its first-ever automatic home standby generator, and since then has been the leader and creator in standby home generators, with 8/10 people owning a Generac standby generator. In 2010, Generac became a public company listed on the NYSE. In March 2021, Generac joined the S&P 500 for the first time in company history.

Today Generac has over 8,500 employees, and its goal is to expand its business to provide efficient and clean energy solutions to power a smarter world. In 2020, about 86% of revenues came from domestic markets, with 14% of products being sold internationally. 67% of revenues came from the residential segment, and roughly 26% came from industrial and commercial sales. Products and solutions are available globally through a broad network of independent dealers, distributors, retailers, e-commerce, wholesalers, and equipment rental companies.

Generac PWR Energy Storage System

- PWRgenerator is the standby generator that will produce electricity for your home or business, in the case of a power outage. Within 10 seconds of losing power, the generator will automatically start powering your building
- PWRcell is a battery storage device that stores excess energy produced via solar panels. The acquisition of Neuroio Technology and Pika Energy helped GNRC gain access in this market
- PWRmanager is an advanced load management device that works in conjunction with PWRview, a user-friendly app, that makes viewing your energy consumption and live data simple.
- PWRcell solar + battery storage systems are being manufactured and offered as Smart Grid Ready, allowing customers to more quickly and seamlessly sell power back to the grid and offset their energy costs. This new and exciting innovation, to be able to sell power back to the grid, is in conjunction with the acquisition of Enbala.



Industry Outlook

Home as a sanctuary is a mega-trend that we believe won't go away post-COVID. Since COVID, people have been spending more time at home, with a greater reliance on reliable and efficient energy solutions that power all their devices and electronics. There is a direct correlation between the amount of time people spend at home and their energy usage costs. Additionally, having reliable internet connectivity is of greater importance for people that WFH.

Secondly, over the last several years, attitudes are changing around global warming and environmental change.

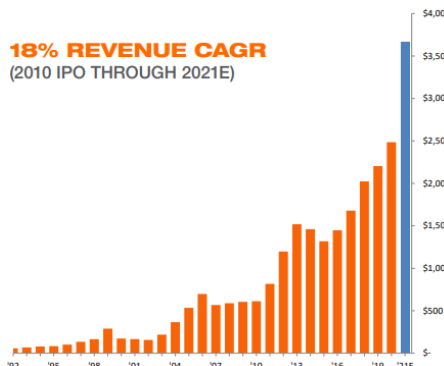
The next key industry trend is energy efficiency. Utility companies are eager to find ways to incorporate those resources to shift peak loads to reduce grid stresses, avoid costly grid upgrades and manage the disruptions caused by increasing levels of intermittent renewables on their systems.

There's been a growing supply and demand imbalance with electricity. We are seeing a rapid growth of the electrification of everything including electric vehicles, to all the devices we use daily. Instead of having fuels like oil or gas flow directly into our homes, offices, and manufacturing facilities, they will be converted to electricity first. The Biden administration has set aside \$174 billion for electric vehicles and related public charging stations, and an additional \$100 billion to bring broadband to those who currently lack it.

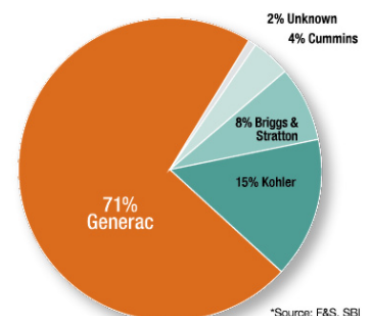
For power generators, we are seeing more companies like Generac start to phase out diesel fuel for natural gas. Compared to diesel, natural gas contains no soot particles, 99% less sulfur oxide, 80% less nitrogen oxide, and up to 30% less CO2 emissions.

Lastly, we have recently seen an increase in severe natural disasters including wildfires, hurricanes, earthquakes that have left consumers without power for days or weeks. Small businesses, hospitals, pharmacies, emergency medical services, and schools cannot afford to lose power for more than a couple of hours.

18% REVENUE CAGR
(2010 IPO THROUGH 2021E)



Market Share by Manufacturer



*Source: F&S, SBI

Investment Thesis

- ✓ HSB Penetration Opportunity
- ✓ Decentralization & Power Storage solutions
- ✓ 5G- Global Telecom Opportunity
- ✓ Investment Style: Mid-cap growth

Investment Risks

- Generac home standby generators face threats from home batteries to supply backup power needs
- Generac's success in the clean energy business is not guaranteed, given strong incumbents
- Generac faces risks of integrating its numerous acquisitions into a cohesive product offering

Financial Performance

Breakdown	TTM	12/31/2020	12/31/2019	12/31/2018
> Total Revenue	3,431,195	2,485,200	2,204,336	2,023,464
Cost of Revenue	2,133,450	1,527,546	1,406,584	1,298,424
Gross Profit	1,297,745	957,654	797,752	725,040
> Operating Expense	581,036	478,548	425,589	367,859
Operating Income	716,709	479,106	372,163	357,181
> Net Non Operating Interest Inc...	-31,334	-32,991	-41,544	-40,956
> Other Income Expense	3,559	76	-11,012	-5,149
Pretax Income	688,934	446,191	319,607	311,076
Tax Provision	153,347	98,973	67,299	69,856
> Net Income Common Stockhold...	527,947	349,329	253,260	220,287

Valuation Assumptions & Key Financials

We recommend a BUY rate for GNRC based on a target price of \$487.11 per share. This target price reflects a 80% margin of safety (MOS) based on its closing price of \$271.16 on January 21st, 2022. We calculated WACC as 6.95% and assumed a terminal growth rate of 3.5% and a 21x exit EV/EBITDA.

Perpetuity Growth Method	
Terminal Year Free Cash Flow	1,225
WACC	6.95%
Perpetuity Growth Rate	3.50%
Terminal Value	36,790
Present Value of TV	27,655
(+) Present Value of Free Cash Flows (@ WACC)	3,586
(=) Current Enterprise Value	31,241
(-) Total Debt	909.84
(-) Preferred Stock / Options Claim on Equity	236
(+) Cash and Marketable Securities	423.730
(=) Equity Value	30,519
Shares outstanding	63.10
Estimated Value per Share (USD)	483.66
Current Price (USD)	271.16
Estimated Upside	212.50
MOS	78%

Terminal EBITDA Method	
Terminal EBITDA at year 2025	1,795
WACC	6.95%
Exit Enterprise Value / EBITDA	21.00
Terminal Value	37,688
Present Value of TV	28,331
(+) Present Value of Free Cash Flows (@ WACC)	3,586
(=) Current Enterprise Value	31,917
(-) Long Term Debt	909.84
(-) Preferred Stock / Options Claim on Equity	236
(+) Cash and Marketable Securities	423.730
(=) Equity Value	31,195
Shares outstanding	63.10
Estimated Value per Share (USD)	494.37
Current Price (USD)	271.16
Estimated Upside	223.21
MOS	82%

ESG Considerations

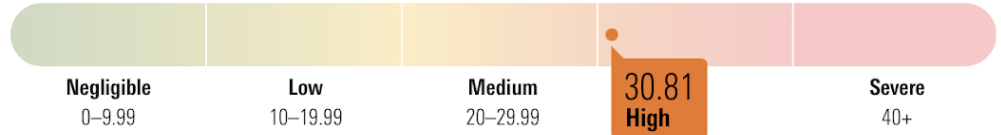
- Generac has an ESG score of 30.81 per Sustainalytics, which is average for companies in the industrials sector
- Generac is dedicated to resilient, efficient, sustainable energy solutions, supporting the transition to a newer, cleaner, more reliable power grid
- Forbes: Named one of America's Best Midsize employer for 2021
- In March 2021, Generac joined the S&P 500 for the first time in company history
- Generac received a Silver award in the 2021 Edison Awards, sustainability and home efficiency solutions category, for its PWRcell Solar + Storage System
- Fortune- Named to Fortune's 2020 list of the 100 fastest Growing Companies
- The Generac Lean Academy (GLA), offered in partnership with Waukesha Technical college, provides customized lean certification to Generac employees.

Sustainability ⓘ

ESG Risk Rating Assessment



ESG Risk Rating



Highest Controversy Level (1 = Low, 5 = Severe)

2 Moderate

Incidents: Customer

Top 3 Material ESG Issues

Product Governance
Overall

Business Ethics
Overall

Human Capital
Overall

ESG Risk Rating is as of Jan 05, 2022. Highest Controversy Level is as of Jan 08, 2022. Sustainalytics Subindustry: Electrical Equipment. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: [sustainalytics.com/esg-ratings/](https://www.sustainalytics.com/esg-ratings/).