

Company: Generac Holdings	Ticker: GNRC	Price: \$103.03	Industry: Industrials	
Target Price: \$129.35 Stop Loss: \$90.00 52 Week High/Low: \$156.95/\$79.86	TTM P/E: 40.81x Forward P/E: 13.99x EPS TTM: \$2.53	Beta (%Y): 1.31 Credit Rating: Ba1 Rating Outlook: Stable	Market Cap: 6.5B Avg. Vol. (3M): 28,294,779 Div. Yield: 0%	

Company Background:

Generac is a leading energy technology company providing backup and prime power generations systems for residential, commercial, and industrial applications. While continuing to be a leader in this space, they are being innovative and taking steps to be the “Home Energy Solution” of the future by providing an integrated platform of products. Their current product offering consists of stationary products, mobile power products, consumer power products, outdoor chore products, and smart home technology. In regards to ESG, Generac is leading in product quality management, energy management, waste management, and board composition. Additionally, they are above the median in sustainable product.

Industry Outlook:

Broadly speaking, the industrial sector encompasses a broad range of industries, including manufacturing, construction, engineering, and various infrastructure related fields. Historically, the sector is heavily influenced by economic conditions, technological advancements, government policies, and global demand. There are also fluctuations due to factors such as supply chain disruptions, shifts in consumer behavior, geopolitical tensions, and advancements in related technologies. Overall, the utilities space in the industry is starting to be divided into 2 types of companies. One type is doubling down on their fossil fuels related businesses while the other is pivoting towards cleaner energy alternatives. The current state of the industry in regard to the residential consumer segment is rough as interest rates continue to remain high and less homes are being built right now.

Investment Thesis:

Generac is a leading manufacturer of reliable products and also happens to be the largest provider of natural gas solutions in North America. They are headquartered in the United States but are doing business in over 150 countries. Generac’s adaptive strategy to keep up with market demands is another factor of their continued success. They’ve done so by continuing to invest in cleaner alternatives, diversify their product offering, and implement strategic acquisitions and growth-oriented capital expenditures to support growth initiatives. Lastly, we believe Generac is undervalued at this point in time relative to their peers .

Investment Risks:

Many companies in this industry are exposed to similar risks. Given Generac’s exposure to the residential consumer market segment, they are more susceptible to the current state of the housing market, which is not ideal due to high interest rates and a lower rate of new homes being built. Once the housing market stabilizes, we can expect to see a revenue increase in the residential segment as new homes being built will need generators. Additionally, companies in this industry are exposed to some commodity risk. Generac has exposure to copper, aluminum, steel, oil, natural gas, and electricity, so it is crucial that they utilize derivatives to hedge against this risk. Another risk factor is ESG,

3-5 takeaway’s from last quarter investor call transcript:

- Gross profit margins increased to 35.1%, driven by lower raw materials and logistics costs and higher net sales
- Cash flow from operations was \$140 million during the third quarter, as compared to \$(56) million in the prior year. Free cash flow, as defined in the accompanying reconciliation schedules, was \$117 million as compared to \$(73) million in the third quarter of 2022
- During the third quarter of 2023, the company repurchased 875,580 shares of its common stock for \$100 million under its current share repurchase program. There is approximately \$178 million remaining under the current repurchase program as of September 30, 2023
- Net income attributable to Generac during the third quarter was \$60 million, or \$0.97 per share, as compared to \$58 million, or \$0.83 per share, for the same period of 2022
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5-Year Financial Performance:

Discounted Cash Flow Valuation:



WACC	9%
Perpetual Growth	3%

Terminal Value	10095
PV of Terminal Value	6458
PV First 5 yr FCF	2991
Enterprise Value	11205
Debt	-1943
Cash	193
Equity Value	9455

Diluted Shares	73.10
Intrinsic Value	129.35
Current Price	102.92
Margin of Safety	25.7%

Relative Valuation (Direct Comps & Historical):

Company Na	Market Data			Financial Data				Valuation				
	Price (\$/share)	Outstanding (m)	Market Cap (\$m)	TEV (\$m)	Sales (\$m)	EBITDA (\$m)	EBIT (\$m)	Earnings (\$m)	EV/Sales x	EV/EBITDA x	EV/EBIT x	P/E x
SolarEdge Te	75.95	56.15	4244.10	3492.40	3110.28	239.06	177.16	93.78	1.12	14.61	19.71	45.47
Cummins, In	216.30	141.38	30638.30	37894.90	28074.00	3713.00	2929.00	2183.00	1.35	10.21	12.94	14.01
EnerSys	85.58	40.91	3512.20	4243.60	3708.58	361.32	270.17	175.81	1.14	11.74	15.71	19.91
Fluence Ener	17.32	114.87	2052.50	1955.90	1198.60	-276.41	-283.52	-110.00	1.63	-7.08	-6.90	-18.09
Generac Hol	84.07	61.89	5232.70	6674.00	4564.74	661.67	567.04	412.61	1.71	7.0	10.58	12.61
Average									1.39	7.29	10.41	14.78
Median									1.35	10.21	12.94	14.01

Total Return % / ESG Analysis:

	GNRC	Industrials Index	SPY
YTD	5.41%	3.32%	14.26%
3 Years	-55.88%	24.34%	24.26%
5 Years	90%	41.73%	59.15%

ESG: Overall score 5.33 (Leading)

- Leading heavily against peers in Environmental and Social
- Governance is above peer median.
- MSCI Rating: A
- Sustainalytics Score: 23.72