

## Compass Diversified Holdings

## Solid 2023 with 2024 outlook even better

Reiterate Rating: BUY | PO: 30.00 USD | Price: 23.76 USD

## Increasing PO to \$30; updating EPS outlook

Following solid Q4 results, we update our '24/'25E adj EPS ests to \$2.08/\$2.33 from \$2.11/\$2.38 and introduce 2026E est of \$2.58. Our 2024 forecast is slightly above the midpoint of guidance. We raise our PO to \$30 from \$27. Our PO is based on a sum-of-the-parts analysis using EV/EBITDA comparable multiples for each subsidiary. We then discount our SOTP value by 5%-10% to reflect a conglomerate discount and other risks.

## 4Q punctuates solid 2023

Despite the complex market environment due to inventory destocking and inflation headwinds, Q4 results were solid given CODI's unique model of branded consumer and niche industrial subsidiaries. And we think CODI is well positioned for strong top and bottom-line growth for the foreseeable future. Q4 adjusted EPS was \$0.53. Relative to the BoFA EPS forecast of \$0.41, the variance was largely related to the industrial segment plus continued strong results from Lugano. Maintain Buy.

## 2024 Adj EPS guide of \$2.03 above Street

CODI's FY2024 guide was better than expected, with adj EPS of \$2.03 at the midpoint (range of \$1.93-\$2.13, Consensus was \$1.89 heading into the Q4 print). CODI also provided guidance on adj EBITDA, noting that they expect the Consumer segment to generate \$370M of adj EBITDA at the midpoint (range of \$355M-\$385M) and the Industrial segment to generate \$130M of adj EBITDA at the midpoint (range of \$125M-\$135M). In total, subsidiary adj EBITDA is expected at \$500M (\$480M-\$520M range) and total adjusted EBITDA (less corporate and management fees) of \$410M (\$390M-\$430M range).

## Consumer segment Adj EBITDA -0.7% in '23

Total consumer revs increased 2.6% vs 2022; that said, performance by subsidiary varied. Lugano grew the top line 53.0% and 5.11 9.6%, while Velocity, BOA, and Primaloft declined. Adj EBITDA was 0.7% lower y/y at \$292.5M (\$294.5M in 2022), as margins declined slightly to 22.0% vs 22.7% in 2022. Lugano Adj EBITDA grew 64.8% and 5.11 increased 8.6% while Velocity, BOA, and Primaloft had 61.4%, 31.8%, and 18.1% adj EBITDA declines, respectively. Positively, inventory destocking headwinds have begun to fade, which could create a "snap-back" effect, in 2024.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.12	2.05	2.08	2.33	2.58
GAAP EPS	(0.22)	2.70	0.44	0.69	0.94
EPS Change (YoY)	17.8%	-3.3%	1.5%	12.0%	10.7%
Consensus EPS (Bloomberg)			2.07	2.38	NA
DPS	1.00	1.00	1.00	1.00	1.00
Valuation (Dec)					
P/E	11.2x	11.6x	11.4x	10.2x	9.2x
GAAP P/E	NM	8.8x	54.0x	34.4x	25.3x
Dividend Yield	4.2%	4.2%	4.2%	4.2%	4.2%

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Timestamp: 06 March 2024 11:03PM EST

06 March 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	27.00	30.00

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## Stock Data

Price	23.76 USD
Price Objective	30.00 USD
Date Established	6-Mar-2024
Investment Opinion	B-1-8
52-Week Range	16.88 USD -23.83 USD
Mrkt Val / Shares Out (mn)	1,788 USD / 75.3
Free Float	85.8%
Average Daily Value	5.08 USD
BoFA Ticker / Exchange	CODI / NYS
Bloomberg / Reuters	CODI US / CODI.N
ROE (2024E)	0%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BoFA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BoFA ESGMeter Methodology"](#).

# iQprofile<sup>SM</sup> Compass Diversified Holdings

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	2,219	2,059	2,291	2,457	2,623
% change	12.4%	-7.2%	11.3%	7.3%	6.7%
Net Fee Income	NA	NA	NA	NA	NA
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	2,219	2,059	2,291	2,457	2,623
Operating Expenses	(2,055)	(2,085)	(2,029)	(2,153)	(2,274)
% change	13.9%	1.4%	-2.7%	6.1%	5.7%
Provisions Expense	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Operating Pre-Tax Income	75	11	139	176	213
Operating Net Income to Comm S/Hold.	32	(16)	89	112	136
GAAP Net Income	51	262	89	112	136

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	3,850	3,817	3,849	3,893	3,897
Average Interest Earning Assets	NA	NA	NA	NA	NA
Total Gross Customer Loans	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Total Customer Deposits	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Tangible Equity	NA	NA	NA	NA	NA
Common Shareholders' Equity	1,137	1,327	1,285	1,261	1,257

## Key Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	NA	NA	NA	NA	NA
Effective Tax Rate	57.6%	242.3%	36.0%	36.0%	36.0%
Loan / Deposit Ratio	NA	NA	NA	NA	NA
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	4.3%	3.9%	4.1%	4.5%	5.0%
ROE	NA	NA	NA	NA	NA
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	56.3%	81.9%	39.9%	35.4%	31.8%
Efficiency Ratio (Cost / Income Ratio)	92.6%	101.2%	88.6%	87.6%	86.7%

## Quality of Earnings (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	0%	0%	0%	0%	0%
NPLs plus Foreclosed Real Estate / Loans	NA	NA	NA	NA	NA
Loan Loss Reserves / NPLs	NA	NA	NA	NA	NA
Loan Loss Reserves / Total Loans	NA	NA	NA	NA	NA

## Company Sector

Financial Services-Consumer/Commercial

## Company Description

Compass' business model is to acquire companies at attractive price multiples, steer them through a transition period of performance improvement, then opportunistically monetize the investments and recycle the capital into new opportunities. The company currently owns seven branded consumer businesses (Marucci, Ergobaby, Lugano, Velocity Outdoor, BOA, Primaloft and 5.11) and three niche industrial businesses (Arnold Magnetic, Sterno, and Foam Fabricators).

## Investment Rationale

CODI allows investors the opportunity to invest alongside a successful middle market private equity manager. CODI's portfolio currently contains an attractive collection of five branded consumer and four niche industrial businesses. Additionally, CODI has meaningful available liquidity to drive future growth.

## Stock Data

Average Daily Volume 213,754

## Quarterly Earnings Estimates

	2023	2024
Q1	0.46A	0.50E
Q2	0.49A	0.49E
Q3	0.57A	0.52E
Q4	0.53A	0.56E

## Industrial segment Adj EBITDA +18.3%

Industrial segment revenues declined 5.1% to \$728.5M in 2023, but strong margin expansion drove Adjusted EBITDA 18.3% higher to \$128.6M. Margins expanded 300bp to 17.7% with solid growth across all businesses, led by +22.9% at Altor. Changing raw material prices and the easing of inflationary pressures boosted margins in 2023.

## Strong liquidity

Leverage was 3.1x, compared to 4.03x the prior quarter. The improvement in leverage was due to the sale of Marucci (generated \$480M of cash at closing). Additionally, CODI sold 3.55M of common shares in a private placement to a mutual fund managed by Allspring Global Investments totaling \$75.2M or \$21.18/share; net proceeds were ~\$74M. At Q4, total liquidity was ~\$1B (\$451M of cash and \$598 available on its revolving credit facility). In February, a portion of CODI's liquidity was deployed to acquire The Honey Pot.

### Exhibit 1: CODI segment breakout

Branded Consumer and Niche Industrial 2023 revenue & adj EBITDA y/y growth

	Year-over-Year			Adjusted EBITDA		
	Revenue					
	2022	2023	Pct chg	2022	2023	Pct chg
<b>Branded Consumer</b>						
5.11	486.2	533.1	9.6%	67.8	73.6	8.6%
Velocity Outdoors	232.2	172.2	-25.8%	33.2	12.8	-61.4%
Ergobaby	88.4	93.9	6.2%	13.5	14.4	6.7%
Lugano	201.5	308.3	53.0%	67.0	110.4	64.8%
Primaloft	79.9	67.1	-16.0%	30.9	25.3	-18.1%
BOA Technology	208.7	155.8	-25.3%	82.1	56.0	-31.8%
	1,296.9	1,330.4	2.6%	294.5	292.5	-0.7%
<b>Niche Industrial</b>						
Sterno	352.2	323.8	-8.1%	41.8	46.7	11.7%
Altor Solutions	261.3	238.0	-8.9%	42.3	52.0	22.9%
Arnold Magnetic	153.8	166.7	8.4%	24.6	29.9	21.5%
	767.3	728.5	-5.1%	108.7	128.6	18.3%
<b>Total</b>	<b>2,064.2</b>	<b>2,058.9</b>	<b>-0.3%</b>	<b>403.2</b>	<b>421.1</b>	<b>4.4%</b>

	2022	2023
<b>Consumer EBITDA margin</b>	<b>22.7%</b>	<b>22.0%</b>
<b>Industrial EBITDA margin</b>	<b>14.2%</b>	<b>17.7%</b>
<b>Total EBITDA margin</b>	<b>19.5%</b>	<b>20.5%</b>

Source: Company reports, BofA Global Research

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## New partnership – The Honey Pot

On February 1, 2024, CODI completed its acquisition of The Honey Pot Co, a leading “better-for-you” feminine care brand for \$380M enterprise value (\$347M funded by CODI). The Honey Pot was founded in 2012 and has grown into the 5<sup>th</sup> largest feminine care brand at retail with an estimated \$17B TAM. In 2023, The Honey Pot had gross sales of \$121M (54% CAGR since 2020) and ~\$29M of adj EBITDA.

The Honey Pot has scaled over the last several years by expanding both its product offerings (into drug and grocery) and its distribution network. CODI believes that The Honey Pot still has ample growth opportunities by increasing brand awareness and its e-commerce segment. Pro forma for The Honey Pot acquisition, leverage increased to 3.7x (from 3.1x at 4Q23).



## Price objective basis & risk

### Compass Diversified Holdings (CODI)

Our \$30 price objective is based on a sum-of-the-parts analysis. We use comparable public company one-year forward EV/EBITDA multiples for each subsidiary. Additionally, we adjust the multiple for quantitative/other factors. We assume the fair market value for newly acquired subsidiaries is equal to the original purchase price. Lastly, we discount our SOTP value by 5-10% to reflect a conglomerate discount and other risks.

Downside risks to our price objective are: 1) material weakening in one or more of the larger subsidiaries, 2) a significant slowdown in commercial activity or government spending, 3) a deteriorating macroeconomic environment, 4) debt covenant violations, and 5) higher unemployment.

## Analyst Certification

I, Derek Hewett, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	FNB Corporation of Pennsylvania	FNB	FNB US	Brandon Berman
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Nuveen Churchill Direct Lending	NCDL	NCDL US	Derek Hewett
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Sixth Street Specialty Lending, Inc	TSLX	TSLX US	Derek Hewett
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Webster Financial Corp.	WBS	WBS US	Brandon Berman
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
<b>NEUTRAL</b>				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Annaly Capital Management	NLY	NLY US	Derek Hewett

## North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Eric Dray, CFA
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Brandon Berman
	Commerce Bancshares Inc.	CBSH	CBSH US	Brandon Berman
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Ladder Capital Corp	LADR	LADR US	Eric Dray, CFA
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Palmer Square Capital BDC	PSBD	PSBD US	Derek Hewett
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	Starwood Property Trust	STWD	STWD US	Eric Dray, CFA
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
<b>UNDERPERFORM</b>				
	Apollo Commercial Real Estate Finance	ARI	ARI US	Eric Dray, CFA
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Eric Dray, CFA
	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	BrightSpire Capital Inc.	BRSP	BRSP US	Eric Dray, CFA
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Eric Dray, CFA
	Zions Bancorp	ZION	ZION US	Brandon Berman

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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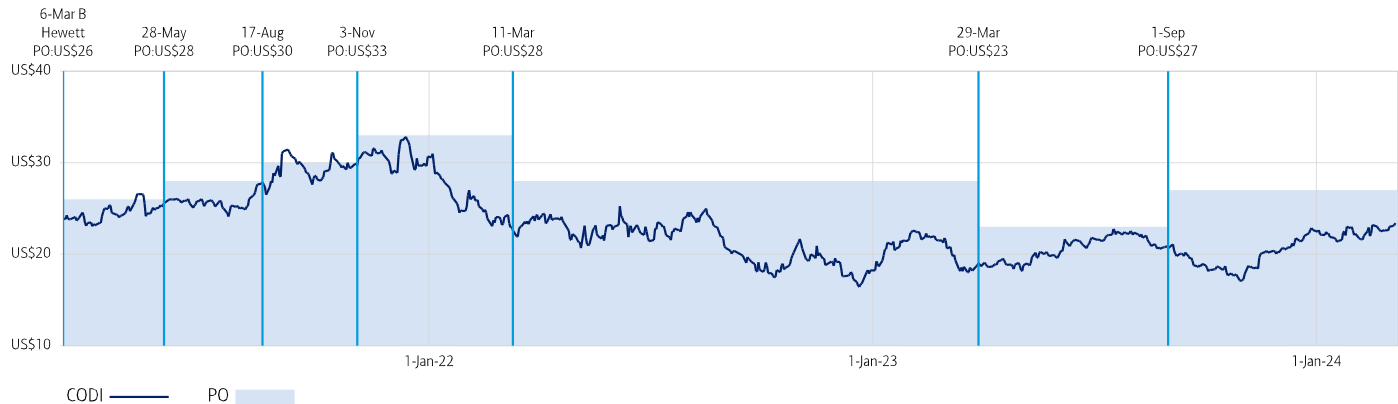
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# Disclosures

## Important Disclosures

### Compass Diversified (CODI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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