

## Patrick Industries, Inc.

## 4Q23: solid execution continues in a challenging end market environment

Reiterate Rating: UNDERPERFORM | PO: 95.00 USD | Price: 105.45 USD

## 4Q23 EPS down (16%) YoY, in-line with our forecast

Patrick reported 4Q23 EPS down (16%) YoY and slightly above our forecast as better marine/housing offset continued recreational vehicle (RV) headwinds. We raise our PO to \$95 (from \$80) as we roll our 6.0x 2025E EV/EBITDA multiple forward to 2025 from 2024. We reiterate our Underperform rating - the worst of channel destocking is over and earnings likely troughed in 2023, but we expect a slow recovery given headwinds from weak demand in RV/marine end markets. We prefer companies in our coverage universe with stronger end market trends (including residential new construction).

## RV and marine end market outlook remain challenging

We expect end market demand to remain weak for RVs (45% of 2023 sales) and marine/powersports (22% of sales), which we expect to result in a slow recovery through 2024 given: 1) higher inventory carrying costs and tighter credit could cause dealers to maintain inventory below historical levels and pressure consumer demand, and 2) we believe there was demand pulled forward into 2020/2021. We also expect content-per-unit to decline on a YoY basis through most of 2024 (but stabilize sequentially from 4Q23 level). PATK mgmt. expects for 2024 RV wholesale unit shipments to be 330K-350K units (down 5-10% YoY) and forecasts 2024 RV retail to be down 5-10%. Wholesale marine shipments are expected to be down 5-10% with retail flat to down mid-single digits in 2024. Total housing revenues are expected to improve through 2024 with flat manufactured housing shipments for full year. We revise ests to reflect some end market recovery in late 2024 and 2025.

## 2024 margin outlook of 30-50bp expansion off low base

Operating margins declined 260bps YoY in 2023. Management expects 2024 operating margin to increase 30 to 50 bps YoY basis driven primarily by improving production volume in 2H (fixed cost leverage) and favorable mix shift to higher margin end margins. PATK closed the Sportech acquisition in late January, which we expect to contribute roughly \$260mm in revenue and \$45-\$50 in EBITDA over the next 12 months (margin accretive). Management previously noted PATK added 100-125 bps of sustainable gross margin improvement vs. 2019 and implemented \$35M in annualized fixed cost reductions that should continue to support margin into 2024.

## 4Q23 roughly in-line with our forecast

PATK reported 4Q23 EPS of \$1.41 vs. our \$1.39 estimate. Sales fell (18%) YoY (double-digit declines in all 3 segments) and operating margin increased ~20bps YoY to 7.3%.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	13.48	6.50	7.32	9.56	11.04
GAAP EPS	13.41	6.49	7.32	9.56	11.04
EPS Change (YoY)	40.0%	-51.8%	12.6%	30.6%	15.5%
Consensus EPS (Bloomberg)			8.07	9.75	9.85
DPS	1.32	1.40	1.48	1.48	1.48
Valuation (Dec)					
P/E	7.82x	16.2x	14.4x	11.0x	9.55x
Dividend Yield	1.25%	1.33%	1.40%	1.40%	1.40%
EV / EBITDA*	5.42x	8.20x	7.37x	6.54x	6.13x
Free Cash Flow Yield*	14.3%	10.8%	7.51%	13.0%	13.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

08 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	80.00	95.00
2024E EPS	7.36	7.32
2025E EPS	8.43	9.56
2026E EPS	NA	11.04

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## Stock Data

Price	105.45 USD
Price Objective	95.00 USD
Date Established	8-Feb-2024
Investment Opinion	C-3-7
52-Week Range	63.57 USD - 107.44 USD
Mrkt Val (mn) / Shares Out (mn)	2,320 USD / 22.0
Free Float	94.2%
Average Daily Value (mn)	12.76 USD
BofA Ticker / Exchange	PATK / NAS
Bloomberg / Reuters	PATK US / PATK.OQ
ROE (2024E)	14.4%
Net Dbt to Eqty (Dec-2023A)	97.0%
ESGMeter <sup>TM</sup>	Low

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"](#).

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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Timestamp: 08 February 2024 11:47PM EST

# iQprofile<sup>SM</sup> Patrick Industries, Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	18.5%	11.0%	11.4%	12.0%	12.6%
Return on Equity	38.3%	14.3%	14.4%	16.3%	16.2%
Operating Margin	10.2%	7.5%	7.9%	8.7%	9.1%
Free Cash Flow	332	251	174	302	312

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	2.2x	1.6x	1.8x	1.6x
Asset Replacement Ratio	1.1x	0.7x	0.9x	0.9x	0.9x
Tax Rate	24.6%	25.3%	26.0%	26.0%	26.0%
Net Debt-to-Equity Ratio	132.0%	97.0%	99.5%	66.1%	39.5%
Interest Cover	9.4x	5.0x	4.8x	6.2x	7.5x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,882	3,468	3,764	4,100	4,294
% Change	19.7%	-29.0%	8.5%	8.9%	4.7%
Gross Profit	1,060	782	862	947	999
% Change	NA	NA	NA	NA	NA
EBITDA	643	425	473	533	569
% Change	40.9%	-34.0%	11.3%	12.7%	6.7%
Net Interest & Other Income	(61)	(69)	(79)	(71)	(63)
<b>Net Income (Adjusted)</b>	<b>330</b>	<b>143</b>	<b>161</b>	<b>210</b>	<b>243</b>
<b>% Change</b>	<b>45.9%</b>	<b>-56.5%</b>	<b>12.7%</b>	<b>30.6%</b>	<b>15.5%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	328	143	161	210	243
Depreciation & Amortization	73	79	92	93	93
Change in Working Capital	(61)	0	(83)	(5)	(28)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	71	88	84	84	84
Capital Expenditure	(80)	(59)	(80)	(80)	(80)
<b>Free Cash Flow</b>	<b>332</b>	<b>251</b>	<b>174</b>	<b>302</b>	<b>312</b>
<b>% Change</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Share / Issue Repurchase	(77)	(12)	0	0	0
Cost of Dividends Paid	(33)	(38)	(33)	(33)	(33)
Change in Debt	(62)	(1)	260	(120)	(120)

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	23	11	100	250	409
Trade Receivables	173	164	248	258	271
Other Current Assets	714	559	577	603	627
Property, Plant & Equipment	351	354	274	192	111
Other Non-Current Assets	1,522	1,474	1,789	1,789	1,789
<b>Total Assets</b>	<b>2,782</b>	<b>2,562</b>	<b>2,988</b>	<b>3,092</b>	<b>3,207</b>
Short-Term Debt	8	8	8	8	8
Other Current Liabilities	360	301	320	351	359
Long-Term Debt	1,276	1,018	1,278	1,158	1,038
Other Non-Current Liabilities	184	190	190	190	190
<b>Total Liabilities</b>	<b>1,827</b>	<b>1,517</b>	<b>1,796</b>	<b>1,707</b>	<b>1,595</b>
<b>Total Equity</b>	<b>955</b>	<b>1,045</b>	<b>1,192</b>	<b>1,386</b>	<b>1,612</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,782</b>	<b>2,562</b>	<b>2,988</b>	<b>3,092</b>	<b>3,207</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Building Products

## Company Description

PATK is a leading component and building products supplier to the RV (45% of sales), marine (22% of sales), manufactured housing (33%) and industrial (11%) end markets. PATK successfully diversified its business away from RVs and expanded its geographic presence through M&A. These acquisitions, along with solid pricing power and market share gains, have led to increased content per unit across segments. Patrick Industries was founded in 1959 and is headquartered in Elkhart, Indiana.

## Investment Rationale

We rate PATK shares at Underperform. Patrick is well positioned within the RV and marine markets, however, we see a challenging outlook for PATK shares and end markets in a rising rate environment.

## Stock Data

Average Daily Volume 121,034

## Quarterly Earnings Estimates

	2023	2024
Q1	1.35A	1.23E
Q2	1.94A	1.82E
Q3	1.81A	2.30E
Q4	1.41A	1.98E

**Exhibit 1: PATK 4Q23 earnings variance compared to our estimates**

Revenue fell across all 3 segments YoY

Income Statement	YoY Change			Variance vs BofAe		
	4Q22	4Q23	YoY	BofAe	4Q23A	Δ
Sales (\$ mm)	\$952	\$781	(18%)	\$765	\$781	2%
Gross Margin	21.1%	22.9%	178 bps	22.7%	22.9%	20 bps
SG&A % of Sales	8.0%	8.7%	61 bps	8.6%	8.7%	5 bps
Operating Margin	7.1%	7.3%	23 bps	7.5%	7.3%	-19 bps
EBITDA Margin	11.4%	12.8%	141 bps	12.8%	12.8%	-2 bps
Pre-tax Margin	5.4%	5.4%	-7 bps	5.3%	5.4%	6 bps
<b>Operating EPS</b>	<b>\$1.68</b>	<b>\$1.41</b>	<b>(16%)</b>	<b>\$1.39</b>	<b>\$1.41</b>	<b>2%</b>
GAAP EPS	\$1.68	\$1.41	(16%)	\$1.39	\$1.41	2%
Segment Results	4Q22	4Q23	YoY	BofAe	4Q23A	Δ
<b>Segment Revenue</b>						
Recreational Vehicle	\$411	\$353	(14.1%)	\$370	\$353	(5%)
Total Housing	\$285	\$254	(10.9%)	\$242	\$254	5%
Marine	\$255	\$174	(31.8%)	\$153	\$174	14%

Source: BofA Global Research, Company Data

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**Exhibit 2: Patrick Industries income statement (\$ millions, except per share data)**

We expect earnings to moderate in 2024

(\$ mm)	2024E				2023	2024E	2025E
YE 12/31	3/31/2024	6/30/2024	9/30/2024	12/31/2024	12/31/2023	12/31/2024	12/31/2025
	1QE	2QE	3QE	4QE			
<b>Net Sales</b>	\$832.5	\$928.9	\$1,029.8	\$973.1	\$3,468.0	\$3,764.3	\$4,100.2
Cost of goods sold	645.2	715.3	792.9	749.3	2,685.8	2,902.7	3,153.7
<b>Gross Profit</b>	<b>\$187.3</b>	<b>\$213.7</b>	<b>\$236.9</b>	<b>\$223.8</b>	<b>\$782.2</b>	<b>\$861.6</b>	<b>\$946.5</b>
Warehouse & delivery	33.3	37.2	41.2	38.9	143.9	150.6	159.9
Selling, general & administrative	74.9	79.0	84.4	83.7	299.4	322.0	337.7
Amortization of intangible assets	22.1	23.4	23.4	23.4	78.7	92.2	93.4
<b>Operating income</b>	<b>\$57.0</b>	<b>\$74.2</b>	<b>\$87.9</b>	<b>\$77.9</b>	<b>\$260.2</b>	<b>\$296.9</b>	<b>\$355.5</b>
Interest expense	20.6	20.1	19.6	19.1	68.9	79.3	71.3
<b>Earnings before income taxes</b>	<b>\$36.4</b>	<b>\$54.1</b>	<b>\$68.3</b>	<b>\$58.8</b>	<b>\$191.3</b>	<b>\$217.6</b>	<b>\$284.2</b>
Income tax expense	9.5	14.1	17.8	15.3	48.4	56.6	73.9
<b>Earnings from continuing operations</b>	<b>\$27.0</b>	<b>\$40.0</b>	<b>\$50.5</b>	<b>\$43.5</b>	<b>\$142.9</b>	<b>\$161.0</b>	<b>\$210.3</b>
<b>Net income attributable to PATK</b>	<b>\$27.0</b>	<b>\$40.0</b>	<b>\$50.5</b>	<b>\$43.5</b>	<b>\$142.9</b>	<b>\$161.0</b>	<b>\$210.3</b>
Non-recurring items	-	-	-	-	-	-	-
<b>GAAP Net Income</b>	<b>\$27.0</b>	<b>\$40.0</b>	<b>\$50.5</b>	<b>\$43.5</b>	<b>\$143.1</b>	<b>\$161.0</b>	<b>\$210.3</b>
Diluted EPS (GAAP, less discontinued ops.)	\$1.23	\$1.82	\$2.30	\$1.98	\$6.50	\$7.32	\$9.56
<b>Diluted EPS (Cont. Ops.)</b>	<b>\$1.23</b>	<b>\$1.82</b>	<b>\$2.30</b>	<b>\$1.98</b>	<b>\$6.50</b>	<b>\$7.32</b>	<b>\$9.56</b>
<b>Common Shares Outstanding:</b>							
Diluted	22.0	22.0	22.0	22.0	22.0	22.0	22.0
<b>EBITDA Calculation</b>							
Adjusted Operating Profit	\$57.0	\$74.2	\$87.9	\$77.9	\$260.2	\$296.9	\$355.5
(+) other expense (income), net	4.0	4.0	4.0	4.0	20.0	16.0	16.0
<b>(=) Adjusted EBIT</b>	<b>\$61.0</b>	<b>\$78.2</b>	<b>\$91.9</b>	<b>\$81.9</b>	<b>\$280.2</b>	<b>\$312.9</b>	<b>\$371.5</b>
(+) Depreciation & Amortization	39.1	40.3	40.3	40.3	144.5	160.0	161.3
<b>(=) Adjusted EBITDA</b>	<b>\$100.1</b>	<b>\$118.5</b>	<b>\$132.2</b>	<b>\$122.2</b>	<b>\$424.8</b>	<b>\$472.9</b>	<b>\$532.8</b>
<b>Margins</b>							
Gross Margin	22.5%	23.0%	23.0%	23.0%	22.6%	22.9%	23.1%
Warehouse & Delivery % of Sales	4.0%	4.0%	4.0%	4.0%	4.1%	4.0%	3.9%
SG&A % Sales	9.0%	8.5%	8.2%	8.6%	8.6%	8.6%	8.2%
Operating Margin	6.8%	8.0%	8.5%	8.0%	7.5%	7.9%	8.7%
Adjusted EBIT Margin	7.3%	8.4%	8.9%	8.4%	8.1%	8.3%	9.1%
<b>Adjusted EBITDA Margin</b>	<b>12.0%</b>	<b>12.8%</b>	<b>12.8%</b>	<b>12.6%</b>	<b>12.2%</b>	<b>12.6%</b>	<b>13.0%</b>
Incremental EBITDA margin	(4.6%)	50.0%	11.5%	11.6%	15.4%	16.3%	17.8%
Pre-tax Margin	4.4%	5.8%	6.6%	6.0%	5.5%	5.8%	6.9%
Net Income (continuing ops)	3.2%	4.3%	4.9%	4.5%	4.1%	4.3%	5.1%
Tax rate	26.0%	26.0%	26.0%	26.0%	25.3%	26.0%	26.0%
<b>YoY % Change</b>							



**Exhibit 1: PATK 4Q23 earnings variance compared to our estimates**  
Revenue fell across all 3 segments YoY

	YoY Change	Variance vs BofAe						
Sales	(7.5%)	0.9%	18.9%	24.6%	(29.0%)	8.5%	8.9%	
Gross Profit	(3.6%)	1.8%	19.0%	25.1%	(26.2%)	10.2%	9.9%	
Operating Profit	1.3%	(1.8%)	23.6%	35.8%	(47.6%)	14.1%	19.7%	
EBIT	(0.8%)	(0.3%)	19.4%	29.1%	(45.3%)	11.7%	18.7%	
EBITDA	3.2%	3.6%	16.5%	22.2%	(34.0%)	11.3%	12.7%	
Pre-tax Profit	(3.5%)	(5.6%)	26.0%	40.0%	(56.1%)	13.8%	30.6%	
Net Income (continuing ops)	(10.7%)	(5.5%)	27.8%	41.2%	(56.5%)	12.7%	30.6%	
EPS	(9.1%)	(6.4%)	27.1%	40.6%	(51.8%)	12.7%	30.6%	

Source: BofA Global Research, Company Data

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## Price objective basis & risk

### Patrick Industries, Inc. (PATK)

Our \$95 price objective is based on 6.0x 2025E adjusted EV/EBITDA, near the low-end Patrick's trading range over the last five years due to macro/demand concerns. Patrick is well positioned within the RV and marine markets, however, we see a challenging outlook for PATK shares and end markets in a rising rate environment..

Downside risks: 1) a weaker macroeconomic environment 2) deterioration in consumer confidence, 3) a rise in interest rates, 4) general weakness in RV and/or marine demand 5) a housing-related slowdown, 6) Customer concentration, 7) higher labor and raw material costs, and 8) acquisitions could fail to materialize or be dilutive.

Upside risks: 1) a stronger macroeconomic environment 2) lower interest rates, 3) strength in RV and/or marine demand 4) housing acceleration 5) lower labor and raw material costs.

## Analyst Certification

I, Rafe Jadrosich, 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.

### US - Homebuilders and Building Products Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Armstrong World Industries, Inc.	AWI	AWI US	Rafe Jadrosich
	Builders FirstSource Inc	BLDR	BLDR US	Rafe Jadrosich
	D.R. Horton, Inc.	DHI	DHI US	Rafe Jadrosich
	Latham Group, Inc.	SWIM	SWIM US	Shaun Calnan, CFA
	Leslie's	LESL	LESL US	Shaun Calnan, CFA
	NVR, Inc.	NVR	NVR US	Rafe Jadrosich
	Owens Corning	OC	OC US	Rafe Jadrosich
	PulteGroup Inc.	PHM	PHM US	Rafe Jadrosich
	The AZEK Company Inc.	AZEK	AZEK US	Rafe Jadrosich
	Toll Brothers, Inc.	TOL	TOL US	Rafe Jadrosich
	TopBuild Corp	BLD	BLD US	Rafe Jadrosich
	Trex Company, Inc.	TREX	TREX US	Rafe Jadrosich
<b>NEUTRAL</b>				
	Dream Finders Homes, Inc.	DFH	DFH US	Rafe Jadrosich
	KB Home	KBH	KBH US	Rafe Jadrosich
	Lennar Corporation	LEN	LEN US	Rafe Jadrosich
	Smith Douglas Homes Corp.	SDHC	SDHC US	Rafe Jadrosich
<b>UNDERPERFORM</b>				
	Fortune Brands Innovations Inc	FBIN	FBIN US	Rafe Jadrosich
	Hayward Holdings, Inc.	HAYW	HAYW US	Rafe Jadrosich
	Masco Corp	MAS	MAS US	Rafe Jadrosich
	Mohawk Industries	MHK	MHK US	Rafe Jadrosich
	Patrick Industries, Inc.	PATK	PATK US	Rafe Jadrosich
	Pool Corporation	POOL	POOL US	Shaun Calnan, CFA



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

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### 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

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### 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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### 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

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

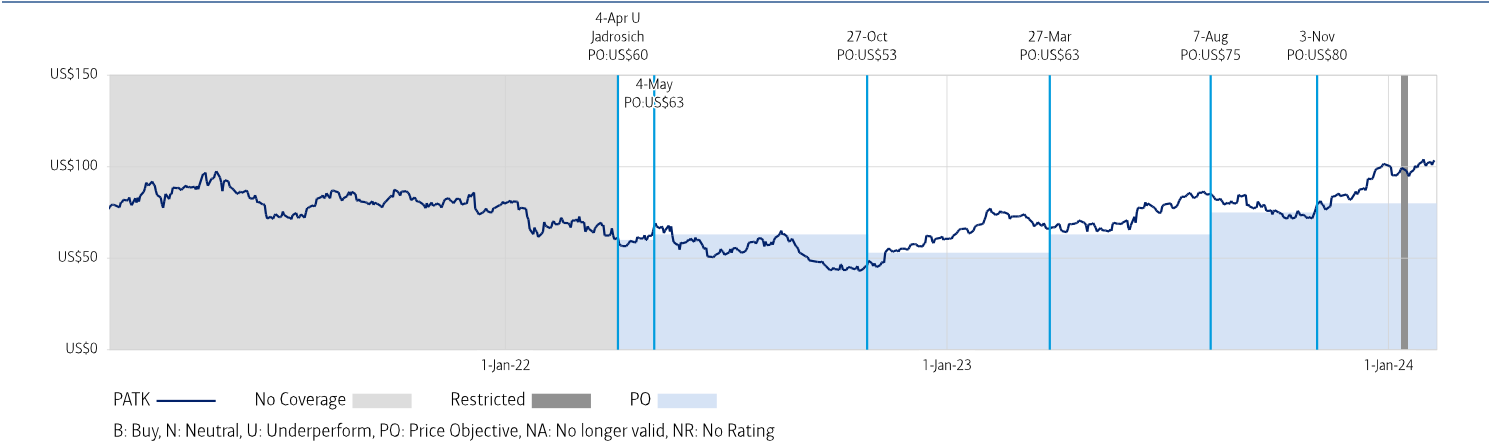
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# Disclosures

## Important Disclosures

Patrick Industries (PATK) Price Chart



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: Building Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	39	44.83%	Buy	22	56.41%
Hold	18	20.69%	Hold	11	61.11%
Sell	30	34.48%	Sell	8	26.67%

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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