

Generac Holdings Inc.

1Q23 exceeded expectations but doesn't reignite optimism, reit. Underperform

Reiterate Rating: UNDERPERFORM | PO: 95.00 USD | Price: 110.47 USD

2023 guidance maintained but challenges linger

Despite a better-than-expected 1Q23, we remain cautious on Generac Holdings's (GNRC) near term outlook. We think GNRC's maintained FY23 guidance remains ambitious given residential pressures and a soft C&I contribution. Channel congestion and business growth strategy execution are the critical concerns for investors today and latest results did not provide sufficient reassurance. See our 1Q23 debrief for further thoughts: [GNRC Beat & Maintain](#).

HSB recovery risks persist: watching inventory still

Although channel inventory drawdown is progressing as expected, we argue channel sell through may remain a challenge. Mgmt. noted days of channel inventory at 1.4-1.5x normalized levels and expects to return to healthy levels by the end of 1H23. However, GNRC does not expect its close rates will recover to pre-pandemic levels until 2024. Together, we struggle to underwrite an acceleration in channel inventory against still softer than normal close rates.

Maintain below Street estimates against low expectations

We reiterate our below Street expectations for GNRC's revenue, EBTIDA, and earnings in 2023 and 2024, as latest data points do not reinforce confidence in a 2H23 home standby (HSB) recovery. Instead, 1Q23 storm activity is still unlikely to contribute to channel destocking, and we reiterate the risk of further resi consumer deterioration and cautious ordering habits from installers and dealers (also cited by ENPH). Despite crediting greater price strength in C&I, we remain below Street from HSB weakness.

Estimate changes and MtM move PO to \$95

We maintain our valuation methodology and continue to use a 50/50 blended EV/EBITDA / DCF valuation, which is consistent with the majority of our cleantech coverage. For our multiples-based approach, we apply a revenue-weighted multiple to the core residential business and another to the C&I business, and on a blended basis, we apply a 11x multiple vs. 10.5x prior. Together we increase our PO to \$95/sh from \$91. We remain cautious on GNRC's improving outlook that necessitates meaningful execution. We see a non-zero percent risk of a guidance cut, since guidance did not contemplate a hard landing, and we flag risk of disappointment to consensus estimates. Reiterate our Underperform.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025
EPS	9.64	7.77	4.17	7.27	NA
GAAP EPS	8.57	5.41	1.84	4.93	NA
EPS Change (YoY)	38.3%	-19.4%	-46.3%	74.3%	NA
Consensus EPS (Bloomberg)			6.26	8.31	9.47
DPS	0	0	0	0	NA
Valuation (Dec)					
P/E	11.5x	14.2x	26.5x	15.2x	NA
GAAP P/E	12.9x	20.4x	60.0x	22.4x	NA
Dividend Yield	0%	0%	0%	0%	NA
EV / EBITDA*	8.3x	7.4x	14.8x	9.5x	NA
Free Cash Flow Yield*	4.2%	-0.4%	3.8%	1.0%	NA

* For full definitions of *IQmethod*SM measures, see page 11.

09 May 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	91.00	95.00
2023E Rev (m)	3,428.9	3,557.3
2024E Rev (m)	4,020.7	4,074.9
2025 Rev (m)	4,497.6	NA
2023E EPS	3.83	4.17
2024E EPS	6.88	7.27
2025 EPS	8.27	NA

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Stock Data

Price	110.47 USD
Price Objective	95.00 USD
Date Established	9-May-2023
Investment Opinion	C-3-9
52-Week Range	86.29 USD - 299.85 USD
Mkt Val (mn) / Shares Out (mn)	7,124 USD / 64.5
Average Daily Value (mn)	135.79 USD
BoFA Ticker / Exchange	GNRC / NYS
Bloomberg / Reuters	GNRC US / GNRC.N
ROE (2023E)	11.5%
Net Dbt to Eqty (Dec-2022A)	54.8%
ESGMeter SM	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"](#).

HSB = Home Standby Generator

C&I = Commercial & Industrial

Mgmt.: Management

Resi: residential

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Refer to important disclosures on page 12 to 14. Analyst Certification on page 9. Price Objective Basis/Risk on page 9.

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Timestamp: 09 May 2023 06:43AM EDT

iQprofileSM Generac Holdings Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025
Return on Capital Employed	21.4%	18.3%	6.2%	12.1%	NA
Return on Equity	34.4%	22.7%	11.5%	20.0%	NA
Operating Margin	19.9%	16.2%	8.6%	13.7%	NA
Free Cash Flow	301	(28)	273	75	NA

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025
Cash Realization Ratio	0.7x	0.1x	1.4x	0.3x	NA
Asset Replacement Ratio	1.2x	0.5x	0.5x	0.4x	NA
Tax Rate	19.7%	24.6%	48.0%	31.2%	NA
Net Debt-to-Equity Ratio	36.6%	54.8%	43.2%	40.1%	NA
Interest Cover	24.1x	15.2x	3.4x	6.2x	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025
Sales	3,737	4,562	3,557	4,075	NA
% Change	50.4%	22.1%	-22.0%	14.5%	NA
Gross Profit	1,360	1,520	1,132	1,328	NA
% Change	42.0%	11.7%	-25.5%	17.3%	NA
EBITDA	885	994	497	773	NA
% Change	49.3%	12.3%	-50.0%	55.7%	NA
Net Interest & Other Income	(32)	(54)	(90)	(90)	NA
Net Income (Adjusted)	619	508	260	453	NA
% Change	39.4%	-18.0%	-48.9%	74.3%	NA

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025
Net Income from Cont Operations (GAAP)	557	409	0	0	NA
Depreciation & Amortization	92	159	175	216	NA
Change in Working Capital	(259)	(465)	187	(15)	NA
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	21	(44)	(9)	(46)	NA
Capital Expenditure	(110)	(86)	(80)	(80)	NA
Free Cash Flow	301	-28	273	75	NA
% Change	-29.0%	NM	NM	-72.7%	NA

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025
Cash & Equivalents	147	133	306	205	NA
Trade Receivables	546	522	536	614	NA
Other Current Assets	1,155	1,527	1,185	1,213	NA
Property, Plant & Equipment	441	468	483	493	NA
Other Non-Current Assets	2,588	2,520	2,419	2,319	NA
Total Assets	4,878	5,169	4,928	4,844	NA
Short-Term Debt	78	62	62	62	NA
Other Current Liabilities	1,078	930	836	911	NA
Long-Term Debt	902	1,369	1,269	1,094	NA
Other Non-Current Liabilities	548	439	391	407	NA
Total Liabilities	2,606	2,800	2,558	2,474	NA
Total Equity	2,272	2,370	2,370	2,370	NA
Total Equity & Liabilities	4,878	5,169	4,928	4,844	NA

* For full definitions of iQmethodSM measures, see page 11.

Company Sector

Industrial Machinery

Company Description

Generac is a leading designer and manufacturer of a broad class of standby and portable generators. The company holds an estimated 80% market share in North American residential standby generator market. Generac has also recently invested in a backup solar energy storage business that is growing rapidly, while also maintaining a large commercial and industrial business that accounts for about 40% of sales.

Investment Rationale

We rate Generac (GNRC) as Underperform. Generac has a leading market share in the US residential home standby generator business but we see a more challenged backdrop ahead. The company is working through inventory headwinds and seeks to relaunch its clean energy strategy. The exposure to consumer discretionary and cyclical patterns is underappreciated and visibility into growth/recovery has dimmed. As a result, we see a more cautious skew for shares ahead.

Stock Data

Average Daily Volume 1,229,227

Quarterly Earnings Estimates

	2022	2023
Q1	2.16A	0.61E
Q2	2.82A	0.86E
Q3	1.31A	1.22E
Q4	1.52A	1.48E

Hard to underwrite the HSB recovery

We reduce our below consensus expectations for residential and Clean Energy segments, despite mgmt.'s insistence that it will see a 2H23 recovery. Although GNRC saw significantly higher in-home consultation (IHC) levels than usual, we argue this is not the most relevant data point. Mgmt. noted that close rates remain below pre-pandemic levels, and it does not expect to return to normalized close rates during 2023. If this recovery in close rates, another proxy for end customer demand, is a 2024 phenomenon, we argue it is difficult to underwrite a 2H23 channel destocking event.

Moreover, mgmt. noted that its dealer count decreased in 1Q23, which we argue is a cautious data point for HSB and clean energy demand. Although mgmt. did not provide a justification for dealer churn outside of traditional seasonality, we believe this negative change does not bode well for GNRC, who intends to draw down its channel inventory at an accelerating rate.

We grow increasingly concerned about HSB throughput, given GNRC's elevated channel inventory. GNRC maintains its view that its channel inventory drawdown will be 2Q23 weighted. Mgmt. quoted days of channel inventory near 1.4-1.5x normalized levels as of the 1Q23 earnings call. GNRC continues to expect to return to 1x days of channel inventory around 2Q23 end. Despite very strong In-House Consults (IHCs) and active storm and outage activity, GNRC expects its channel congestion will prevail through 1H23 end; said differently, mgmt. does not presently expect any incremental dealer or distributor demand in 1H23, despite the active winter storm season. Although a seasonally softer 1H is historically consistent, we remain cautious on GNRC's ultimate ability to push HSB through the channel, if the active winter storm season does not accelerate the drawdown in elevated channel inventory.

We note a growing focus on the C&I segment: we continue to see this as a key source of improvement- but stress still modest overall guidance for '23 as holding back our enthusiasm. Watch C&I angles both domestically and abroad, even if at lower margins as a key source of real demand growth. Will we see a shift in its approach to sales to complement its ongoing residential challenges – this could still play out.

Despite better-than-expected print, we maintain our below Street model

Ultimately, we keep our assumptions for HSB roughly flat for FY23 and FY24. We give GNRC slightly more credit on HSB pricing after mgmt. noted that it is still annualizing 2022 resi price increases and does not yet see pressures that require HSB price cuts. We also credit C&I price increases, which have been taken in late 2022 and early 2023 and drive our C&I segment GM expansion. Given expected softness in telecom later in 2023, we shift the mix of C&I volumetric growth. Although GNRC maintained its guidance for 2023, we argue these comments reinforce the idea that C&I will only see muted growth this year and is not expected to be an outsized contributor to topline or EBITDA growth.

We continue to point to the nonzero percent chance that GNRC eventually moderates its FY23 guidance still. Note, GNRC's FY23 guidance contemplated a soft landing. BofA expects a hard landing, and given the discretionary nature of GNRC's residential offerings, we argue GNRC may see even weaker residential and C&I sales than we previously contemplated. Since HSB is GNRC's richest gross margin, EBITDA, and FCF product, there is a tangible risk of a guidance cut and an underwhelming outlook. We argue risk of negative estimate revisions and a guidance cut skew the risk reward clearly to the downside in 2023 and 2024.



Exhibit 1: GNRC Key Metrics: BofA vs. Consensus

We highlight key metrics across GNRC's financial statements and compare them to consensus numbers... Fall Analyst Day offers moment to rebase and reset what appears quite a stale guide on '24.

	1Q22	2Q22	3Q22	4Q22	FY2022	1Q23	2Q23	3Q23	4Q23	FY2023	FY2024	FY2025
Key Metrics												
Income Statement, \$ mn												
Total Revenue	\$1,135.9	\$1,291.4	\$1,088.3	\$1,049.2	\$4,564.7	\$887.9	\$831.3	\$887.1	\$951.0	\$3,557.3	\$4,074.9	\$4,559.7
Residential	\$776.9	\$896.0	\$664.1	\$574.8	\$2,911.9	\$418.9	\$397.8	\$432.5	\$467.6	\$1,716.8	\$2,034.4	\$2,265.2
HSB	\$604.0	\$755.4	\$524.0	\$423.2	\$2,306.7	\$283.4	\$266.5	\$290.2	\$305.9	\$1,146.0	\$1,381.0	\$1,544.7
Clean Energy	\$83.4	\$88.6	\$67.9	\$64.2	\$304.2	\$71.6	\$69.8	\$73.4	\$81.2	\$295.9	\$373.9	\$436.5
C&I	\$278.7	\$309.3	\$311.2	\$361.5	\$1,260.7	\$363.0	\$334.6	\$333.7	\$362.5	\$1,393.8	\$1,580.3	\$1,816.0
Other	\$80.2	\$86.0	\$113.0	\$113.0	\$392.1	\$106.1	\$98.9	\$120.9	\$120.9	\$446.7	\$460.1	\$478.5
Prior Estimates												
Total Revenue	\$1,135.9	\$1,291.4	\$1,088.3	\$1,001.9	\$4,564.7	\$849.9	\$890.0	\$987.2	\$1,086.1	\$3,813.2	\$4,434.5	\$4,839.5
Residential	\$776.9	\$896.0	\$664.1	\$622.2	\$2,911.9	\$425.9	\$437.7	\$531.4	\$589.7	\$1,984.6	\$2,347.9	\$2,496.4
HSB	\$604.0	\$755.4	\$524.0	\$453.5	\$2,306.7	\$302.3	\$322.3	\$372.9	\$411.2	\$1,408.6	\$1,687.1	\$1,762.2
Clean Energy	\$83.4	\$88.6	\$67.9	\$80.9	\$304.2	\$58.0	\$63.0	\$86.1	\$93.6	\$300.7	\$381.1	\$450.1
C&I	\$278.7	\$309.3	\$311.2	\$302.5	\$1,260.7	\$311.8	\$338.8	\$339.4	\$380.1	\$1,370.0	\$1,614.4	\$1,852.0
Other	\$80.2	\$86.0	\$113.0	\$77.3	\$392.1	\$112.3	\$113.6	\$116.3	\$116.3	\$458.5	\$472.3	\$491.2
Revenue Growth Y/Y, %												
Total Revenue	40.7%	40.4%	15.4%	-1.7%	22.1%	-21.8%	-35.6%	-18.5%	-9.4%	-22.1%	358.9%	448.5%
Residential	43.3%	49.3%	9.1%	-18.6%	18.5%	-46.1%	-55.6%	-34.9%	-18.6%	-41.0%	385.7%	469.5%
C&I	37.7%	21.6%	20.5%	27.3%	26.2%	30.2%	8.2%	7.2%	0.3%	10.6%	335.4%	442.7%
Other	27.5%	31.0%	49.5%	46.2%	39.3%	32.3%	15.0%	7.0%	7.0%	13.9%	333.8%	383.7%
Consensus Revenue												
Total Revenue	\$1,135.9	\$1,291.4	\$1,088.3	\$1,049.2	\$4,564.7	\$887.9	\$976.5	\$1,111.4	\$1,155.5	\$4,127.1	\$4,529.4	\$4,817.5
Residential	\$776.9	\$896.0	\$664.1	\$581.4	\$2,918.5	\$426.2	\$537.3	\$655.9	\$669.3	\$2,291.1	\$2,556.4	\$2,700.3
C&I	\$278.7	\$309.3	\$311.2	\$356.9	\$1,256.1	\$358.3	\$339.1	\$330.8	\$361.5	\$1,384.7	\$1,467.5	\$1,566.5
Other	\$80.2	\$86.0	\$113.0	\$113.0	\$392.1	\$104.7	\$102.6	\$119.3	\$122.9	\$447.5	\$488.8	\$492.0
Guidance												
Total Revenue					+36-40% y/y; \$5.1 - \$5.2 bn implied; cut to 22-24% pre-3Q22; \$4.4 - \$4.6 bn implied					-6 - -10%, includes 1% favorable impact from acquisitions & FX; 44% revs in 1H & 56% of revs in 2H	+13-15% CAGR off '21 *issued before Ecobee; Ecobee to grow at 3x full business; implied \$5.3 - \$6.3 bn	
Residential										Resi return to y/y growth in 2H23; high- teens declines y/y Mid to high single digit y/y growth in C&I	+11-13% CAGR off '21 *issued before Ecobee	
C&I											+18-20% CAGR off '21	
Total Revenue	\$1,135.9	\$1,291.4	\$1,088.3	\$1,049.2	\$4,564.7	\$887.9	\$831.3	\$887.1	\$951.0	\$3,557.3	\$4,074.9	\$4,559.7
Domestic	\$964.7	\$1,107.4	\$931.1	\$864.6	\$3,867.9	\$704.4	\$640.0	\$709.1	\$759.0	\$2,812.5	\$3,307.7	\$3,769.5
International	\$171.2	\$184.0	\$157.1	\$184.6	\$696.9	\$183.5	\$191.3	\$178.0	\$192.0	\$744.9	\$767.2	\$790.2
Consensus Revenue												
Domestic	\$964.7	\$1,107.4	\$931.1	\$864.1	\$3,857.5	\$707.8	\$786.8	\$923.5	\$955.6	\$3,368.6	\$3,665.9	\$3,806.6
International	\$171.1	\$184.0	\$157.1	\$188.3	\$715.3	\$189.0	\$193.6	\$191.7	\$210.1	\$784.2	\$903.8	\$985.2
Gross Profit, \$ mn	\$360.7	\$457.0	\$361.1	\$343.2	\$1,522.0	\$272.5	\$257.4	\$285.5	\$317.0	\$1,132.4	\$1,327.9	\$1,523.5
Gross Margin, %	31.8%	35.4%	33.2%	32.7%	33.3%	30.7%	31.0%	32.2%	33.3%	31.8%	32.6%	33.4%
Prior Estimates												
Gross Profit, \$ mn	\$360.7	\$457.0	\$361.1	\$316.7	\$1,522.0	\$253.6	\$275.7	\$328.2	\$374.6	\$1,232.0	\$1,469.4	\$1,635.1

Exhibit 1: GNRC Key Metrics: BofA vs. Consensus

We highlight key metrics across GNRC's financial statements and compare them to consensus numbers... Fall Analyst Day offers moment to rebase and reset what appears quite a stale guide on '24.

	1Q22	2Q22	3Q22	4Q22	FY2022	1Q23	2Q23	3Q23	4Q23	FY2023	FY2024	FY2025
Gross Margin, %	31.8%	35.4%	33.2%	31.6%	33.3%	29.8%	31.0%	33.2%	34.5%	32.3%	33.1%	33.8%
Consensus Gross Profit, \$ mn	\$360.7	\$457.0	\$361.1	\$343.2	\$1,522.0	\$272.5	\$316.1	\$392.4	\$426.1	\$1,405.0	\$1,594.0	\$1,714.1
Consensus Gross Margin, % (Implied)	31.8%	35.4%	33.2%	32.7%	33.3%	30.7%	32.4%	35.3%	36.9%	34.0%	35.2%	35.6%
Net Income (GAAP), \$ mn	\$113.9	\$156.4	\$58.3	\$71.0	\$399.5	\$12.4	\$28.5	\$51.1	\$67.1	\$159.1	\$352.9	\$447.4
Net Income Margin, %	10.0%	12.1%	5.4%	6.8%	8.8%	1.4%	3.4%	5.8%	7.1%	4.5%	8.7%	9.8%
EPS Diluted (GAAP), \$	\$1.57	\$2.21	\$0.83	\$0.83	\$5.41	\$0.05	\$0.27	\$0.64	\$0.87	\$1.84	\$4.93	\$6.44
Cash Net Income (Adj.), \$ mn	\$139.9	\$182.2	\$84.0	\$96.7	\$502.8	\$38.3	\$53.5	\$76.1	\$92.1	\$259.9	\$452.9	\$547.4
Cash Net Income Margin, %	10.3%	12.2%	5.6%	7.0%	9.0%	1.6%	3.4%	5.8%	7.1%	4.5%	8.7%	9.8%
Cash EPS Diluted (Adj.), \$	\$2.16	\$2.82	\$1.31	\$1.52	\$7.77	\$0.61	\$0.86	\$1.22	\$1.48	\$4.17	\$7.27	\$8.79
Consensus Net Income (Adj.), \$ mn	\$113.9	\$156.4	\$58.3	\$71.3	\$400.1	\$12.6	\$50.7	\$102.7	\$120.8	\$285.7	\$407.3	\$488.0
Consensus EPS Diluted (Adj.), \$	\$1.74	\$2.41	\$0.91	\$1.10	\$6.16	\$0.20	\$0.80	\$1.63	\$1.91	\$4.53	\$6.55	\$7.80
EBITDA, \$ mn	\$196.4	\$271.5	\$183.8	\$173.7	\$825.4	\$100.1	\$105.3	\$135.2	\$156.3	\$496.9	\$773.5	\$898.6
Domestic EBITDA, \$ mn	\$170.4	\$241.9	\$159.8	\$144.1	\$716.3	\$67.7	\$83.2	\$106.4	\$136.6	\$393.8	\$625.3	\$753.9
International EBITDA, \$ mn	\$26.0	\$29.5	\$24.0	\$29.5	\$109.1	\$32.4	\$22.1	\$28.8	\$19.7	\$103.0	\$148.1	\$144.7
EBITDA Margin, %	17.3%	21.0%	16.9%	16.6%	18.1%	11.3%	12.7%	15.2%	16.4%	14.0%	19.0%	19.7%
Domestic EBITDA Margin, %	17.7%	21.8%	17.2%	16.7%	18.5%	9.6%	13.0%	15.0%	18.0%	14.0%	18.9%	20.0%
International EBITDA Margin, %	15.2%	16.1%	15.3%	16.0%	15.7%	17.7%	11.5%	16.2%	10.3%	13.8%	19.3%	18.3%
Incremental EBITDA Margin, %	-5.4%	14.5%	-17.4%	261.7%	-4.4%	38.9%	36.1%	24.6%	17.7%	32.6%	53.4%	25.8%
<i>Prior Estimates</i>												
EBITDA, \$ mn	\$196.4	\$271.5	\$183.8	\$175.3	\$825.4	\$82.3	\$111.5	\$158.6	\$188.2	\$540.6	\$856.1	\$964.7
EBITDA Margin, %	17.3%	21.0%	16.9%	17.5%	18.1%	9.7%	12.5%	16.1%	17.3%	14.2%	19.3%	19.9%
Consensus EBITDA, \$ mn	\$193.2	\$256.0	\$126.7	\$149.3	\$728.2	\$85.2	\$129.3	\$190.4	\$217.4	\$629.7	\$795.0	\$869.5
Consensus EBITDA Margin, % (Implied)	17.0%	19.8%	11.6%	14.2%	16.0%	9.6%	13.2%	17.1%	18.8%	15.3%	17.6%	18.0%

Source: BofA Global Research estimates, Visible Alpha

BofA GLOBAL RESEARCH

Valuation: Evolution of GNRC's business would necessitate a methodology refresh

Despite GNRC's maintained FY23 guidance, we argue GNRC's growth outlook remains uncertain. We maintain our valuation methodology at 50 / 50 weighted EV/EBITDA / DCF. Since GNRC's fundamental outlook is increasingly representative of a commercial business, we argue the business should be valued using consumer industrial and commercial industrial comparables. We argue the outlook for GNRC's largest revenue contributor and highest margin product (HSB) will continue to weigh on financials through 2023, and with a Clean Energy delay, GNRC's growth outlook looks muted. Despite mgmt.'s insistence that its HSB category is intact, we highlight deteriorating macro backdrop and unfavorable channel inventory dynamics, as driving our still pessimistic outlook. With still strained fundamentals and steep execution risk ahead, we see further downside to consensus estimates and risk of continued multiple compression. Together, we argue the risk of a guidance cut and downward estimate revisions negatively skews the risk reward.

We maintain our below Street estimates to reflect our lack of confidence in HSB recovery and the negative impact of a margin-dilutive mix shift. Sustained and worsening resi weakness weighs on gross and EBITDA margins and dampens earnings power. Still cautious updates from mgmt. combined with a lofty 2H23-weighted inflection, elevates execution risk for GNRC. On net, we increase our PO to \$95/sh from \$91/sh. Guidance from mgmt. embeds sizable turnaround throughout 2023, which we argue looks increasingly unlikely, and without quantitative signs of execution, we are unwilling to credit the lofty recovery. Together, we see a nonzero percent risk of a guidance cut, since guidance did not contemplate a hard landing, and we flag risk of



disappointment to consensus estimates. Reiterate Underperform. We highlight upside risk from potential activist activity, given prominent market positioning, strong consumer brand, and spotty mgmt. execution in recent years.

Exhibit 2: GNRC Blended Growth/Value Based Valuation

We increase our PO to \$95/sh, reflecting a 50 / 50 weighting for our EV/EBITDA and DCF methodologies

GNRC Valuation

	<i>Value/Sh</i>	<i>Weight</i>	<i>Weighted Value</i>
EV/EBITDA	\$119.00	50%	\$59.50
DCF	\$71.00	50%	\$35.50
GNRC Value/Share			\$95.00
Share Price (As of 05/08/23)			\$110.47
Premium (Discount) to Share Price			(14.0%)
2023E Dividend Yield			0.0%
Total Expected Return			(14.0%)

Source: Company Filings, Bloomberg, & BofA Global Research estimates

BofA GLOBAL RESEARCH

Valuation Method 1: EV/EBITDA

We refresh our growth valuation methodology. We maintain a 2024 anchored EV/EBITDA valuation. As GNRC's business experiences somewhat of a trough in 2023, we argue it is reasonable to value on 2024, where earnings are cleaner (i.e. not muddled by the HSB air pocket and cleantech rebuild). The mark to market of this peer multiple is 11x on '24 EBITDA vs. 10.5x on '24 EBITDA prior. We continue to use a blended comparable universe, which is comprised of commercial industrial businesses, as opposed to purely residential-facing brands. Therefore, we apply a revenue-weighted multiple to GNRC's C&I business (9x on '24 EBITDA) and the prior, residential industrial multiple to the rest of GNRC's business (12x on '24 EBITDA). We prefer this methodology over an arbitrary discount to cleantech or industrial peers, for example.

With a Clean Energy 'reboot' ahead, we believe many investors will likely be hesitant to underwrite significant growth. Although GNRC has historically offered attractive FCF and long-term growth vs. industrials peers, we believe GNRC deserves to trade in line with a broader collection of industrials peers today (i.e. both residential and commercial industrial businesses), while mgmt. resets fundamentals and with hefty execution ahead. Ultimately, our blended 11x EV/EBITDA method implies a valuation of \$119/sh.

Exhibit 3: GNRC EV/EBITDA Valuation

We apply a revenue-weighted EV/EBITDA multiple to GNRC's C&I business and apply another residential industrial multiple to the remaining portion of the business, resulting in a valuation of \$119/sh

Generac Financials

	2023	2024
Revenues	\$3,557	\$4,075
Est. Residential & Other Business	\$1,868	\$2,121
Est. Clean Energy Business	\$296	\$374
Est. C&I Business	\$1,394	\$1,580
Gross Margin	\$1,132	\$1,328

Generac Sum of the Parts

2023 - Illustrative

	EBITDA	EV/EBITDA	Prem/(Disc)	EV	EV per Share
Estimated Run-Rate Residential (HSB, Other)	\$261	13.0x	0.0x	\$3,391	\$54
Estimated Run-Rate Clean Energy	\$41	13.0x	0.0x	\$537	\$9
Estimated Run-Rate C&I Mix	\$195	9.5x	0.0x	\$1,850	\$30
EBITDA	\$497	11.5x	0.0x	\$5,778	\$93
Implied (Discount) Premium to Industrial Peers		-12%			

Net Debt (Cash)	\$1,025
Equity Value	\$4,753
Shares Outstanding	62
Equity Value per Share - Illustrative	\$76

Exhibit 3: GNRC EV/EBITDA Valuation

We apply a revenue-weighted EV/EBITDA multiple to GNRC's C&I business and apply another residential industrial multiple to the remaining portion of the business, resulting in a valuation of \$119/sh

Generac Financials

2024	EBITDA	EV/EBITDA	Prem/(Disc)	EV	EV per Share
Estimated Run-Rate Residential (HSB, Other)	\$403	12.0x	0.0x	\$4,830	\$78
Estimated Run-Rate Clean Energy	\$71	12.0x	0.0x	\$852	\$14
Estimated Run-Rate C&I Mix	\$300	9.0x	0.0x	\$2,700	\$43
EBITDA	\$773	11.0x	0.0x	\$8,382	\$135
Net Debt (Cash)					\$950
Equity Value					\$7,431
Shares Outstanding					62
Equity Value per Share					\$119
Valuation (2024)					\$119
Potential Price Return					8%
Dividend					-
Total Potential Return					8%

Source: Company Filings, Bloomberg, & BofA Global Research estimates

BofA GLOBAL RESEARCH

Valuation Method 2: DCF

We apply a DCF to GNRC, which we use to value our other FCF generating cleantech names. Our DCF based valuation assumes a 4.0% risk free rate (consistent with valuation assumptions across our renewables coverage). We maintain an equity risk premium of 6.25% to reflect broad based increases in the cost of equity against the recessionary backdrop. Together, we apply a 12.2% discount rate. We maintain our terminal multiple at 9x, which is at a healthy discount to premium cleantech peers ENPH (20x) and SEDG (17x). We feel this terminal multiple reflects the compression in multiples across cleantech and the broader market, given recessionary pressures. In the near term, we think GNRC's ongoing reset in clean energy segment would warrant a discount. Post 1Q we are more intrigued by mgmt's reset and expanded offering in the cleantech side as well as continuing to expand its C&I offering with its September Analyst Day. Prior to this we reflect a terminal multiple at a significant discount to our cleantech coverage. Coupled with estimate changes, our DCF implies a valuation of \$71/sh.

Exhibit 4: Generac DCF Valuation

Reduce our terminal multiple and maintain a 12.2% discount rate, which reflects elevated 10 yr treasuries and an increased equity risk premium, our DCF implies a valuation of \$71/sh

GNRC - DCF Methodology	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
DCF - less Stock Based Compensation and Debt Amortization								
Free Cash Flows (\$ mn)	\$441	\$473	\$583	\$685	\$740	\$786	\$837	\$889
Less: Stock Based Compensation	\$37	\$40	\$43	\$47	\$50	\$54	\$59	\$63
Adjusted Free Cash Flows (\$ mn)	\$404	\$433	\$540	\$638	\$690	\$731	\$778	\$826
Free Cash Flows to Equity (\$ mn)	\$404	\$433	\$540	\$638	\$690	\$731	\$778	\$826
<i>Discount Rate - Cost of Equity</i>	12%	12%	12%	12%	12%	12%	12%	12%
<i>Discount Factor</i>	0.89	0.79	0.71	0.63	0.56	0.50	0.45	0.40
Discounted Free Cash Flows	\$360	\$344	\$383	\$403	\$388	\$367	\$348	\$329
DCF Value through '30	\$2,923							
DCF Value through 2025	\$1,087							
Terminal Value								
Perpetuity Growth								
Terminal Multiple	9.00							
Discount Factor	0.40							
Terminal Value	\$7,430							
Implied Exit Multiple off 2030	9.0x							
Terminal FCF Yield	11.1%							



Exhibit 4: Generac DCF Valuation

Reduce our terminal multiple and maintain a 12.2% discount rate, which reflects elevated 10 yr treasuries and an increased equity risk premium, our DCF implies a valuation of \$71/sh

GNRC - DCF Methodology		2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
PV of Terminal FCFE Value	\$2,963								
Net Cash	(\$1,472)								
Total FCFE	\$4,413								
DCF Value/Share	\$71.00								
<i>Shares O/S (Fully Diluted)</i>	<i>62.294</i>								
Price as of close 05/08/2023	\$110.47								
Total Potential Return	-36%								
Discount Rate	12.2%								

Source: Company Filings, Bloomberg, & BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Generac Holdings Inc. (GNRC)

Our PO of \$95/sh is based on a blended 50 / 50 EV/EBITDA / DCF valuation methodology. To account for growth, we use 11x 2024E EV/EBITDA, which implies a valuation of \$119/sh. Our target multiple is the average of industrial peers, and does not credit a premium for the developing clean energy business. Our DCF uses a 12.2% discount rate and a 9x terminal multiple, resulting in a valuation of \$71/sh.

Downside risks to our PO are 1) aggressive tightening by the Fed drives higher-than-expected multiple derating of growth stocks like Generac, 2) supply chain inefficiencies and higher costs lead to slower-than-expected margin recovery, 3) power outage environment runs out of steam, 4) disappointing home standby order intake over next six months, 5) incremental input cost squeeze, 6) increased competition in the energy storage market, 7) a large dilutive clean energy acquisition, 8) unfavorable regulatory change, 9) execution mistake penetrating new markets.

Upside risks are 1) another round of severe power outages, 2) Generac continues to see demand upside in CA and Texas, 3) demand and margin upside in the clean energy business sooner than we expect, 4) stronger-than-expected demand recovery in key C&I end markets such as telecom, 5) Shareholder-friendly use of the balance sheet, and 6) rollout of Enbala growth strategy surprises to the upside.

Analyst Certification

I, Julien Dumoulin-Smith, 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 - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith



North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith

NEUTRAL

	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Alex Vrabel
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA

UNDERPERFORM

	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith

iQmethodSM 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 & 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

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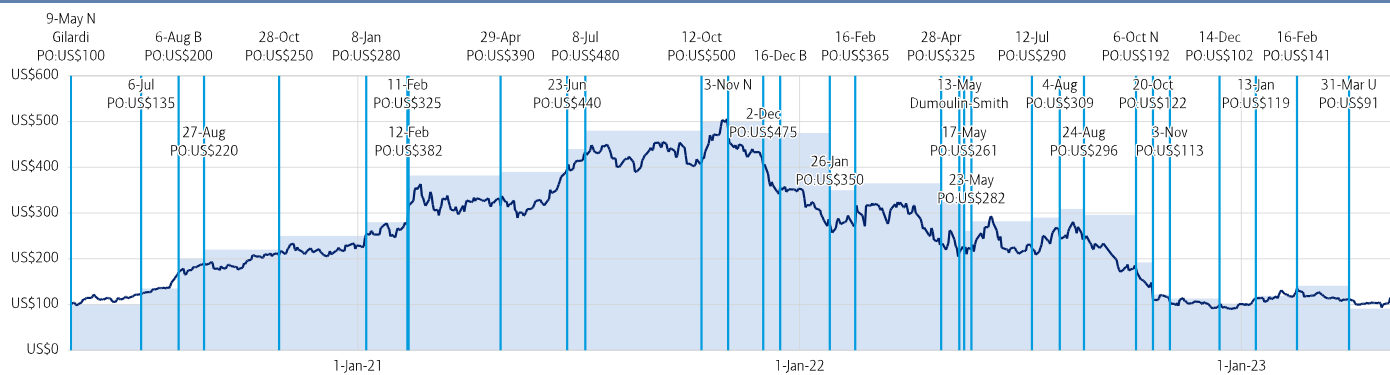
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Disclosures

Important Disclosures

Generac (GNRC) Price Chart



GNRC — Restricted — PO

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: Machinery/Diversified Manufacturing Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	28	41.79%	Buy	11	39.29%
Hold	20	29.85%	Hold	7	35.00%
Sell	19	28.36%	Sell	7	36.84%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

^{R1} 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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's: absolute total return potential as well as its attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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

^{R2} 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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