

Generac Holdings Inc.

Noodling on segment prospects into '24 – Stay Neutral, Raise PO. Key year to put up

Reiterate Rating: NEUTRAL | PO: 130.00 USD | Price: 126.91 USD

Cadence of HSB recovery the key consideration for '24

We reiterate our Neutral rating on shares of Generac (GNRC) ahead of the 4Q23 update. While home-standby (HSB) generator sales appear poised to rebound in FY24, the cadence of a recovery is less clear. Recall, we upgraded shares from Underperform following the 3Q23 update as HSB channel de-stocking appeared to be in the rear-view (see full report here: [BofA: GNRC Upgrade to Neutral](#)). We maintain our forecast for YoY growth in HSB sales of 10% in FY24 following the ~(35)% decline we estimate for FY23. Conversely, we recalibrate our forecast to reflect commentary from mgmt. on softening commercial and industrial (C&I) trends. On balance, we look for mid-single digit top-line growth for FY24 along with modest EBITDA margin recovery of ~60bps exit-to-exit. Critically we see potential for upside to our margin forecast depending on the cadence of a HSB recovery and as price-cost dynamics play out. Reiterate Neutral on balanced risk reward.

4Q Preview: Forecasting miss vs. Consensus, within guide

We forecast 4Q23 revenue of \$1.05Bn and EBITDA of \$194Mn which compares to Consensus of \$1.10Bn and \$221Mn, respectively. Our Residential revenue forecast of \$574Mn is ~6% below Consensus and our C&I revenue forecast of \$342Mn is ~7% below Consensus. Looking to FY24, we model FY revenue of \$4.260Bn and EBITDA of \$715Mn which compares to Consensus of \$4.38Bn and \$807Mn. Our FY24 Residential revenue forecast of \$2.28Bn is ~2% below Consensus and our C&I revenue forecast of \$1.49Bn is ~3% below Consensus. As previously mentioned, our FY24 forecast calls for 10% growth in HSB sales and follows an estimated (35)% decline in FY23.

Shares re-rating higher of late – PO up on MtM, revisions

We raise our PO to \$130 from \$110 following our latest mark-to-market (MtM) and estimate refresh. Shares of GNRC have moved higher of late on sizable multiple expansion following the 3Q23 update. Since the beginning of November, the stock's implied EV/EBITDA (2024E) multiple has expanded to ~11.3x from ~8.0x. This is despite only modest positive revisions to Consensus EBITDA expectations for FY24. Our peer EV/EBITDA multiple moves to 12.5x from 11.0x and our DCF discount rate moves to 12.9% from 12.8%. We also roll forward our DCF to begin in FY24.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	9.64	7.77	5.13	6.56	9.20
GAAP EPS	8.57	5.41	3.16	4.68	7.32
EPS Change (YoY)	38.3%	-19.4%	-34.0%	27.9%	40.2%
Consensus EPS (Bloomberg)			5.38	7.28	9.12
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	13.2x	16.3x	24.7x	19.3x	13.8x
GAAP P/E	14.8x	23.5x	40.2x	27.1x	17.3x
EV / EBITDA*	9.5x	8.5x	13.6x	11.8x	9.0x
Free Cash Flow Yield*	3.7%	-0.3%	3.0%	1.4%	1.2%

* For full definitions of *IQmethod*SM measures, see page 12.

12 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	110.00	130.00
2024E Rev (m)	4,357.7	4,260.8
2025E Rev (m)	4,823.1	4,712.6
2024E EPS	6.64	6.56
2025E EPS	9.35	9.20

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Stock Data

Price	126.91 USD
Price Objective	130.00 USD
Date Established	12-Feb-2024
Investment Opinion	C-2-9
52-Week Range	79.86 USD - 156.95 USD
Mrkt Val (mn) / Shares Out (mn)	8,184 USD / 64.5
Free Float	98.3%
Average Daily Value (mn)	96.83 USD
BofA Ticker / Exchange	GNRC / NYS
Bloomberg / Reuters	GNRC US / GNRC.N
ROE (2023E)	14.1%
Net Dbt to Eqty (Dec-2022A)	54.8%
ESGMeter TM	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](#)".

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Timestamp: 12 February 2024 05:45AM EST

iQprofileSM Generac Holdings Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	21.4%	18.3%	8.0%	10.7%	15.6%
Return on Equity	34.4%	22.7%	14.1%	18.0%	25.3%
Operating Margin	19.9%	16.2%	9.6%	11.7%	15.2%
Free Cash Flow	301	(28)	249	118	95

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.7x	0.1x	1.0x	0.5x	0.3x
Asset Replacement Ratio	1.2x	0.5x	0.5x	0.4x	0.4x
Tax Rate	19.7%	24.6%	39.7%	33.1%	29.7%
Net Debt-to-Equity Ratio	36.6%	54.8%	44.3%	39.3%	35.3%
Interest Cover	24.1x	15.2x	4.0x	5.6x	8.0x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	3,737	4,562	4,005	4,261	4,713
% Change	50.4%	22.1%	-12.2%	6.4%	10.6%
Gross Profit	1,360	1,520	1,357	1,562	1,737
% Change	42.0%	11.7%	-10.7%	15.1%	11.2%
EBITDA	885	994	620	716	934
% Change	49.3%	12.3%	-37.7%	15.5%	30.5%
Net Interest & Other Income	(32)	(54)	(92)	(90)	(90)
Net Income (Adjusted)	619	508	319	407	571
% Change	39.4%	-18.0%	-37.3%	27.9%	40.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	557	409	0	0	0
Depreciation & Amortization	92	159	171	216	216
Change in Working Capital	(259)	(465)	160	28	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	21	(44)	(2)	(46)	(41)
Capital Expenditure	(110)	(86)	(80)	(80)	(80)
Free Cash Flow	301	-28	249	118	95
% Change	-29.0%	NM	NM	-52.7%	-19.3%
Share / Issue Repurchase	(126)	(346)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	75	464	(100)	(175)	(175)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	147	133	282	224	144
Trade Receivables	546	522	603	642	642
Other Current Assets	1,155	1,527	1,282	1,194	1,194
Property, Plant & Equipment	441	468	483	493	498
Other Non-Current Assets	2,588	2,520	2,416	2,316	2,216
Total Assets	4,878	5,169	5,066	4,868	4,693
Short-Term Debt	78	62	62	62	62
Other Current Liabilities	1,078	930	924	917	917
Long-Term Debt	902	1,369	1,269	1,094	919
Other Non-Current Liabilities	548	439	441	426	426
Total Liabilities	2,606	2,800	2,696	2,499	2,324
Total Equity	2,272	2,370	2,370	2,370	2,370
Total Equity & Liabilities	4,878	5,169	5,066	4,868	4,693

* For full definitions of iQmethodSM measures, see page 12.

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 Neutral. Generac has a leading market share in the US residential home standby generator business and we see an easing 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. Latest execution demonstrates an intact outlook. Balanced risk reward moves us to Neutral.

Stock Data

Average Daily Volume 762,950

Quarterly Earnings Estimates

	2022	2023
Q1	2.16A	0.61A
Q2	2.82A	1.15A
Q3	1.31A	1.40E
Q4	1.52A	1.96E

Stock re-rating...but too much too soon?

Shares of GNRC have moved higher since the 3Q23 call, as has valuation with the implied EV/EBITDA (2024E) multiple expanding ~3x to over 11x since November. Presumably this reflects an improving outlook for HSB sales, which appear to have bottomed following sizable channel de-stocking efforts by mgmt. While indeed we expect HSB sales to return to growth in FY24, we remain cautious on the cadence of a recovery and expect volatility around the 4Q23 update. We believe the re-rating in the multiple suggests Consensus expectations have lagged those of investors.

The interplay between HSB sales recovery and a moderation in C&I growth will be key to watch: we have seen 2023 prove substantially better on C&I and a deceleration on this front after a strong +24% 3Q showing is the most acute dynamic to watch here: can the nascent growth in data centers offset risk in more mature end-markets? It's possible, but likely a bit too late to help '24.

We anticipate further softening in clean energy products could very well materialize as far as we're concerned too: but with softness already previewed in 3Q and given the modest contribution to FY rev's (~14%) we're not overly fixated on what a further 1-2% softness to rev guide will do. If anything, we continue to see GNRC shares benefiting from a relative advantage vs other clean energy equities, given its accelerated positioning in the destocking cycle vs other pure-player clean energy peers.

See margins as potentially biased higher to the degree HSB sales exceed our expectations and as favorable price-cost dynamics play out for '24. On balance, hard to be too positive, with 4Q softness risk, but see real merits to the ongoing inflection in shares we're seeing.

Exhibit 1: GNRC Consensus EBITDA (2024E) vs. EV/EBITDA (2024E)

Shares re-rating higher of late despite relatively unchanged Consensus expectations – still trading at a discount to industrial peer stocks. [See in depth](#) clean energy valuation contrast vs industrial stocks



Source: Bloomberg

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Title: Subtitle

[Generac Holdings Inc.: Side-stepping as the channel destock looks mostly played out – upgrade to Neutral](#)
[Generac Holdings Inc.: GNRC Analyst-Day Review: Eyes on the long term, but what matters is the short](#)
[Generac Holdings Inc.: Analyst Day Preview: Looking for a long-term recovery roadmap as targets pushed](#)
[Generac Holdings Inc.: GNRC Analyst Day First Look – Above expectations but a lot of assumptions](#)
[Generac Holdings Inc.: Latest outages don't resolve the challenges & HSB recovery unlikely; Underperform](#)

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Date Published

15 November 2023
 29 September 2023
 18 September 2023
 27 September 2023
 05 July 2023



[Generac Holdings Inc.: Downgrade Feedback: Buyside Sees Even More Risk to '23 & '24 Estimates](#)
[Generac Holdings Inc.: Downgrade to Underperform: Can't Generate Road to Fundamental Recovery](#)

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04 April 2023
 31 March 2023

Moderate outage activity not enough to bias 4Q higher

We maintain our forecast for 4Q23 revenue of \$1.05Bn and EBITDA of \$194Mn. While we see a moderate uptick in outage activity in December, we do not view this as enough to bias HSB sales higher in our base case. Looking to FY24, we maintain our forecast for YoY growth in HSB sales of 10% in FY24 following the ~35% decline we estimate for FY23. We take a conservative approach in estimating sales for FY24, with our forecast for FY24 HSB volumes approximating the 4Q23 annualized run-rate. For C&I we lower our forecast for FY24 revenue and now see ~1% growth YoY vs. ~7% previously. The move lower reflects mgmt.'s commentary indicating some softness in telecom and rental. We look for this to be a key consideration heading into FY24, though we still model a ~10% annual growth rate in C&I through FY26 which is at the low end of mgmt.'s guidance.

Bottom line, we're not overly cautious here – if anything we lack confidence to be more constructive on shares considering the moving pieces and likely back-end weighted '25+ ramp implied by the September Analyst Day. If anything, we're biased to still see '24 as the 'reset' year with opportunities for investors to really get constructive as datapoints & strategy unveil themselves: we actually expect continued, outsized volatility this year as mgmt. provides greater articulation of the core plan. No, it's not a demanding valuation, but consistent execution is needed to really differentiate itself from clean energy peers, and on this front, we're not particularly optimistic either. Reiterate Neutral, looking for true signs of international inflection plus C&I growth composition.

Capacity prices rising suggests a return to another gas reliability heyday.

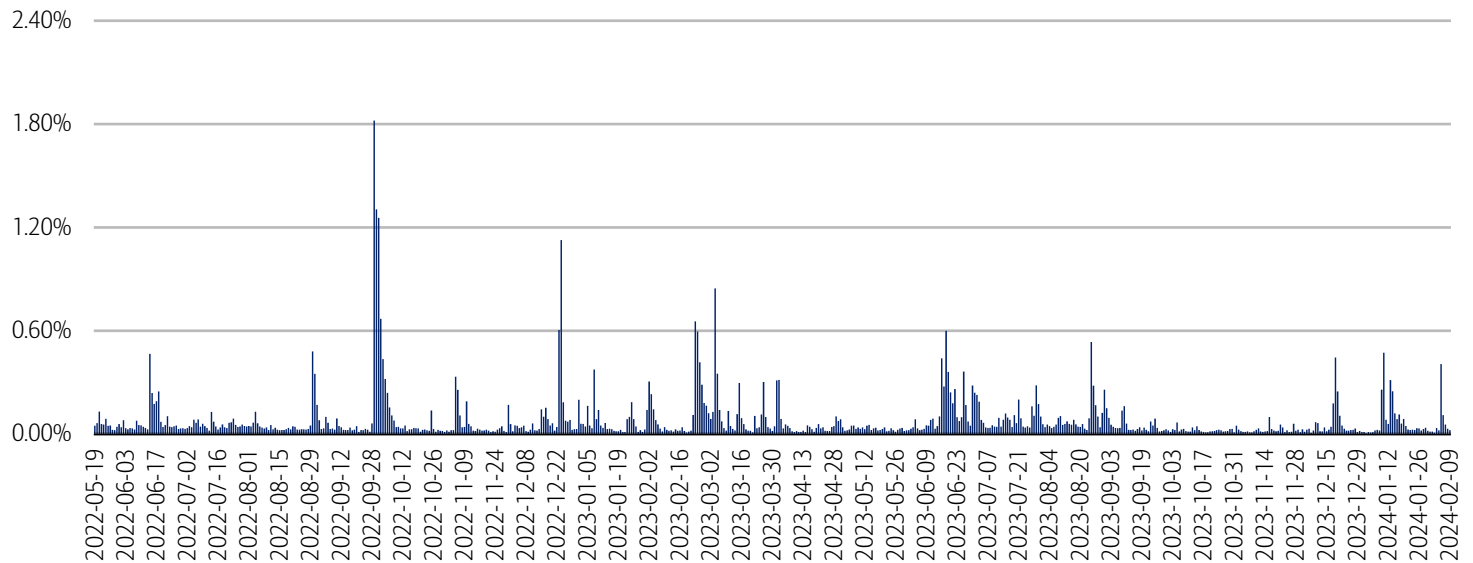
Given growing domestic challenges to reliability – and the market value of reliability, we're increasingly convinced that gas-based generators may have their 'heyday' return: capacity prices across the US have meaningfully improved in the last year indicating a much wider level of reliability concern reflected in these prices than we've ever seen before.

We don't necessarily think reliability discussions will be centered on California and Texas like they've been in recent years but potentially more widespread (Central [SPP], Midwest [MISO] and Southeast power markets all exhibiting capacity prices we've never seen and multi-fold from recent levels on trailing TTM basis).

More to the point, as the next 'wave' of gas build gets underway in 2024, we think GNRC could well see some multiple re-rating on this thesis, even though much of the build will be focused on grid-scale. Ramping C&I grid-scale solutions that provide more consistent uptime could well be a focus area for GNRC.

Exhibit 2: Total US power outage trends

Modest uptick in outage activity in late-2023, but not enough to bias our numbers higher



Source: GNRC website

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We forecast 4Q23 revenue of \$1.05Bn and EBITDA of \$194Mn which compares to Consensus of \$1.10Bn and \$221Mn, respectively. Our Residential revenue forecast of \$574Mn is ~6% below Consensus and our C&I revenue forecast of \$342Mn is ~7% below Consensus. Looking to FY24, we model FY revenue of \$4.260Bn and EBITDA of \$715Mn which compares to Consensus of \$4.38Bn and \$807Mn. Our FY24 Residential revenue forecast of \$2.28Bn is ~2% below Consensus and our C&I revenue forecast of \$1.49Bn is ~3% below Consensus. We see sizable deltas in the push/pull for C&I product, noting mgmt. had previously called out robust growth in telecom as a key end-market supporting its multi-year improvement. Watch for evolution in the composition of growth still. As previously mentioned, our FY24 forecast calls for 10% growth in HSB sales and follows an estimated (35)% decline in FY23. Seeing follow-thru on this inflection in destocking will be important to confidence and sustained improvement.

We have consistently seen 2024 as a critical strategic inflection as mgmt. follows-thru on its clean energy reboot as well as lifting off its international sales efforts. We see these as both challenged: we see new product entry as more difficult considering the likely twin market entrants of the new (and much improved) Tesla Powerwall 3 will provide as competition to PWRCell and secondarily – Chinese alternatives too.

Upon review – it's C&I but especially international that is upside to our ests.

On the International side, mgmt. made a non-trivial push at its analyst day: stressing substantive expansion. We see this as likely the biggest source of upside vs our estimates: we note that on a trailing basis its International rev's were +14%, but 11% of this was really just F/X and acquisitions, suggesting organic growth remained relatively muted. Evidence of leveraging acquisitions and platforms to sustainably compound abroad (in Europe mostly it would seem) appears a clear point to watch.

Margin expansion is going to be tied to clean energy

Despite its modest contribution today, its dilution impact on overall margins remains a clear risk, particularly as we see the backdrop likely not only seeing a protracted recovery but also critically a meaningfully more competitive environment in '25/'26. Stay tuned here, but this could be the risk: rev's trend higher towards their \$5.85 Bn '26 rev guide (vs our ~\$5.3 Bn est) but EBITDA margins could disappoint on recovery expectations (we're already at the bottom end of the 21.5-22.5% target for '26).



Exhibit 3: GNRC earnings dashboard: putting points on the board toward guidance remains key to driving shares higher. Yes, still a discount vs industrials.

We look for a return to growth for HSB in FY24 but still remain below mgmt.'s long-term guidance

Key Metrics	2022	1Q23	2Q23	3Q23	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
Income Statement, \$ mn													
Residential - Revenue	\$2,911.9	\$418.9	\$498.6	\$565.1	\$573.7	\$2,056.3	\$534.3	\$556.0	\$581.4	\$609.3	\$2,281.0	\$2,490.2	\$2,776.5
HSB - Revenue	\$2,306.7	\$283.4	\$355.3	\$421.7	\$434.5	\$1,494.9	\$383.1	\$398.0	\$420.4	\$449.7	\$1,651.3	\$1,745.3	\$1,916.6
Clean Energy - Revenue	\$304.2	\$66.9	\$69.0	\$68.6	\$66.1	\$270.5	\$81.5	\$83.3	\$84.3	\$85.2	\$334.2	\$444.6	\$554.8
Other Residential	\$301.0	\$68.6	\$74.3	\$74.8	\$73.2	\$290.9	\$69.7	\$74.7	\$76.7	\$74.4	\$295.6	\$300.3	\$305.1
C&I - Revenue	\$1,260.7	\$363.0	\$384.4	\$384.5	\$342.1	\$1,474.0	\$351.3	\$370.1	\$385.9	\$383.7	\$1,491.0	\$1,714.1	\$1,952.6
Other - Revenue	\$392.1	\$106.1	\$117.5	\$121.0	\$129.9	\$474.5	\$109.2	\$121.0	\$124.7	\$133.8	\$488.7	\$508.3	\$531.1
Domestic - Revenue	\$3,867.9	\$704.4	\$804.5	\$886.4	\$857.4	\$3,252.7	\$805.8	\$845.3	\$902.2	\$932.8	\$3,486.2	\$3,914.8	\$4,438.5
International - Revenue	\$696.9	\$183.5	\$195.9	\$184.3	\$188.3	\$752.0	\$189.0	\$201.8	\$189.8	\$193.9	\$774.6	\$797.8	\$821.7
Total Revenue	\$4,564.7	\$887.9	\$1,000.4	\$1,070.7	\$1,045.7	\$4,004.7	\$994.9	\$1,047.1	\$1,092.0	\$1,126.8	\$4,260.8	\$4,712.6	\$5,260.2
Prior	\$4,562.4	\$887.9	\$1,000.4	\$1,070.7	\$1,045.7	\$4,004.7					\$4,357.7	\$4,823.1	\$5,384.0
Total Revenue (YoY)	22.1%	-21.8%	-22.5%	-1.6%	-0.3%	-12.3%	12.0%	4.7%	2.0%	7.7%	6.4%	10.6%	11.6%
Guidance	22-24%					(10)-(12)%							
Total Revenue CAGR ('23 Base)											6.4%	8.5%	9.5%
Guidance													12-14%
Residential (YoY)	18.5%	-46.1%	-44.4%	-14.9%	-0.2%	-29.4%	27.6%	11.5%	2.9%	6.2%	10.9%	9.2%	11.5%
Guidance						-(24)-(26)%							
Total Revenue CAGR ('23 Base)											10.9%	10.0%	10.5%
Guidance													14-16%
C&I (%)	26.2%	30.2%	24.2%	23.6%	-5.4%	16.9%	-3.2%	-3.7%	0.4%	12.2%	1.2%	15.0%	13.9%
Guidance						17-19%							
Total Revenue CAGR ('23 Base)											1.2%	7.8%	9.8%
Guidance													10-12%
Other (YoY)	39.3%	32.3%	36.6%	7.2%	15.0%	21.0%	3.0%	3.0%	3.0%	3.0%	3.0%	4.0%	4.5%
Gross Profit, \$ mn	\$1,522.0	\$272.5	\$328.4	\$375.8	\$380.4	\$1,357.2	\$341.6	\$374.6	\$407.7	\$438.3	\$1,562.1	\$1,737.0	\$1,944.2
Prior	\$1,519.7					\$1,357.2					\$1,590.5	\$1,771.3	\$1,982.5
Gross Margin, %	33.3%	30.7%	32.8%	35.1%	36.4%	33.9%	34.3%	35.8%	37.3%	38.9%	36.7%	36.9%	37.0%
Guidance						34.0-34.5%							37.5-38.5%
EBITDA, \$ mn	\$825.4	\$100.1	\$136.5	\$188.6	\$194.4	\$619.7	\$142.7	\$165.9	\$191.0	\$216.0	\$715.6	\$934.1	\$1,139.6
Prior	\$994.3	\$100.1	\$136.5	\$188.6	\$194.4	\$619.7					\$722.0	\$946.8	\$1,156.3
Domestic EBITDA, \$ mn	\$716.3	\$67.7	\$103.2	\$160.3	\$141.5	\$472.6	\$116.8	\$131.0	\$157.9	\$181.9	\$587.7	\$763.4	\$976.5
International EBITDA, \$ mn	\$109.1	\$32.4	\$33.3	\$28.3	\$53.0	\$147.0	\$25.9	\$34.8	\$33.1	\$34.1	\$127.9	\$170.7	\$163.1
EBITDA Margin, %	18.1%	11.3%	13.6%	17.6%	18.6%	15.5%	14.3%	15.8%	17.5%	19.2%	16.8%	19.8%	21.7%
Guidance	18.0-19.0%	10%	10%	20-23%	15.5-16.5%								21.5-22.5%
Incremental EBITDA Margin, %	-4.4%	38.9%	46.4%	12.0%	-595.3%	36.7%	39.9%	62.8%	11.1%	26.6%	37.5%	48.4%	37.5%
Domestic EBITDA Margin, %	18.5%	9.6%	12.8%	18.1%	16.5%	14.5%	14.5%	15.5%	17.5%	19.5%	16.9%	19.5%	22.0%
International EBITDA Margin, %	15.7%	17.7%	17.0%	15.4%	28.1%	19.6%	13.7%	17.3%	17.4%	17.6%	16.5%	21.4%	19.9%
Net Income (GAAP), \$ mn	\$408.9	\$14.2	\$45.5	\$60.6	\$96.5	\$216.8	\$49.7	\$67.0	\$85.9	\$104.6	\$307.2	\$471.0	\$625.2
Net Income Margin, %	9.0%	1.6%	4.5%	5.7%	9.2%	5.4%	5.0%	6.4%	7.9%	9.3%	7.2%	10.0%	11.9%
Guidance	9.0-10.0%					6.0-7.0%							
EPS Diluted (GAAP), \$	\$5.41	\$0.05	\$0.70	\$0.97	\$1.44	\$3.16	\$0.73	\$1.02	\$1.32	\$1.61	\$4.68	\$7.32	\$9.80
Prior	\$5.41	\$0.05	\$0.70	\$0.97	\$1.44	\$3.16					\$4.76	\$7.47	\$10.00

Source: Company filings, BofA Global Research estimates

BofA GLOBAL RESEARCH

We are slightly above Consensus for gross margins in FY24 and see potential for further upside to our estimates to the degree HSB demand recovers faster than we expect. Mgmt. has indicated that as HSB sales recovery and price-cost dynamics improve, gross margins should expand commensurately. Further, while softening end market demand for C&I dampens top-line growth, margins should benefit from more favorable mix.



Exhibit 4: GNRC earnings forecast – BofA vs. Consensus: notice how we are below Street particularly on the front-end of plan in '24 on EBITDA

We are moderately below Consensus through 2026 as we await clarity on HSB recovery cadence and C&I end market trends

	2022	1Q23	2Q23	3Q23	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
BofA vs. Consensus Forecast													
Revenue													
Total - BofAe	\$4,564.7	\$887.9	\$1,000.4	\$1,070.7	\$1,045.7	\$4,004.7	\$994.9	\$1,047.1	\$1,092.0	\$1,126.8	\$4,260.8	\$4,712.6	\$5,260.2
Total - Bloomberg	\$4,583.0	\$840.0	\$981.9	\$1,043.6	\$1,095.0	\$4,055.4	\$985.0	\$1,084.7	\$1,143.1	\$1,175.6	\$4,384.3	\$4,847.4	\$5,368.4
% Delta	-0.4%	5.7%	1.9%	2.6%	-4.5%	-1.2%	1.0%	-3.5%	-4.5%	-4.1%	-2.8%	-2.8%	-2.0%
Residential - BofAe													
Residential - VA	\$2,911.9	\$418.9	\$498.6	\$565.1	\$573.7	\$2,056.3	\$534.3	\$556.0	\$581.4	\$609.3	\$2,281.0	\$2,490.2	\$2,776.5
% Delta	0.0%	0.0%	-0.8%	-1.0%	-6.0%	-2.0%	7.6%	-2.9%	-7.2%	-7.1%	-2.3%	-4.0%	-0.7%
C&I - BofAe													
C&I - VA	\$1,260.7	\$363.0	\$384.4	\$384.5	\$342.1	\$1,474.0	\$351.3	\$370.1	\$385.9	\$383.7	\$1,491.0	\$1,714.1	\$1,952.6
% Delta	0.0%	0.0%	0.5%	0.9%	-7.1%	-1.4%	-4.8%	-4.7%	-1.4%	-1.2%	-3.2%	0.1%	0.2%
Other - BofAe													
Other - VA	\$392.1	\$106.1	\$117.5	\$121.0	\$129.9	\$474.5	\$109.2	\$121.0	\$124.7	\$133.8	\$488.7	\$508.3	\$531.1
% Delta	0.0%	0.0%	0.9%	1.8%	8.4%	3.0%	-2.9%	-2.1%	-1.6%	3.3%	-2.0%	-5.5%	-7.8%
Gross Profit													
BofAe	\$1,522.0	\$272.5	\$328.4	\$375.8	\$380.4	\$1,357.2	\$341.6	\$374.6	\$407.7	\$438.3	\$1,562.1	\$1,737.0	\$1,944.2
Gross Profit - Bloomberg	\$1,548.7	\$250.2	\$316.8	\$357.2	\$406.7	\$1,382.8	\$346.0	\$387.4	\$419.3	\$435.0	\$1,576.5	\$1,778.5	\$2,022.9
% Delta	-1.7%	8.9%	3.7%	5.2%	-6.5%	-1.9%	-1.3%	-3.3%	-2.8%	0.7%	-0.9%	-2.3%	-3.9%
Gross Margin													
BofAe	33.3%	30.7%	32.8%	35.1%	36.4%	33.9%	34.3%	35.8%	37.3%	38.9%	36.7%	36.9%	37.0%
Gross margin - Bloomberg	33.8%	29.8%	32.3%	34.2%	37.1%	34.1%	35.1%	35.7%	36.7%	37.0%	36.0%	36.7%	37.7%
Bps Delta	(45)	91	56	87	(76)	(21)	(80)	6	65	189	70	17	(72)
Adj. EBITDA													
BofAe	\$825.4	\$100.1	\$136.5	\$188.6	\$194.4	\$619.7	\$142.7	\$165.9	\$191.0	\$216.0	\$715.6	\$934.1	\$1,139.6
Total EBITDA - Bloomberg	\$832.2	\$85.2	\$144.8	\$172.1	\$221.3	\$645.4	\$166.9	\$193.2	\$216.9	\$237.6	\$807.3	\$946.2	\$1,142.0
% Delta	-0.8%	17.5%	-5.7%	9.6%	-12.1%	-4.0%	-14.5%	-14.1%	-12.0%	-9.1%	-11.4%	-1.3%	-0.2%

Source: Company filings, Bloomberg, Visible Alpha, BofA Global Research estimates

BofA GLOBAL RESEARCH

Capital allocation: watch strategic M&A for the 2024 'reboot'

We think share buybacks will be a modest portion of the story (we just don't think they will really lean in with FCF given their modest history of buybacks and strategic pivot ahead). More to the point at 2.6x gross Debt/EBITDA as of 3Q (vs 1-2x target), leverage remains relatively robust: don't expect any sizable uptick especially with shares rebounding. Only \$178 Mn remains on the buyback authorized and we really wouldn't expect reloading on this authorization thru medium-term. Rather, the real question in 2024 will be how just how much of this reboot is tied to organic pivot of their battery biz for instance vs engaging in further acquisitions. The company has a clear history of strategic tuck-ins to expand its biz: this will be key to watch in '24 specifically given the need to lock in a strategy prior to ramping into '26. Timely execution is key and given the wider backdrop of distress in clean energy we wouldn't be surprised to see this be a focus in coming months.

MtM, DCF roll-forward drives PO higher

We raise our PO to \$130 from \$110 following our latest mark-to-market (MtM) and estimate refresh. Shares of GNRC have moved higher of late on sizable multiple expansion following the 3Q23 update. Since the beginning of November, the stock's implied EV/EBITDA (2024E) multiple has expanded to ~11.3x from ~8.0x. This is despite only modest positive revisions to Consensus EBITDA expectations for FY24. Our peer EV/EBITDA multiple moves to 12.5x from 11.0x and our DCF discount rate moves to 12.9% from 12.8%. We also roll forward our DCF to begin in FY24.



- EV/EBITDA MtM drives an \$8/sh positive change in PO
- DCF roll-forward drives a \$14/sh positive change in PO
- Estimate revisions drive a \$2/sh negative change in PO

Exhibit 5: GNRC valuation summary

We arrive at a \$130 PO

	Value/Sh	Weight	Weighted Value
EV/EBITDA	\$130.00	50%	\$65.00
DCF	\$130.00	50%	\$65.00
GNRC Value/Share			\$130.00
Share Price (As of 02/08/24)			\$127.26
Premium (Discount) to Share Price			2.2%
2024E Dividend Yield			0.0%
Total Expected Return			2.2%

Source: Company filings, Bloomberg, BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 6: GNRC EV/EBITDA analysis

We arrive at a \$130/sh EV/EBITDA valuation

2024

	EBITDA	EV/EBITDA	Prem/(Disc)	EV	EV per Share
Estimated Run-Rate Residential (HSB, Other)	\$409	14.5x	-1.0x	\$5,522	\$89
Estimated Run-Rate Clean Energy	\$56	14.5x	-1.0x	\$758	\$12
Estimated Run-Rate C&I Mix	\$250	11.0x	0.0x	\$2,754	\$44
EBITDA	\$716	12.5x	-1.0x	\$9,034	\$145
Net Debt (Cash)					\$932
Equity Value					\$8,102
Shares Outstanding					62
Equity Value per Share					\$130
Valuation (2024)					\$130
Vs. Current Px					2%

Source: Company filings, Bloomberg, BofA Global Research estimates

BofA GLOBAL RESEARCH

The long-term DCF debate – yes, we get that gas is tricky.

We don't see the DCF as demanding relative to clean energy peers. We stress a DCF on the core biz requires under-writing a long-term consistent growth market in gas generators, which remains less clear. We stress our slightly lower terminal multiple to GNRC shares and similar discount rate yielding a valuation close to current shares. Even when putting similar discount rates on SEDG and ENPH – and much higher growth rates on core FCF, we find substantive downside risk on the DCF for these two shares.

Exhibit 7: GNRC DCF analysis

We arrive at a \$130/sh DCF value

GNRC - DCF Methodology	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
DCF - less Stock Based Compensation and Debt Amortization								
Free Cash Flows (\$ mn)	\$356	\$561	\$697	\$851	\$1,006	\$1,090	\$1,150	\$1,221
Less: Stock Based Compensation	\$9	\$40	\$43	\$47	\$50	\$54	\$59	\$63
Adjusted Free Cash Flows (\$ mn)	\$347	\$521	\$654	\$805	\$956	\$1,035	\$1,091	\$1,158
<i>Discount Rate - Cost of Equity</i>	13%	13%	13%	13%	13%	13%	13%	13%
<i>Discount Factor</i>	1.00	0.89	0.78	0.69	0.61	0.54	0.48	0.43
Discounted Free Cash Flows	\$347	\$461	\$513	\$559	\$588	\$563	\$526	\$494
DCF Value through '30	\$4,051							
DCF Value through 2025	\$1,321							
Terminal Value								
Terminal Multiple	11.00							
Discount Factor	0.43							
Terminal Value	\$12,738							
Terminal FCF Yield	9.1%							
PV of Terminal FCFE Value	\$5,436							
Net Cash	(\$1,415)							
Total FCFE	\$8,072							
DCF Value/Share	\$130.00							
<i>Shares O/S (Fully Diluted)</i>	62.091							
Price as of close 02/08/2024	\$127.26							
Total Potential Return	2%							
Discount Rate	12.9%							

Source: Company filings, Bloomberg, BofA Global Research estimates

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Price objective basis & risk

Generac Holdings Inc. (GNRC)

Our PO of \$130/share is based on a blended 50 / 50 EV/EBITDA / DCF valuation methodology. To account for growth, we use 12.5x 2024E EV/EBITDA, which implies a valuation of \$114/share. 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 12.9% discount rate and a 9x terminal multiple, resulting in a valuation of \$105/share.

Upside and downside risks to our Price Objective are changes in 1) interest and discount rates, 2) supply chain efficiency and access, 3) margins, 4) home standby order intake, 5) cost of raw materials, 6) competition in the energy storage market, 7) a large accretive or dilutive clean energy acquisition, 8) regulatory, legislative, or tax policy, 9) power outages, 10) market share, 11) equity markets activity, and 12) macroeconomic conditions including householder formations.

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				
	Alliant Energy Corporation	LNT	LNT 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
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Julien Dumoulin-Smith
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Energy Group	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
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra	SRE	SRE 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 Corp	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Paul Zimbardo
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Paul Zimbardo
	AltaGas	YALA	ALA CN	Cameron Lochridge
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Cameron Lochridge
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVERG	EVERG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Julien Dumoulin-Smith
	TransAlta Corporation	YTA	TA CN	Julien Dumoulin-Smith
UNDERPERFORM				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	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
	Bloom Energy	BE	BE 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
	Eversource Energy	ES	ES US	Paul Zimbardo
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC 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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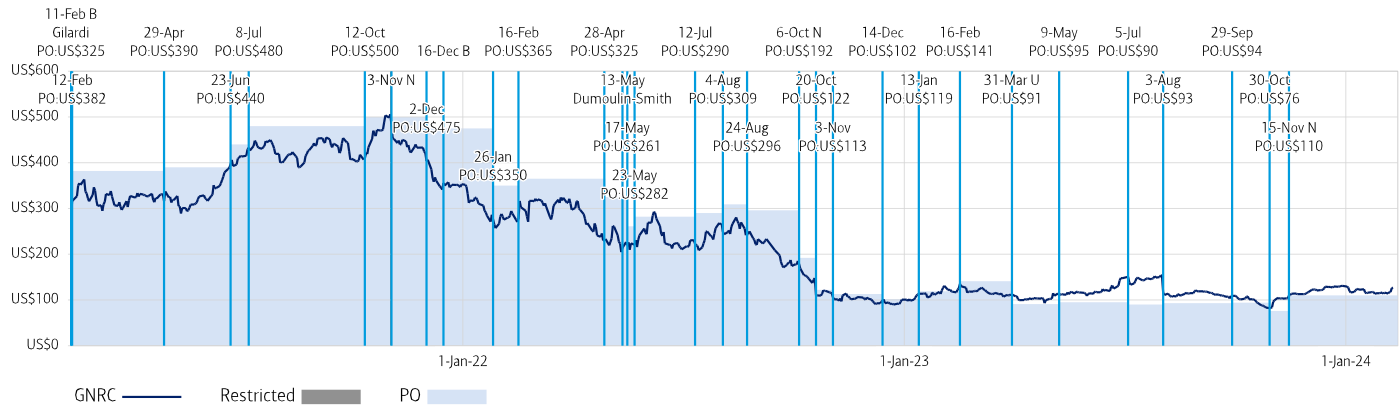
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Disclosures

Important Disclosures

Generac (GNRC) Price Chart



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 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	27	42.19%	Buy	8	29.63%
Hold	17	26.56%	Hold	8	47.06%
Sell	20	31.25%	Sell	8	40.00%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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%

^{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.

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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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