

# LCI Industries Financial Statement Analysis

Income Statement	2022	2023	2024
Net Sales	\$ 5,207,143	\$ 3,784,808	\$ 3,741,208
Cost of Sales	3,933,854	3,008,618	2,861,493
Gross Profit	\$ 1,273,289	\$ 776,190	\$ 879,715
SG&A	720,261	652,762	661,478
Operating Profit	553,028	123,428	218,237
Interest Expense (Net)	27,573	40,424	28,899
Pre-Tax Income	525,455	83,004	189,338
Provision for Income Taxes	130,481	18,809	46,471
Net Income	\$ 394,974	\$ 64,195	\$ 142,867

Balance Sheet	2022	2023	2024
Cash and Equivalents	47,499	66,157	165,756
[3] Accounts Receivable (Net)	214,262	214,707	199,560
[4] Inventories (Net)	1,029,705	768,407	736,604
Prepaid Expenses and Other Current Assets	99,310	67,599	58,318
Total Current Assets	1,390,776	1,116,870	1,160,238
Fixed Assets (Net)	482,185	465,781	432,728
Goodwill	567,063	589,550	585,773
Other Intangible Assets (Net)	503,320	448,759	392,018
Operating Lease Right-of-Use Assets	247,007	245,388	224,313
Other Long-Term Assets	56,561	92,971	99,669
Total Assets	\$ 3,246,912	\$ 2,959,319	\$ 2,894,739
Current Maturities of Long-Term Indebtedness	23,086	589	423
Accounts Payable (Trade)	143,529	183,697	187,684
Current Portion of Operating Lease Obligations	35,447	36,269	38,671
Accrued Expenses and Other Current Liabilities	219,238	174,437	185,275
Total Current Liabilities	421,300	394,992	412,053
Long-Term Indebtedness	1,095,888	846,834	756,830
Operating Lease Obligations	222,478	222,680	199,929
Deferred Taxes	30,580	32,345	26,110
Other Long-Term Liabilities	95,658	107,432	112,931
Total Liabilities	\$ 1,865,904	\$ 1,604,283	\$ 1,507,853
Common Stock, par value \$.01 per share	285	287	288
Paid-in Capital	234,956	245,659	257,486
Retained Earnings	1,221,279	1,177,034	1,208,096
Accumulated Other Comprehensive Income	6,704	14,272	3,232
Stockholders' Equity Before Treasury Stock	1,463,224	1,437,252	1,469,102
Treasury Stock (At Cost)	(82,216)	(82,216)	(82,216)
Total Stockholders' Equity	\$ 1,381,008	\$ 1,355,036	\$ 1,386,886
Total Liabilities and Stockholders' Equity	\$ 3,246,912	\$ 2,959,319	\$ 2,894,739

Cash Flow Statements	2022	2023	2024
Net Income	\$ 394,974	\$ 64,195	\$ 142,867
Depreciation and Amortization	129,212	131,768	125,693
Stock-Based Compensation Expense	23,695	18,229	18,653
Deferred Taxes	(9,277)	2,067	(7,073)
Other Non-Cash Items	3,496	7,716	7,209
Accounts Receivable (Net)	115,706	1,594	13,469
Inventories (Net)	117,419	235,347	46,335
Prepaid Expenses and Other Assets	14,990	25,954	4,532
Accounts Payable (Trade)	(161,121)	38,737	3,474
Accrued Expenses and Other Liabilities	(26,580)	1,622	15,125
Net Cash Flows from Operations	\$ 602,514	\$ 527,229	\$ 370,284
Capital Expenditures	(130,641)	(62,209)	(42,333)
Acquisitions of Businesses	(108,470)	(25,851)	(19,957)
Other Investing Activities	(2,679)	4,312	1,192
Net Cash Flows from Investing Activities	\$ (241,790)	\$ (83,748)	\$ (61,098)
Vesting of Stock-Based Awards (Net)	(10,961)	(9,628)	(9,159)
Proceeds from Revolving Credit Facility	1,128,400	248,900	86,248
Repayments under Revolving Credit Facility	(1,233,740)	(464,822)	(138,752)

Repayments under Shelf Loan, Term Loan, and Other Borrowings	(73,031)	(61,099)	(36,655)
Payment of Dividends	(102,726)	(106,336)	(109,471)
Payment of Contingent Consideration and Holdbacks Related to Acquisitions	(60,228)	(31,857)	(2)
Repurchases of Common Stock	(24,054)	-	-
Other Financing Activities	1,469	(1,342)	(430)
<b>Net Cash Flows from Financing Activities</b>	<b>\$ (374,871)</b>	<b>\$ (426,184)</b>	<b>\$ (208,221)</b>

Effect of exchange rate changes on cash and cash equivalents	(1,250)	1,361	(1,366)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ (15,397)</b>	<b>\$ 18,658</b>	<b>\$ 99,599</b>
Cash and cash equivalents at beginning of period	62,896	47,499	66,157
<b>Cash and cash equivalents at end of period</b>	<b>\$ 47,499</b>	<b>\$ 66,157</b>	<b>\$ 165,756</b>

<b>Accounts Receivable Breakdown</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Accounts Receivable (Net)	214,262	214,707	199,560
Allowance for Credit Losses	5,904	5,701	5,439
<b>Total Accounts Receivable</b>	<b>\$ 220,166</b>	<b>\$ 220,408</b>	<b>\$ 204,999</b>

<b>Efficiency Analysis</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>Trend</b>	<b>Quality</b>
AR / Net Sales	4.23%	5.82%	5.48%	Fluctuating	Strong (2)
Days Sales Outstanding	15.43	21.26	20.00	Fluctuating	Strong (2)

<b>Liquidity Analysis</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>Trend</b>	<b>Quality</b>
Current Ratio	3.30	2.83	2.82	Stable	Superior (1)
Quick Ratio	0.64	0.73	0.90	Increasing	Strong (2)
Working Capital	\$ 969,476	\$ 721,878	\$ 748,185	Recovering	Watch (4)
[1] Free Cash Flow	\$ 733,155	\$ 589,438	\$ 412,617	Decreasing	Watch (4)

[2] <b>Profitability Analysis</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>Trend</b>	<b>Quality</b>
Gross Margin	24.45%	20.51%	23.51%	Recovering	Satisfactory (3)
Net Income	\$ 394,974	\$ 64,195	\$ 142,867	Recovering	Satisfactory (3)
Net Income Margin	7.59%	1.70%	3.82%	Recovering	Satisfactory (3)
EBITDA	\$ 682,240	\$ 255,196	\$ 343,930	Recovering	Satisfactory (3)
EBITDA Margin	13.10%	6.74%	9.19%	Recovering	Satisfactory (3)
Return on Assets	12.16%	2.17%	4.94%	Recovering	Strong (2)

<b>Leverage Analysis</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>Trend</b>	<b>Quality</b>
Debt to Equity	0.81	0.63	0.55	Decreasing	Satisfactory (3)
Debt to EBITDA	1.64	3.32	2.20	Fluctuating	Watch (4)
[5] Interest Coverage	20.06	3.05	7.55	Recovering	Satisfactory (3)

#### Notes

- [1] Flagged as Watch (4) due to declining operations cash flows. This was a persistent trend in the financial statements and the firm may seek to increase leverage unsustainably if it continues.
- [2] The risk rating is a weighted average of the quantitative and qualitative risk categories. The firm could improve their rating significantly through continued net income and EBITDA growth while continuing to increase margins.
- [3] There is significant customer concentration. The annual report attests to the reliability of the two >10% concentration firms. Recommend further investigation into the two customer firms and covenant restrictions limiting trade credit.
- [4] The firm is managing inventories efficiently. When comparing inventory relative to Net Sales, there is little change from 2022. There are no indicators that the firm is unable to manage appropriate inventory levels.
- [5] The 3x interest coverage floor at current borrowing is reflective of this being the floor during the company's poor 2022 performance. The 2x floor at maximum borrowing reflects this being the minimum level that the firm would be able to comfortably service both the principal and interest of the debt.

### Qualitative Analysis

<b>Legal Name and Structure</b>	LCI INDUSTRIES (Delaware Corporation)		
<b>Ownership Details</b>	<a href="#">3.73% Held by Insiders, 43.71% Held by Institutions Holding More than 5%</a>		
<b>Industry</b>	<a href="#">336390 - Other Motor Vehicle Parts Manufacturing</a>		
<b>Markets</b>	NA and EU, OEM and Aftermarket RV parts (2024 10-K)		
<b>Competitive Position</b>	Industry leader in the NA RV market (2024 10-K)		
<b>Management Team</b>	<a href="#">Average management tenure of 17 years</a>		
<b>Years in Operation</b>	41 years (Delaware Division of Corporations)		
[3] <b>Customer Concentration</b>	2 Customers comprise 34% of Net Sales (2024 10-K).		
<b>Collateral Coverage</b>	Discounted Land, Building, and Equipment Fixed Assets: \$645,687,200	\$	645,687
[2] <b>Risk Rating</b>	2.5 out of 5		2.5
<b>Recommendation</b>	SOFR +2% positioned above existing term and revolving credit		

Risk Categories		Notes	Score
Industry Risk		Industry is well below peak and showing a sluggish recovery.	3.0
Market Position		Industry leader in domestic market and expanding internationally.	1.0
[4] Efficiency		Strong AR efficiency despite volatile changes during the reporting period.	2.0
[1] Liquidity		Deteriorating cash flow and working capital. Strengthening Balance Sheet ratios.	2.8
[2] Profitability		Grew profitability YoY. Still below pandemic peak values.	2.8
Leverage		Debt as a share of the capital structure is declining despite revolving credit reliance.	3.3
<b>Average</b>			<b>2.5</b>

### Financial Statement Ratings Criteria

Risk Rating Criteria	Trend
Superior (1)	Increasing
Strong (2)	Stable
Satisfactory (3)	Recovering
Watch (4)	Fluctuating
Substandard (5)	Decreasing

### Industry Outlook

[The industry association for RVs has a consensus growth estimate of 4.91%.](#)

[We can expect LCI Industries to track the performance of its industry due to it performing similarly to its benchmark in the past.](#)

The 2024 10-K report discloses significant seasonality to its business, which LCI mitigates through creative working capital management.

[It's important to note in the context of LCI's Net Income trend that the RV industry still has not reached its prior pandemic highs.](#)

### Preliminary Recommendation

Extend credit to LCI Industries up to \$650,000,000 at SOFR +2% to position this credit line behind the existing credit line at SOFR +0.875% and term loan at SOFR +1.875%.

The heightened interest rate is a result of the deteriorated creditworthiness of the firm since past credit was issued.

[5] At this credit limit, interest coverage will not drop below 3x at current borrowing levels and will not drop below 2x at the maximum possible borrowing level, given the existing credit facilities.

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## Interest Coverage Sensitivity Analysis

SOFR	4.340%
New Debt Rate	6.340%
EBIT	\$ 218,237

Long-Term Debt	2024 Debt	Max Principal	Rate	Max Interest
Convertible Notes	\$ 460,000	\$ 460,000	1.250%	\$ 5,750
Term Loan	\$ 280,000	\$ 400,000	6.315%	\$ 25,260
Revolving Credit Loan	\$ 19,263	\$ 600,000	5.215%	\$ 31,290
<b>Total</b>	<b>\$ 759,263</b>	<b>\$ 1,460,000</b>		<b>\$ 62,300</b>

### Interest Coverage with Current Borrowing and New Debt

New Debt	\$ -	\$ 600,000	\$ 650,000	\$ 700,000	\$ 1,200,000
Interest	\$ 28,899	\$ 66,939	\$ 70,109	\$ 73,279	\$ 104,979
Interest Coverage	7.55	3.26	3.11	2.98	2.08

### Interest Coverage with Maximum Borrowing and New Debt

New Debt	\$ -	\$ 600,000	\$ 650,000	\$ 700,000	\$ 1,200,000
Interest	\$ 62,300	\$ 100,340	\$ 103,510	\$ 106,680	\$ 138,380
Interest Coverage	3.50	2.17	2.11	2.05	1.58

### Interest Coverage Sensitivity Based on New and Existing Debt

Current Interest	\$ -	\$ 600,000	\$ 650,000	\$ 700,000	\$ 1,200,000
\$ 28,899	7.55	3.26	3.11	2.98	2.08
\$ 62,300	3.50	2.17	2.11	2.05	1.58