

# Projecting a Company's Future Valuation: A Financial Analysis Using Market-Based Valuation Model

by

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## 1.0. Introduction

In the dynamic landscape of financial markets, the pursuit of undervalued companies remains a critical endeavour for investors. This analysis introduces a comprehensive approach designed to filter and select such companies based on specific criteria. By harnessing market data and financial metrics, the goal involves uncovering four companies that may be grossly undervalued and carry out financial analysis comparing them with other companies in same sector whilst using financial valuation modelling to predict if these companies would perform well or not in the next four years based on its available market data.

Our methodology involves a multi-step process, with a focus on key indicators that signal potential undervaluation. The following criteria guided the selection of undervalued companies on [finviz](#):

Market Capitalization: We consider companies with a market capitalization exceeding \$300 million. While larger companies naturally attract more attention, smaller ones can present unique investment opportunities.

Price-to-Earnings Ratio (P/E): A low P/E ratio often indicates undervaluation. In our analysis, we set a threshold of 15 or lower, emphasizing companies with attractive valuations relative to their earnings.

Return on Assets (ROA): Companies boasting a robust ROA (above 10%) demonstrate efficient asset utilization. A high ROA suggests that management generates substantial profits from its existing assets.

Sales Growth: Our preference lies with companies that have maintained consistent sales growth over the past five years. Positive revenue trends not only indicate business resilience but also hint at potential future expansion.

Based on these criteria, four companies - *GigaCloud Technology Inc (GCT)*, *APA Corporation (Energy)*, *Main Street Capital Corporation (Financial)*, and *Atkore Inc (Industrials)* - presumed to be undervalued were selected and further analysed.

## 2.0. Gigacloud Technology Inc (Gct)

The first undervalued company of choice is GigaCloud Technology Inc (GCT) in the technology sector of the USA. We'll compare it with three similar companies and focus on gross profit and gross profit growth. Here are the relevant financial highlights for GCT:

### 2.1. Data

GigaCloud Technology Inc (GCT):

- Gross Profit (2023): \$69.8 million (an increase of 161.4% from Q4 2022).
- Gross Margin (2023): 28.5% (up from 21.2% in Q4 2022).

### Sector Peers:

Three of the main competitors of GigaCloud Technology in the technology sector includes:

#### 1. PC Connection, Inc. (CNXN):

- Gross Profit (2023): \$512 million.
- Gross Profit Growth (2022-2023): Decreased by 2.7% year-over-year.

#### 2. Jumia Technologies AG (JMIA):

- Gross Profit (2023): €107 million (approximately \$130 million).
- Gross Profit Growth (2022-2023): Increased by 22% year-over-year.

#### 3. Revolve Group, Inc. (RVLV):

- Gross Profit (2023): \$134 million.
- Gross Profit Growth (2022-2023): Increased by 1% year-over-year.

### Additional Metrics:

- GCT's net income increased significantly, reaching \$35.6 million in Q4 2023 (up 184.8% from Q4 2022).
- The company's operational highlights include a growing GigaCloud Marketplace GMV and active 3P sellers.

### 2.2. Comparative Analysis

Company	Gross Profit (2023)	Gross Profit Growth (2022-2023)	Market Capitalization	Enterprise Value (EV)
GigaCloud Technology Inc. (GCT)	\$69.8 million	161.40%	\$1.25 billion	\$1.56 billion

PC Connection, Inc. (CNXN)	\$512 million	-2.70%	\$1.77 billion	\$1.43 billion
Jumia Technologies AG (JMIA)	\$130 million (approx.)	22%	\$1.34 billion	\$1.24 billion
Revolve Group, Inc. (RVLV)	\$134 million	1%	\$1.30 billion	\$1.07 billion

### Comparative Insights

- **Growth Potential:** GCT stands out with the highest gross profit growth rate among its peers, suggesting strong growth potential and possibly being undervalued.
- **Valuation Metrics:**
  - GCT's EV is higher than its market cap, indicating potential liabilities or debt.
  - CNXN, JMIA, and RVLV have EVs lower than their market caps, indicating they have stronger cash positions or lower debt levels compared to GCT.
- **Profit Performance:**
  - CNXN shows a declining trend, which may indicate challenges in maintaining profitability.
  - JMIA and RVLV show positive but relatively modest growth, with JMIA performing better than RVLV in terms of year-over-year growth.

This analysis highlights GigaCloud Technology Inc.'s robust growth trajectory compared to its sector peers, making it a potentially attractive investment opportunity despite its higher enterprise value relative to market cap.

### 2.3. Valuation Model for GigaCloud Technology Inc. (GCT)

Given Data:

1. Current Gross Profit (GP): \$69.8 million
2. Gross Profit Growth (GPG): 161.4% (sustainable at a more conservative rate of 50% annually for projection)
3. Net Profit Margin: 12.74% (as of March 31, 2024)
4. Price-to-Earnings (P/E) Ratio: 11.46
5. Shares Outstanding: 41 million (increased by 61% from the previous year)

### Projection of Gross Profit for Four Years

Year	Gross Profit (GP) (\$ millions)	Growth Rate
2023	69.8	161.40%
2024	$69.8 * (1 + 0.50) = 104.7$	50%
2025	$104.7 * (1 + 0.50) = 157.05$	50%
2026	$157.05 * (1 + 0.50) = 235.58$	50%
2027	$235.58 * (1 + 0.50) = 353.37$	50%

### Projection of Net Income for Four Years

- Net Profit Margin: 12.74%

Year	Net Income (\$ millions)
2023	$69.8 * 0.1274 = 8.89$
2024	$104.7 * 0.1274 = 13.33$
2025	$157.05 * 0.1274 = 20.01$
2026	$235.58 * 0.1274 = 30.02$
2027	$353.37 * 0.1274 = 45.03$

### Projected Market Capitalization in Four Years

- P/E Ratio: 11.46
- Year 2027 Net Income: \$45.03 million
- Projected Market Cap in 2027:  $\$45.03 \text{ million} * 11.46 = \$515.54 \text{ million}$
- Projected Market Cap: \$515.54 million

### Evaluation

Based on the valuation model and conservative projections of gross profit growth, GigaCloud Technology Inc. (GCT) seems to be currently overvalued. The projected market capitalization of \$515.54 million in four years, driven by a sustainable gross profit growth rate of 50% and a net profit margin of 12.74%, does not support the current market cap of \$1.25 billion. Investors should consider this analysis and the company's future growth potential when making investment decisions.

## 2.4. Revised Valuation Model for GigaCloud Technology Inc. (GCT)

### Additional Variable

1. Recent Net Income (Q4 2023): \$35.6 million (up 184.8% from Q4 2022)
2. Operational Highlights:
  - Growing GigaCloud Marketplace GMV
  - Increase in active 3P sellers

## Incorporating Additional Metrics

Given the significant increase in net income and operational highlights, we adjust the growth rate and margins to reflect the company's improved performance:

### Adjusted Net Income Projection

Assume a higher growth rate in net income due to improved operational performance:

Year	Adjusted Net Income (\$ millions)
2023	35.6
2024	$35.6 * (1 + 0.50) = 53.4$
2025	$53.4 * (1 + 0.50) = 80.1$
2026	$80.1 * (1 + 0.50) = 120.15$
2027	$120.15 * (1 + 0.50) = 180.225$

### Projected Market Capitalization in Four Years (Adjusted)

- P/E Ratio: 11.46
- Year 2027 Adjusted Net Income: \$180.225 million
- Projected Market Cap in 2027:  $\$180.225 \text{ million} * 11.46 = \$2.064 \text{ billion}$

### Evaluation:

With the adjusted net income reflecting the significant increase in Q4 2023 and the operational highlights, the projected market cap of \$2.064 billion in four years is significantly higher than the current market cap of \$1.25 billion. This suggests that GigaCloud Technology Inc. might be undervalued at its current valuation, given the company's recent performance improvements and operational growth. Investors should consider this analysis and the company's strong growth potential when making investment decisions.

## 2.5. Explanation

### Additional Metric: Significant Increase in Net Income and Operational Highlights

#### Key Points:

1. **Significant Increase in Net Income:**
  - GigaCloud Technology Inc. (GCT) reported a net income of \$35.6 million in Q4 2023, up 184.8% from Q4 2022.
  - This increase indicates strong profitability and financial health, boosting investor confidence and potentially raising the stock price.
2. **Operational Highlights:**

- **Growing GigaCloud Marketplace GMV:** Indicates higher sales volumes and market penetration, reflecting robust demand and market share capture.
- **Increase in Active 3P Sellers:** More third-party sellers on the platform increase product diversity and attract more customers, driving sales and revenue growth.

#### **Justification:**

- The substantial net income growth and positive operational metrics suggest that GCT is on a strong growth trajectory, capable of sustaining profitability and market expansion. These factors enhance the company's projected market capitalization, indicating that GCT may be undervalued at its current market cap.

### **3.0. APA Corporation (Energy sector)**

Company: APA Corporation (Apache Corporation)

#### 3.1. Financial Data of APA & Sector Peers

##### 1. APA Corporation

- Gross Profit (2023): \$7.116 billion.
- Gross Profit Growth (2022 to 2023): A decline of 28.76%.
- Gross Profit Growth (2021 to 2022): An increase of 64.18%. (MacroTrends, 2024a)

##### 2.. Devon Energy Corp:

- Gross Profit (2023): \$12.33 billion.
- Gross Profit Growth (2022 to 2023): A decline of 24.69%
- Gross Profit Growth (2021 to 2022): An increase of 62.5% (MacroTrends, 2024b; WSJ, 2024)

##### 3. EOG Resources Inc:

- Gross Profit (2023): \$24.19 billion
- Gross Profit Growth (2022 to 2023): A decline of 5.9%
- Gross Profit Growth (2021 to 2022): An increase of 37.87% (MacroTrends, 2024c)

##### 4. Diamondback Energy Inc:

- Gross Profit (2023): \$7.25 billion
- Gross Profit Growth (2022 to 2023): A decline of 16.95%

- Gross Profit Growth (2021 to 2022): An increase of 16.95% (MacroTrends, 2024d)

### 3.2 Comparative Analysis

*Table 4: Comparative Analysis. [Adapted from Finviz(2024)]*

Company	Gross Profit (2023) (\$ billion)	Gross Profit Growth (2022-2023)	Gross Profit Growth (2021-2022)	Market Cap (\$ billion)	Enterprise Value (\$ billion)
APA Corporation	7.116	-28.76%	64.18%	11.88	13.64
Devon Energy Corp	12.33	-24.69%	62.50%	30.41	35.71
EOG Resources Inc	24.19	-5.90%	37.87%	75.59	74.4
Diamondback Energy Inc	7.25	-16.95%	16.95%	37.62	43.35

This comparative analysis shows that while all four companies experienced a decline in gross profit growth from 2022 to 2023, they had previously seen significant growth from 2021 to 2022. EOG Resources Inc stands out with the highest market cap and the smallest decline in gross profit growth, suggesting relative stability compared to its peers.

### 3.3. Financial Model

Given Data:

1. Gross Profit (2023): \$7.116 billion
2. Gross Profit Growth (2022-2023): -28.76%
3. Gross Profit Growth (2021-2022): 64.18%
4. Net Profit Margin: 33.39%
5. Price-to-Earnings (P/E) Ratio: 3.58
6. Shares Outstanding: 371.19 million
7. Market Capitalization: \$11.88 billion
8. Enterprise Value: \$13.64 billion
9. Forward Price-to-Earnings (P/E): 6.7

A Step-by-Step Projection Model is utilized.

#### **Step 1: Estimate Future Gross Profit**



Given the volatility in gross profit growth, we'll use a moderate growth rate for projection purposes. We'll assume a recovery and a growth rate of 5% annually.

#### Projection of Gross Profit

Year	Gross Profit (GP) (\$ billions)	Growth Rate
2023	7.116	Baseline
2024	$7.116 * (1 + 0.05) = 7.472$	5%
2025	$7.472 * (1 + 0.05) = 7.846$	5%
2026	$7.846 * (1 + 0.05) = 8.238$	5%
2027	$8.238 * (1 + 0.05) = 8.650$	5%

### **Step 2: Estimate Future Net Income**

Using the net profit margin of 33.39%.

#### Projection of Net Income

Year	Gross Profit (GP) (\$ billions)	Net Profit Margin	Net Income (\$ billions)
2023	7.116	33.39%	$7.116 * 0.3339 = 2.376$
2024	7.472	33.39%	$7.472 * 0.3339 = 2.495$
2025	7.846	33.39%	$7.846 * 0.3339 = 2.618$
2026	8.238	33.39%	$8.238 * 0.3339 = 2.751$
2027	8.65	33.39%	$8.650 * 0.3339 = 2.888$

### **Step 3: Project Future Market Capitalization**

Assuming the P/E ratio remains stable at the forward P/E of 6.7.

#### Projection of Market Cap

Year	Net Income (\$ billions)	Forward P/E Ratio	Projected Market Cap (\$ billions)
2023	2.376	6.7	$2.376 * 6.7 = 15.93$
2024	2.495	6.7	$2.495 * 6.7 = 16.92$
2025	2.618	6.7	$2.618 * 6.7 = 17.55$

2026	2.751	6.7	$2.751 * 6.7 = 18.63$
2027	2.888	6.7	$2.888 * 6.7 = 19.36$

## Evaluation

Based on the projected market capitalization of \$19.36 billion, APA Corporation's value is expected to grow to \$19.36 billion in four years, assuming a conservative annual growth rate of 5% and applying the forward P/E ratio.

APA Corporation appears to be currently undervalued given the projected market cap of \$19.36 billion compared to its current market cap of \$11.88 billion. The company shows potential for significant growth in value over the next four years based on the projections.

### 3.4. Additional Variable

1. APA Corp boasts a substantial reserve base of 807 million barrels of oil equivalent (boe) in proved reserves. With a daily production rate of 405 thousand boe/day, the company has a solid foundation for sustained operations and revenue generation
2. In 2024, APA Corp acquired Callon Petroleum Company for approximately \$4.5 billion. This move expands the company's asset portfolio and consolidates its market position, enabling it to leverage economies of scale and enhance its competitive edge.

The revised Valuation Model for APA Corporation goes thus:

#### *Step 1: Factor in Increased Production and Reserve Base*

The substantial reserve base and daily production rate can provide a strong foundation for sustained revenue. We will adjust our growth assumptions based on this robust production capacity.

#### *Step 2: Consider the Strategic Acquisition*

The acquisition of Callon Petroleum Company for \$4.5 billion can enhance APA's asset portfolio, leading to potential economies of scale, increased production, and revenue. We'll incorporate this by assuming a higher growth rate due to expanded operations and improved efficiencies.

### **Adjusted Assumptions:**

1. Gross Profit Growth Rate: Given the robust production and strategic acquisition, we'll assume a higher annual growth rate of 8% (up from the previously assumed 5%).
2. Impact of Acquisition: The acquisition cost of \$4.5 billion will be added to the enterprise value and factored into future cash flows.

## Step-by-Step Adjusted Projection Model

### Step 1: Adjusted Growth Rate:

Given the new information, the adjusted growth rate is 8%.

Year	Gross Profit (GP) (\$ billions)	Growth Rate
2023	7.116	Baseline
2024	$7.116 * (1 + 0.08) = 7.686$	8%
2025	$7.686 * (1 + 0.08) = 8.300$	8%
2026	$8.300 * (1 + 0.08) = 8.964$	8%
2027	$8.964 * (1 + 0.08) = 9.681$	8%

### Step 2: Estimate Future Net Income

Using the net profit margin of 33.39%.

*Projection of Net Income:*

Year	Gross Profit (GP) (\$ billions)	Net Profit Margin	Net Income (\$ billions)
2023	7.116	33.39%	$7.116 * 0.3339 = 2.376$
2024	7.686	33.39%	$7.686 * 0.3339 = 2.567$
2025	8.3	33.39%	$8.300 * 0.3339 = 2.772$
2026	8.964	33.39%	$8.964 * 0.3339 = 2.994$
2027	9.681	33.39%	$9.681 * 0.3339 = 3.233$

### Step 3: Project Future Market Capitalization

Applying the forward P/E ratio of 6.7.

*Projection of Market Cap:*

Year	Net Income (\$ billions)	Forward P/E Ratio	Projected Market Cap (\$ billions)
2023	2.376	6.7	$2.376 * 6.7 = 15.93$
2024	2.567	6.7	$2.567 * 6.7 = 17.20$
2025	2.772	6.7	$2.772 * 6.7 = 18.57$
2026	2.994	6.7	$2.994 * 6.7 = 20.06$
2027	3.233	6.7	$3.233 * 6.7 = 21.66$

## Adjusted Enterprise Value

Factoring in the acquisition cost of \$4.5 billion.

Year	Current Enterprise Value (\$ billions)	Acquisition Cost (\$ billions)	Adjusted Enterprise Value (\$ billions)
2023	13.64	4.5	18.14
2024	17.2	4.5	21.7
2025	18.57	4.5	23.07
2026	20.06	4.5	24.56
2027	21.66	4.5	26.16

*Projected Valuation (2027):*

- **Projected Market Cap:** \$21.66 billion
- **Adjusted Enterprise Value:** \$26.16 billion

## Conclusion:

Based on the current metrics and additional factors, APA Corporation appears to be **significantly undervalued**. The projected market cap in four years is \$21.66 billion, compared to the current market cap of \$11.88 billion. This suggests a strong potential for growth driven by the company's robust production capabilities and strategic acquisitions.

### 3.5. Additional Metrics Explanation/Justification:

**Robust Production and Reserve Base:** APA Corp's substantial reserve base and high daily production rate provide a solid foundation for long-term revenue generation and operational stability, supporting higher growth projections.

**Strategic Acquisitions:** The acquisition of Callon Petroleum Company expands APA Corp's asset portfolio and enhances its market position. This move is expected to leverage economies of scale, improve operational efficiencies, and drive future revenue growth, justifying the higher growth rate used in the revised valuation mode.

## 4.0 Main Street Capital Corporation (Financial)

Main Street Capital Corporation operates in the financial sector, providing customized financing solutions to lower middle market companies

### 4.1. Data

*Financial Metrics (Adapted from <https://www.macrotrends.net>)*

Company	Gross Profit (2023)	Gross Profit Growth (2023 vs. 2022)
Main Street Capital Corporation	\$500 million	24.71%
Ares Capital	\$2.614 billion	18.60%
Blackstone Secured Lending Fund	\$1.144 billion	34.49%

#### 4.2. Comparative Analysis

Certainly! Let's dive into the financial metrics for Main Street Capital Corporation (MAIN), Ares Capital (ARCC), and Blackstone Secured Lending Fund (BXSL). I've gathered the relevant information for each company:

*Market Capitalisation for MAIN, ARCC & BXSL (Adapted from finviz.com)*

Metric	MAIN	ARCC	BXSL
Market Cap	\$4.30B	\$12.73B.	\$6.01B

Let's update the financial metrics table with the market cap info of all 3 companies:

Company	Gross Profit (2023)	Gross Profit Growth (2023 vs. 2022)	Market Cap
Main Street Capital Corporation	\$500 million	24.71%	\$4.30 billion
Ares Capital	\$2.614 billion	18.60%	\$12.73 billion
Blackstone Secured Lending Fund	\$1.144 billion	34.49%	\$6.01 billion

#### Key Insights:

- MAIN has a moderate gross profit, but its growth rate is encouraging. It's market cap suggests it's a mid-sized company.
- ARCC boasts a substantial gross profit, and its growth is steady. The market cap indicates it's a larger player in the sector.
- BXSL's gross profit growth is impressive, and its market cap is substantial. It falls between MAIN and ARCC in terms of size.

#### 4.3. Valuation Model

Market Cap: \$4.30 billion

Enterprise Value: \$4.32 billion

Shares Outstanding: 84.83 million

Price-to-Earnings Ratio: 9.17

Forward P/E Ratio: 12.75

Net Profit Margin: 106.08%

Gross Profit (2023): \$500 million

Gross Profit Growth (2023 vs. 2022): 24.71%

Step-by-Step Projection Model

Assumptions:

Gross Profit Growth Rate: Based on the historical growth rate, we'll assume a conservative annual growth rate of 15%.

Net Profit Margin: We'll assume the net profit margin remains constant at 106.08% due to its high and consistent profitability.

*Projected Gross Profit*

Year	Gross Profit (\$ millions)	Growth Rate
2023	500	Baseline
2024	$500 * 1.15 = 575$	15%
2025	$575 * 1.15 = 661.25$	15%
2026	$661.25 * 1.15 = 760.44$	15%
2027	$760.44 * 1.15 = 874.51$	15%

*Projected Net Income:*

Using the net profit margin of 106.08%, we can calculate the projected net income.

Year	Gross Profit (\$ millions)	Net Profit Margin	Net Income (\$ millions)
2023	500	106.08%	$500 * 1.0608 = 530.4$
2024	575	106.08%	$575 * 1.0608 = 609.46$
2025	661.25	106.08%	$661.25 * 1.0608 = 701.17$
2026	760.44	106.08%	$760.44 * 1.0608 = 806.28$

2027	874.51	106.08%	$874.51 * 1.0608 = 925.99$
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*Projected Market Capitalization:*

Using the forward P/E ratio of 12.75.

Year	Net Income (\$ millions)	Forward P/E Ratio	Projected Market Cap (\$ billions)
2023	530.4	12.75	$530.4 * 12.75 = 6.76$
2024	609.46	12.75	$609.46 * 12.75 = 7.78$
2025	701.17	12.75	$701.17 * 12.75 = 8.94$
2026	806.28	12.75	$806.28 * 12.75 = 10.28$
2027	925.99	12.75	$925.99 * 12.75 = 11.80$

### ***Analysis:***

- Current Market Capitalization: \$4.30 billion
- Projected Market Cap (2027): \$11.80 billion

### ***Conclusion***

Based on the projections, Main Street Capital Corporation's value is expected to grow significantly over the next four years, reaching a projected market cap of \$11.80 billion by 2027. This suggests that the company is currently undervalued, given its high net profit margin, consistent gross profit growth, and substantial projected market cap increase.

#### **4.4. Additional Variable**

1. Market Conditions: Main Street Capital's stock price has been performing well, with a recent close at \$51.67. The company has also been active in its private loan portfolio, originating new commitments worth \$375.9 million in Q2 2024. (Yahoo Finance, 2024a)

2. Technological Advancements: Main Street Capital has been investing in technology companies, such as Centre Technologies, which offers managed services and other tech solutions. (S&P Global Market Intelligence, 2024)

3. Regulatory Changes: The company recently amended its corporate credit facility, increasing total commitments to \$1.110 billion and extending the maturity dates. (Yahoo Finance, 2024b)

4. Recent Financial News: Main Street Capital reported strong Q1 2024 earnings, with net investment income surpassing analyst expectations. (Yahoo Finance, 2024a)

### Re-Evaluation of Financial Model Based on Additional Variable.

#### Step-by-Step Projection Model

##### *Assumptions:*

1. Gross Profit Growth Rate: Based on historical growth and positive market conditions, we'll assume an annual growth rate of 20%.
2. Net Profit Margin: We'll maintain the high net profit margin of 106.08% due to consistent profitability and strong financial performance.

##### *Projected Gross Profit:*

Year	Gross Profit (\$ millions)	Growth Rate
2023	500	Baseline
2024	$500 * 1.20 = 600$	20%
2025	$600 * 1.20 = 720$	20%
2026	$720 * 1.20 = 864$	20%
2027	$864 * 1.20 = 1036.8$	20%

##### *Projected Net Income:*

Using the net profit margin of 106.08%, we calculate the projected net income.

Year	Gross Profit (\$ millions)	Net Profit Margin	Net Income (\$ millions)
2023	500	106.08%	530.4
2024	600	106.08%	636.48
2025	720	106.08%	763.776
2026	864	106.08%	916.5312
2027	1036.8	106.08%	1099.837824

##### *Projected Market Capitalization:*

Using the forward P/E ratio of 12.75.

Year	Net Income (\$ millions)	Forward P/E Ratio	Projected Market Cap (\$ billions)
2023	530.4	12.75	6.76



2024	636.48	12.75	8.11
2025	763.776	12.75	9.74
2026	916.5312	12.75	11.69
2027	1099.837824	12.75	14.02

#### 4.5. Explanation

##### *Impact of New Variables:*

**Market Conditions:** The positive stock price performance and active private loan portfolio suggest strong investor confidence and robust business activity, likely contributing to increased market capitalization.

**Technological Advancements:** Investments in technology companies could enhance operational efficiencies and open new revenue streams, positively impacting future profitability and valuation.

**Regulatory Changes:** The amended corporate credit facility provides greater financial flexibility, enabling MAIN to capitalize on growth opportunities, potentially **leading to higher future earnings and market cap.**

**Recent Financial News:** Strong Q1 2024 earnings and surpassing analyst expectations indicate a positive financial trajectory, reinforcing the assumptions of high growth and profitability.

##### Justification

With the inclusion of the new variables, Main Street Capital Corporation's projected market cap in four years is \$14.02 billion. Given the current market cap of \$4.30 billion, the company appears to be significantly undervalued. The positive impact of market conditions, technological advancements, regulatory changes, and strong financial performance suggests substantial growth potential, making MAIN an attractive investment opportunity.

## **5.0. Atkore Inc (Industrials)**

Atkore Inc. is a company based in the USA that manufactures and sells electrical, mechanical, safety, and infrastructure products. Their product portfolio includes armoured and metal-clad cables, conduit fittings, struts, gas pipes, pre-wired devices, and more (Atkore, 2024). They operate in two main segments: Electrical

(producing conduit, cable, and installation accessories) and Safety & Infrastructure (WSJ, 2024b).

### 5.1. Data

#### 1. Atkore Inc.

**Gross Profit:** In the second quarter of 2024, Atkore reported a gross profit of \$416.4 million, a significant increase compared to the prior-year period (Atkore, 2024b).

However, it's essential to note that their gross margin decreased slightly to 42.4% during the same period.

**Gross Profit Growth:** Looking at the annual trend, In 2021, their gross profit was \$1.126 billion (a 129.1% increase from 2020).

In 2022, it further increased to \$1.64 billion (a 45.7% increase from 2021) (Macrotrends 2024e).

Unfortunately, in 2023, there was a decline, with gross profit at \$1.34 billion (Atkore, 2024b).

For the twelve months ending March 31, 2024, the gross profit was \$1.234 billion, representing a 20.67% decline year-over-year (MacroTrends 2024e).

Let's explore two other companies in the same sector as Atkore Inc.:

2. Novanta (NOVT): Novanta operates in the "miscellaneous electrical machinery, equipment, & supplies" industry.

**Gross Profit:** For the twelve months ending March 31, 2024, Novanta's gross profit was \$403 million, representing a 4.37% increase year-over-year.

**Gross Profit Growth:** Novanta's annual gross profit for 2023 increased by 5.66% from the previous year (2022).

In 2022, their gross profit showed a significant 26.02% increase compared to 2021 (MacroTrends, 2024f).

3. CAE (CAE): CAE also operates in the "miscellaneous electrical machinery, equipment, & supplies" industry.

**Gross Profit:** For the twelve months ending December 31, 2023, CAE's gross profit was \$946 million, reflecting a 14.46% increase year-over-year.

**Gross Profit Growth:** CAE's annual gross profit for 2023 increased by 15.74% from the previous year (2022).

In 2022, their gross profit surged by 31.48% compared to 2021 (MacroTrends, 2024g).

## 5.2. Comparative Analysis

*Market Cap Information (Adapted from finviz.com)*

Company	Market Cap
Atkore Inc	\$5.17 billion
Novanta (NOVT):	\$6.19 billion
CAE (CAE)	\$5.88 billion

Looking at the data for all three companies, Atkore Inc. experienced fluctuations in gross profit, while Novanta and CAE showed more consistent growth.

Novanta's growth was steady, and CAE's surge in 2022 stands out.

Novanta leads in market cap, followed closely by CAE.

Atkore Inc. holds a substantial market cap as well.

## 5.3. Valuation Model

### Data Gathered:

**Gross Profit** (Q2 2024): \$416.4 million (significant increase from the prior year)

**Gross Margin:** 42.4%

### **Gross Profit Growth:**

2021: Gross profit was \$1.126 billion (129.1% increase from 2020).

2022: Further increased to \$1.64 billion (45.7% increase from 2021).

2023: Experienced a decline, with gross profit at \$1.34 billion.

Twelve months ending March 31, 2024: Gross profit was \$1.234 billion (20.67% decline year-over-year).

**Market Cap:** \$5.17 Billion

**Shares Outstanding:** 37.32M

**Price-to-Earnings Ratio (P/E):** 8.85

**Forward P/E Ratio:** 7.99

**Net Profit Margin:** 18.03% (FINVIZ, 2024a)

To project Atkore Inc.'s value over the next four years and determine if it is undervalued or overvalued, we will use the provided financial data and assumptions based on historical trends.

(a) Projection Model

### Assumptions:

Gross Profit Growth Rate:

We will use an average growth rate based on historical data, adjusting for the decline in the recent year.

Net Profit Margin: 18.03%

Forward P/E Ratio: 7.99

Historical Gross Profit Data:

2021: \$1.126 billion (129.1% increase from 2020)

2022: \$1.64 billion (45.7% increase from 2021)

2023: \$1.34 billion (decrease from 2022)

2024 (12 months ending March 31): \$1.234 billion (20.67% decline year-over-year)

Calculations for Average Growth Rate:

2020 to 2021 Growth Rate: 129.1%

2021 to 2022 Growth Rate: 45.7%

2022 to 2023 Growth Rate: -18.54%

2023 to 2024 Growth Rate: -20.67%

Average Growth Rate =  $(129.1\% + 45.7\% - 18.54\% - 20.67\%) / 4 = 33.90\%$

Since there is a significant decline in the recent year, we will use a conservative growth rate of 5% for our projections.

*Projected Gross Profit:*

Year	Gross Profit (\$ millions)	Growth Rate
2024	1,234	Baseline
2025	$1,234 * 1.05 = 1,295.7$	5%
2026	$1,295.7 * 1.05 = 1,360.485$	5%
2027	$1,360.485 * 1.05 = 1,428.5093$	5%
2028	$1,428.5093 * 1.05 = 1,499.9348$	5%

*Projected Net Income:*

Using the net profit margin of 18.03%, we calculate the projected net income.

Year	Gross Profit (\$ millions)	Net Profit Margin	Net Income (\$ millions)
2024	1,234	18.03%	222.55
2025	1,295.70	18.03%	233.62

2026	1,360.49	18.03%	245.26
2027	1,428.51	18.03%	257.52
2028	1,499.93	18.03%	270.42

*Projected Market Capitalization:*

Using the forward P/E ratio of 7.99.

Year	Net Income (\$ millions)	Forward P/E Ratio	Projected Market Cap (\$ billions)
2024	222.55	7.99	1.78
2025	233.62	7.99	1.87
2026	245.26	7.99	1.96
2027	257.52	7.99	2.06
2028	270.42	7.99	2.16

**Conclusion:**

Based on the conservative growth rate and projected market cap, Atkore Inc. appears to be **overvalued** currently. Despite a solid net profit margin and relatively low P/E ratio, the recent declines in gross profit and the projected market cap indicate that the company's current market valuation of \$5.17 billion is significantly higher than the projected \$2.16 billion in four years.

However, this analysis is conservative and does not fully account for potential future strategic initiatives or market conditions that could positively impact the company's growth trajectory. Further, more detailed analysis incorporating other variables such as potential market expansion, technological advancements, and macroeconomic factors might yield a different conclusion.

5.4. Additional Variable

**Market Conditions and Expansion:** Atkore's net sales for the second quarter of 2024 were \$792.9 million, down 11.5% compared to the prior year. (Investor, 2024)

Despite this, the company remains optimistic about end market demand across multiple verticals.

Updated Valuation Model with Additional Variables

To factor in the additional data regarding market conditions and expansion, our growth assumptions will be adjusted and the company's value will be projected over the next four years based on the latest information.

**Additional Data:**

Net Sales (Q2 2024): \$792.9 million (down 11.5% compared to the prior year)

Market Optimism: Despite the decline, Atkore is optimistic about end market demand across multiple verticals.

**Updated Assumptions:**

Adjusted Gross Profit Growth Rate: Considering the 11.5% decline in net sales, the conservative growth rate will be revised to 3% to reflect potential challenges while maintaining some growth due to market optimism.

*Projected Gross Profit:*

Year	Gross Profit (\$ millions)	Growth Rate
2024	1,234	Baseline
2025	$1,234 * 1.03 = 1,271.02$	3%
2026	$1,271.02 * 1.03 = 1,309.1506$	3%
2027	$1,309.1506 * 1.03 = 1,348.4251$	3%
2028	$1,348.4251 * 1.03 = 1,388.877$	3%

*Projected Net Income:*

Using the net profit margin of 18.03%, we calculate the projected net income.

Year	Gross Profit (\$ millions)	Net Profit Margin	Net Income (\$ millions)
2024	1,234	18.03%	222.55
2025	1,271.02	18.03%	229.14
2026	1,309.15	18.03%	236.01
2027	1,348.43	18.03%	243.07
2028	1,388.88	18.03%	250.32

*Projected Market Capitalization:*

Using the forward P/E ratio of 7.99.

Year	Net Income (\$ millions)	Forward P/E Ratio	Projected Market Cap (\$ billions)
2024	222.55	7.99	1.78

2025	229.14	7.99	1.83
2026	236.01	7.99	1.89
2027	243.07	7.99	1.94
2028	250.32	7.99	2

**Impact of Additional Variables on Valuation:**

Current Market Cap: \$5.17 billion

Projected Market Cap (2028) with Adjusted Growth Rate: \$2.00 billion

**Conclusion:**

Based on the updated model that includes the impact of market conditions and expansion, Atkore Inc. appears to be overvalued. The projected market cap of \$2.00 billion in four years is significantly lower than the current market cap of \$5.17 billion.

However, the company's optimism about end market demand and strategic initiatives could lead to better-than-expected performance. Therefore, further detailed analysis incorporating qualitative factors and industry-specific insights would be beneficial for a more comprehensive valuation.

**5.5. Explanation**

**Net Sales (Q2 2024):** Atkore reported net sales of \$792.9 million for the second quarter of 2024, representing an 11.5% decline compared to the prior year. Despite this decline, the company remains optimistic about demand across multiple verticals.

***Justification***

The decline in net sales directly affects the company's financial performance, reducing gross profit and net income. This impact can lead to a lower valuation based on traditional financial metrics. However, the company's optimistic outlook for future demand can offset some of this negative impact by fostering positive investor sentiment. Investors who believe in the company's long-term growth potential may be willing to invest despite short-term setbacks.

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