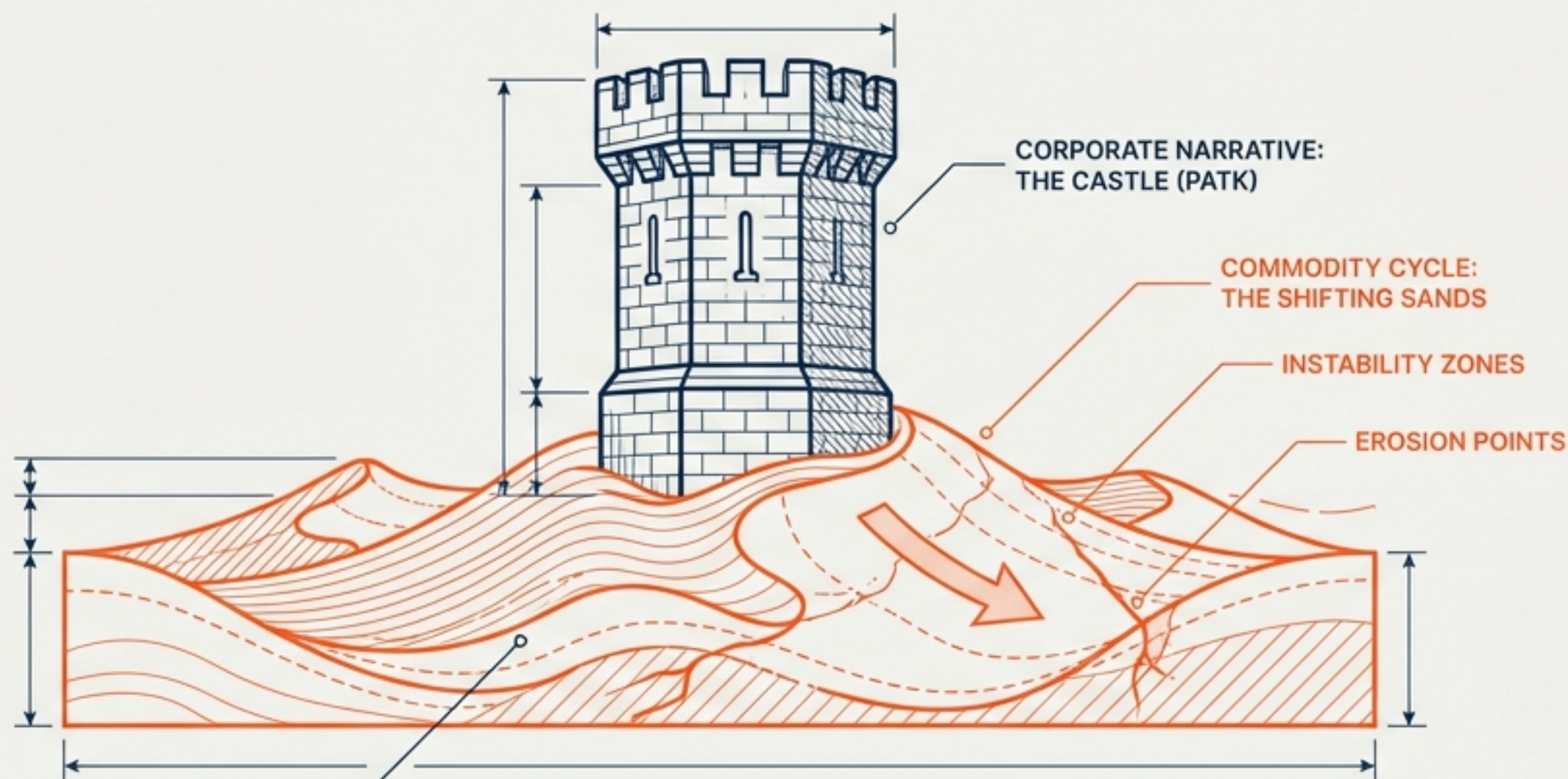


Patrick Industries (NASDAQ: PATK)

The Illusion of a Moat in a Commodity Cycle

An Investment Analysis of Value Destruction disguised as Growth.



FORENSIC NOTE:

↓	Negative Economic Spread: -4.9%	↓
⚠	P/E: 36x	

RECOMMENDATION: AVOID / SELL

The Paradox: Optical Growth vs. Economic Decay

THE NARRATIVE

THE NARRATIVE (Bull Case)

- Transformation to "Solutions Provider"
- Diversification into Marine/Powersports
- Capital Deployment: \$412M in Acquisitions (2024)



THE REALITY

THE REALITY (Bear Case)

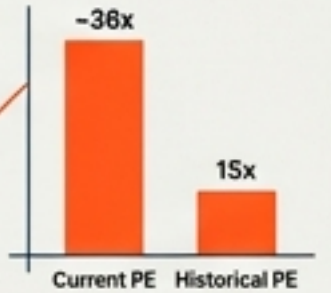
- **Value Destruction:** ROIC (7.8%) < WACC (12.7%)
- **Price Taker:** 29% Concentration with Oligopoly Customers
- **Cyclicality:** Shipments collapsed -50% from Peak



THE VERDICT

THE VERDICT

- **Pricing Perfection:** Trading at ~36x Earnings vs. Historical 15x
- **Asymmetric Risk:** 40-75% Downside to Fair Value (\$81)

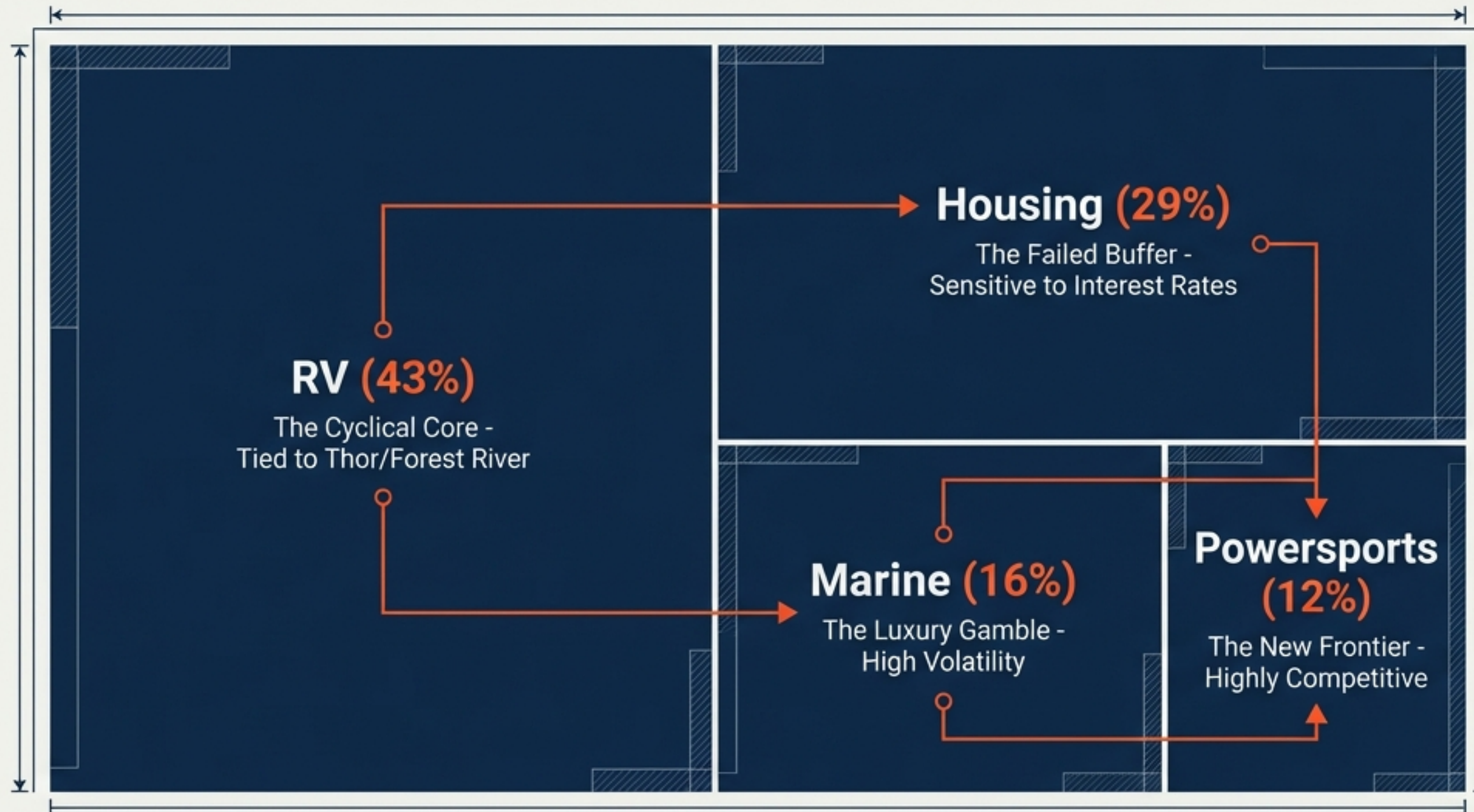


The Elkhart Ecosystem: Logistics Manager, Not Tech Platform



Insight: Patrick holds the inventory risk so OEMs can operate with negative working capital. This creates efficiency but zero pricing power.

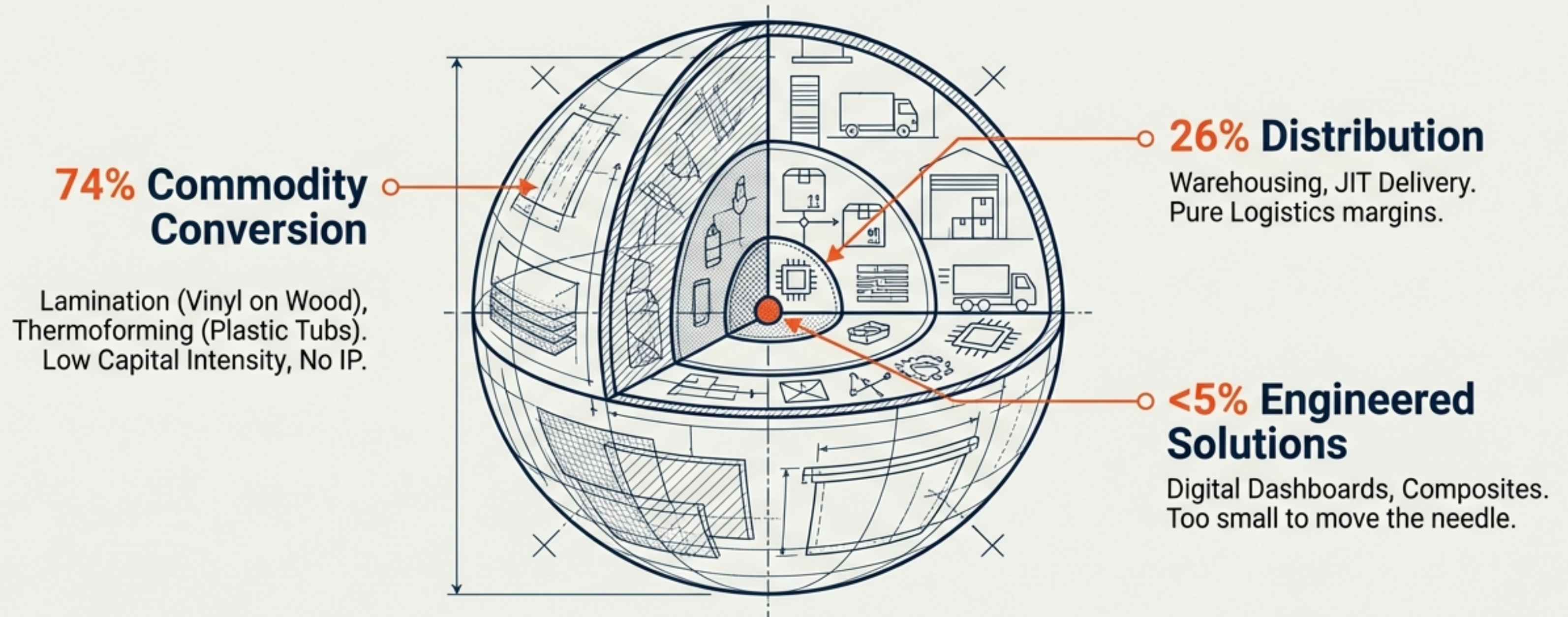
A Portfolio of Cyclicality: Diversification Has Not Removed Volatility



**Total Revenue
Correlation to
Discretionary
Spending:**
~100%

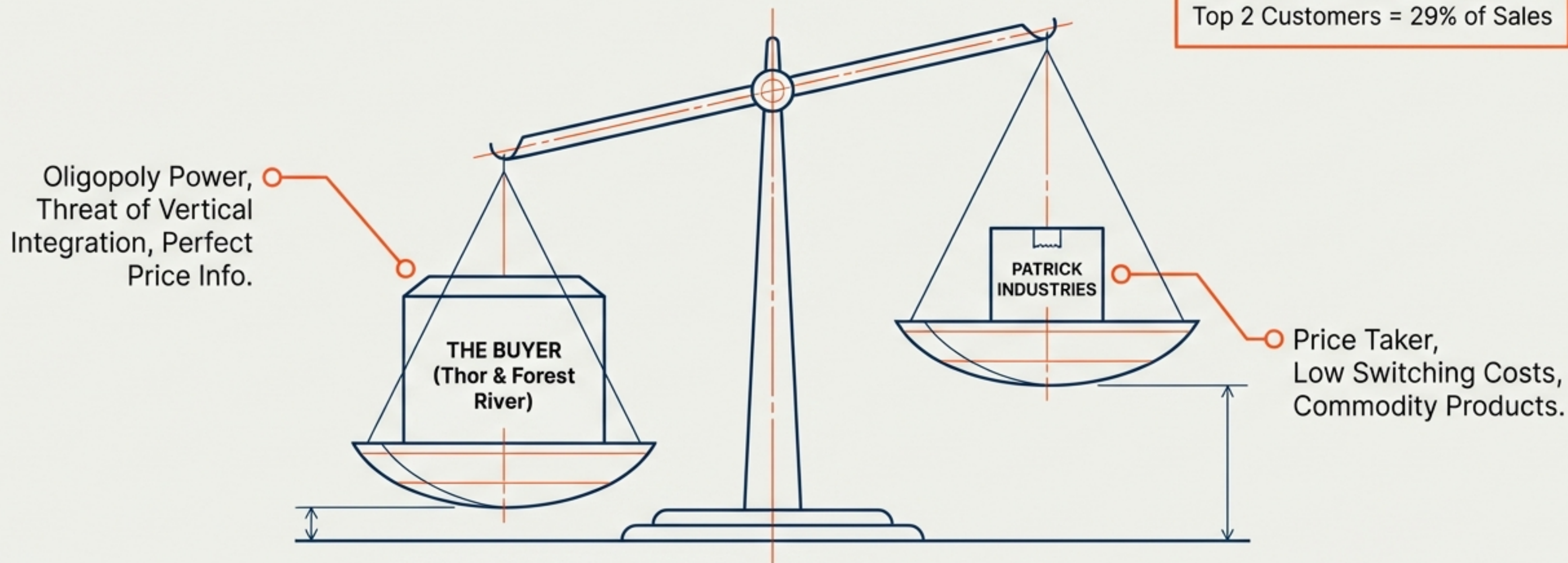
Moving from RVs
to Boats is not
diversification; it is
doubling down on
discretionary
leisure spending."

Peeling the Onion: 'Manufacturing' Without Barriers



74% Manufacturing / 26% Distribution labels mask a reality of low-complexity conversion.

Structural Weakness: The Power of the Buyer

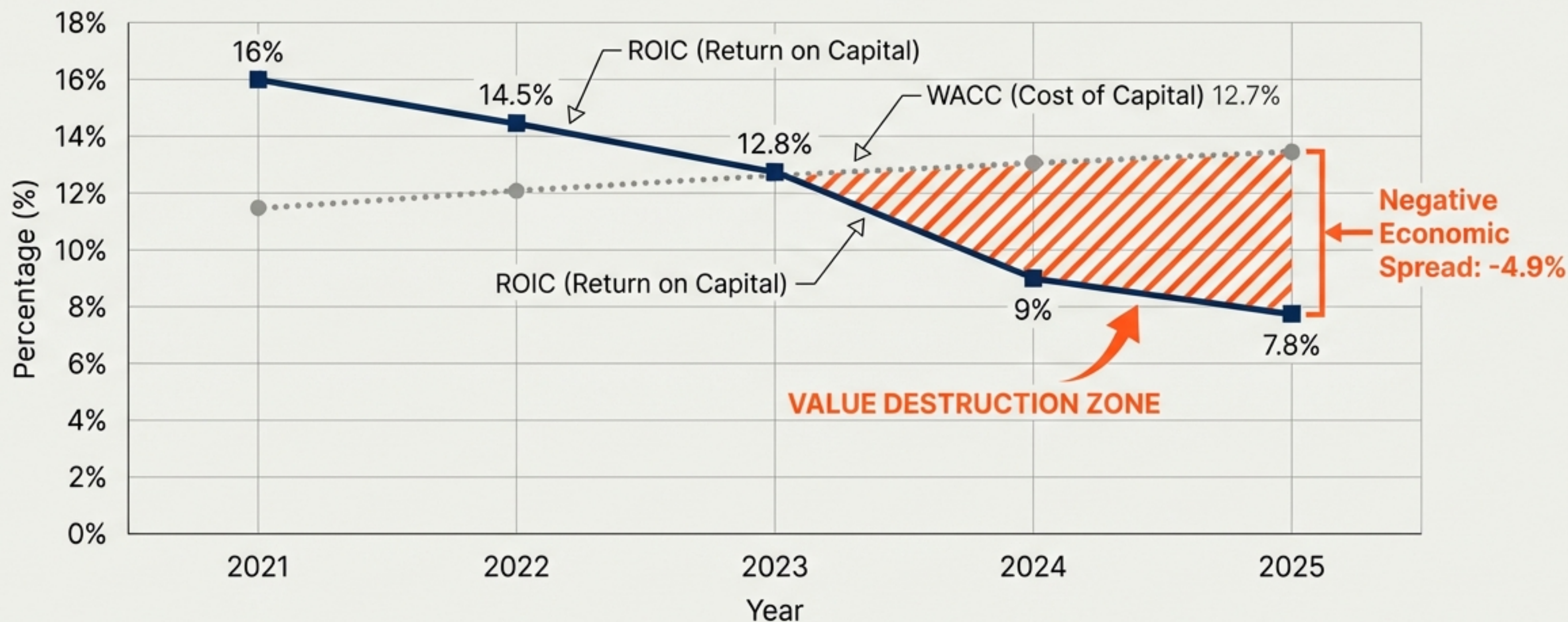


Customer Concentration:
Top 2 Customers = 29% of Sales

The Ceiling Concept: If Patrick's margins rise too high, the OEMs simply insource the production.

The Moat Test: Growth is Destroying Shareholder Value

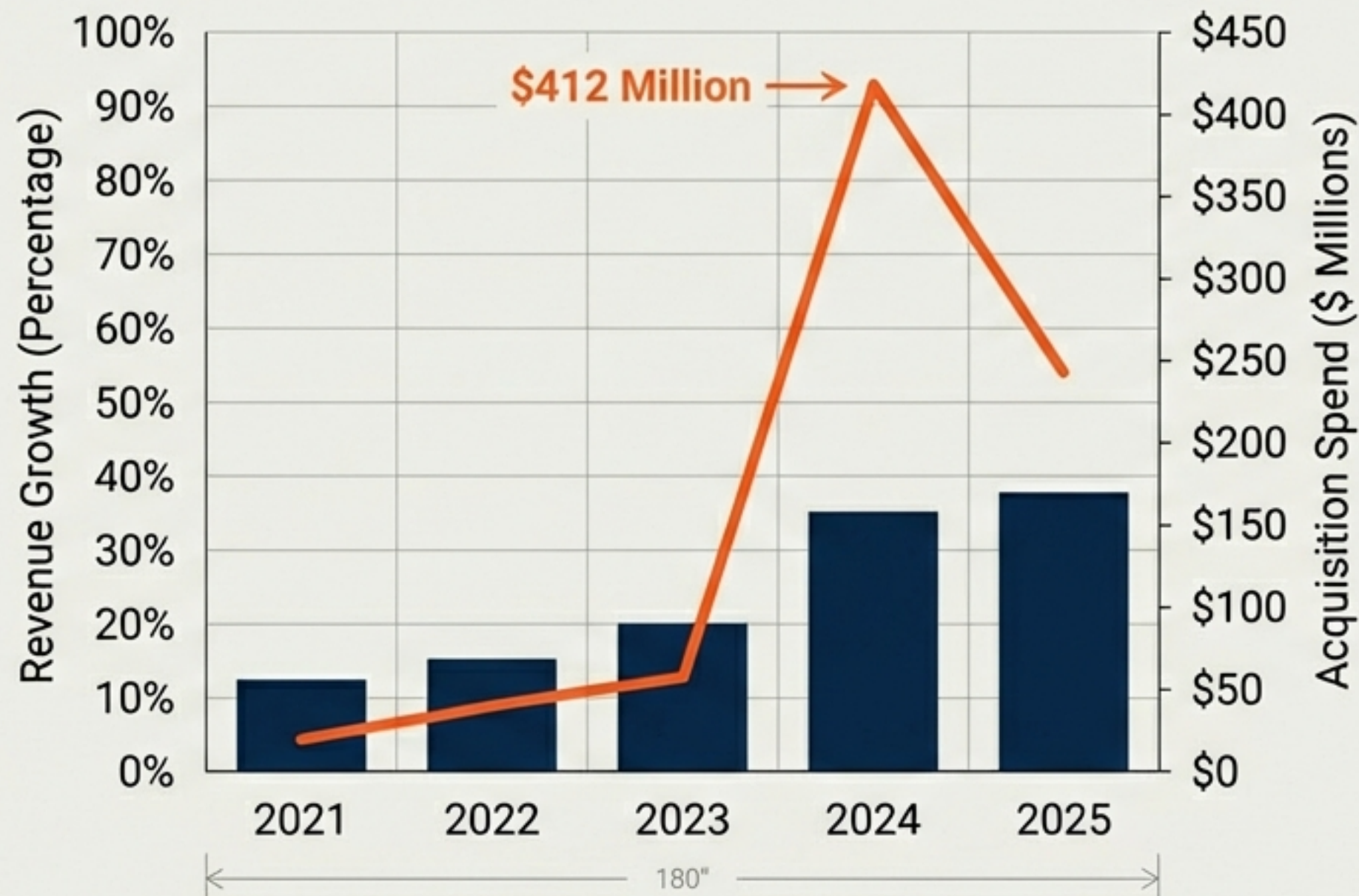
ROIC vs. WACC: The Economic Spread (2021-2025)



For every dollar of growth, the company currently destroys nearly five cents of value.

The Growth Engine: Buying Revenue, Not Innovation

Revenue Growth vs. Acquisition Spend



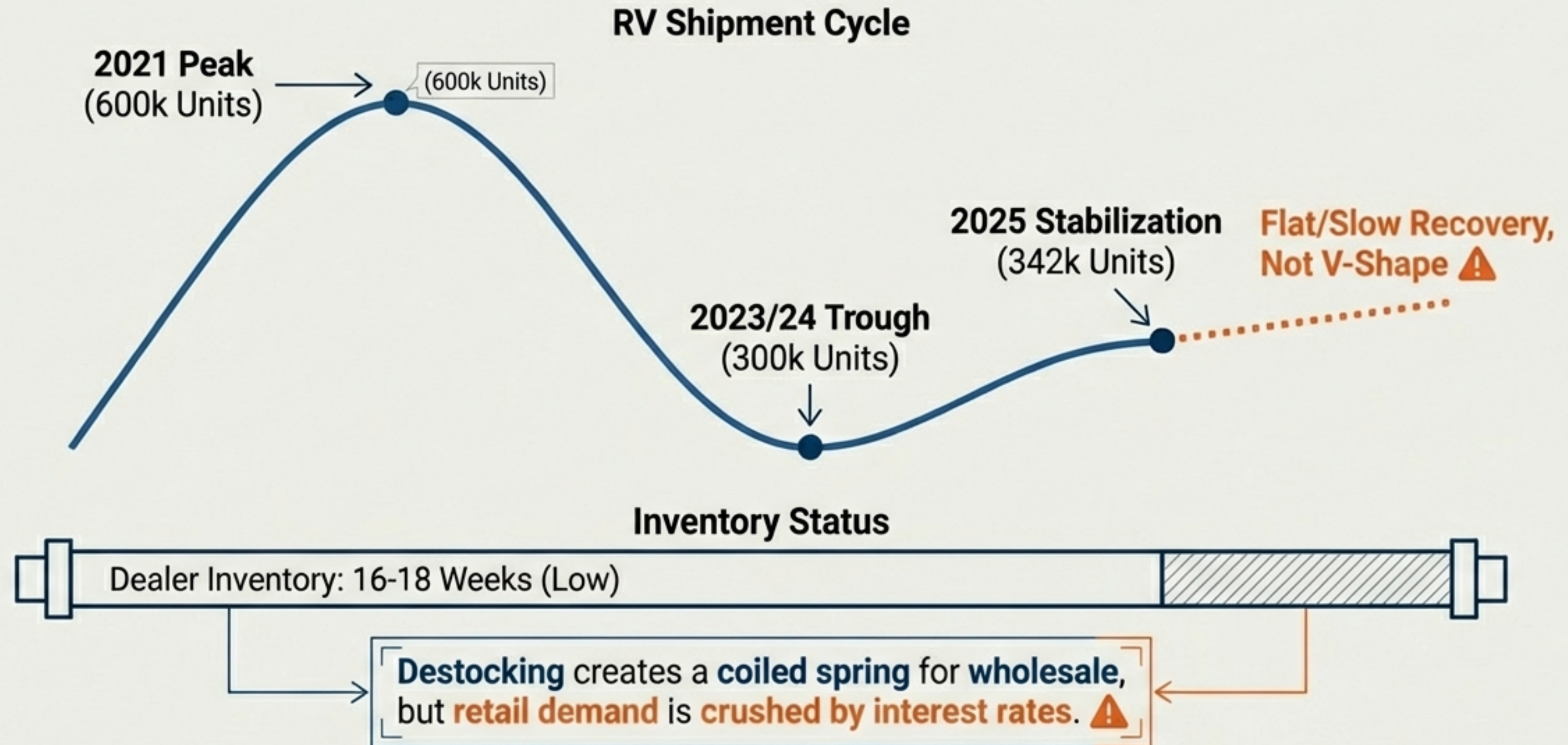
Case Study

The Sportech Acquisition (2024)

- **Cost:** \$315 Million
- **Multiple Paid:** ~6.8x EBITDA
- **Verdict:** Buying diversification. **Accretive to EPS**, but **dilutive to ROIC**. ⚠️

The 'Organic' Illusion: Content Per Unit growth is largely **inflation pass-through, not volume**.

Industry Dynamics: The Bullwhip Effect in Reverse



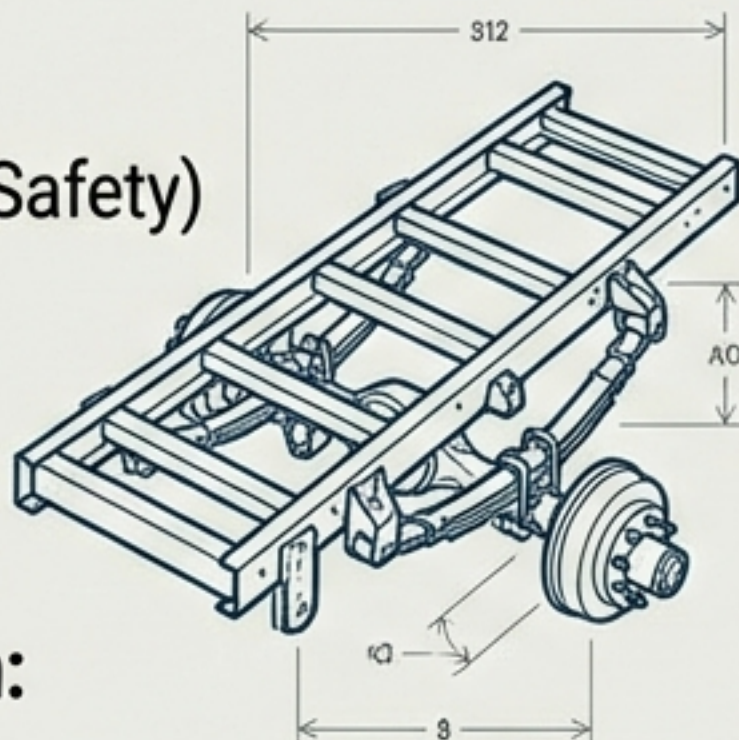
Competitive Landscape: Patrick vs. The 800lb Gorilla (LCI)

LCI INDUSTRIES (LCII)

- **Product:**
Chassis & Axles
(Mission Critical / Safety)

- **Moat Rating:**
Narrow Moat ⚠️

- **Operating Margin:**
7.9%

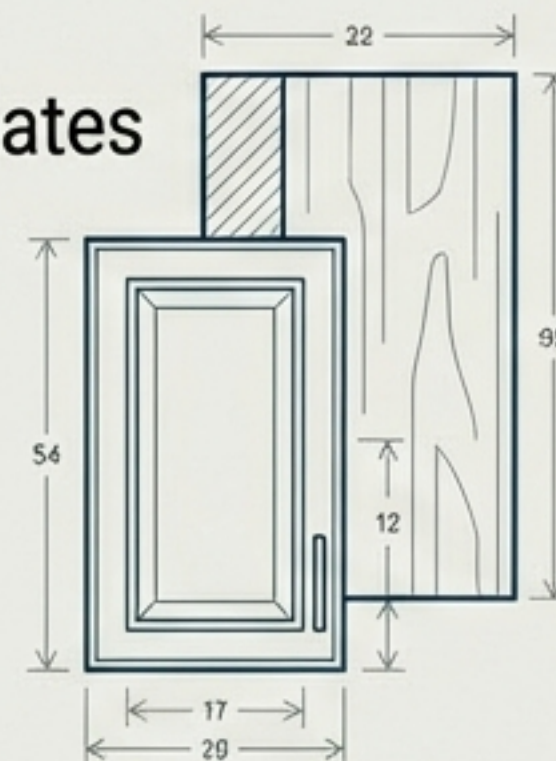


PATRICK INDUSTRIES (PATK)

- **Product:**
Decor, Interiors, Laminates
(Cosmetic)

- **Moat Rating:**
NO MOAT ⚠️

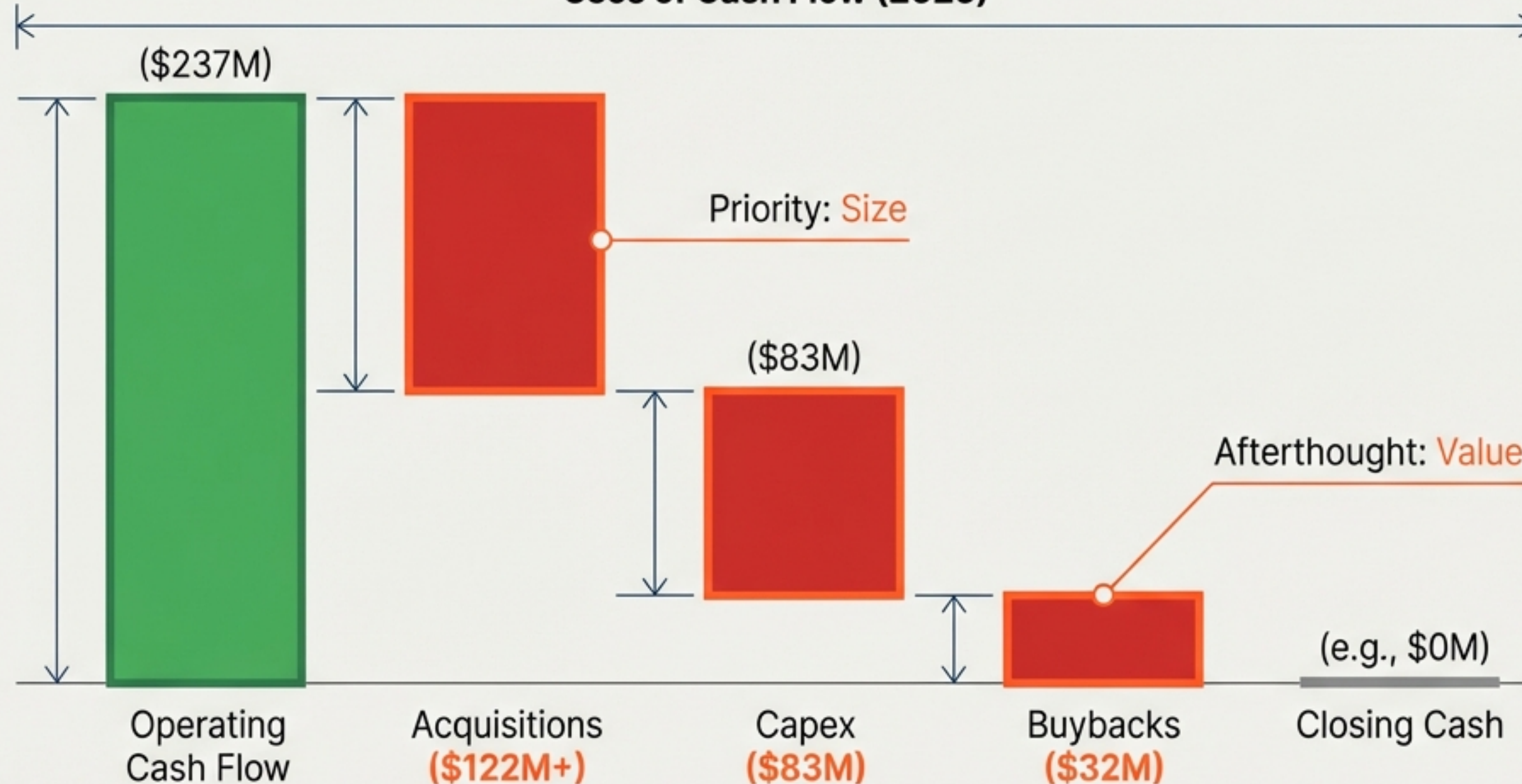
- **Operating Margin:**
7.0%



LCI owns the safety-critical components. Patrick owns the commoditized interior.

Capital Allocation: Empire Building Building Over Intrinsic Value

Uses of Cash Flow (2025)

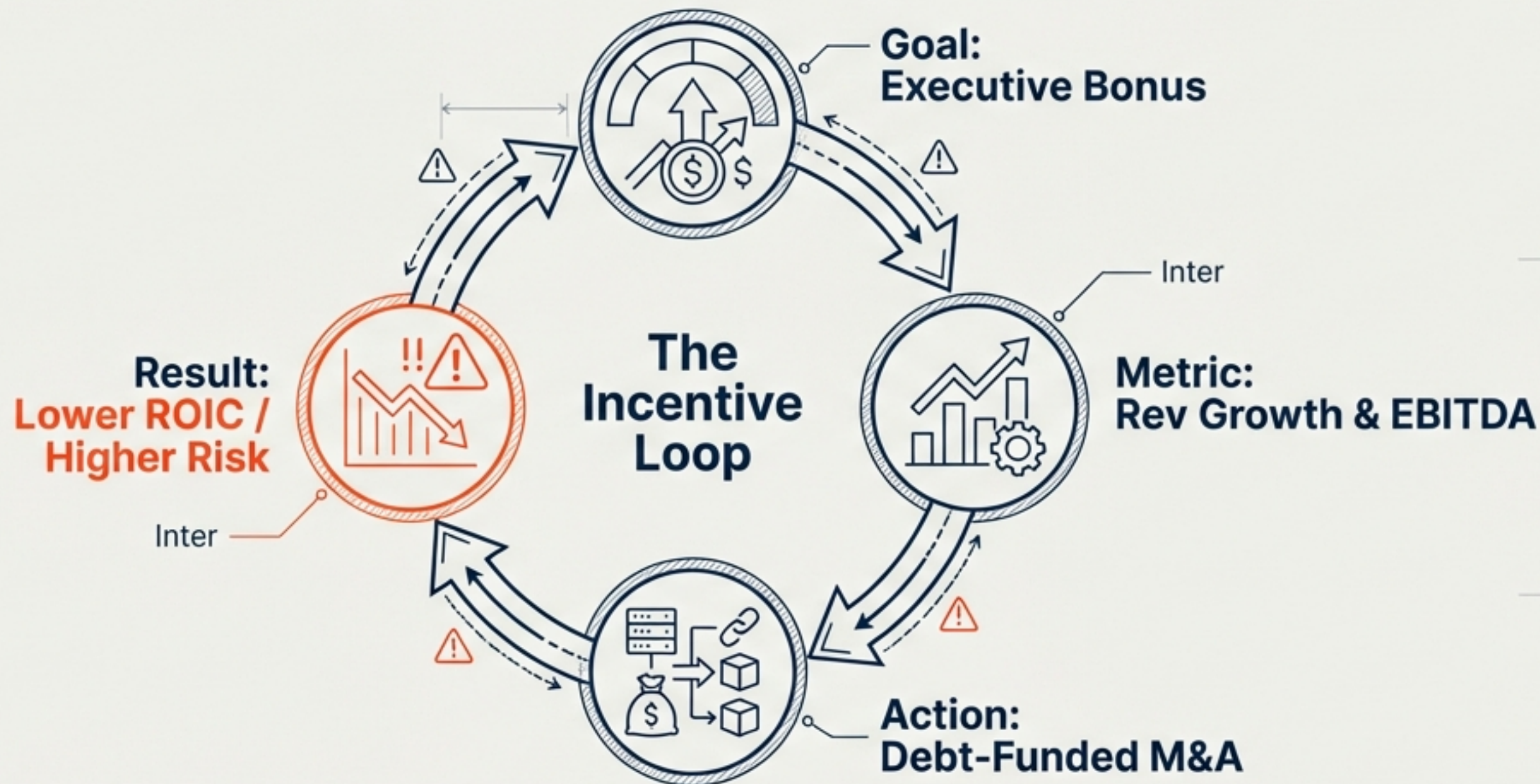


Notes

Management chose to hoard cash for acquisitions rather than repurchase shares when the stock was at 8x earnings. They **prioritize size over per-share value.**

⚠ Risk Note:
Net Leverage: 2.6x
(Aggressive for a cyclical business).

Governance & Incentives: Misaligned for Value Creation



Red Flag Alert: Insider Activity

CEO Andy Nemeth & President Jeff Rodino sold 50,000+ shares during recent rally.

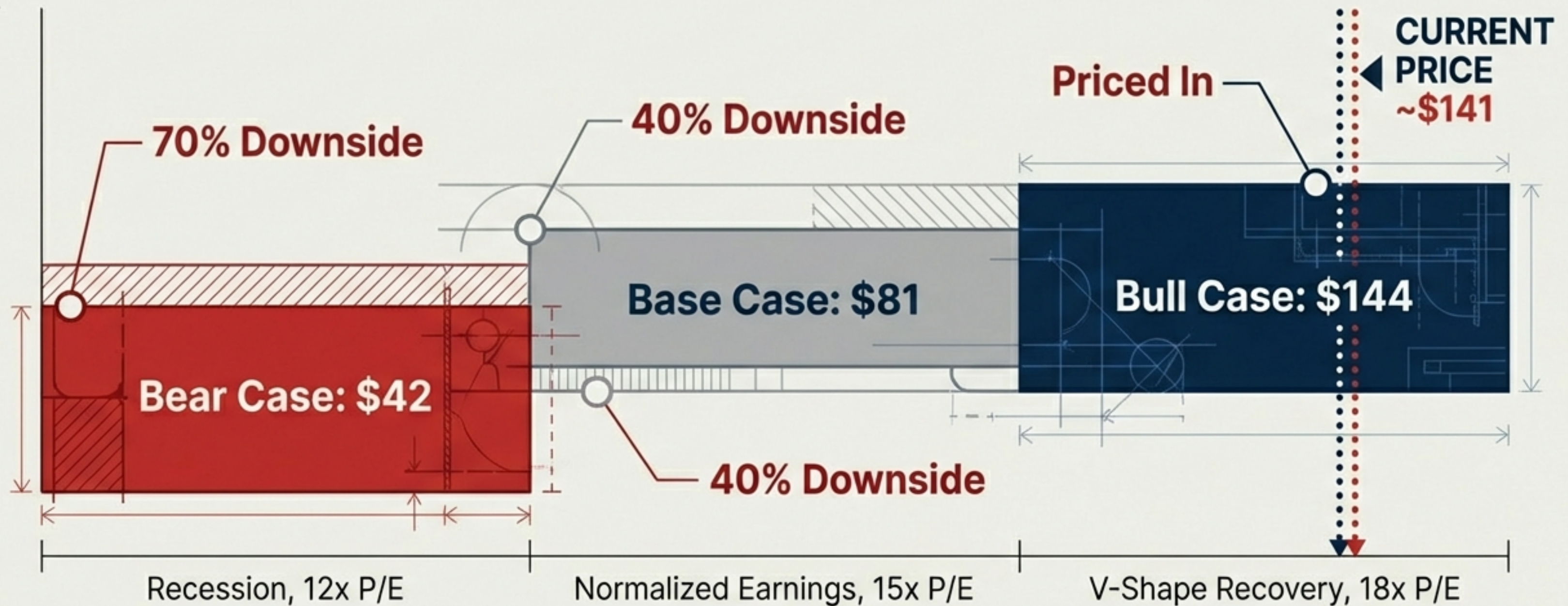
Insiders are monetizing the cycle, not betting on the long-term.

Valuation Disconnect: Pricing for Perfection



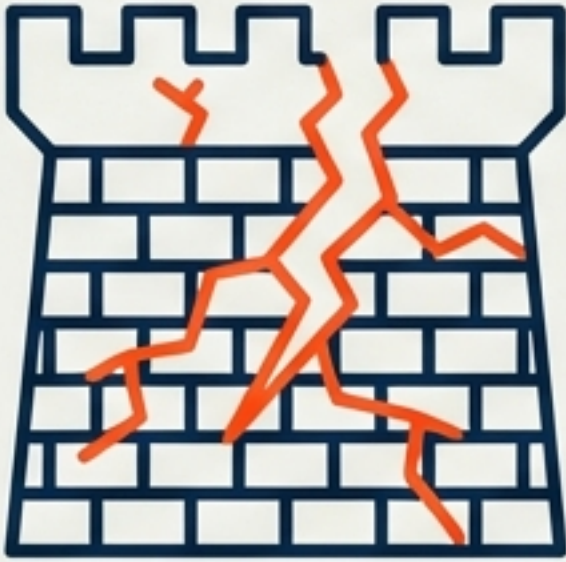
**The market is pricing a cyclical industrial supplier like a tech compounder.
Multiple compression is the single largest threat.**

Scenario Analysis: Asymmetric Downside Risk



Upside is already priced in. Downside to fair value is massive.

Conclusion: The 'Bad Neighborhood' Verdict



No Moat
(ROIC < WACC)



Structural Headwinds
(Cyclical, Price Taker)



Extreme Valuation
(36x Earnings)

RECOMMENDATION: AVOID

Capital preservation requires avoiding this equity.
The "moat" is an illusion.