

February 14, 2024

## GREAT LAKES DREDGE & DOCK CORP. | GLDD

BUY

*Reports Best Quarterly EBITDA in Two Years; Raising Target to \$14*

PRICE \$9.52

PRICE TARGET \$14.00

### KEY TAKEAWAY

Great Lakes is back. The company reported Q4'23 EBITDA of \$33M, excluding a one-time gain. This handily exceeded our estimate and consensus of \$24M and represented the highest quarterly EBITDA in two years. The company ended 2023 with a record backlog (of \$1.04B) and remains upbeat about near-term bidding opportunities. We expect capex for the cycle to peak this year and to potentially return to maintenance levels in late 2025. Given the normalization in Great Lakes' EBITDA, we are increasing our 12-month price target from \$12 to \$14. While this assumes a healthy multiple (~11x 2025 EV/EBITDA), our new EBITDA estimates could prove conservative, particularly with regards to margins.

*Engineering & Construction*

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### KEY POINTS

**Great Lakes is back.** We were encouraged to see Great Lakes report a solid Q4'23 beat, with adjusted EBITDA coming in at \$41M versus our estimate and consensus of \$24M. This included a \$7M one-time gain from the cancellation of the Empire Wind 2 offshore wind contract. However, even excluding this gain, *quarterly EBITDA of \$33M was the best result since Q4'21.*

**Beat driven by higher revenue and margins.** The Q4'23 core EBITDA beat was due to a combination of higher sales (\$182M vs. our \$160M) and gross margin (21.3% vs. our 17.0%). Great Lakes benefitted from no dry docks in the quarter, which can negatively impact sales and margins. Even still, we believe that project execution improved during the quarter against a healthy backlog.

**Record backlog.** Great Lakes ended 2023 with a total backlog of \$1.04B, up 176% yr/yr and up slightly sequentially. Fourth-quarter orders were \$187M versus sales of \$182M. Capital projects, which have the potential to generate higher margins, accounted for 71% of backlog at year-end, up from 39% last year. The company expects ~60% of year-end backlog to be burned in 2024 (or \$623M).

**Positive outlook.** Management did not provide any formal 2024 guidance; however, our sense is that it expects solid execution to continue this year. Additionally, the bid pipeline is healthy. The federal government is operating on a continuing resolution; however, Great Lakes sees at least three large capital projects bidding in H1'24, including Sabine, Houston, and Mobile.

**Expect capex to fall in 2025.** We expect 2024 to represent the peak of the current capex cycle (\$185M in 2024 vs. \$145M in 2023). Looking out to 2025, we project \$100M of gross capex. Total capex could fall to maintenance levels in 2026.

**Raising estimates, introducing 2025.** We are increasing our 2024 EBITDA forecast from \$104M to \$108M (+48% yr/yr), which reflects slightly higher revenue and margins. Both could still prove conservative. For 2025, we are introducing an EBITDA forecast of \$120M (+12% yr/yr).

**Reiterate Buy, target to \$14.** We are increasing our 12-month price target from \$12 to \$14 to reflect the normalization of results after two difficult years. Our target is based on ~11x our 2025 EV/EBITDA forecast. However, we see upside potential to our estimates, particularly with regards to our margin expectations.

### COMPANY STATISTICS

52-Week Range	\$4.75-\$9.67
Market Capitalization (M)	\$641
Average Daily Volume (000s)	308
Debt/Total Cap	52%
Dividend	NA
Shares Outstanding (M) fd	67.3
Estimated 3-yr EPS Growth	NA
Enterprise Value (M)	\$1,030
Float (M)	65.2

### FINANCIALS

FYE Dec	2022A	2023A	2024E	2025E
P/E Ratio	NA	NA	17.4x	16.5x
EV/EBITDA	NA	14.1x	9.5x	8.6x
Revenue (M)	\$649	\$590	\$675	\$720
Op Inc (M)	(\$28)	\$28	\$62	\$69
EBITDA (M)	\$17	\$73	\$108	\$120
EPS (A)				
Q1	\$0.17	(\$0.05)	\$0.09	\$0.07
Q2	(\$0.06)	\$0.03	\$0.15	\$0.14
Q3	(\$0.15)	(\$0.09)	\$0.15	\$0.17
Q4	(\$0.47)	\$0.32	\$0.15	\$0.20
<b>Total</b>	<b>(\$0.51)</b>	<b>\$0.21</b>	<b>\$0.55</b>	<b>\$0.58</b>
<b>Consensus</b>	—	—	<b>\$0.62</b>	<b>\$0.82</b>

*Consensus estimates from FactSet*

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**Valuation.** On an EV/EBITDA basis, Great Lakes is currently trading at 9.5x our 2024 EV/EBITDA estimate. Over the past two years, the company has traded at 7.8x forward EV/EBITDA, on average. Our \$14 12-month price target is based on 11.1x our 2025 EV/EBITDA estimate. While our target multiple is elevated and assumes multiple expansion, we view our EBITDA estimates as potentially conservative, particularly with regards to margins.

Historically, Great Lakes has generated its highest margins on capital projects. With 71% of its current backlog composed of capital work, it is possible that annual gross margins could exceed 20% (as was the case in 2019–2021). This compares to our current 2024 gross margin forecast of 18.4% and 2025 of 19.0%.

**Risks.** Risks to the stock and to the achievement of our price target include reduced dredging funding, repeal of the Jones Act, project execution risks, quarterly earnings volatility, macroeconomic weakness, and uncertainties surrounding the company's entrance into the U.S. offshore wind market. Additionally, note that we forecast negative free cash flow over the next two years given elevated investment in new vessels.

## Great Lakes Dredge &amp; Dock Corporation (GLDD)

## Earnings Model

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(\$ millions)	2023A					2024E					2025E				
	Mar	June	Sept	Dec	Dec	Mar	June	Sept	Dec	Dec	Mar	June	Sept	Dec	Dec
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Contract Revenues	\$158.0	\$132.7	\$117.2	\$181.7	\$589.6	\$167.5	\$167.5	\$170.0	\$170.0	\$675.0	\$167.5	\$172.5	\$185.0	\$195.0	\$720.0
Cost of Contract Revenues	145.9	114.8	108.2	143.1	511.9	141.5	135.7	137.7	136.0	550.9	140.7	138.9	148.9	155.0	583.5
Gross Profit	12.1	17.9	9.0	38.7	77.7	26.0	31.8	32.3	34.0	124.1	26.8	33.6	36.1	40.0	136.5
General & Administrative Costs	13.0	14.5	14.2	15.4	57.1	15.5	15.5	16.0	17.0	64.0	17.0	17.3	17.3	18.0	69.5
(Gain) Loss on Sale of Assets, Net	(0.0)	(0.2)	(0.0)	(7.2)	(7.5)	(0.5)	(0.5)	(0.5)	(0.5)	(2.0)	(0.5)	(0.5)	(0.5)	(0.5)	(2.0)
Operating Income	(0.9)	3.7	(5.1)	30.5	28.2	11.0	16.8	16.8	17.5	62.1	10.3	16.9	19.3	22.5	69.0
Interest Expense, Net	(3.4)	(3.2)	(2.8)	(2.8)	(12.1)	(3.1)	(3.3)	(3.6)	(3.8)	(13.8)	(4.1)	(4.3)	(4.6)	(4.8)	(17.8)
Other Income, Net	0.2	2.0	(0.1)	0.1	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-Tax Income	(4.0)	2.5	(8.0)	27.8	18.3	7.9	13.5	13.2	13.7	48.3	6.2	12.6	14.8	17.7	51.2
Income Taxes	0.8	(0.8)	1.8	(6.2)	(4.4)	(1.9)	(3.2)	(3.1)	(3.2)	(11.4)	(1.5)	(3.0)	(3.5)	(4.1)	(12.0)
Net Income (Cont. Ops.)	(3.2)	1.7	(6.2)	21.6	13.9	6.0	10.3	10.1	10.5	37.0	4.8	9.6	11.3	13.5	39.2
<b>EPS (Cont. Ops.)</b>	<b>(\$0.05)</b>	<b>\$0.03</b>	<b>(\$0.09)</b>	<b>\$0.32</b>	<b>\$0.21</b>	<b>\$0.09</b>	<b>\$0.15</b>	<b>\$0.15</b>	<b>\$0.15</b>	<b>\$0.55</b>	<b>\$0.07</b>	<b>\$0.14</b>	<b>\$0.17</b>	<b>\$0.20</b>	<b>\$0.58</b>
Shares Outstanding (Diluted)	66.3	66.8	66.5	67.3	66.7	67.4	67.5	67.6	67.7	67.5	67.8	67.9	68.0	68.1	67.9
Depreciation & Amortization	\$10.9	\$10.9	\$10.5	\$10.2	\$42.5	\$10.7	\$11.2	\$11.7	\$12.2	\$45.8	\$12.5	\$12.7	\$13.0	\$13.2	\$51.3
EBITDA (Cont. Ops.)	10.0	14.6	5.4	40.7	70.7	21.7	28.0	28.5	29.7	107.9	22.8	29.6	32.3	35.7	120.3
Adjustments	0.2	2.0	(0.1)	0.1	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBITDA (Adjusted)</b>	<b>\$10.2</b>	<b>\$16.6</b>	<b>\$5.3</b>	<b>\$40.8</b>	<b>\$73.0</b>	<b>\$21.7</b>	<b>\$28.0</b>	<b>\$28.5</b>	<b>\$29.7</b>	<b>\$107.9</b>	<b>\$22.8</b>	<b>\$29.6</b>	<b>\$32.3</b>	<b>\$35.7</b>	<b>\$120.3</b>
<b>Percent of Sales:</b>															
Gross Margin	7.7%	13.5%	7.7%	21.3%	13.2%	15.5%	19.0%	19.0%	20.0%	18.4%	16.0%	19.5%	19.5%	20.5%	19.0%
Adjusted EBITDA Margin	6.5%	12.5%	4.6%	22.4%	12.4%	12.9%	16.7%	16.8%	17.5%	16.0%	13.6%	17.2%	17.4%	18.3%	16.7%
Operating Margin	(0.5%)	2.8%	(4.4%)	16.8%	4.8%	6.5%	10.0%	9.9%	10.3%	9.2%	6.1%	9.8%	10.4%	11.5%	9.6%
Net Margin (Cont. Ops.)	(2.0%)	1.3%	(5.3%)	11.9%	2.4%	3.6%	6.2%	6.0%	6.2%	5.5%	2.8%	5.6%	6.1%	6.9%	5.4%
SG&A as a % of Sales	8.2%	10.9%	12.1%	8.5%	9.7%	9.3%	9.3%	9.4%	10.0%	9.5%	10.1%	10.0%	9.3%	9.2%	9.7%
D&A as a % of Sales	6.9%	8.2%	9.0%	5.6%	7.2%	6.4%	6.7%	6.9%	7.2%	6.8%	7.4%	7.4%	7.0%	6.8%	7.1%
Tax Rate	19.7%	31.5%	22.7%	22.4%	24.1%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%
<b>Yr/Yr Change:</b>															
Revenues	(18.7%)	(11.2%)	(26.0%)	23.9%	(9.1%)	6.0%	26.3%	45.1%	(6.5%)	14.5%	0.0%	3.0%	8.8%	14.7%	6.7%
Gross Profit	(63.3%)	70.8%	137.7%	(339.3%)	149.4%	113.9%	77.8%	257.7%	(12.1%)	59.6%	3.2%	5.7%	11.7%	17.6%	10.0%
SG&A	(10.9%)	33.7%	6.7%	24.1%	11.6%	19.1%	7.2%	12.8%	10.5%	12.2%	9.7%	11.3%	7.8%	5.9%	8.6%
Adjusted EBITDA	(65.6%)	63.9%	297.6%	NM	330.1%	112.2%	68.4%	434.6%	(27.2%)	47.9%	5.0%	5.6%	13.2%	20.1%	11.5%
Operating Income	NM	NM	NM	NM	NM	NM	NM	NM	(42.7%)	120.0%	(6.0%)	0.4%	15.0%	28.4%	11.1%
Net Income	NM	NM	NM	NM	NM	NM	NM	NM	(51.4%)	165.8%	(21.1%)	(6.9%)	11.5%	29.1%	6.0%
Adjusted EPS	NM	NM	NM	NM	NM	NM	NM	NM	(51.7%)	162.6%	(21.5%)	(7.5%)	10.9%	28.3%	5.4%

Source: Company reports and Thompson Davis &amp; Co. estimates

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**Hold:** Stock is fairly valued; no compelling reason to buy or sell stock today; cautious about prospects over the next 6–12 months for industry or company; neutral performance relative to the relevant indices.

**Sell:** Fundamentals of industry or company are deteriorating; company not expected to have consistent earnings growth over next 12–18 months or business model is questionable; underperforms the relevant indices in the next 12–18 months.

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Thompson Davis & Co., Inc., rating distribution by percentage (as of February 14, 2024):

	#	%
<b>BUY</b>	24	96
<b>SELL</b>	0	0
<b>HOLD</b>	1	4
<b>TOTAL</b>	25	100.0%

**Rating and Price Target History for Great Lakes Dredge & Dock Co. (GLDD) as of December 29, 2023**

Date	Rating	Price	Target
7/8/2021	Buy	\$14.31	\$18
8/3/2022	Buy	\$9.99	\$14
10/17/2022	Buy	\$7.41	\$12
12/21/2022	Buy	\$6.44	\$9
7/17/2023	Buy	\$7.78	\$10
8/2/2023	Buy	\$9.45	\$12

