

Vontier

Moving in the right direction with 4Q23 results

Reiterate Rating: BUY | PO: 48.00 USD | Price: 38.63 USD

Growth platforms working, 2024 guidance above Street

We recently upgraded VNT shares to Buy ([see our 1/11/24 note](#)) on a combination of attractive valuation, a return to all-in organic revenue growth, and falling debt leverage. 4Q results underscore Vontier's growth platforms are working. Invenco (cloud payments software) connected devices nearly doubled y/y. Vontier is ramping on '23 contract wins representing about 15% of the US convenience stores. Alternative energy sales were up >20% y/y. DRB (car wash payments & software) grew at a mid-single digit pace versus a ~40% y/y comparison. 4Q results make us more confident in the company's ability to deliver mid-single digit organic revenue growth or better over 2024-26.

VNT added to the US 1 list, raising price objective to \$48

The US 1 committee has added VNT to the US 1 list, a collection of BofA's best investment ideas. We are raising our price objective by \$8 to \$48. Our price objective is based on a 11x (from 9.5x previously) multiple of our raised 2025E adjusted EBITDA. Our target multiple is a discount to the 14x peer average on 2024E, to reflect above-peer leverage. Relative to peers, Vontier has higher EBITDA margins and faster EPS growth.

Raising our 2024/2025 adj. EPS estimates

In 2024, we forecast 6.0% y/y core revenue growth and 120bp of y/y adjusted operating margin expansion. Our 2023 adjusted EPS is \$0.01 higher at \$3.15 (versus \$3.00-3.15 guidance). We include \$100mn of share repurchase and \$100mn of debt repayment in 2024. In 2025, we forecast 5.0% y/y core revenue growth and 40bp of y/y adjusted operating margin expansion. We forecast adjusted EPS of \$3.54 (+12% y/y).

4Q23 adjusted EPS was \$0.02 above consensus

Adjusted EPS of \$0.80 was \$0.02 above our estimate and consensus. Revenue was 1% above our estimate and consensus. Core revenue (excluding M&A and currency) grew (7.3)% y/y. Adjusted operating margin of 22.0% was up 20bp y/y. Relative to our estimates, core operations were \$(0.02)/sh miss, but this includes a \$0.03 drag from non-cash hyperinflationary FX remeasurement charges.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.08	2.89	3.15	3.54	3.94
GAAP EPS	2.49	2.42	2.69	3.12	3.57
EPS Change (YoY)	6.9%	-6.2%	9.0%	12.4%	11.3%
Consensus EPS (Bloomberg)			3.07	3.40	3.75
DPS	0.10	0.10	0.10	0.10	0.10
Valuation (Dec)					
P/E	12.5x	13.4x	12.3x	10.9x	9.8x
GAAP P/E	15.5x	16.0x	14.4x	12.4x	10.8x
Dividend Yield	0.3%	0.3%	0.3%	0.3%	0.3%
EV / EBITDA*	10.2x	10.9x	10.3x	9.6x	9.2x
Free Cash Flow Yield*	4.4%	6.6%	8.0%	8.9%	9.7%

* For full definitions of *IQmethod*SM measures, see page 7.

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Timestamp: 16 February 2024 05:30AM EST

16 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	40.00	48.00
2024E Rev (m)	3,107.8	3,117.6
2025E Rev (m)	3,239.5	3,273.4
2026E Rev (m)	3,369.2	3,411.0
2024E EPS	3.14	3.15
2025E EPS	3.51	3.54
2026E EPS	3.83	3.94

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Stock Data

Price	38.63 USD
Price Objective	48.00 USD
Date Established	16-Feb-2024
Investment Opinion	B-1-7
52-Week Range	23.13 USD - 38.68 USD
Mkt Val (mn) / Shares Out (mn)	5,962 USD / 154.3
Free Float	99.3%
Average Daily Value (mn)	25.17 USD
BofA Ticker / Exchange	VNT / NYS
Bloomberg / Reuters	VNT US / VNT.N
ROE (2024E)	44.4%
Net Dbt to Eqty (Dec-2023A)	206.4%
ESGMeter TM	High

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".

iQprofileSM Vontier

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	14.4%	13.6%	13.8%	15.0%	17.0%
Return on Equity	86.5%	61.4%	44.4%	37.6%	33.7%
Operating Margin	20.0%	18.8%	20.1%	20.8%	21.1%
Free Cash Flow	261	395	478	529	579

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.6x	1.0x	1.1x	1.1x	1.1x
Asset Replacement Ratio	0.5x	0.5x	0.6x	0.6x	0.6x
Tax Rate	23.1%	21.3%	21.7%	21.8%	21.8%
Net Debt-to-Equity Ratio	410.9%	206.4%	115.1%	82.0%	44.9%
Interest Cover	9.2x	6.2x	7.6x	9.4x	15.6x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,184	3,095	3,118	3,273	3,411
% Change	6.5%	-2.8%	0.7%	5.0%	4.2%
Gross Profit	1,754	1,654	1,652	1,728	1,794
% Change	6.4%	-5.7%	-0.1%	4.6%	3.8%
EBITDA	755	708	750	800	835
% Change	2.9%	-6.3%	6.1%	6.7%	4.4%
Net Interest & Other Income	(72)	(93)	(83)	(73)	(46)
Net Income (Adjusted)	496	450	488	535	583
% Change	1.2%	-9.2%	8.4%	9.6%	9.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	436	386	426	476	528
Depreciation & Amortization	119	125	123	118	114
Change in Working Capital	(223)	(78)	(23)	(29)	(36)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(10)	23	27	35	41
Capital Expenditure	(60)	(60)	(75)	(72)	(68)
Free Cash Flow	261	395	478	529	579
% Change	-39.7%	51.2%	21.1%	10.6%	9.5%
Share / Issue Repurchase	3	10	8	8	8
Cost of Dividends Paid	(16)	(16)	(15)	(15)	(15)
Change in Debt	0	(298)	(96)	(600)	(500)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	205	341	689	335	233
Trade Receivables	515	498	503	533	560
Other Current Assets	666	494	487	496	505
Property, Plant & Equipment	92	102	133	162	186
Other Non-Current Assets	2,866	2,859	2,793	2,731	2,674
Total Assets	4,343	4,294	4,605	4,257	4,157
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	930	955	848	880	902
Long-Term Debt	2,586	2,189	2,200	1,600	1,100
Other Non-Current Liabilities	248	254	244	234	224
Total Liabilities	3,764	3,398	3,292	2,714	2,226
Total Equity	580	896	1,313	1,543	1,931
Total Equity & Liabilities	4,343	4,294	4,605	4,257	4,157

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Industrials/Multi-Industry

Company Description

Vontier is an industrial technology company with software & hardware solutions for retail fueling (45%), auto repair (22%), convenience retail (15% of revenue), car washes (8%), telematics (6%), and alternative fuels (4%). Vontier's installed base includes over 260,000 retail fueling sites, over 150,000 auto repair shops, and over 500,000 monitored vehicles. Vontier generated \$3.2bn in revenue in 2022.

Investment Rationale

Our Buy rating reflects Vontier's below-peer valuation, above-peer EPS growth trajectory and steady FCF profile.

Stock Data

Average Daily Volume

651,564

Quarterly Earnings Estimates

	2023	2024
Q1	0.68A	0.69E
Q2	0.67A	0.74E
Q3	0.73A	0.81E
Q4	0.80A	0.91E

Raising 2024/2025 adj. EPS estimates

We have raised our 2024 core revenue growth rate to 6.0% y/y (at the high end of 4-6% guidance). This compares to 8.5% y/y core growth excluding US fuel dispenser sales in 2023. We maintain our adjusted operating margin forecast at 22.7% (slightly above the 22.3-22.6% guidance range). These assumptions drive our 2024E adjusted EPS up \$0.01 to \$3.15 (+9% y/y).

For 2025, we forecast 5.0% core revenue growth and 32% incremental margin. We raise our adjusted EPS by \$0.03 to \$3.54 (+12% y/y).

Exhibit 1: How our estimates have changed

Raising our 2024E/2025E adj. EPS estimates

	Guidance	BofA 2024E		BofA 2025E	
	2/15/2024	New	Prior	New	Prior
Core revenue	4-6%	6.0%	4.3%	5.0%	4.2%
Adj. operating margin	22.3-22.6%	22.7%	22.7%	23.1%	23.1%
Adj. EPS	\$3.00-3.15	\$3.15	\$3.14	\$3.54	\$3.51
Adj. FCF conversion	90-100%	98%	98%	99%	99%
Tax rate	21.5-22.0%	22%	23%	22%	23%
Share count	155-156	155	153	151	149

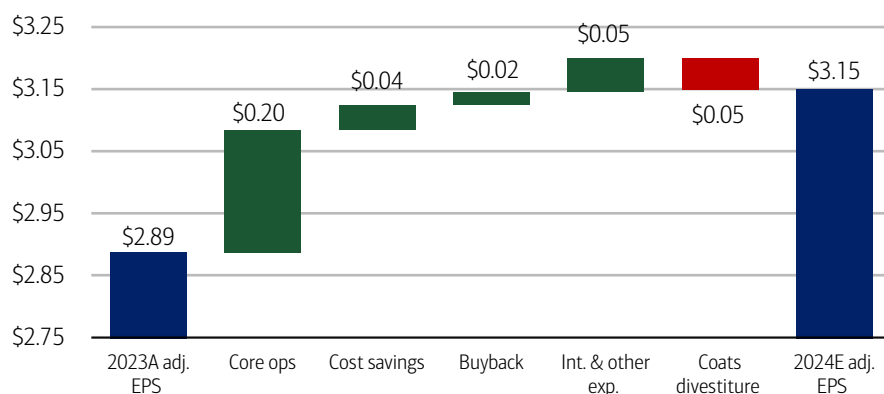
Source: BofA Global Research

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2024 adjusted EPS growth will be driven largely by core operations (\$0.20 of growth). Vontier will benefit from ~\$8mn in carryover benefit from restructuring actions in 2023, or \$0.04 benefit. We assume \$100mn of share repurchase, driving \$0.02 benefit. Vontier repaid \$300mn of debt through in 2023 and plans on a further \$100mn in 2024. We forecast lower interest expense to drive \$0.05 benefit. The Coats divestiture is a \$0.05 drag to 2024E adjusted EPS.

Exhibit 2: 2024 adj. EPS bridge

Coats divestiture a modest drag, with core ops and cost savings driving majority of adj. EPS growth



Source: BofA Global Research

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Valuation

We base our \$48 price objective on 11x our 2025E EBITDA estimate. Relative to peers, Vontier has higher EBITDA margins and faster EPS growth. This is a discount to the peer average of 14x on 2024 estimates to reflect above-peer leverage.

Exhibit 3: Selected valuation metrics for comparable companies

VNT trades at a substantial discount to peer average on P/E, EV/EBITDA, and P/FCF

Company	Ticker	Stock Price	P/E		EV/EBITDA		P/FCF		EBITDA Margin		EPS Growth		Net Debt/EBITDA	
		2/15/2024	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Donaldson Company	DCI	\$66.88	20.1 x	18.1 x	13.2 x	12.2 x	20.7 x	19.5 x	18.0%	18.4%	7%	11%	0.6 x	0.5 x
Dover	DOV	\$162.64	17.9 x	16.2 x	13.0 x	11.6 x	18.1 x	16.3 x	21.8%	22.5%	3%	11%	0.8 x	0.3 x
Franklin Electric	FELE	\$100.28	23.1 x	21.2 x	14.2 x	13.0 x	20.8 x	20.1 x	15.3%	15.5%	5%	9%	-0.3 x	-0.7 x
Snap-On Tools	SNA	\$269.00	14.5 x	13.9 x	12.5 x	12.2 x	13.1 x	12.9 x	23.2%	23.0%	-1%	5%	-0.2 x	-0.2 x
Rockwell	ROK	\$281.38	20.4 x	17.4 x	15.6 x	13.2 x	19.3 x	18.6 x	23.4%	22.8%	17%	17%	0.5 x	0.0 x
Peer average			19.2 x	17.4 x	13.7 x	12.4 x	18.4 x	17.5 x	20.3%	20.4%	6%	10%	0.3 x	0.0 x
Vontier	VNT	\$38.63	12.3 x	10.9 x	9.9 x	9.0 x	12.5 x	11.0 x	24.1%	24.5%	9%	12%	2.0 x	1.5 x
Vontier at PO	VNT	\$48.00	15.2 x	13.6 x	11.9 x	10.8 x	15.6 x	13.7 x	24.1%	24.5%	9%	12%	2.0 x	1.5 x

Source: BofA Global Research, Bloomberg

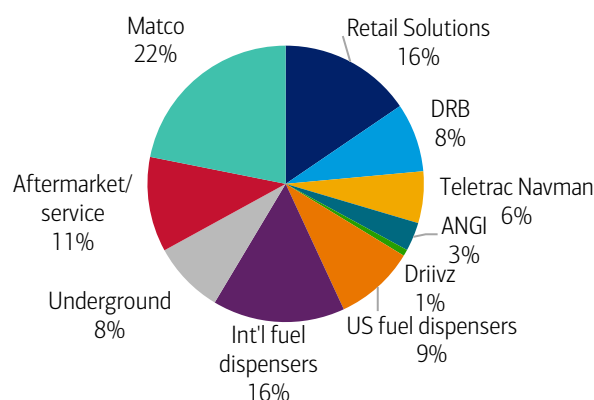
Note: DCI and FELE estimates are Bloomberg consensus. SNA (Elizabeth Suzuki), DOV and ROK (Andrew Obin) are BofA Global Research estimates

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Vontier in pictures

Exhibit 4: Vontier's 2023 revenue by business unit

Retail Solutions poised for faster growth



Source: BofA Global Research

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4Q23: \$0.02 adjusted EPS upside to our estimates

Revenue was 1% above our forecast. **Mobility Technologies** core revenue grew 4.4% y/y, above of our 2.0% estimate. **Repair Solutions** core revenue grew +4.7% y/y, behind of our 5.5% estimate. **Environmental & Fueling Solutions** core revenue declined (19.1)% y/y, better than our (21.0)% estimate.

Adjusted operating profit margin of 22.0% was 100bp below our estimate. Adjusted operating margin was up 20bp from the year ago quarter.

Relative to our estimates, core operations were \$(0.02) below (including amortization of intangibles). This includes a \$(0.03) drag from non-cash hyperinflationary FX remeasurement charges. Lower interest and amortization expense was a \$0.01 boost. Lower tax rate (which included a catch-up benefit from global tax planning projects) was a \$0.04 benefit. In total, adjusted EPS of \$0.80 beat our estimate by \$0.02.

Exhibit 4: 4Q23 earnings variance analysis

Adjusted EPS was \$0.02 above our estimate

	Actual	Reported		BofA Estimate		Variation vs. BofA		
(in US\$ mn, except per share data)	4Q22A	4Q23A	y/y %	4Q23E	y/y %	Dollar	%	EPS
Adj. Revenue by segment								
Mobility Technologies	261	271	3.9%	268	2.5%	4	1%	
Repair Solutions	145	152	4.7%	153	5.4%	(1)	-1%	
Environmental & Fueling Solutions	422	339	-19.6%	333	-21.0%	6	2%	
Other	45	27	-39.1%	26	-42.2%	1	5%	
TOTAL	872	789	-9.5%	779	-10.7%	10	1%	
Mobility Technologies	49	56	14%	55	13%	1	1%	\$0.00
Repair Solutions	33	38	16%	41	27%	(4)	-9%	\$(0.02)
Environmental & Fueling Solutions	122	98	-20%	100	-18%	(2)	-2%	\$(0.01)
Other	9	3	-67%	3	-70%	0	10%	\$0.00
Corporate	(23)	(21)	-8%	(20)	-12%	(1)	4%	\$(0.00)
Adjusted operating profit	190	174	-8%	180	-6%	(6)	-3%	\$(0.03)
Adj. operating margin	21.8%	22.0%	20 bp	23.0%	130 bp	(100 bp)	--	
Adjusted EBITDA	201	186	-7%	191	-5%	(5)	-2%	
Adj. EBITDA margin	23.0%	23.6%	60 bp	24.5%	150 bp	(90 bp)	--	
Revenue	872	789	-9.5%	779	-10.7%	10	1.3%	
Cost of Products Sold	485	418	-13.8%	429	-11.6%	(11)	-2.5%	
Gross profit	387	371	-4.1%	350	-9.4%	21	5.9%	\$0.10
SG&A	178	174	-2.0%	151	-15.0%	23	15.4%	\$(0.12)
Research & Development	40	43	7.2%	40	-1.2%	3	8.5%	\$(0.02)
Operating profit	169	154	-9.0%	160	-5.6%	(6)	-3.6%	\$(0.03)
Interest and other expense	24	22	NM	25	2.9%	(3)	NM	\$0.01
EBT	145	132	-9.0%	135	-7.0%	(3)	-2.2%	\$(0.02)
Income tax expense	33	23	-30.8%	30	-11.5%	(6)	-21.8%	
Tax rate	23.0%	17.5%	(550 bp)	21.9%	(110 bp)	(440 bp)	--	\$0.04
Operating Net income	112	109	-2.5%	105	-5.6%	3	3.3%	\$0.02
After-Tax Intangible Amortization/other	16	17	2.5%	16	-4.1%	1	6.8%	\$0.01
FULLY DILUTED CASH EPS	\$0.81	\$0.80	-0.7%	\$0.78	-3.8%	\$0.02	3.2%	
Diluted Shares Outstanding	158	156	-1.1%	155	-1.7%	1	0.5%	\$(0.00)

Source: BofA Global Research, company filings

Note: VNT-defined adjusted operating profit adds back amortization of acquired intangibles, restructuring, acquisition cost, and normalizes prior periods for standalone company costs

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Price objective basis & risk

Vontier (VNT)

We base our \$48 price objective on 11x our 2025E EBITDA estimate. This is a discount to the peer average of 14x on 2024 estimates to reflect above-peer leverage.

Downside risks to our price objective are 1) greater-than-expected decline in US fuel dispenser revenue, 2) acquisition timing, selection, and integration risks, 3) greater adoption of electric vehicles hurting demand for retail fueling infrastructure.

Analyst Certification

I, Andrew Obin, 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.

US - Multi-Industrials/Engineering and Construction Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	APi Group	APG	APG US	Andrew Obin
	AspenTech	AZPN	AZPN US	Andrew Obin
	Atmus Filtration	ATMU	ATMU US	Andrew Obin
	Dover Corp	DOV	DOV US	Andrew Obin
	Eaton Corp PLC	ETN	ETN US	Andrew Obin
	Emerson Electric Co	EMR	EMR US	Andrew Obin
	Flowserve	FLS	FLS US	Andrew Obin
	General Electric Company	GE	GE US	Andrew Obin
	Honeywell International Inc.	HON	HON US	Andrew Obin
	ITT Inc.	ITT	ITT US	Andrew Obin
	Montrose Environmental Group, Inc.	MEG	MEG US	Andrew Obin
	Parker Hannifin Corporation	PH	PH US	Andrew Obin
	PTC Inc.	PTC	PTC US	Andrew Obin
	Rush	RUSHA	RUSHA US	Andrew Obin
	Vertiv	VRT	VRT US	Andrew Obin
	Vontier	VNT	VNT US	Andrew Obin
NEUTRAL				
	3M Company	MMM	MMM US	Andrew Obin
	AMETEK Inc	AME	AME US	Andrew Obin
	Fortive Corporation	FTV	FTV US	Andrew Obin
	Johnson Controls International PLC	JCI	JCI US	Andrew Obin
	Pentair plc	PNR	PNR US	Andrew Obin
	Rockwell	ROK	ROK US	Andrew Obin
	Trane Technologies PLC	TT	TT US	Andrew Obin
UNDERPERFORM				
	Allegion	ALLE	ALLE US	Andrew Obin
	Carrier Global Corp.	CARR	CARR US	Andrew Obin
	Core & Main	CNM	CNM US	Andrew Obin
	Illinois Tool Works	ITW	ITW US	Andrew Obin
	John Bean Technologies	JBT	JBT US	Andrew Obin
	Keysight	KEYS	KEYS US	David Ridley-Lane, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

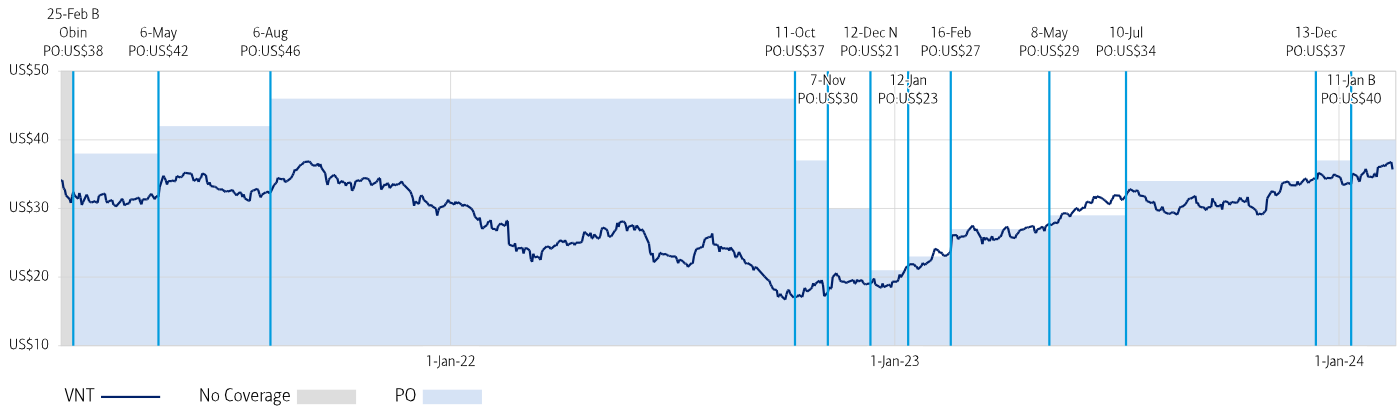
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Disclosures

Important Disclosures

Vontier (VNT) 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: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

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%

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