

Industrials/Multi-Industry

DEM#565: Process capex outlook supports another year of solid growth

Industry Overview

Process capex outlook is still constructive

In this week's *Deus Ex Machina*, we revisit bottom-up capex estimates. BofA analysts' 2023 capex estimates largely finished above expectations since January 2023. Since November, when we last published capex bottom-up forecasts, chemicals and metals & mining forecasts were revised down marginally. We believe downward revisions for metals & mining reflects delays, given 2024 was revised up. Despite investor concerns about a slowdown in capex and delays in mega-projects, capex continues to perform above expectations. 2024 capex estimates for oil & gas, metals & mining, and industrials have been revised up since November. 2024 estimates for chemicals and utilities are flat. MLP forecasts have been revised up since Jan. 2023, but the large step up since November reflects excluding delisted companies. Without the change, MLPs capex was slightly below November levels, and 2024 estimates were higher, reflecting capex delays. Initial 2025 capex expectations are flattish/LSD growth. The exceptions are utilities and semis, where BofA analysts forecast capex to accelerate to double-digit growth in 2025.

2023 capex came in strong, with positive 2024 revisions

Industrials capex grew +18.9% y/y in 2023, up from +0.9% in Jan. 2023 and up from +14.7% y/y in November. For 2024, capex forecasts are up to +4.1% (versus +1.7% in Jan. 2023) and up from +2.2% in November. **Chemicals** capex growth came in at +21.9% y/y, up from +17.4% y/y in Jan. 2023 and 130bp below November forecasts. 2024 forecasts for chemicals has been revised up from (17)% in Jan. 2023 to (1)%, flat with November. **Metals & mining** estimates for 2023 came in at +9.0% y/y, above +5.9% in January 2023 but below +10.5% in November. This likely reflects projects being pushed out, given 2024 estimates were revised up from +3.7% in November to +8.1% in this analysis. This is higher than (21.9)% y/y forecasts in Jan. 2023. We view the metals & mining end market as a key beneficiary of the increased demand for EVs. MLPs (midstream) capex has been revised up to +19.2% y/y (excluding methodology changes), up from +3.5% y/y in Jan. 2023 but below +20.8% y/y in November. Bottom-up **oil & gas** suggests capex growth of +12.6% y/y in 2023 after +20% y/y growth in 2022, with forecasts for +5.3% y/y in 2024 in line with November. **Utilities** estimates for 2023 are flat with Jan. 2023 and revised up since November. **Semi** capex for 2023 has been revised up from (10)%y/y in Jan. 2023 to (6)% y/y now.

O&G strong in '24; metals & mining capex still robust

BofA analysts remain bullish on the oil & gas end market. Growth came in at +12.6% y/y in 2023, above the +11.2% y/y growth analysts expected in November and in line with the +12.4% growth analysts expected in Jan. 2023. 2024 estimates have been revised up from +1.3% y/y 1 year ago to +5.3% y/y. The current macro environment is driving increased project activity and upcoming pipeline opportunities. We believe a structural shift in capex spending from capacity expansion to productivity should drive further upside for the sector. EMR, ITT, and FLS have had bullish commentary on pipelines and reported strong bookings this year. While investors have raised concerns on metals & mining capex, 2024 estimates were revised up to +8.1% from +3.7% prior to 4Q earnings. Some of this reflects delays as 2023 numbers came in slightly below forecasts.

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MLPs: master limited partnerships

EVs: electric vehicles

Upcoming events

Monday February	Tuesday	Wednesday	Thursday	Friday
19	ALLE 4Q23 Earnings	JBT 4Q23 Earnings FLS 4Q23 Earnings VRT 4Q23 Earnings	22	23
26	27	28 APG 4Q23 Earnings	29 MEG 4Q23 Earnings	1
March				
4	5	6	7	8
11	12	13	14	15

Exhibit 1: BofA Global Research Reports

Reports published week ending February 23, 2024

Title: Subtitle

[Rockwell: The state of automation: global 4Q earnings review](#)

[Allegion: Strong execution, but another year of no volume growth ahead](#)

[Flowserve: 4Q23 earnings: operations & guide in line; FCF is a positive surprise](#)

[Vertiv: 4Q23 first look: beat and raise, 1Q24 guide appears conservative](#)

[John Bean Technologies: 4Q23 ops beat, but orders down y/y; Marel timing in focus](#)

[Ansys, Inc.: 4Q23 earnings review: ACV ahead of consensus; double-digit ACV in '24](#)

[Vertiv: Multi-year AI demand tailwinds, but some questions on '24 guidance details](#)

Source: BofA Global Research

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22 February 2024

Capex revisions support growth in '24

In this week's *Deus Ex Machina*, we revisit bottom-up capex revisions. With most of the companies having reported FY23 actuals, we also introduce 2025 capex revisions. 2023 capex estimates came in better-than-forecast in certain sectors (Oil & Gas, Utilities, and Semis). Chemicals capex came in slightly worse than expected and 2024 numbers were revised down. We note some lumpiness MLP, and Industrials capex due to methodology changes (e.g., removing delisted and acquired companies). As a result of the methodology changes, 2022 growth for MLPs and Industrials were revised down, contributing to 2023 being revised up; the net dollar result is largely neutral. The key segments where analysts are forecasting accelerating 2025 capex: Semis & Utilities.

Exhibit 1: 2024 capex estimates have largely been revised up since the beginning of the year

Changes to BofA 2024/2025 capex growth forecasts based on bottom-up analysis

	2022	2023	2024E			2025E		
	Actual	Actual	Jan. 2023*	Old**	New	February 2024***	Old**	New
Oil/Gas	20.0%	12.6%	5.6%	5.2%	5.3%	1.2%		1.2%
Utilities	15.0%	7.8%	6.3%	6.8%	6.4%	10.9%		10.9%
Metals/Mining	10.7%	9.0%	-21.9%	3.7%	8.1%	0.2%		0.2%
Industrials	9.1%	18.9%	1.6%	2.2%	4.1%	1.3%		1.3%
Chemicals	8.7%	21.9%	-17.2%	-0.9%	-0.8%	0.3%		0.3%
MLP	6.2%	32.0%	-9.0%	-9.3%	0.8%	-0.3%		-0.3%
Semis	26.1%	-5.8%	8.4%	-4.4%	-4.4%	10.4%		10.4%

Source: BofA Global Research, company files

*Forecasts as of 1/10/23

**Forecasts as of 11/17/23

***Forecasts as of 2/22/24

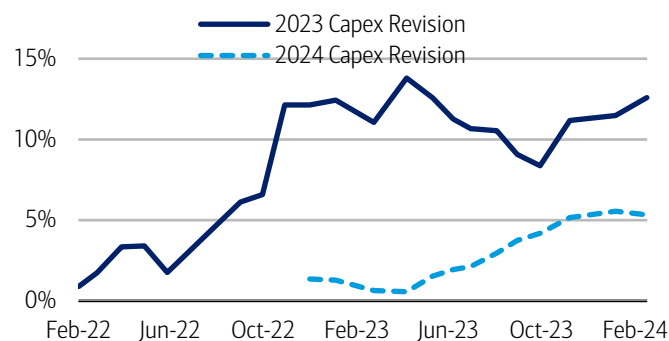
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Oil & gas capex higher vs. beginning of the year & since we last looked at estimates

While lumpy, oil & gas capex has been revised up since Jan. 2023 and up since we last looked. Metals & mining capex for 2023 came in slightly below our prior forecast, but 2024 estimates have been revised up. 2024 numbers have been revised up from (21.9)% y/y at the beginning of 2023 to +8.1% y/y a year later. While this reflects some capex delays out of 2023, the net impact is largely positive.

Exhibit 3: While lumpy, oil & gas capex has been revised up since Jan. 2023 and up since we last looked

Oil & capex growth (% y/y revisions)

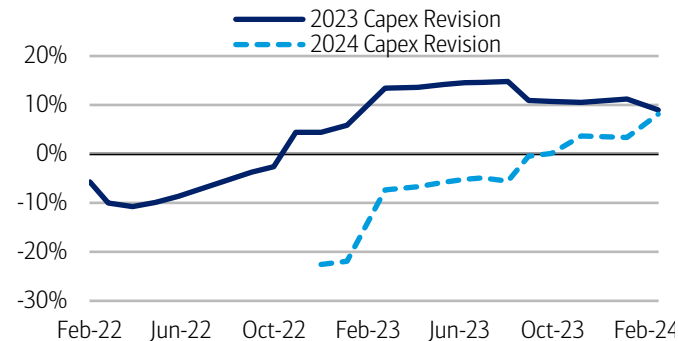


Source: BofA Global Research, Bloomberg estimates

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Exhibit 4: Since Jan. 2023, 2023 capex estimates have been revised up and 2024 capex revised up significantly

Metals & mining capex growth (% y/y revisions)



Source: BofA Global Research, Bloomberg estimates

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Industrials capex revised up; chemicals capex flattish; ends the year slightly weaker

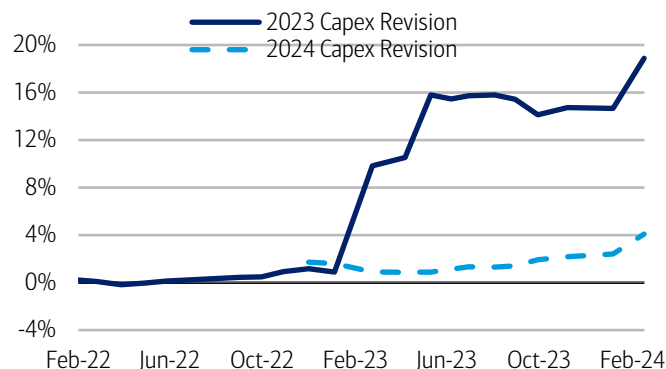
Industrials capex took a sharp uptick in 2023 as companies invested in capacity. 2024 capex estimates have been revised up slightly following 4Q23 earnings. 2023 chemicals



capex forecasts for 2024 have been relatively flat, likely reflecting pressured consumer demand.

Exhibit 5: Industrials capex revised up through the year

Industrials capex growth (% y/y revisions)

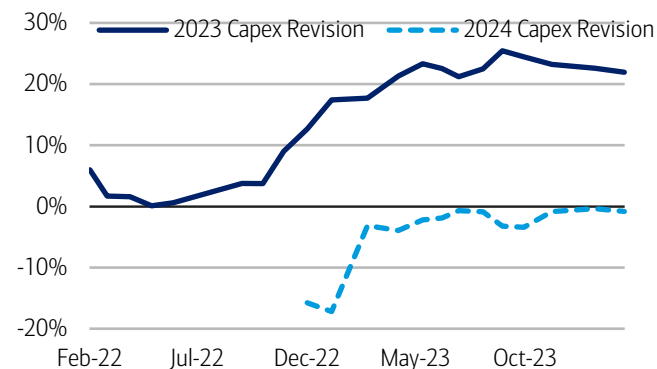


Source: BofA Global Research, Bloomberg estimates

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Exhibit 6: Chemicals capex relatively muted

Chemicals capex growth (% y/y revisions)



Source: BofA Global Research, Bloomberg estimates

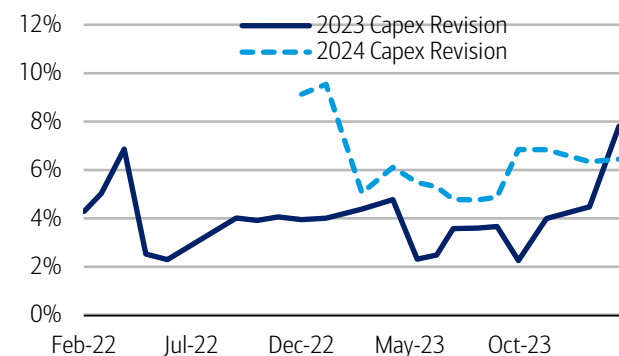
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Utilities and MLPs capex finishes the year above expectations

Both Utilities and MLPs capex have finished the year above expectations and above when we last looked at process capex estimates. We note some of the positive revisions from MLPs result from methodology changes due to removing acquired/delisted companies. Without the methodology changes, MLPs capex was slightly below November levels, and 2024 estimates were higher, likely reflecting capex delays.

Exhibit 7: Utilities capex revised upwards

Utilities capex growth(% y/y revisions)

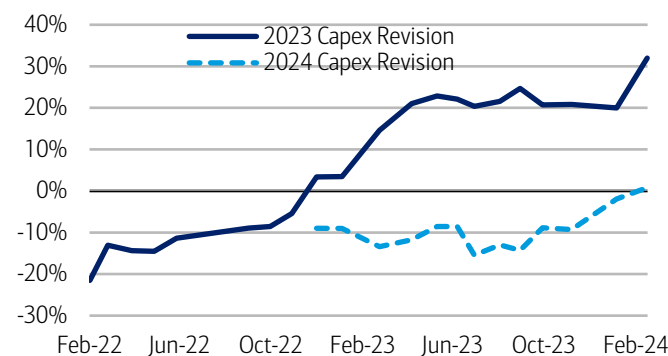


Source: BofA Global Research, Bloomberg estimates

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Exhibit 8: MLPs have seen positive revisions consistently through 2023

MLPs capex (% y/y revisions)



Source: BofA Global Research, Bloomberg estimates

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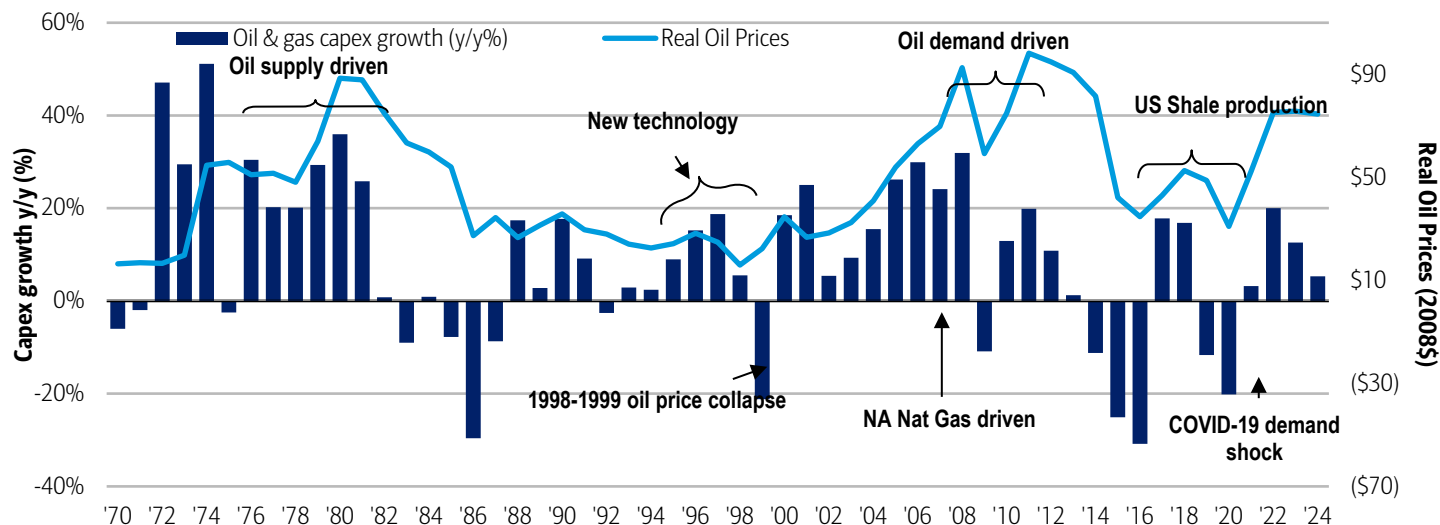
Oil prices, capex forecasts supportive of process outlooks

Process companies in our coverage have reported positive orders and constructive growth outlooks. Flowserve and ITT Industrial Process are both planning for >1.0x book-to-bill in 2024. We view oil & gas capex and oil prices forecasts as supportive of this growth outlook. Capex grew 20% y/y in 2022 followed by 13% y/y growth in 2023. The BofA Commodities Team is forecasting that Brent and WTI average \$78/bbl and \$83/bbl in 2023, respectively. This is lower than prior forecasts for \$86/bbl and \$81bbl, but materially above \$51/barrel prices in 2021.

This is higher than prior forecasts for \$80/bbl and \$75/bbl, and lower than 2022 prices of ~\$100/bbl, but materially above ~\$52/barrel prices in 2021.

Exhibit 9: Sustained higher oil prices continue to support double-digit capex growth

Annotated historical oil & gas capex growth versus oil prices (Real, in 2008 \$)



Source: BofA Global Research estimates, Bloomberg

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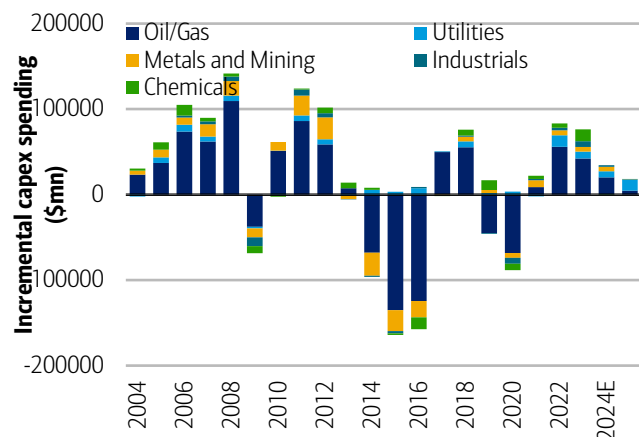
Oil & gas capex 11% above 2019 levels, still rising

Analysts are forecasting incremental positive capex spending in 2024 across each process industry except for chemicals. We believe chemicals capex is pressured by weaker consumer spending and will turn positive as the economy improves. Based on estimates, oil & gas comprised 55% of incremental capex in 2023 and is forecast to make up 60% of the incremental capex in 2024.

2022 O&G capex spending superseded 2019 pre-COVID levels in absolute dollar amounts, and rose further in 2023. We believe a structural shift in capex spending from capacity expansion to productivity should drive further upside for the sector. We view **HON, EMR, ITT, FLS**, and software name **AZPN** as beneficiaries within our coverage.

Exhibit 10: O&G the key driver of incremental capex spending in 2024E

Incremental capex spending by industry (US\$mnn)



Source: BofA Global Research estimates, Bloomberg

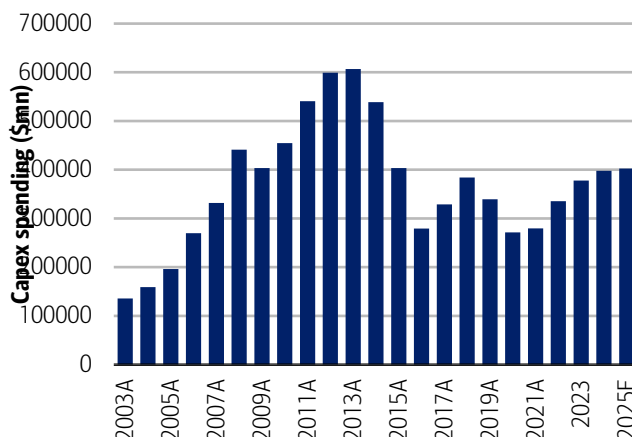
Note: Based on global coverage by BofA Global Research analysts

Prior to 2017, capex spending estimates do not include Saudi Aramco given limited public info

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Exhibit 11: Oil & gas capex 11% above 2019 levels in 2023

Total oil & gas capex spending based on BofA coverage (US\$mnn)



Source: BofA Global Research estimates, Bloomberg

Note: Based on global coverage by BofA Global Research analysts

Prior to 2017, capex spending estimates do not include Saudi Aramco given limited public info

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Valuation metrics

Exhibit 2: Multi-industrial summary valuation metrics

Summary valuation metrics

	Ticker	Price	Price Obj.	Revenue Growth (%)			Operating Margin (%)			EPS Growth (%)		
				2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E
3M	MMM	\$92.23	\$110	-3.6%	-4.5%	1.4%	21.1%	20.3%	21.5%	-6.4%	-7.4%	14.4%
Allegion	ALLE	\$129.66	\$95	14.1%	11.6%	2.4%	20.2%	21.9%	20.9%	9.9%	14.4%	-1.5%
AMETEK	AME	\$178.21	\$182	10.9%	7.3%	12.0%	24.4%	25.9%	25.3%	17.1%	11.5%	7.7%
Carrier	CARR	\$53.85	\$55	-0.9%	8.2%	17.8%	14.2%	14.5%	15.2%	3.1%	15.4%	11.3%
Core & Main	CNM	\$46.26	\$28	32.9%	1.1%	2.3%	11.7%	11.0%	10.2%	N/M	0.4%	0.0%
Dover	DOV	\$163.08	\$180	7.6%	-0.8%	2.0%	16.9%	17.2%	18.0%	10.7%	4.2%	3.7%
Eaton	ETN	\$284.58	\$300	5.7%	11.8%	7.4%	14.7%	17.0%	17.9%	12.0%	21.6%	9.2%
Emerson	EMR	\$105.29	\$120	-17.4%	11.3%	12.5%	18.9%	18.8%	18.6%	-10.5%	20.7%	15.5%
Flowserve	FLS	\$41.84	\$48	2.1%	19.5%	5.8%	6.2%	9.5%	10.8%	-20.6%	N/M	20.4%
General Electric	GE	\$151.67	\$162	3.0%	-14.4%	0.0%	7.9%	8.6%	8.6%	23.3%	1.7%	59.2%
Honeywell	HON	\$200.81	\$250	3.1%	3.4%	5.5%	22.0%	23.2%	23.8%	8.8%	4.8%	9.8%
Illinois Tool Works	ITW	\$258.67	\$235	10.2%	1.1%	3.2%	23.8%	25.1%	24.7%	14.7%	-0.2%	2.9%
ITT	ITT	\$125.20	\$135	8.1%	9.9%	11.6%	15.9%	16.9%	17.6%	9.5%	17.5%	16.2%
John Bean Technologies	JBT	\$99.85	\$85	15.9%	-23.2%	5.7%	9.2%	10.9%	11.9%	25.0%	-15.8%	14.8%
Johnson Controls International	JCI	\$58.27	\$60	6.4%	6.2%	4.6%	11.6%	12.6%	13.4%	12.3%	18.6%	13.6%
Montrose Environmental Group	MEG	\$32.31	\$40	-0.4%	15.2%	10.8%	-5.1%	-3.3%	0.7%	N/M	N/M	N/M
Parker Hannifin	PH	\$530.00	\$600	15.1%	12.9%	5.0%	19.7%	21.8%	21.9%	19.8%	11.9%	9.0%
Pentair	PNR	\$75.29	\$76	9.5%	-0.4%	2.5%	18.6%	20.8%	22.3%	8.2%	1.2%	9.0%
Rockwell	ROK	\$278.62	\$300	12.5%	13.8%	5.9%	17.1%	17.6%	19.7%	7.5%	22.4%	10.2%
Trane Technologies	TT	\$282.28	\$282	13.1%	10.5%	7.1%	14.9%	16.3%	16.7%	21.2%	19.3%	10.8%
Vontier	VNT	\$42.61	\$48	6.5%	-2.8%	0.7%	20.0%	18.8%	20.1%	7.0%	-7.1%	6.8%
Vertiv	VRT	\$62.90	\$72	13.9%	20.6%	11.2%	3.9%	12.7%	15.5%	-29.9%	N/M	30.6%
AVERAGE				8.9%	5.0%	6.0%	15.1%	16.6%	17.4%	8.4%	7.4%	12.5%
MEDIAN				8.8%	6.8%	5.3%	15.4%	16.9%	17.8%	11.3%	7.1%	9.5%

Source: Company Reports, BofA Global Research estimates; Data calendarized for Dec.31st year end

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Exhibit 3: Multi-industrial summary valuation metrics

Summary valuation metrics

	Ticker	P/E				Cash P/E			EV/EBITDA			Dividend Yield		
		2022	2023E	2024E	10-yr Avg	2022	2023E	2024E	2022	2023E	2024E	2022	2023	2024
3M	MMM	9.3 x	10.1 x	8.8 x	15.7 x	13.6 x	10.1 x	16.6 x	7.3 x	7.5 x	7.1 x	6.5%	6.5%	6.5%
Allegion	ALLE	21.7 x	18.9 x	19.2 x	17.7 x	28.9 x	22.2 x	20.2 x	18.3 x	15.1 x	14.1 x	1.2%	1.4%	1.5%
AMETEK	AME	NM	28.1 x	26.1 x	17.9 x	NM	25.8 x	25.8 x	23.6 x	21.8 x	19.1 x	0.5%	0.6%	0.6%
Carrier	CARR	23.0 x	19.9 x	17.9 x	N/A	33.4 x	21.5 x	NM	16.0 x	13.8 x	13.7 x	1.1%	1.3%	1.4%
Core & Main	CNM	21.3 x	21.2 x	21.2 x	N/A	30.3 x	10.7 x	18.4 x	14.1 x	12.8 x	12.4 x	0.0%	0.0%	0.0%
Dover	DOV	19.3 x	18.5 x	17.9 x	13.4 x	NM	20.0 x	18.2 x	15.3 x	14.7 x	13.0 x	1.2%	1.2%	1.3%
Eaton	ETN	NM	NM	28.9 x	12.0 x	NM	39.8 x	33.3 x	30.5 x	25.0 x	22.4 x	1.1%	1.2%	1.3%
Emerson	EMR	27.4 x	22.7 x	19.6 x	16.8 x	30.3 x	27.4 x	22.0 x	20.0 x	14.9 x	14.8 x	2.0%	2.0%	2.0%
Flowserve	FLS	NM	20.9 x	17.4 x	16.3 x	NM	21.4 x	17.4 x	20.3 x	12.4 x	10.4 x	1.9%	1.9%	1.9%
General Electric	GE	NM	NM	NM	2.1 x	35.1 x	32.7 x	32.7 x	21.4 x	24.1 x	24.3 x	0.2%	0.2%	0.2%
Honeywell	HON	22.9 x	21.9 x	19.9 x	15.2 x	30.4 x	30.8 x	22.7 x	16.3 x	14.7 x	13.2 x	2.0%	2.1%	2.2%
Illinois Tool Works	ITW	26.5 x	26.5 x	25.8 x	0.0 x	NM	25.5 x	24.9 x	20.8 x	19.2 x	18.6 x	2.0%	2.1%	2.2%
ITT	ITT	28.2 x	24.0 x	20.7 x	14.4 x	NM	24.1 x	23.1 x	17.8 x	15.5 x	13.1 x	0.8%	0.9%	1.0%
John Bean Technologies	JBT	20.8 x	24.8 x	21.6 x	16.0 x	NM	19.9 x	14.7 x	12.3 x	10.7 x	10.7 x	0.4%	0.4%	0.4%
Johnson Controls International	JCI	18.8 x	15.9 x	14.0 x	N/A	27.7 x	21.3 x	15.6 x	12.5 x	11.6 x	10.4 x	2.4%	2.5%	2.5%
Montrose Environmental Group	MEG	NM	NM	NM	N/A	NM	20.1 x	15.2 x	NM	40.2 x	28.9 x	0.0%	0.0%	0.0%
Parker Hannifin	PH	26.5 x	23.7 x	21.7 x	15.1 x	31.2 x	26.5 x	20.2 x	0.0 x	8.6 x	13.5 x	0.8%	0.0%	0.0%
Pentair	PNR	20.4 x	20.2 x	18.5 x	17.8 x	NM	20.8 x	18.9 x	17.9 x	15.7 x	14.0 x	1.1%	1.2%	1.2%
Rockwell	ROK	27.4 x	22.4 x	20.3 x	N/A	NM	NM	20.4 x	22.1 x	18.3 x	15.5 x	1.6%	1.7%	1.8%
Trane Technologies	TT	NM	NM	29.0 x	14.0 x	NM	NM	NM	25.9 x	22.3 x	20.3 x	0.9%	1.1%	1.1%
Vontier	VNT	13.8 x	14.9 x	13.9 x	N/A	26.3 x	16.8 x	13.8 x	12.2 x	12.2 x	11.4 x	0.2%	0.2%	0.2%
Vertiv	VRT	NM	NM	28.0 x	N/A	NM	31.7 x	29.1 x	NM	23.3 x	18.4 x	0.0%	0.0%	0.2%
AVERAGE		21.8 x	21.0 x	20.8 x	13.9 x	28.2 x	23.5 x	21.4 x	17.5 x	17.3 x	15.6 x	1.2%	1.2%	1.3%
MEDIAN		21.7 x	21.2 x	20.5 x	15.2 x	29.6 x	22.2 x	20.2 x	17.9 x	15.3 x	13.8 x	1.0%	1.1%	1.2%

Source: Company Reports, BofA Global Research estimates; Data calendarized for Dec.31st year end

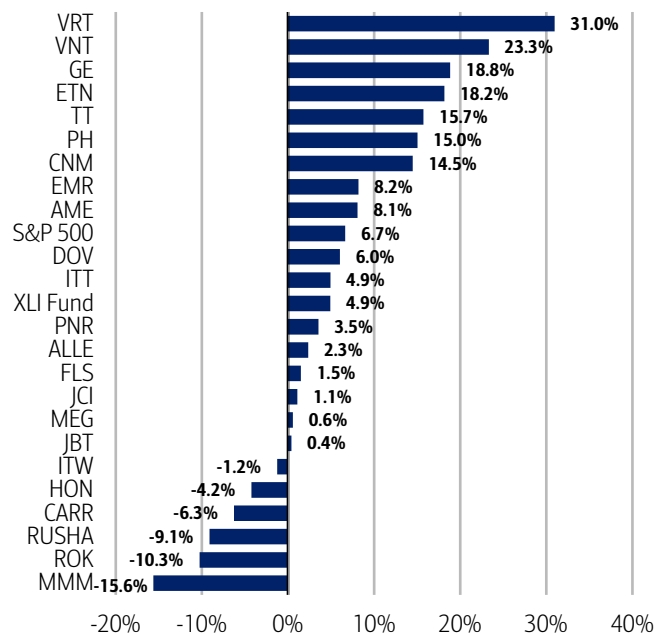
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Stock performance

Exhibit 14: YTD Stock Performance

VRT is the best YTD stock performer

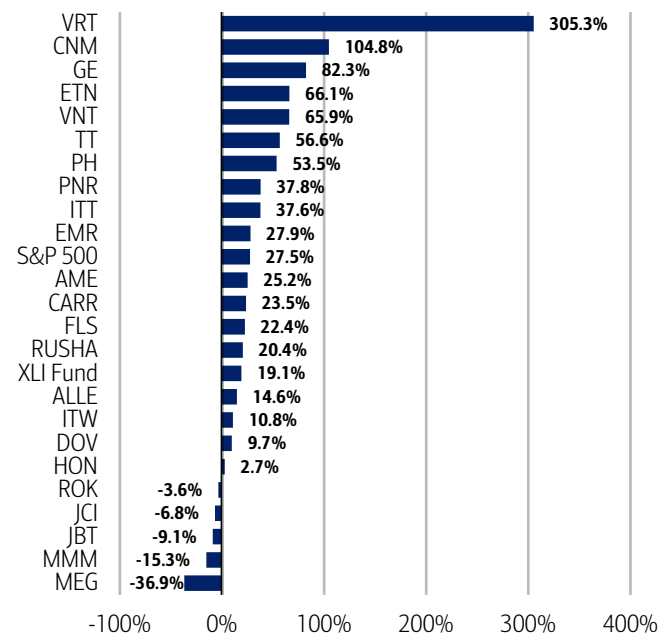


Source: BofA Global Research, Bloomberg

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Exhibit 15: 1-Year Stock Performance

VRT is the best 1-year stock performer

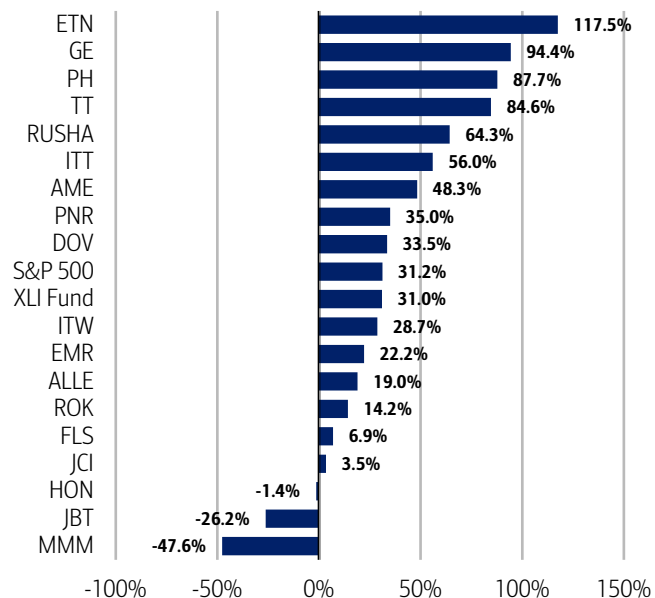


Source: BofA Global Research, Bloomberg

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Exhibit 16: 3-Years Stock Performance

ETN is the best 3-year stock performer

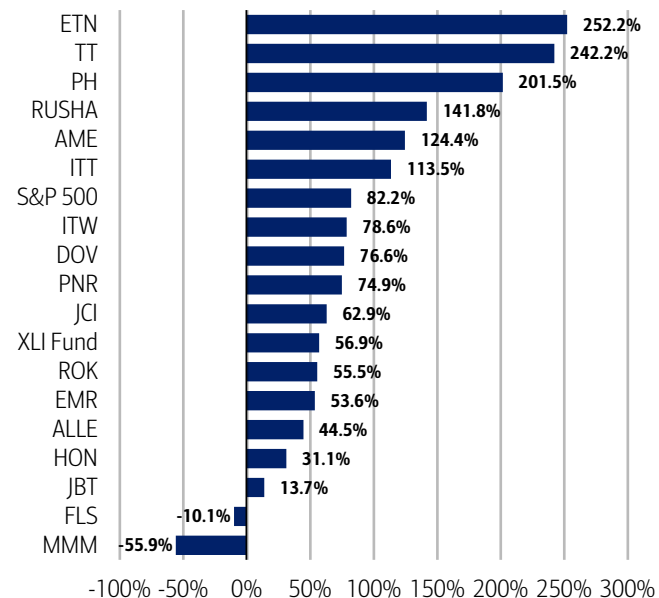


Source: BofA Global Research, Bloomberg

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Exhibit 17: 5-Years Stock Performance

ETN is the best 5-year stock performer



Source: BofA Global Research, Bloomberg

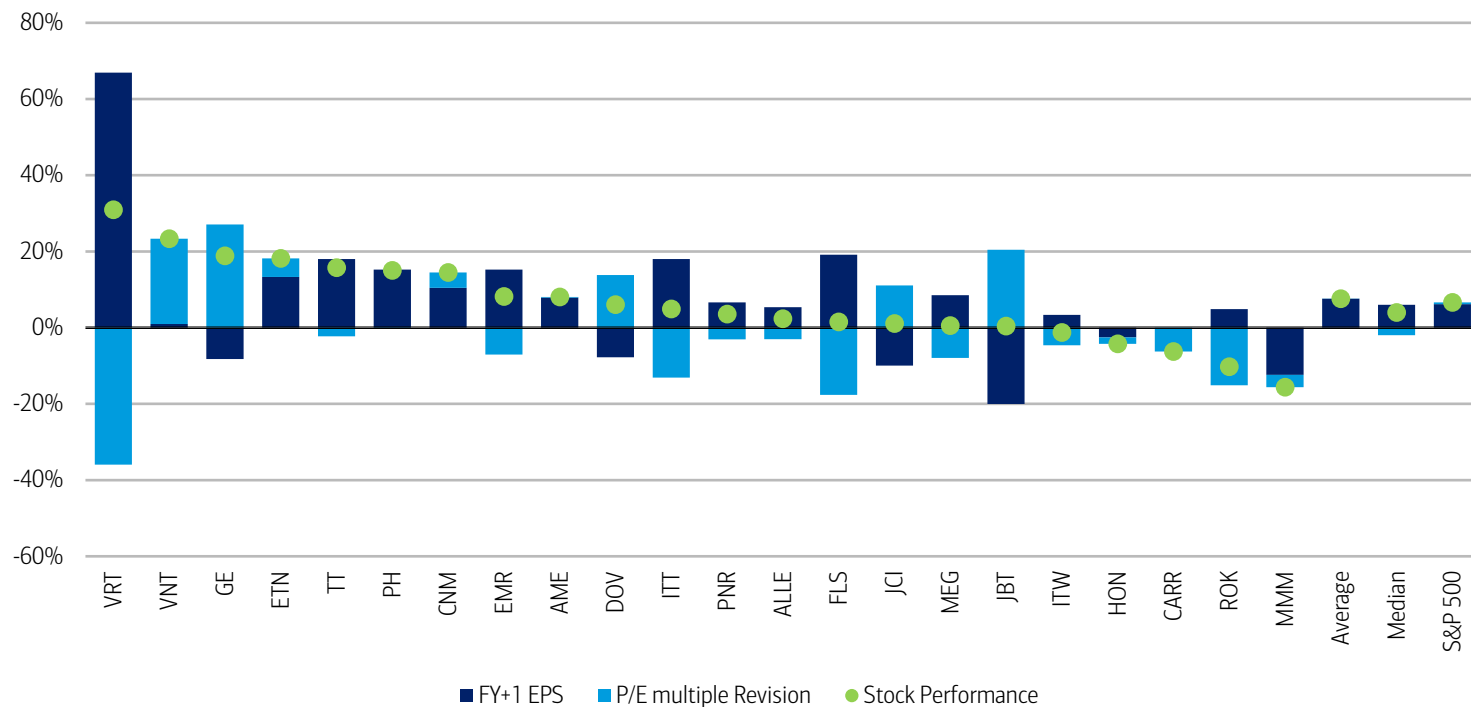
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YTD stock performance attribution

Year-to-date, stock performance across our coverage (up 5% on a median basis) has been driven more by earnings revisions than multiple expansion.

Exhibit 18: Stock performance attribution (P/E multiple revision vs. '24 EPS revision)

Stock performance attribution, P/E multiple revisions versus FY+1 EPS revisions

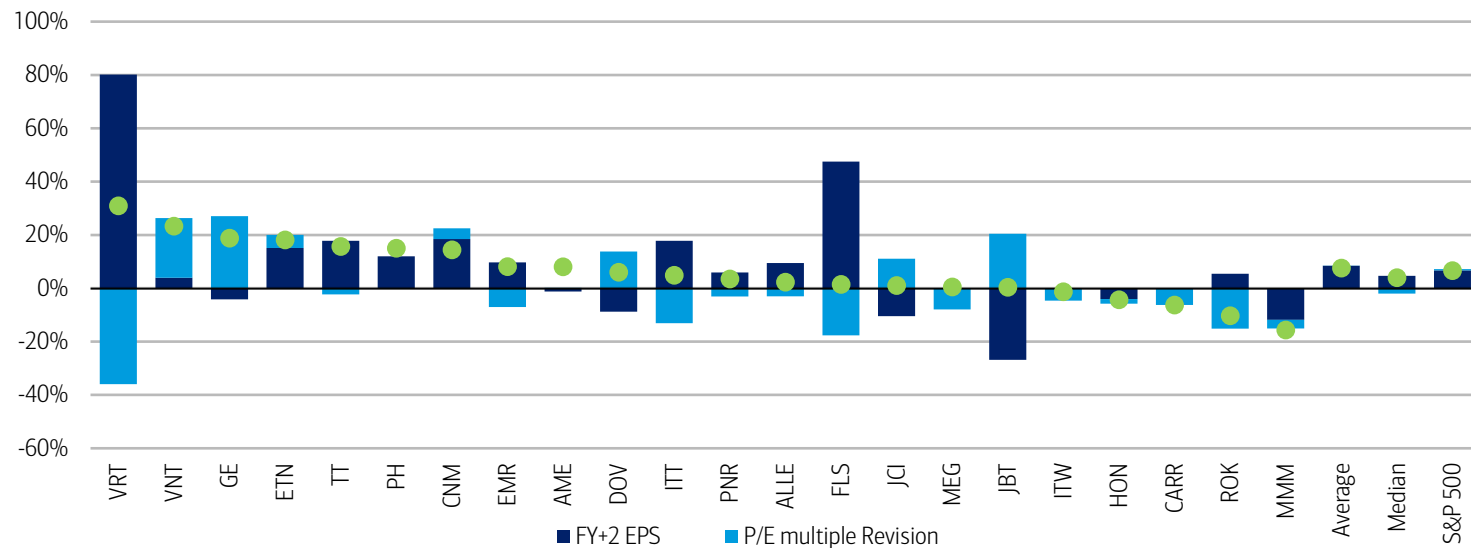


Source: BofA Global Research, Bloomberg

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Exhibit 19: Stock performance attribution (P/E multiple revision vs. '25 EPS revision)

Stock performance attribution, P/E multiple revisions versus FY+2 EPS revisions



Source: BofA Global Research, Bloomberg

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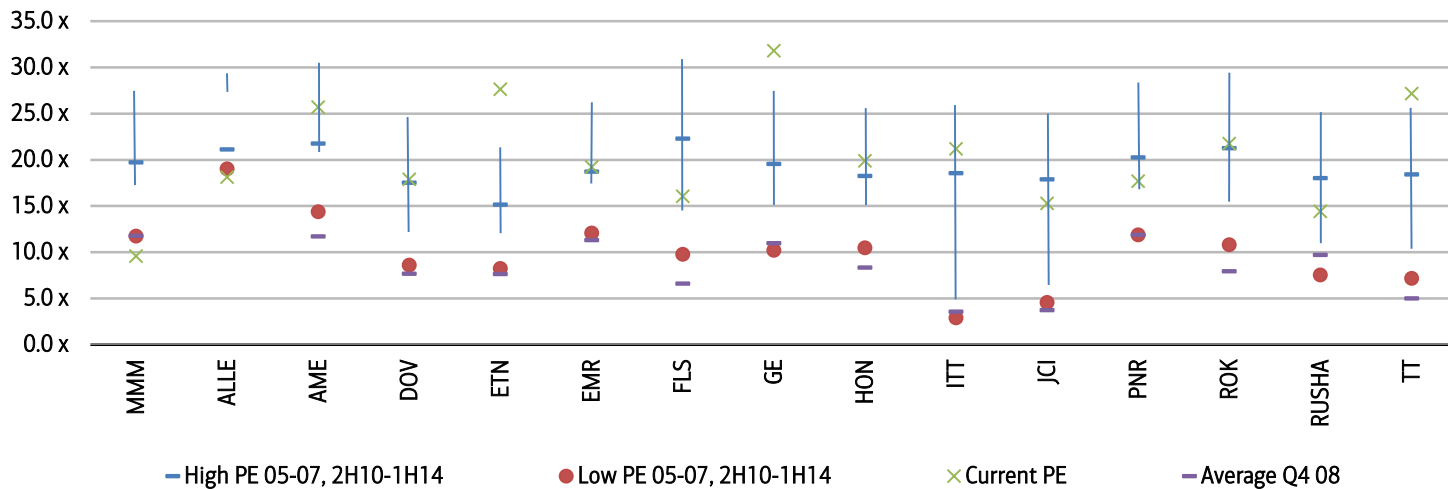
Current valuation vs. historical

We look at where valuations in our coverage stand relative to ranges of historical valuations and other sell-off periods. The exhibit below shows consensus based on 12 months forward PE multiples for (i) the current share price, shown as a green X, (ii) the high and low levels since 2005, excluding the extreme cycle from 2008 to 1H10, shown as a blue line stop and red dot (iii) Q4 08, the trough US financial crisis, shown as a purple line stop.

This week, stocks are generally trading above or at the high end of their historical ranges. Stocks are trading at higher multiples relative to low points seen during 05 – 07 and 2H10 – 2H14. We note that ITT exists in its current form only since '12.

Exhibit 10: : Multi-industrial coverage stocks consensus PE ranges – current vs. range since 2005 vs. pre-financial crisis vs. Q4 2008

Stocks are trading towards or below the high end of their historical valuation ranges, with ETN, GE, and TT trading well above



Source: BofA Global Research estimates, Factset

Note: ALLE (spin-off from IR in 2013), time period range for ITT has been revised to post-2012 divestiture

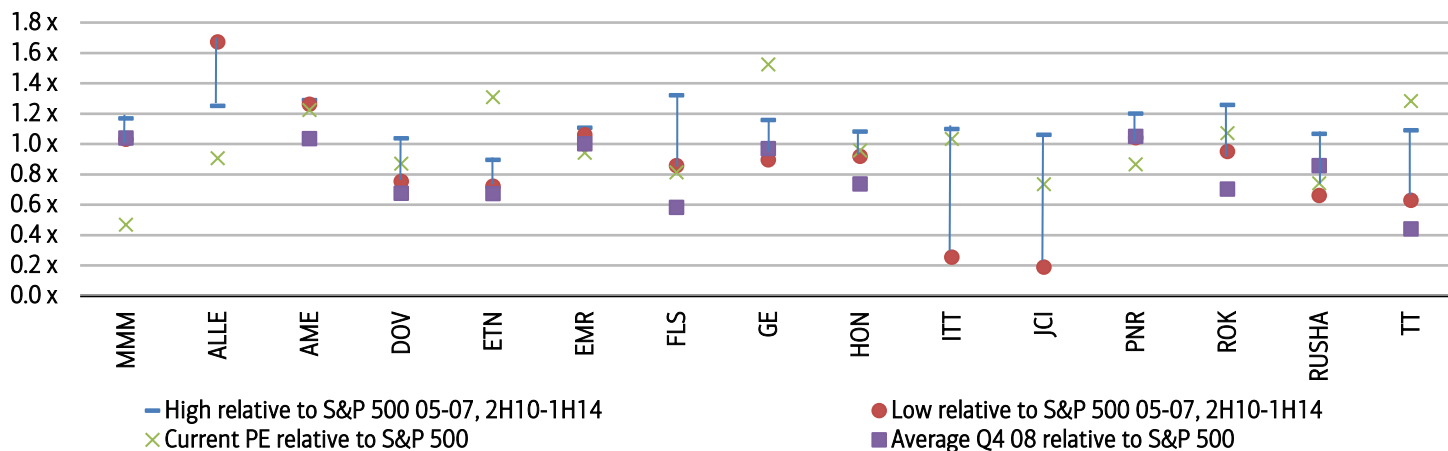
*Current PE based on Bloomberg consensus estimate

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We also highlight PE multiples relative to the S&P 500 for the same time periods analyzed above.

Exhibit 11: Multis coverage stocks consensus PE ranges relative to S&P 500 – current vs. range since 2005 vs. pre-financial crisis vs. Q4 2008

Stocks are trading towards or below the high end of their relative historical valuation ranges, with ETN, GE, and TT trading well above



Source: BofA Global Research estimates, Factset

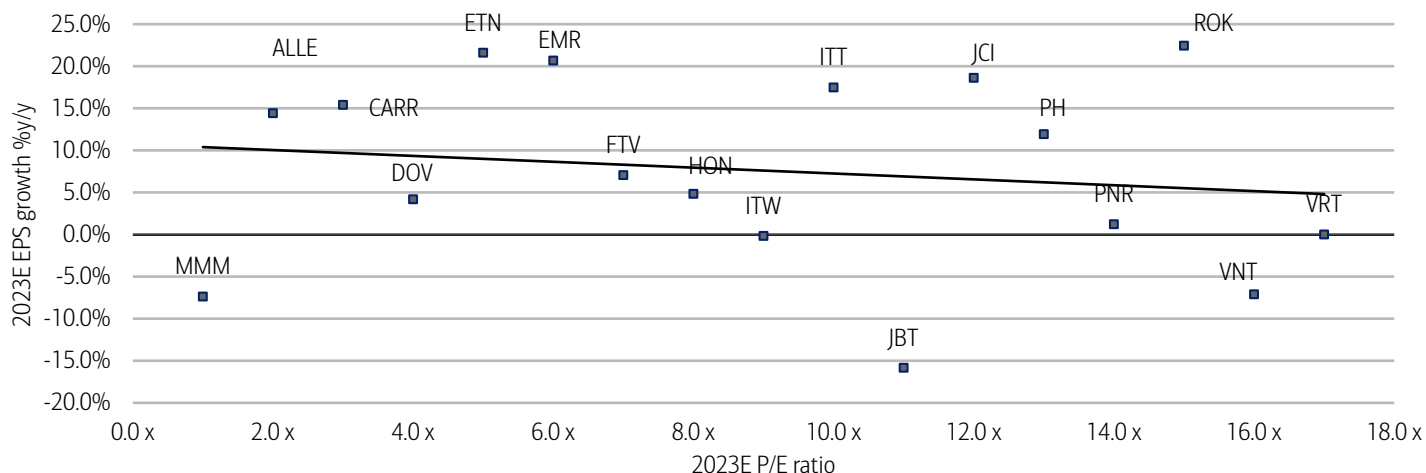
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Multi-industrial valuation charts

The chart below illustrates what 2023E P/E ratio investors are paying for 2023E earnings growth. We think the market will generally pay a premium for names with faster earnings growth, assuming forecasts are achievable.

Exhibit 22: Headline P/E ratio (BofA estimates) versus 2023 EPS forecast growth (BofA)

Higher P/E ratios are somewhat associated with higher earnings growth

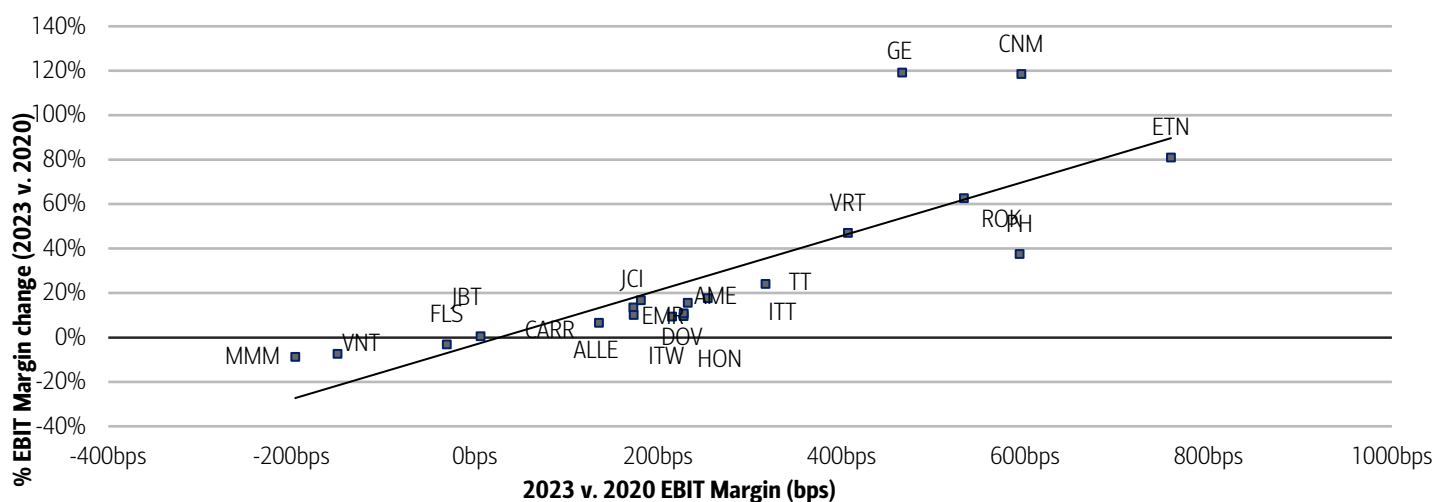


Source: BofA Global Research estimates

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Exhibit 23: 2023 vs. 2020 EBIT margin expansion

Within our coverage, ETN stands out as having the highest '20-'23 margin expansion

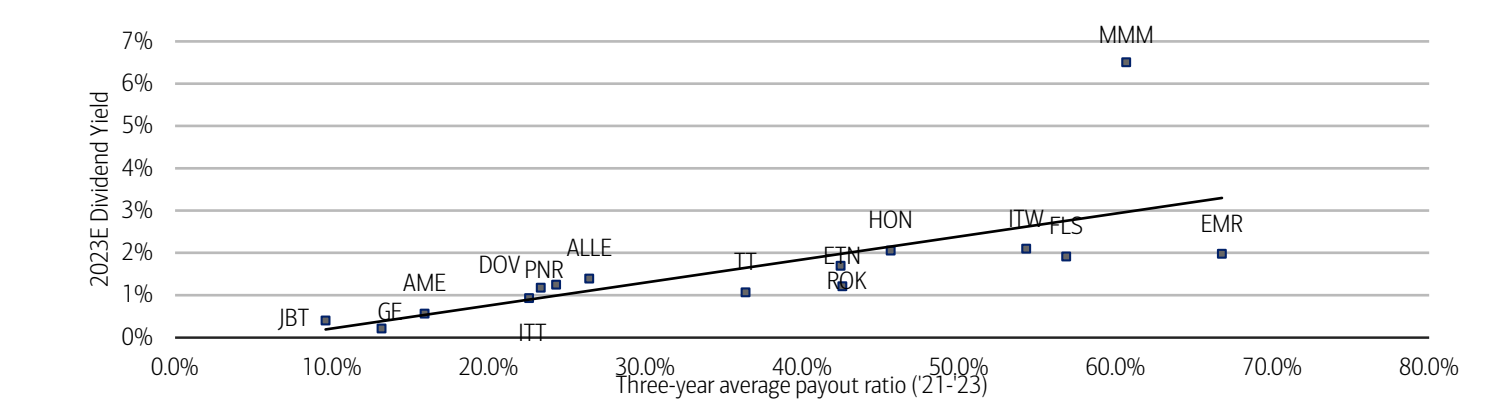


Source: BofA Global Research estimates

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Exhibit 24: 2023 Dividend yield forecast (BofA estimates) versus three-year average payout ratio ('20-'23)

EMR, MMM have among the highest 3-year average dividend payout



Source: BofA Global Research estimates

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Exhibit 15: Multi-industrial summary Net Debt/EBITDA

2023E coverage average net debt-to-EBITDA is 1.5x

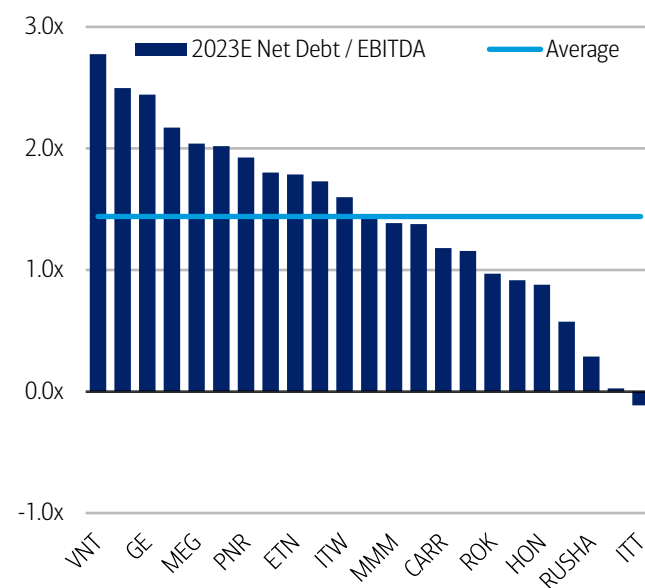
Company	S&P credit rating	Net Debt/ EBITDA		
		2022	2023E	2024E
MMM	BBB+ *	1.4x	1.4x	1.3x
ALLE	BBB	2.5x	1.8x	1.5x
AME	BBB+	1.1x	1.4x	0.7x
CARR	BBB	1.7x	1.2x	2.5x
CNM		1.8x	0.9x	1.0x
DOV	BBB+	1.9x	1.7x	0.8x
ETN	A-	2.0x	1.8x	1.6x
EMR	A	2.4x	0.0x	1.6x
FLS	BBB-	2.7x	1.4x	0.8x
GE	BBB+	4.1x	2.4x	2.4x
HON	A	1.0x	0.9x	0.5x
ITW	A+	1.7x	1.6x	1.6x
ITT	BBB	-0.2x	-0.1x	-0.4x
JBT		3.2x	0.6x	0.1x
JCI	BBB+	1.8x	2.2x	1.9x
PH	BBB+	3.0x	2.5x	1.8x
PNR	BBB-	2.7x	1.9x	1.2x
ROK	A	2.1x	1.0x	0.6x
RUSHA		0.4x	0.3x	0.1x
TT	BBB+	1.3x	1.2x	0.9x
VNT	BBB-	3.2x	2.8x	2.6x
VRT		5.6x	2.0x	1.6x
Average leverage		2.2x	1.5x	1.2x

Source: BofA Global Research

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Exhibit 26: 2023E Multi-Industrial Net Debt/EBITDA

2023E coverage average net debt-to-EBITDA is 1.5x



Source: BofA Global Research estimates

Note: GE net debt is calculated using rating agency methodology and Industrial-assumed debt ex-GE Capital

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Valuation metrics

Exhibit 17: Multi-Industrial summary valuation metrics

Summary valuation metrics

	Ticker	ROIC			ROTA			FCF Conversion		
		2022	2023	2024	2022	2023	2024	2022	2023	2024
3M	MMM	14.6%	14.4%	17.3%	20.0%	18.1%	20.4%	68.5%	98.9%	58.0%
Allegion	ALLE	20.6%	19.9%	19.0%	31.6%	32.3%	30.2%	74.8%	84.0%	91.3%
AMETEK	AME	11.7%	11.5%	11.4%	39.3%	38.4%	37.9%	76.8%	108.2%	101.4%
Carrier	CARR	10.6%	11.9%	12.6%	14.2%	16.3%	16.7%	69.7%	91.8%	32.6%
Core & Main	CNM	14.8%	12.6%	12.6%	23.0%	17.0%	17.0%	70.3%	196.5%	109.1%
Dover	DOV	15.2%	15.1%	14.8%	27.8%	26.9%	24.9%	54.5%	107.8%	111.1%
Eaton	ETN	9.6%	11.6%	0.0%	19.5%	22.1%	22.2%	75.0%	87.6%	94.2%
Emerson	EMR	8.3%	6.9%	6.5%	14.5%	12.4%	12.4%	104.6%	98.6%	112.3%
Flowserve	FLS	4.9%	7.9%	8.8%	5.5%	8.6%	9.4%	-80.5%	93.1%	96.4%
General Electric	GE	3.0%	3.2%	3.2%	2.6%	2.6%	2.6%	165.9%	175.3%	175.3%
Honeywell	HON	13.0%	14.1%	15.2%	14.9%	15.9%	17.2%	75.3%	71.2%	87.7%
Illinois Tool Works	ITW	27.4%	27.0%	25.4%	20.6%	20.6%	20.8%	63.8%	104.2%	105.4%
ITT	ITT	12.8%	14.6%	16.2%	14.3%	16.3%	17.7%	46.8%	99.7%	92.1%
John Bean Technologies	JBT	9.3%	6.3%	6.5%	13.5%	9.0%	9.2%	35.6%	14.5%	98.1%
Johnson Controls International	JCI	5.2%	6.7%	8.5%	9.0%	10.5%	13.0%	68.2%	74.8%	90.0%
Montrose Environmental Group	MEG	-2.6%	-0.1%	2.7%	-5.5%	-0.1%	4.7%	NM	NM	0.0%
Parker Hannifin	PH	13.5%	0.0%	0.0%	22.2%	24.9%	30.1%	85.0%	0.0%	123.7%
Pentair	PNR	14.4%	13.4%	14.0%	33.4%	33.9%	33.0%	46.4%	96.2%	94.4%
Rockwell	ROK	14.8%	17.6%	18.6%	19.5%	22.3%	22.7%	65.4%	33.9%	100.3%
Trane Technologies	TT	14.0%	16.8%	17.7%	20.6%	24.0%	24.9%	81.2%	67.5%	60.4%
Vontier	VNT	16.1%	15.1%	15.1%	27.3%	26.0%	26.0%	52.7%	87.7%	98.0%
Vertiv	VRT	-0.8%	11.6%	11.6%	-1.1%	14.4%	14.4%	1844.8%	157.5%	118.8%
AVERAGE		11.9%	12.3%	11.9%	18.8%	20.0%	20.1%	142.9%	92.9%	89.6%
MEDIAN		12.9%	12.2%	12.6%	19.8%	19.3%	20.6%	69.7%	93.1%	97.2%

Source: Company Reports, BofA Global Research estimates, Bloomberg

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Exhibit 18: Multi-Industrial summary valuation metrics

Summary valuation metrics

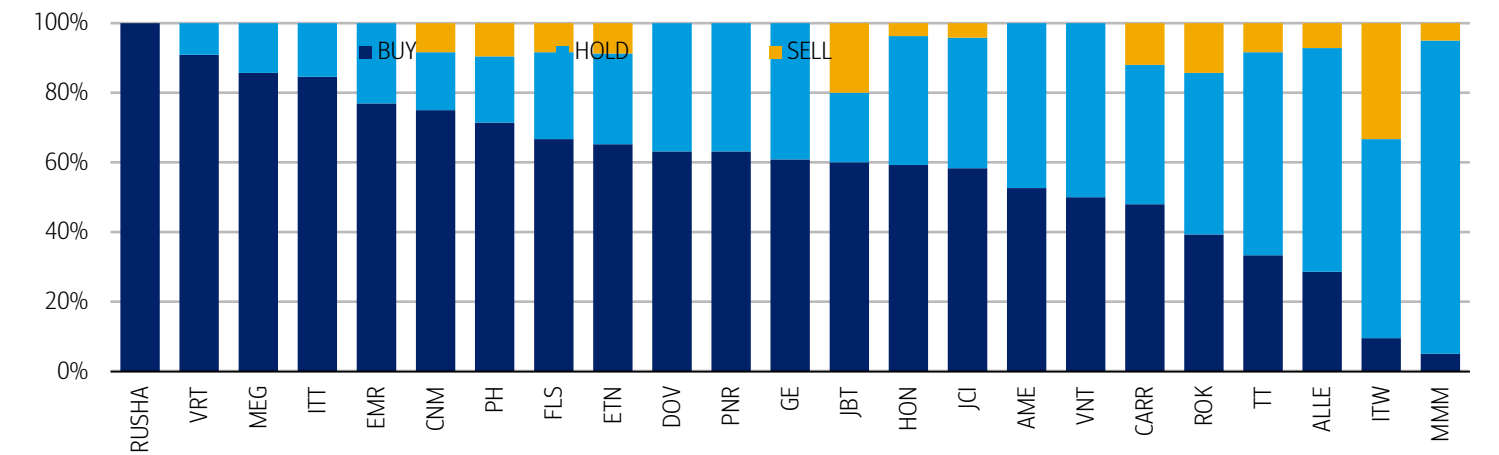
	BofA Rating	Ratings			BofA	FY+1 EPS			BofA	FY+2 EPS		
		Buy	Neutral	U/P		Consensus	Low	High		Consensus	Low	High
3M	Neutral	1	18	1	\$9.24	\$9.12	\$9.01	\$9.20	\$9.60	\$9.53	\$9.16	\$9.73
Allegion	Underperform	4	9	1	\$6.96	\$6.87	\$6.80	\$6.90	\$7.02	\$7.08	\$7.00	\$7.30
AMETEK	Neutral	10	9	0	\$6.38	\$6.34	\$6.31	\$6.38	\$6.82	\$6.83	\$6.70	\$6.93
Carrier	Underperform	12	10	3	\$2.73	\$2.72	\$2.69	\$2.79	\$2.75	\$2.84	\$2.70	\$3.00
Core & Main	Underperform	9	2	1	\$2.19	\$2.12	\$1.85	\$2.24	\$2.30	\$2.26	\$2.02	\$2.60
Dover	Buy	12	7	0	\$8.80	\$8.77	\$8.67	\$8.85	\$9.08	\$9.01	\$8.12	\$9.15
Eaton	Buy	15	6	2	\$9.12	\$9.04	\$9.00	\$9.08	\$10.15	\$10.14	\$9.02	\$10.45
Emerson	Buy	20	6	0	\$4.44	\$4.46	\$4.43	\$4.52	\$5.36	\$5.37	\$5.23	\$5.45
Flowserve	Buy	8	3	1	\$2.10	\$2.02	\$1.99	\$2.06	\$2.50	\$2.55	\$2.50	\$2.67
General Electric	Buy	14	9	0	\$2.81	\$2.66	\$2.56	\$2.75	\$4.36	\$4.57	\$4.36	\$4.90
Honeywell	Buy	16	10	1	\$9.16	\$9.16	\$9.11	\$9.20	\$10.10	\$9.96	\$9.71	\$10.10
Illinois Tool Works	Underperform	2	12	7	\$9.74	\$9.77	\$9.65	\$9.93	\$9.87	\$10.17	\$9.87	\$10.58
ITT	Buy	11	2	0	\$5.21	\$5.21	\$5.20	\$5.23	\$5.90	\$5.80	\$5.65	\$6.02
John Bean Technologies	Underperform	3	1	1	\$4.10	\$4.03	\$4.00	\$4.07	\$5.12	\$5.11	\$4.88	\$5.30
Johnson Controls International	Neutral	14	9	1	\$3.50	\$3.55	\$3.51	\$3.67	\$3.66	\$3.61	\$3.52	\$3.67
Montrose Environmental Group	Buy	6	1	0	-\$1.59	-\$0.51	-\$1.61	\$0.42	-\$0.44	\$0.17	-\$0.74	\$0.75
Parker Hannifin	Buy	15	4	2	\$21.55	\$20.84	\$19.24	\$21.14	\$24.50	\$24.04	\$20.84	\$24.50
Pentair	Neutral	12	7	0	\$3.75	\$3.75	\$3.72	\$3.80	\$4.21	\$4.19	\$3.92	\$4.27
Rockwell	Neutral	11	13	4	\$12.15	\$11.97	\$11.73	\$12.23	\$13.38	\$12.30	\$11.10	\$13.38
Trane Technologies	Neutral	8	14	2	\$9.04	\$9.01	\$8.98	\$9.15	\$10.21	\$10.22	\$10.08	\$10.52
Vontier	Buy	6	6	0	\$2.89	\$2.83	\$2.48	\$2.88	\$3.15	\$3.09	\$2.72	\$3.15
Vertiv	Buy	10	1	0	\$1.77	\$1.75	\$1.72	\$1.77	\$2.34	\$2.27	\$1.77	\$2.64

Source: Company Reports, BofA Global Research estimates, Bloomberg

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Exhibit 29: Sell side stock ratings of BUY/HOLD/SELL
Over half of our coverage has a consensus Buy rating



Source: Bloomberg

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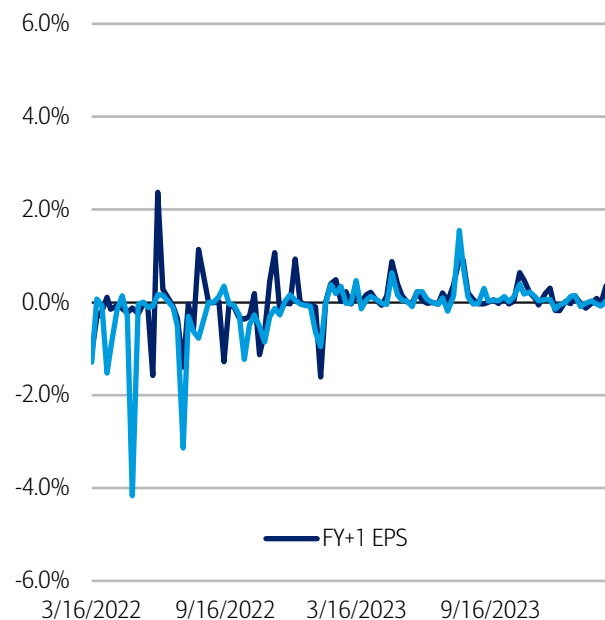


Consensus revision tracker

The charts below shows historical consensus revisions compared to the previous week and month, respectively. Revisions remained flat vs last week for FY+1 EPS and FY+2 EPS. Revisions were flat for FY+1 EPS and for FY+2 EPS vs. last month.

Exhibit 30: Bloomberg consensus revisions vs. 1 week ago

FY+1 EPS revision and FY+2 EPS revision remained flat vs. 1 week ago

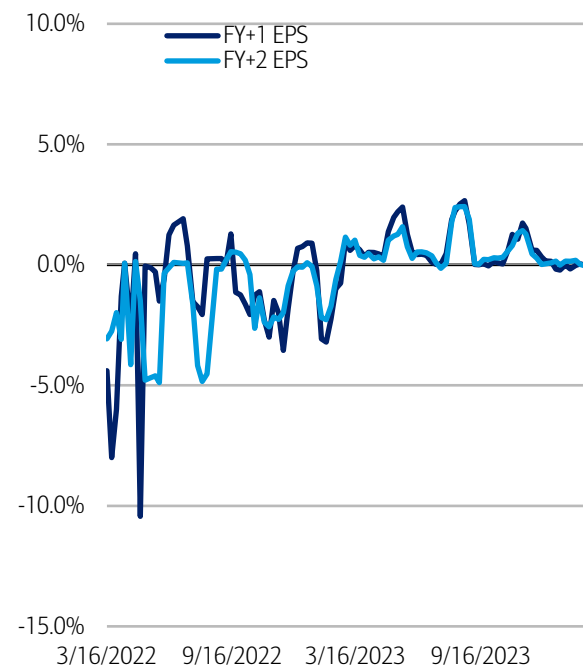


Source: Bloomberg

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Exhibit 31: Bloomberg consensus revisions vs. 1 month ago

FY+1 EPS and FY+2 EPS revisions flat vs. 1 month ago



Source: Bloomberg

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Exhibit 22: Changes to consensus EPS estimates versus a week ago

FY+1 EPS revision is flat vs. 1 week ago

Ticker	Current Quarter EPS			FY+1 EPS			FY+2 EPS		
	Current	1 Week Ago	% Revision	Current Est.	1 Week Ago	% Revision	Current Est.	1 Week Ago	% Revision
ALLE	\$1.46	\$1.52	-3.9%	\$7.08	\$7.10	-0.28%	\$7.62	\$7.70	-1.04%
AME	\$1.59	\$1.59	0.1%	\$6.83	\$6.83	0.00%	\$7.51	\$7.51	0.00%
CARR	\$0.50	\$0.51	-1.4%	\$2.84	\$2.85	-0.35%	\$3.08	\$3.09	-0.32%
CNM	\$0.34	\$0.34	0.6%	\$2.26	\$2.26	0.00%	\$2.45	\$2.42	1.24%
DOV	\$1.94	\$1.94	0.3%	\$9.01	\$9.01	0.00%	\$9.79	\$9.80	-0.10%
EMR	\$1.25	\$1.25	0.1%	\$5.37	\$5.36	0.19%	\$5.64	\$5.63	0.18%
ETN	\$2.26	\$2.26	0.0%	\$10.14	\$10.13	0.10%	\$11.26	\$11.22	0.36%
FLS	\$0.48	\$0.48	-0.8%	\$2.55	\$2.53	0.79%	\$2.95	\$2.91	1.37%
GE	\$0.64	\$0.64	0.5%	\$4.57	\$4.57	0.00%	\$5.97	\$5.97	0.00%
HON	\$2.19	\$2.18	0.3%	\$9.96	\$9.96	0.00%	\$10.89	\$10.89	0.00%
ITT	\$1.36	\$1.36	0.3%	\$5.80	\$5.80	0.00%	\$6.54	\$6.54	0.00%
ITW	\$2.36	\$2.36	-0.1%	\$10.17	\$10.17	0.00%	\$10.96	\$10.97	-0.09%
JBT	\$0.86	\$0.83	3.9%	\$5.11	\$4.72	8.26%	\$5.72	\$5.95	-3.87%
JCI	\$0.75	\$0.75	-0.4%	\$3.61	\$3.61	0.00%	\$4.12	\$4.12	0.00%
MEG	\$0.10	\$0.10	4.2%	(\$0.51)	(\$0.51)	0.00%	\$0.17	\$0.17	0.00%
MMM	\$2.08	\$2.08	0.1%	\$9.53	\$9.53	0.00%	\$10.20	\$10.20	0.00%
PH	\$6.08	\$6.12	-0.6%	\$24.04	\$24.15	-0.46%	\$25.74	\$25.84	-0.39%
PNR	\$0.90	\$0.90	0.2%	\$4.19	\$4.19	0.00%	\$4.65	\$4.65	0.00%
ROK	\$2.23	\$2.23	-0.1%	\$12.30	\$12.29	0.08%	\$13.60	\$13.61	-0.07%
RUSHA	\$0.81	\$0.81	0.6%	\$3.12	\$3.12	0.00%	\$3.50	\$3.50	0.00%
TT	\$1.63	\$1.63	-0.1%	\$10.22	\$10.22	0.00%	\$11.37	\$11.37	0.00%
VNT	\$0.71	\$0.68	5.0%	\$3.09	\$3.12	-0.96%	\$3.41	\$3.43	-0.58%
VRT	\$0.34	\$0.37	-7.6%	\$2.27	\$2.25	0.89%	\$2.81	\$2.70	4.07%
Average			-0.2%			0.4%			0.0%

Source: Bloomberg

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Since 1 week ago, JBT had the largest positive revision for FY+1 followed by VRT. VNT had the largest negative revision for FY+1 followed by PH. VRT has had the largest positive revision for FY+2 followed by FLS. JBT had the largest negative revision for FY+2 followed by ALLE.

Exhibit 23: Changes to consensus EPS estimates versus a month ago

FY+1 EPS revision and FY+2 EPS revision are flat vs. 1 month ago

Ticker	Current Quarter EPS			FY+1 EPS			FY+2 EPS		
	Current	1 Month Ago	% Revision	Current Est.	1 Month Ago	% Revision	Current Est.	1 Month Ago	% Revision
ALLE	\$1.46	\$1.54	-5.2%	\$7.08	\$7.13	-0.7%	\$7.62	\$7.74	-1.6%
AME	\$1.59	\$1.58	0.6%	\$6.83	\$6.75	1.2%	\$7.51	\$7.40	1.5%
CARR	\$0.50	\$0.56	-10.7%	\$2.84	\$2.87	-1.0%	\$3.08	\$3.10	-0.6%
CNM	\$0.34	\$0.37	-8.1%	\$2.26	\$2.23	1.3%	\$2.45	\$2.44	0.4%
DOV	\$1.94	\$2.10	-7.6%	\$9.01	\$9.20	-2.1%	\$9.79	\$9.93	-1.4%
EMR	\$1.25	\$1.24	0.8%	\$5.37	\$5.26	2.1%	\$5.64	\$5.64	0.0%
ETN	\$2.26	\$2.17	4.1%	\$10.14	\$10.01	1.3%	\$11.26	\$11.01	2.3%
FLS	\$0.48	\$0.49	-2.0%	\$2.55	\$2.53	0.8%	\$2.95	\$2.91	1.4%
GE	\$0.64	\$0.67	-4.5%	\$4.57	\$4.61	-0.9%	\$5.97	\$5.96	0.2%
HON	\$2.19	\$2.24	-2.2%	\$9.96	\$9.96	0.0%	\$10.89	\$10.94	-0.5%
ITT	\$1.36	\$1.38	-1.4%	\$5.80	\$5.89	-1.5%	\$6.54	\$6.53	0.2%
ITW	\$2.36	\$2.38	-0.8%	\$10.17	\$10.16	0.1%	\$10.96	\$10.88	0.7%
JBT	\$0.86	\$0.83	3.6%	\$5.11	\$4.85	5.4%	\$5.72	\$5.95	-3.9%
JCI	\$0.75	\$0.78	-3.8%	\$3.61	\$3.66	-1.4%	\$4.12	\$4.17	-1.2%
MEG	\$0.10	\$0.10	0.0%	(\$0.51)	(\$0.81)	37.0%	\$0.17	(\$0.05)	440.0%
MMM	\$2.08	\$2.12	-1.9%	\$9.53	\$9.69	-1.7%	\$10.20	\$10.35	-1.4%
PH	\$6.08	\$5.96	2.0%	\$24.04	\$23.30	3.2%	\$25.74	\$25.36	1.5%
PNR	\$0.90	\$0.99	-9.1%	\$4.19	\$4.19	0.0%	\$4.65	\$4.67	-0.4%
ROK	\$2.23	\$3.15	-29.2%	\$12.30	\$12.86	-4.4%	\$13.60	\$14.00	-2.9%
RUSHA	\$0.81	\$0.74	9.5%	\$3.12	\$3.12	0.0%	\$3.50	\$3.50	0.0%
TT	\$1.63	\$1.62	0.6%	\$10.22	\$10.04	1.8%	\$11.37	\$11.15	2.0%
VNT	\$0.71	\$0.66	7.6%	\$3.09	\$3.09	0.0%	\$3.41	\$3.42	-0.3%
VRT	\$0.34	\$0.37	-8.1%	\$2.27	\$2.24	1.3%	\$2.81	\$2.73	2.9%
Average			-3.0%			0.4%			0.1%

Source: Bloomberg

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Compared to last month, MEG had the largest positive revision for FY+1, followed by JBT. ROK had the largest negative revision for FY+1, followed by DOV. MEG had the largest positive revision for FY+2, followed by VRT. JBT had the largest negative revision for FY+2, followed by ALLE.

Revenue breakdown by region

We present the geographic breakout for our multi-industrials coverage below.

Exhibit 24: Revenue breakout by region

Multi-Industrial coverage revenue breakout by geographic exposure

Company	Ticker	Americas	Europe (EMEA)	Asia (APAC)	China	Other
Allegion	ALLE	78%	18%	4%	2%	
AMETEK	AME	51%	19%	21%	9%	9%
Carrier	CARR	60%	23%	17%	5%	
Core & Main	CNM	100%				
Dover	DOV	65%	21%	11%	6%	3%
Emerson	EMR	56%	16%	28%	12%	
Eaton	ETN	70%	19%	11%	5%	
Flowserve	FLS	49%	32%	18%	5%	
Fortive	FTV	57%	13%	12%	12%	18%
General Electric	GE	51%	32%	17%	6%	
Honeywell	HON	60%	19%	21%	6%	
ITT	ITT	41%	38%	18%	10%	4%
Illinois Tool Works	ITW	57%	25%	19%	11%	
Johnson Controls	JCI	51%	17%	23%	4%	10%
Montrose	MEG	80%	5%			15%
3M	MMM	54%	17%	29%	11%	
Parker Hannifin	PH	68%	20%	12%	6%	
Pentair	PNR	71%	11%	5%	5%	14%
Rockwell	ROK	67%	19%	14%	5%	
Rush Enterprise	RUSHA	100%				
Trane Technologies	TT	79%	13%	8%	5%	
Vertiv	VRT	50%	23%	27%	13%	
Vontier	VNT	75%	9%	12%	4%	4%

Source: BofA Global Research estimates, company report

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The table below illustrates the end market breakout for our coverage.

Exhibit 25: Revenue breakout by end market

Multi-Industrial coverage revenue breakout by end market exposure

End Market	ALLE	AME	CARR	CNM	DOV	EMR	ETN	FLS	FTV	GE	HON	ITT	ITW	JBT	JCI	MEG	MMM	PH	PNR	ROK	TT	VRT	VNT
Upstream Oil & Gas		2%				11%		2%	2%		2%	2%	3%			7%		1%		5%			
Midstream Oil & Gas						5%		8%	2%		3%	3%				2%				3%			
Downstream Oil & Gas		2%				6%		30%	2%		6%	4%				4%				2%			
Chemicals					7%	15%		22%			7%	9%				4%				5%			
Materials & Metals						3%		13%			7%	3%				3%		12%		20%			
Industrial		13%	9%		21%	17%	6%		27%		22%	22%	10%	10%			25%	40%		5%			
Aerospace		9%				2%	9%		1%	35%	18%	5%	1%			1%	5%	14%					
Defense		9%					6%		4%	8%	16%	5%						17%					
Residential Construction	25%		33%	22%			8%						22%		13%				60%		39%		
Commercial Construction	35%		25%	39%			10%						12%		45%	23%	1%		26%		30%	5%	
Institutional Construction	40%		10%	39%			20%		10%				23%		31%	11%			14%		16%	5%	1%
Commercial & Professional Services			10%														5%				6%		
Transportation			12%			5%				5%	3%	6%					2%						
Autos		5%				3%	17%					42%	25%					11%		10%	9%		
Consumer Durables & Apparel									7%		6%					8%	20%			5%			
Consumer Services					34%																		99%
Consumer Staples		4%			25%			5%						86%			12%			20%			
Healthcare		23%			6%	14%			30%		6%		4%	4%			29%	2%		5%			
Information Technology							5%		8%	5%	4%									5%			
Semiconductors & Semiconductor Equipment		13%				4%		4%										3%		5%			
Telecommunication		4%														18%				5%		20%	
Utilities/ Power Gen		16%			7%	15%	10%	16%	8%	48%	1%					18%		1%					
Data Center							9%								12%					5%		70%	

Source: BofA Global Research estimates, company report

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Exhibit 26: Stocks mentioned

Prices and ratings for stocks mentioned in this report

	Ticker	Rating	Price
3M	MMM	B-2-8	\$ 92.23
Allegion	ALLE	B-3-7	\$ 129.66
AMETEK Inc	AME	B-2-7	\$ 178.21
Carrier	CARR	B-3-7	\$ 53.85
Core & Main	CNM	B-3-9	\$ 46.26
Dover	DOV	B-1-7	\$ 163.08
Eaton Corp.	ETN	B-1-7	\$ 284.58
Flowserve	FLS	B-1-7	\$ 41.84
General Electric	GE	B-1-7	\$ 151.67
Honeywell	HON	B-1-7	\$ 200.81
Illinois Tool Works	ITW	B-3-7	\$ 125.20
ITT	ITT	B-1-7	\$ 125.20
John Bean Technologies	JBT	B-3-7	\$ 99.85
Johnson Controls International	JCI	B-2-7	\$ 58.27
Montrose Environmental Group	MEG	C-1-9	\$ 32.31
Parker Hannifin	PH	B-1-7	\$ 530.00
Pentair	PNR	B-2-7	\$ 75.29
Rockwell	ROK	B-2-7	\$ 278.62
Trane Technologies	TT	B-2-7	\$ 282.28
Vertiv	VRT	C-1-7	\$ 62.90
Vontier	VNT	B-1-7	\$ 42.61

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk**3M Company (MMM)**

We base our \$110 price objective on 11x P/E on our 2025 estimates. Our 11x target multiple is at a discount to Industrial peers trading at 22x on 2024 estimates. 11x is also at a discount to high quality consumer goods peers trading at 24x on 2024E. We believe valuation at a discount to peers is warranted given 3M's lower growth outlook, choppier execution, and PFAS liability risk.

Upside risks to our PO are 1) little headline risk/market reaction to PFAS liability, 2) limited PFAS legislative action taken by the federal government, and 3) better-than-expected operational execution.

Downside risks to our PO are 1) a need for greater investment could be a margin headwind, 2) slower-than-anticipated recovery of end markets, and 3) PFAS litigation risk.

Allegion (ALLE)

We base our \$95 price objective on a 11x EV/EBITDA of our 2025 estimates. Our 11x target multiple is slightly below peers trading at 12x on 2024E given our concerns for ALLE's end markets, partially offset by ALLE's strong margins.

Upside risks are: 1) North American residential downturn less severe than expected and 2) pricing holds up into '24. Downside risks are: 1) Greater-than-expected headwinds from raw material inflation and supply chain headwinds, 2) Lost market share to North American competitor, and 3) Emerging market slowdown could impact the company's growth, reliant on increased security demand from urbanization.

AMETEK Inc (AME)

We base our \$182 price objective on an 18x EV/EBITDA multiple of our 2025 estimates. Our target 18x multiple is in line with the 18x peer average on 2024E, reflecting similar earnings trajectory as peers.

Downside risks to our price objective are: 1) weaker industrial production trends, 2) slower pace of acquisitions, and 3) cyclical risks on shorter cycle component businesses. Upside risks are: 1) secular growth in automation and aerospace end markets, 2) accretive acquisitions, and 3) share gains for differentiated products.

Carrier Global Corp. (CARR)

We base our \$55 price objective on 13x EV/EBITDA of our 2025 estimates. Our 13x target multiple is at a discount to peers, trading at 14x on 2024 estimates. We believe that the discount is warranted given the potential for destocking across res and non-res.

Upside risks to our price objective are: 1) continued solid execution in 2023, 2) non-residential markets take longer to crack than our thesis, and 3) price increases offset impact of destocking cycle.

Downside risks to our price objective are: 1) slower-than-expected macro recovery, 2) inability to execute on announced cost savings plan, and 3) lost market share to competitors.

Core & Main (CNM)

We base our \$28 price objective on an 8x EV/EBITDA multiple of our CY25 estimate. Our target multiple is below the peer average of 15x on CY24 estimates. We argue a below-peer multiple is warranted given CNM's higher financial leverage and slower near-term EBITDA growth.

Downside risks to our price objective are: 1) the ability to raise pricing in excess of cost inflation, 2) a downturn in new construction markets (approximately 45% of revenue), 3) risks around acquisition selection and integration, and 4) above-peer financial leverage may limit the company's ability to pursue its M&A strategy. Upside risks to our price objective are: 1) accretive M&A transactions, 2) better than expected growth in new construction, and 3) sustained period of premium pricing on manufacturing supply chain constraints.

Dover Corp (DOV)

We base our \$180 price objective on a 13x EV/EBITDA multiple of our 2025 estimates. Our target multiple is a discount to multi-industrial peers trading at 16x on 2024 estimates. We argue a valuation discount is fair given Dover's improved portfolio mix, capital allocation strategy, and margin trajectory, offset by slower near-term revenue growth.

Downside risks to our PO are 1) slowing US industrial production, 2) not achieving expected returns from organic investments or acquisitions, and 3) slower-than-expected margin improvement.

Eaton Corp PLC (ETN)

We base our \$300 price objective on a 22x EV/EBITDA multiple of our 2025 estimates. Our target multiple is at a premium to the 15x peer average on 2024 estimates. We argue a premium valuation is warranted due to expected upside from cyclical operating leverage, strong margin performance, and Eaton's less cyclical portfolio mix.

Downside risks to our PO are 1) a slower-than-expected manufacturing capex growth, 2) a more active M&A is inherently risky as it relies on the availability of accretive synergistic targets and the company's ability to integrate, and 3) the trajectory of the recovery in automotive and aerospace end markets.

Emerson Electric Co (EMR)

We base our \$120 price objective on a 15x EV/EBITDA multiple of our CY25E EBITDA. Our target multiple is in line with multi-industrial peers trading at 15x CY24 estimates. We argue an in line multiple is warranted given above-peer margins offset by higher merger integration risks.

Downside risks to our PO are 1) deterioration in energy capex outlook or oil price correction 2) emerging market slowdown, which could impact the company's growth, and 3) acquisition integration risks.

Flowserve (FLS)

We base our \$48 price objective on a 10x EV/EBITDA multiple on our 2025 estimates. A 10x multiple puts the company at a discount to the 13x peer average multiple on 2024. We think the discount is warranted given below-peer margins.

Upside risks to our PO are: 1) Faster-than-expected recovery in oil & gas capital spending, and 2) Better than anticipated global industrial production growth. Downside risks: 1) a reduction in capital spending in the key end-markets, specifically oil & gas 2) Greater consolidation in the flow control market increases competition and reduces prices across the industry, and 3) weaker than anticipated global industrial production.

General Electric Company (GE)

We base our \$162 price objective on a 16x EV/EBITDA multiple of our 2025 estimates. Our target multiple is above the 15x peer average on 2024 estimates, which we argue is warranted given GE's above-peers earnings trajectory. We argue the pending spin-off of GE Vernova (Energy and Renewable segments) will drive a re-rating of GE Aerospace.

Downside risks to our PO are 1) the pace of the recovery in Aerospace, 2) progress on Renewable's turnaround, and 3) transactional risks relating to pending spin-off of Vernova (Renewable Energy & Power).

Honeywell International Inc. (HON)

We base our \$250 price objective on 15x 2025E EV/EBITDA. Our target multiple is a premium to peers trading at 14x EV/EBITDA on 2024E. We argue a premium multiple is warranted given top quartile execution and end market exposure to aerospace and oil & gas.

Downside risks to our price objective are: 1) Acquisitions, specifically that Honeywell overpays for deals in the pursuit of diversifying and expanding into new, faster-growing adjacent markets, 2) Unforeseen future sales deceleration due to economic pressures (e.g., slowing global flying hours, oil price volatility and muted O&G capex outlook), and 3) execution around ongoing simplification efforts.

Illinois Tool Works (ITW)

We base our \$235 price objective on 16x 2025E EV/EBITDA. This compares to the peer average at 15x and high-quality compounders at 18x. We maintain a slight premium to the industrial group given above-average EBITDA margins.

Upside risks to our PO are 1) Auto production volumes revised upward, driving better near-term margin expansion and topline, 2) Welding price/cost and volumes better than expected, and 3) T&M&E recovers from cyclical downturn faster than forecasted. More margin expansion vs. our forecast would alleviate pressure on the multiple and drive positive earnings revisions. Downside risks are: 1) Auto volumes remain depressed, limiting near-term margin expansion, 2) investor sentiment pressured more than expected on lackluster earnings growth.

ITT Inc. (ITT)

Our \$135 price objective reflects 12x our 2025 estimates, in line with peers trading at 12x 2024E. We believe an in-line valuation is warranted given better EPS growth and margin expansion in '24, offset by decelerating organic growth.

Downside risks to our PO are: 1) ITT may overpay for deals in the pursuit of diversifying and expanding its product portfolio, 2) Lower than expected capex spending in the auto, oil & gas, power gen, and other key end markets, 3) Short-cycle and chemical pumps could slow, 4) above-peer exposure to European markets, and 5) declining backlog coverage may limit visibility.

John Bean Technologies (JBT)

We base our \$85 price objective on an 9x EV/EBITDA multiple of our 2025 estimates. Our 9x target multiple is below the peer average trading at 16x on 2024 estimates. We argue a discounted valuation is warranted given JBT's below-peer EBITDA margins and below-peer cash conversion.

Upside risks to our PO are: 1) better than expected execution on restructuring/facility consolidation, 2) lower input cost inflation, and 3) faster pace of accretive M&A.

Downside risks to our PO are: 1) valuation already implies future M&A, 2) ability to source accretive acquisitions, 3) execution risk in restructuring/facility consolidation, 4) input cost inflation, 5) rising low-cost competition, and 6) failure for AeroTech sale to complete.

Johnson Controls International PLC (JCI)

We base our \$60 price objective on 10x EV/EBITDA of our 2025 estimates. Our 10x target multiple is below the peer group average trading at 14x on 2024 estimates. We think the discount valuation is warranted given risk from slowdown in the non-residential cycle.

Downside risks to our price objective are 1) potential loss of market share to peer and building automation competitors, 2) execution risks, particularly on the cost takeout plan, and 3) risks from the aqueous film forming foam litigation.

Montrose Environmental Group, Inc. (MEG)

We base our \$40 price objective on 24x EV/EBITDA of our 2025 estimates. This is at a premium to the peer group average trading at 10x on 2024E. We believe the premium is warranted capital allocation and secular growth trends from US environmental regulations/infrastructure stimulus.

Downside risks to our PO are 1) greater-than-expected y/y declines in the CTEH business, 2) inability to source or integrate deals, and 3) poor execution tied to ERP rollout and initiation of European operations.

Parker Hannifin Corporation (PH)

We base our \$600 price objective on a 16x EV/EBITDA multiple applied to our CY25E estimate. Our 16x target multiple is in line with the 16x multi-industrial peer average on 2024E and 16x Aerospace Suppliers peer average on 2024E. Parker has historically traded at a discount, but we believe it should start to close the gap with high quality peers AME and ITW.

Downside risks are: 1) industrial short-cycle destocking worse than expected, 2) Meggitt integration, and 3) the ability to offset material inflation through pricing. Upside risks are: 1) Aerospace recovery has more upside given more exposure from Meggitt, and 2) Multiple expansion as the company closes the performance gap.

Pentair plc (PNR)

We base our \$76 price objective on a 13x EV/EBITDA multiple of our 2025 estimates. This is slightly below the peer group trading at 14x on 2024 estimates. We think the below-peer valuation is fair given above average EBITDA margins offset by more cyclical topline.

Upside risks are: 1) better-than-expected revenue growth in pools, 2) success on incremental productivity actions. Downside risks are: 1) Reinvestment in most profitable (Pool) segment, 2) execution risk on sourcing & consolidation activities.

Rockwell (ROK)

We base our \$300 price objective on a 16x EV/EBITDA multiple of our CY25 estimate, at a premium to peers trading at 15x on 2024E. We argue a 1-turn premium is warranted given the company's market share and exposure to secular themes, partially offset by destocking headwinds and a lack of near-term catalysts.

Upside risks are 1) supply chain improvement, 2) potentially accretive acquisitions.

Downside risks are 1) delays in global capex, 2) execution risks, 3) supply-chain constraints, and 4) greater competition.

Trane Technologies PLC (TT)

We base our \$282 price objective on 17x 2025E EV/EBITDA. Our 17x target multiple is above the peer group average trading at 13x on 2024 estimates. We believe the premium is warranted given above-average performance.

Downside risks are 1) slower-than-expected macro recovery, 2) lower-than-expected productivity improvement and cost synergies, 3) loss of market share to competitors. Upside risks are 1) continued solid execution in 2024, 2) non-residential markets take longer to crack than our thesis, and 3) price increases offset impact of destocking cycle.

Vertiv (VRT)

We base our \$72 price objective on an 16x EV/EBITDA of our 2025 estimates. Our target multiple is in line with the 16x peer average on 2024E. We argue an in line multiple is warranted given above-peers earnings growth offset by below-peer margins.

Downside risks to our price objective are 1) declines in company-owned data centers, 2) inability to execute on cost savings plans, 3) pricing deterioration due to competition, and 4) disruptions due to supply chain or manufacturing execution.

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.

Special Disclosures

BofA Securities is currently acting as a financial advisor to General Electric Co in connection with its proposed plan to form three public companies focused on Aviation, Healthcare, and Energy, which was announced on November 9, 2021.

BofA Securities is currently acting as Financial Advisor to Carrier Global Corp in relation to the sale of its commercial refrigeration business to Haier Smart Home Co Ltd., which was announced on December 13, 2023.

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

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Electrical Equipment Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	14	53.85%	Buy	10	71.43%
Hold	6	23.08%	Hold	3	50.00%
Sell	6	23.08%	Sell	1	16.67%

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.



FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: 3M, Allegion, AMETEK, Carrier, Core & Main, Dover Corp, Eaton Corp PLC, Emerson, Flowserve, General Electric, Honeywell, Illinois Tool Works, ITT Inc., John Bean Tech, Johnson Controls Int, Montrose, Parker Hannifin, Pentair plc, Rockwell, Trane Technologies, Vertiv, Vontier.

BofAS or an affiliate was a manager of a public offering of securities of this issuer within the last 12 months: Carrier Global Corp., Honeywell, Johnson Controls Int, Vertiv.

The issuer is or was, within the last 12 months, an investment banking client of BofAS and/or one or more of its affiliates: 3M, Allegion, Carrier Global Corp., Core & Main, Dover Corp, Eaton Corp PLC, Emerson, Flowserve, General Electric Co, Honeywell, Illinois Tool Works, John Bean Tech, Johnson Controls Int, Montrose, Parker Hannifin, Pentair plc, Rockwell, Trane Technologies, Vertiv, Vontier.

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The issuer is or was, within the last 12 months, a non-securities business client of BofAS and/or one or more of its affiliates: 3M, Allegion, AMETEK Inc, Carrier Global Corp., Core & Main, Dover Corp, Eaton Corp PLC, Emerson, Flowserve, General Electric Co, Honeywell, Illinois Tool Works, ITT Inc., John Bean Tech, Johnson Controls Int, Montrose, Parker Hannifin, Pentair plc, Rockwell, Trane Technologies, Vertiv, Vontier.

An officer, director or employee of BofAS or one of its affiliates is an officer or director of this issuer: Trane Technologies.

BofAS or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: 3M, Allegion, Carrier Global Corp., Core & Main, Dover Corp, Eaton Corp PLC, Emerson, General Electric Co, Honeywell, John Bean Tech, Johnson Controls Int, Montrose, Pentair plc, Rockwell, Trane Technologies, Vertiv.

BofAS or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer or an affiliate of the issuer within the next three months: 3M, Allegion, Carrier Global Corp., Dover Corp, Eaton Corp PLC, Emerson, Flowserve, General Electric Co, Honeywell, Illinois Tool Works, Johnson Controls Int, Parker Hannifin, Pentair plc, Rockwell, Trane Technologies, Vontier.

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The issuer is or was, within the last 12 months, a securities business client (non-investment banking) of BofAS and/or one or more of its affiliates: 3M, Allegion, Carrier Global Corp., Dover Corp, Eaton Corp PLC, Emerson, Flowserve, General Electric Co, Honeywell, ITT Inc., John Bean Tech, Johnson Controls Int, Montrose, Parker Hannifin, Pentair plc, Rockwell, Trane Technologies, Vertiv, Vontier.

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Other Important Disclosures

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