

Vertiv

4Q23 first look: beat and raise, 1Q24 guide appears conservative

Reiterate Rating: BUY | PO: 72.00 USD | Price: 62.02 USD

Beat and raise, with a conservative 1Q24 guide

Vertiv posted modest 4Q23 adj. EPS upside and raised 2024 organic revenue and margin guidance. Organic orders growth accelerated to +23% y/y from +11% last quarter. Strong FCF indicates improving operations and supply chain. Management expects “strong” y/y orders growth in 1Q24, but a sequential decline in line with typical seasonality. We view these results as strong relative to our multi-industrials coverage. However, 1Q24 revenue and orders guidance may fall short of more tech-focused investors’ expectations. Vertiv’s hardware product shipments are tied to the seasonality of new data center construction. We expect management to talk more about artificial intelligence demand, including plans to increase direct-to-chip liquid cooling capacity by 45x by year-end 2024. We reiterate our Buy rating.

4Q23 adj. EPS of \$0.56 is \$0.02 above Street

4Q adj. EPS came \$0.01 above our estimates and \$0.02 above the Street. Relative to our estimates, core operations drove \$0.02 upside. Adj. operating margin was 80bp above our estimate. A higher tax rate (29% versus our 27% estimate) was a \$0.01 headwind. Americas posted a 22% y/y organic revenue growth (on a +40% year ago comparison). China remains sluggish, with the Asia Pacific segment’s organic sales up +3% y/y.

2024 organic revenue and margin guidance raised...

2024 organic revenue guidance of 9-11% y/y was raised 100bp versus the 8-10% given at November’s Investor Day. The \$7.515-7.655bn range brackets consensus of \$7.55bn. Adj. operating margin guidance of 16.9-17.3% was raised 40bp versus the 16.5-16.9% given at Investor Day. 2024 adj. EPS guidance of \$2.20-2.26 brackets \$2.24 consensus.

...and 1Q24 guidance appears conservative to us

Given 16% y/y growth in backlog and a ~1.1x book-to-bill for full-year 2023, we view 1Q24’s 3.5-6.5% y/y organic revenue growth as conservative. The \$1.575-1.625bn range effectively matches consensus at the high end. Adj. operating margin guidance of 12.9-13.3% suggests 140-180bp of y/y margin expansion. This appears conservative versus the +500bp y/y delivered in 4Q23. Adj. EPS of \$0.32-0.36 contains BofA \$0.36 estimate, but is slightly below the \$0.37 consensus.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.76	0.53	1.77	2.34	2.97
GAAP EPS	0.33	0.20	1.03	1.91	2.56
EPS Change (YoY)	-7.3%	-30.3%	234.0%	32.2%	26.9%
Consensus EPS (Bloomberg)			1.75	2.24	2.70
DPS	0.01	0.01	0.03	0.10	0.14
Valuation (Dec)					
P/E	81.6x	117.0x	35.0x	26.5x	20.9x
GAAP P/E	187.9x	310.1x	60.2x	32.5x	24.2x
Dividend Yield	0%	0%	0%	0.2%	0.2%
EV / EBITDA*	45.0x	50.7x	23.6x	18.3x	15.1x
Free Cash Flow Yield*	0.5%	-1.1%	2.7%	3.3%	4.2%

* For full definitions of *IQmethod*SM measures, see page 5.

21 February 2024

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Stock Data

Price	62.02 USD
Price Objective	72.00 USD
Date Established	13-Feb-2024
Investment Opinion	C-1-7
52-Week Range	11.95 USD - 65.56 USD
Mkt Val (mn) / Shares Out	23,657 USD / 381.4 (mn)
Free Float	93.4%
Average Daily Value (mn)	401.33 USD
BofA Ticker / Exchange	VRT / NYS
Bloomberg / Reuters	VRT US / VRT.N
ROE (2023E)	41.3%
Net Dbt to Eqty (Dec-2022A)	203.2%
ESGMeter™	Medium

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iQprofileSM Vertiv

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	4.4%	2.2%	11.9%	16.1%	20.6%
Return on Equity	26.7%	14.0%	41.3%	43.7%	43.7%
Operating Margin	6.5%	3.9%	12.6%	15.4%	17.4%
Free Cash Flow	126	(264)	634	780	1,003

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.8x	-0.8x	1.2x	1.1x	1.0x
Asset Replacement Ratio	0.4x	0.4x	0.6x	0.7x	0.7x
Tax Rate	43.2%	118.8%	26.7%	28.0%	27.0%
Net Debt-to-Equity Ratio	178.7%	203.2%	123.9%	78.2%	39.0%
Interest Cover	3.6x	1.5x	4.8x	7.4x	10.4x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	4,998	5,692	6,893	7,660	8,564
% Change	14.4%	13.9%	21.1%	11.1%	11.8%
Gross Profit	1,523	1,616	2,369	2,742	3,142
% Change	4.5%	6.1%	46.6%	15.7%	14.6%
EBITDA	592	526	1,131	1,456	1,765
% Change	2.0%	-11.2%	115.1%	28.8%	21.2%
Net Interest & Other Income	(91)	(147)	(180)	(160)	(143)
Net Income (Adjusted)	278	200	682	915	1,162
% Change	-2.1%	-27.9%	240.3%	34.2%	26.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	134	(14)	504	734	983
Depreciation & Amortization	227	302	264	276	276
Change in Working Capital	(133)	(449)	92	(68)	(80)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(17)	8	(75)	27	29
Capital Expenditure	(85)	(111)	(151)	(189)	(205)
Free Cash Flow	126	-264	634	780	1,003
% Change	-19.1%	NM	NM	23.0%	28.5%
Share / Issue Repurchase	108	0	0	(256)	(294)
Cost of Dividends Paid	(4)	(4)	(10)	(39)	(55)
Change in Debt	828	219	(322)	(772)	(422)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	439	261	563	277	508
Trade Receivables	1,536	1,889	2,042	2,248	2,490
Other Current Assets	723	1,009	1,106	1,173	1,272
Property, Plant & Equipment	489	489	554	652	762
Other Non-Current Assets	3,752	3,448	3,251	3,090	2,935
Total Assets	6,940	7,096	7,516	7,439	7,968
Short-Term Debt	22	22	0	0	0
Other Current Liabilities	1,833	1,876	2,096	2,301	2,566
Long-Term Debt	2,951	3,169	2,869	2,097	1,675
Other Non-Current Liabilities	717	587	690	713	737
Total Liabilities	5,522	5,654	5,655	5,112	4,978
Total Equity	1,418	1,442	1,861	2,327	2,989
Total Equity & Liabilities	6,940	7,096	7,516	7,439	7,968

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Industrials/Multi-Industry

Company Description

Vertiv is an electrical product manufacturer focused on data centers (70% of revenue) and telecom (20%) end markets. In 2022, Vertiv generated \$5.7bn in revenue. Key product offerings include power & thermal management, IT management, and related services.

Investment Rationale

We view Vertiv as benefitting near-term from a margin recovery, and improving FCF generation. Artificial intelligence adoption within data centers adds incremental demand for Vertiv's thermal management products. Pricing benefits from capacity constraints for data center infrastructure products.

Stock Data

Average Daily Volume

6,642,668

Quarterly Earnings Estimates

	2022	2023
Q1	-0.08A	0.24A
Q2	0.10A	0.46A
Q3	0.23A	0.52A
Q4	0.28A	0.55E

Exhibit 1: Vertiv 4Q23 variance analysis

Core operations drove \$0.02 of EPS upside, partially offset by \$0.01 headwind from higher tax rate

	Actual	Reported		BofA Estimate		Variation Vs. BofA Est.		
(in US\$ mn, except per share data)	4Q:22A	4Q:23A	y/y %	4Q:23E	y/y %	Dollar	Percentage	EPS
Segment revenue								
Americas	834	1,020	22%	1,064	28%	(44)	-4%	
APAC	425	430	1%	412	-3%	19	5%	
EMEA	396	415	5%	420	6%	(4)	-1%	
Total	1,655	1,865	13%	1,895	15%	(29)	-2%	
Adjusted operating profit								
Americas	171	274	61%	275	61%	(1)	0%	\$ (0.00)
APAC	81	73	-10%	79	-3%	(6)	-7%	\$ (0.01)
EMEA	82	118	43%	108	31%	10	9%	\$ 0.02
Segment Total	334	465	39%	461	38%	4	1%	\$ 0.01
Corporate Overhead	(123)	(134)	NM	(140)	NM	6	-4%	\$ 0.01
Total	211	330	57%	321	52%	9	3%	\$ 0.02
Adjusted operating profit margin								
Americas	20.5%	26.9%	650 bp	25.9%	540 bp	110 bp	-	
APAC	19.1%	16.9%	(220 bp)	19.1%	0 bp	(220 bp)	-	
EMEA	20.8%	28.3%	750 bp	25.6%	480 bp	270 bp	-	
Total EBIT	12.7%	17.7%	500 bp	16.9%	420 bp	80 bp	-	
Net Sales	1,655	1,865	13%	1,895	15%	(29)	-2%	
COGS	1,143	1,182	3%	1,242	9%	(60)	-5%	
Gross Profit	512	683	34%	652	27%	31	5%	\$ 0.06
SG&A	301	353	17%	331	10%	22	7%	\$ (0.04)
Operating Income	211	330	57%	321	52%	9	3%	\$ 0.02
Other deductions, net	48	45	-6%	42	-14%	4	9%	\$ (0.01)
EBIT	162	285	76%	279	72%	6	2%	\$ 0.01
Interest expense / (Income)	46	43	-5%	42	-7%	1	2%	\$ (0.00)
EBT	117	242	107%	237	103%	5	2%	\$ 0.01
Taxes	57	70	22%	64	13%	5	8%	--
Tax Rate	48.8%	28.8%	(2000 bp)	27.1%	(2170 bp)	1.7%	NM	\$ (0.01)
Noncontrolling interest	-	-	NM	-	NM	-	NM	\$ -
Net Income (Continuing Operations)	60	172	188%	173	189%	(1)	0%	\$ (0.00)
Operating EPS	\$0.16	\$0.44	179%	\$0.44	181%	-\$0.01	-1%	\$ (0.01)
Amortization of intangibles	\$0.13	\$0.12	-9%	\$0.11	-16%	\$0.01	9%	\$ 0.01
FULLY DILUTED EPS	\$0.28	\$0.56	95%	\$0.55	93%	\$0.01	1%	
Diluted Shares Outstanding	378	390	3%	389	3%	1	0	\$ (0.00)
Margin Analysis	Actual	Reported		Reported		Variation (bp)		
	4Q:22A	4Q:23A		3Q:23A		BofA Est.	4Q:22A	
COGS	69.1%	63.4%		65.6%		220 bp	(570 bp)	
Gross Margin	30.9%	36.6%		34.4%		(220 bp)	570 bp	
SG&A	18.2%	18.9%		17.5%		(140 bp)	70 bp	
Operating Margin	12.7%	17.7%		16.9%		(80 bp)	500 bp	
EBT Margin	7.0%	13.0%		12.5%		(50 bp)	590 bp	
Net Margin	3.6%	9.2%		9.1%		(10 bp)	560 bp	
Segment Incremental Margin	47.8%	56.9%		45.2%		(1170 bp)	910 bp	

Source: BofA Global Research, company filings

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Price objective basis & risk

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.

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

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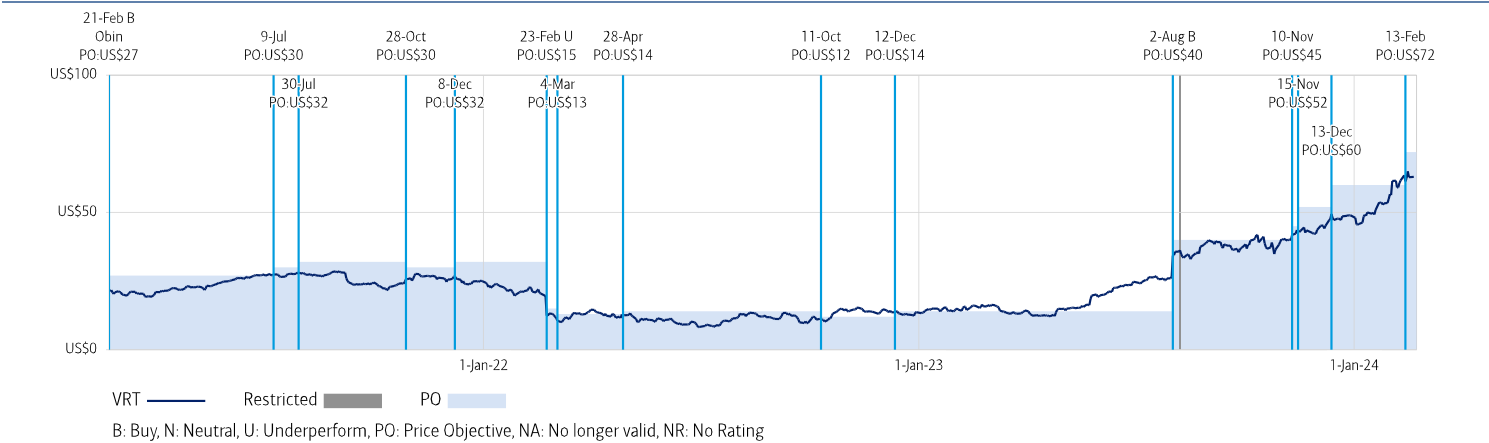
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Important Disclosures

Vertiv (VRT) Price Chart



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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%

^{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.

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