

Vertiv

## Positive read-across from Super Micro

Maintain Rating: BUY | PO: 60.00 USD | Price: 53.67 USD

## Another positive data point for AI-related demand

After market close on 1/18, Super Micro (SMCI; not covered) positively pre-announced its December quarter results. Super Micro builds pre-configured server & storage systems for use in data centers and other applications. Management updated revenue guidance to \$3.60-3.65bn from \$2.7-2.9bn previously. Management cited “strong market and end customer demand” including artificial intelligence (AI) servers. SMCI’s offerings are “inside the rack” while Vertiv’s are “outside the rack” – e.g., complementary versus competitive. SMCI partners with AMD, Intel, and NVIDIA. We view this as a positive read-across to Vertiv. We maintain our Buy rating and \$60 price objective on Vertiv.

## AI seen driving liquid cooling adoption

AI applications typically use graphics processing units (GPUs), such as the NVIDIA Hopper architecture. AI GPUs require 3-4x more power and generate 3-4x more heat than traditional central processing units (CPUs). The additional heat requires incremental liquid cooling solutions. On its September quarter conference call, Super Micro’s CEO Charles Liang said, “I anticipate that up to 20% or more of global data centers will transition to liquid-cooled solutions in just a few years.” Super Micro offers preconfigured servers featuring cold plates for chips. Clients would connect these to “outside the rack” solutions. We see Vertiv’s liquid cooling offerings, including direct-to-chip coolant distribution units, as benefitting from rising AI adoption. For more details, [see our Oct. 9th report, “AI and data center infrastructure: sizing the impact and TAM.”](#)

## Vertiv adding production capacity rapidly

Vertiv has announced plans to double its production capacity for electrical switchgear and busway over 2023-25. This comes on top of a 100+% increase in capacity over 2021-23. In January, Vertiv opened a new manufacturing facility in India for thermal management products for domestic and international markets. This follows the opening of a thermal manufacturing facility in Mexico in 1Q23. At its recent investor day, management raised medium-term capex guidance to 2.0-2.5% of revenue, from an average of 1.6% over 2019-22 (see our [Nov. 29th investor day note](#)).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.76	0.53	1.72	2.25	2.71
GAAP EPS	0.33	0.20	0.98	1.86	2.34
EPS Change (YoY)	-7.3%	-30.3%	224.5%	30.8%	20.4%
Consensus EPS (Bloomberg)			1.73	2.19	2.68
DPS	0.01	0.01	0.03	0.10	0.10
Valuation (Dec)					
P/E	70.6x	101.3x	31.2x	23.9x	19.8x
GAAP P/E	162.6x	268.4x	54.8x	28.9x	22.9x
Dividend Yield	0%	0%	0%	0.2%	0.2%
EV / EBITDA*	39.6x	44.6x	21.1x	16.3x	13.8x
Free Cash Flow Yield*	0.6%	-1.3%	3.0%	3.8%	4.6%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

22 January 2024

## Equity

**Andrew Obin**  
Research Analyst  
BofAS  
+1 646 855 1817  
[andrew.obin@bofa.com](mailto:andrew.obin@bofa.com)

**David Ridley-Lane, CFA**  
Research Analyst  
BofAS  
+1 646 855 2907  
[david.ridleylane@bofa.com](mailto:david.ridleylane@bofa.com)

**Sabrina Abrams**  
Research Analyst  
BofAS  
+1 646 556 3520  
[sabrina.abrams@bofa.com](mailto:sabrina.abrams@bofa.com)

**Devin Leonard**  
Research Analyst  
BofAS  
+1 646 855 3698  
[devin.leonard@bofa.com](mailto:devin.leonard@bofa.com)

## Stock Data

Price	53.67 USD
Price Objective	60.00 USD
Date Established	13-Dec-2023
Investment Opinion	C-1-7
52-Week Range	11.95 USD - 53.67 USD
Mkt Val (mn) / Shares Out (mn)	20,472 USD / 381.4
Free Float	93.4%
Average Daily Value (mn)	238.90 USD
BofA Ticker / Exchange	VRT / NYS
Bloomberg / Reuters	VRT US / VRT.N
ROE (2023E)	40.4%
Net Dbt to Eqty (Dec-2022A)	203.2%
ESGMeter™	Medium

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Timestamp: 22 January 2024 05:00AM EST

# iQprofile<sup>SM</sup> Vertiv

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	4.4%	2.2%	11.6%	15.4%	18.1%
Return on Equity	26.7%	14.0%	40.4%	40.1%	35.9%
Operating Margin	6.5%	3.9%	12.4%	15.6%	17.1%
Free Cash Flow	126	(264)	623	783	932

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.8x	-0.8x	1.2x	1.1x	1.1x
Asset Replacement Ratio	0.4x	0.4x	0.6x	0.7x	0.8x
Tax Rate	43.2%	118.8%	27.4%	30.0%	30.0%
Net Debt-to-Equity Ratio	178.7%	203.2%	125.7%	61.8%	19.7%
Interest Cover	3.6x	1.5x	4.7x	7.4x	10.2x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	4,998	5,692	6,846	7,584	8,453
% Change	14.4%	13.9%	20.3%	10.8%	11.5%
Gross Profit	1,523	1,616	2,353	2,721	3,049
% Change	4.5%	6.1%	45.6%	15.6%	12.1%
EBITDA	592	526	1,113	1,444	1,705
% Change	2.0%	-11.2%	111.7%	29.7%	18.1%
Net Interest & Other Income	(91)	(147)	(180)	(160)	(141)
<b>Net Income (Adjusted)</b>	<b>278</b>	<b>200</b>	<b>663</b>	<b>881</b>	<b>1,077</b>
% Change	-2.1%	-27.9%	230.7%	32.9%	22.3%

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	134	(14)	486	715	913
Depreciation & Amortization	227	302	264	262	259
Change in Working Capital	(133)	(449)	97	(31)	(63)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(17)	8	(75)	27	29
Capital Expenditure	(85)	(111)	(150)	(190)	(205)
<b>Free Cash Flow</b>	<b>126</b>	<b>-264</b>	<b>623</b>	<b>783</b>	<b>932</b>
% Change	-19.1%	NM	NM	25.8%	19.0%
Share / Issue Repurchase	108	0	0	0	0
Cost of Dividends Paid	(4)	(4)	(10)	(39)	(40)
Change in Debt	828	219	(322)	(772)	(422)

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	439	261	552	524	994
Trade Receivables	1,536	1,889	2,028	2,205	2,435
Other Current Assets	723	1,009	1,099	1,146	1,242
Property, Plant & Equipment	489	489	553	652	763
Other Non-Current Assets	3,752	3,448	3,249	3,101	2,962
<b>Total Assets</b>	<b>6,940</b>	<b>7,096</b>	<b>7,480</b>	<b>7,628</b>	<b>8,396</b>
Short-Term Debt	22	22	0	0	0
Other Current Liabilities	1,833	1,876	2,082	2,278	2,544
Long-Term Debt	2,951	3,169	2,869	2,097	1,675
Other Non-Current Liabilities	717	587	685	706	728
<b>Total Liabilities</b>	<b>5,522</b>	<b>5,654</b>	<b>5,636</b>	<b>5,081</b>	<b>4,947</b>
<b>Total Equity</b>	<b>1,418</b>	<b>1,442</b>	<b>1,843</b>	<b>2,547</b>	<b>3,449</b>
<b>Total Equity &amp; Liabilities</b>	<b>6,940</b>	<b>7,096</b>	<b>7,480</b>	<b>7,628</b>	<b>8,396</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## 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

4,557,034

## Quarterly Earnings Estimates

	2022	2023
Q1	-0.08A	0.24A
Q2	0.10A	0.46A
Q3	0.23A	0.52A
Q4	0.28A	0.51E

## Price objective basis & risk

### Vertiv (VRT)

We base our \$60 price objective on an 14x EV/EBITDA of our 2025 estimates (previously 12x). Our target multiple is in line with the 14x 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

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### US - Multi-Industrials/Engineering and Construction Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	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



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

### Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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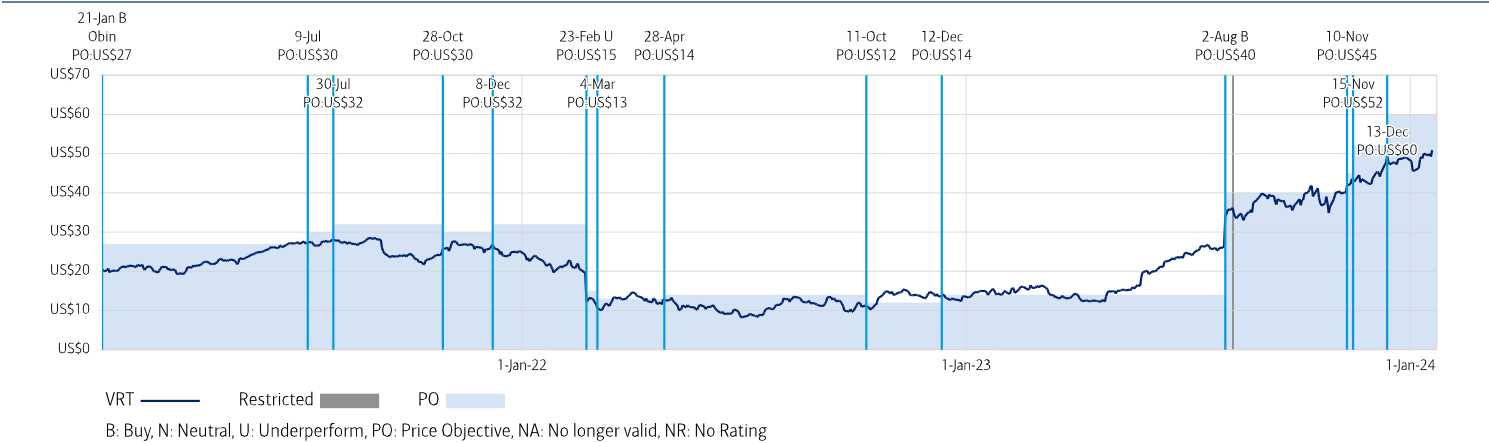
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Vertiv (VRT) Price Chart



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Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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