

## Johnson Controls International PLC

## FY1Q24; EPS in line but ops miss; full year EPS guide lowered

Reiterate Rating: NEUTRAL | PO: 60.00 USD | Price: 54.49 USD

## EPS in line, ops below consensus and guide lowered

JCI's 1QF24 EPS came in line with consensus and above our estimates and its guide. Operationally the company missed the consensus. The quarter was impacted by weakness in China and the September hack. JCI lowered its FY24 guide by \$0.05 to reflect China trending worse than anticipated. The initial guidance range given 12/12, included a macro upside scenario that is no longer feasible. JCI expects another challenging quarter for North American resi before the industry returns to growth in 2H. We reiterate our Neutral rating given positive end-market exposure offsetting near-term execution challenges.

## JCI examining strategic alternatives for some product lines

On 1/26 Bloomberg reported that JCI was exploring the sale of its residential and light commercial business. These assets include the joint venture (JV) with a subsidiary of Hitachi, which reportedly has the right of first refusal. During the call, JCI said it was "in the early stages of pursuing strategic alternatives of our non-commercial product lines". The decisions to exit residential and light commercial would be consistent with the company's prior statements about the need to achieve scale in the business or exit it over time. While portfolio simplification is a positive, the sale by itself will not resolve the underlying execution issues, in our view.

## 1QF24 adj. EPS of \$0.51 in line with consensus

Adj. EPS of \$0.51 was in line with consensus of \$1.10 and above our estimate of \$0.49 and guide of \$0.48-\$0.50. Operationally segment profit came \$0.03 short of our estimate. Building Solutions North America was a \$0.01/sh miss vs our model driven by 50bps lower segment margins. Building Solutions EMEA/LA was a \$0.01/sh miss on 130bps lower margin vs our model. Building Solutions Asia Pacific was a \$0.05/sh miss on lower topline and 150bp lower margins. Global Solutions was a \$0.02/sh beat versus our model on 100bps better margins vs our model.

## Lowering FY24E adj. EPS to \$3.66

Management lowered FY24 adjusted EPS guidance to \$3.60 - \$3.75 from \$3.65 - \$3.80, due to China being weaker than expected. We lower our FY24E EPS to \$3.66 in line with guide. Segment EBITA margins were raised to up ~50 to 75bps from up~25bps.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.95	3.50	3.66	4.12	4.60
GAAP EPS	2.14	2.69	3.53	3.97	4.44
EPS Change (YoY)	11.3%	18.6%	4.6%	12.6%	11.7%
Consensus EPS (Bloomberg)			3.65	4.16	4.69
DPS	1.39	1.45	1.48	1.56	1.64
Valuation (Sep)					
P/E	18.5x	15.6x	14.9x	13.2x	11.8x
GAAP P/E	25.5x	20.3x	15.4x	13.7x	12.3x
Dividend Yield	2.6%	2.7%	2.7%	2.9%	3.0%
EV / EBITDA*	13.7x	12.3x	11.6x	10.8x	10.1x
Free Cash Flow Yield*	3.8%	4.5%	5.6%	6.5%	6.9%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 12.

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Timestamp: 31 January 2024 05:00AM EST

31 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2024E Rev (m)	28,464.7	28,038.1
2025E Rev (m)	29,768.3	29,318.5
2026E Rev (m)	31,057.9	30,584.6
2024E EPS	3.70	3.66
2025E EPS	4.17	4.12
2026E EPS	4.64	4.60
2024E DPS	1.53	1.48

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## Stock Data

Price	54.49 USD
Price Objective	60.00 USD
Date Established	15-Dec-2023
Investment Opinion	B-2-7
52-Week Range	47.90 USD - 70.43 USD
Mkt Val (mn) / Shares Out (mn)	37,134 USD / 681.5
Free Float	99.6%
Average Daily Value (mn)	354.26 USD
BofA Ticker / Exchange	JCI / NYS
Bloomberg / Reuters	JCI US / JCI.N
ROE (2024E)	13.6%
Net Dbt to Eqty (Sep-2023A)	45.3%
ESGMeter <sup>TM</sup>	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".

HVAC: Heating, ventilation, and air conditioning

# iQprofile<sup>SM</sup> Johnson Controls International PLC

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	7.6%	8.8%	9.4%	10.0%	10.6%
Return on Equity	11.4%	13.7%	13.6%	14.4%	15.0%
Operating Margin	11.4%	12.2%	12.6%	13.2%	13.8%
Free Cash Flow	1,398	1,682	2,093	2,421	2,570

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	0.9x	1.1x	1.1x	1.1x
Asset Replacement Ratio	0.7x	0.6x	0.7x	0.8x	0.8x
Tax Rate	13.7%	13.5%	13.7%	14.5%	15.5%
Net Debt-to-Equity Ratio	39.8%	45.3%	41.3%	36.9%	33.1%
Interest Cover	11.6x	11.7x	8.4x	9.3x	10.2x

## Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	25,299	26,793	28,038	29,319	30,585
% Change	6.9%	5.9%	4.6%	4.6%	4.3%
Gross Profit	8,343	8,971	9,344	9,858	10,376
% Change	3.4%	7.5%	4.2%	5.5%	5.2%
EBITDA	3,706	4,127	4,360	4,690	5,026
% Change	5.0%	11.4%	5.7%	7.6%	7.1%
Net Interest & Other Income	(248)	(281)	(420)	(418)	(415)
<b>Net Income (Adjusted)</b>	<b>2,062</b>	<b>2,405</b>	<b>2,470</b>	<b>2,739</b>	<b>3,003</b>
<b>% Change</b>	<b>7.9%</b>	<b>16.7%</b>	<b>2.7%</b>	<b>10.9%</b>	<b>9.6%</b>

## Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,062	2,405	2,470	2,739	3,003
Depreciation & Amortization	830	848	831	814	798
Change in Working Capital	(739)	(705)	(714)	(551)	(599)
Deferred Taxation Charge	(141)	(676)	0	0	0
Other Adjustments, Net	(22)	349	83	38	30
Capital Expenditure	(592)	(539)	(578)	(619)	(661)
<b>Free Cash Flow</b>	<b>1,398</b>	<b>1,682</b>	<b>2,093</b>	<b>2,421</b>	<b>2,570</b>
<b>% Change</b>	<b>-30.1%</b>	<b>20.3%</b>	<b>24.4%</b>	<b>15.7%</b>	<b>6.2%</b>
Share / Issue Repurchase	(1,424)	(583)	(746)	(897)	(1,079)
Cost of Dividends Paid	(1,037)	(1,129)	(999)	(1,036)	(1,071)
Change in Debt	1,966	(433)	(494)	(472)	(556)

## Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,031	835	688	704	568
Trade Receivables	5,528	6,006	6,308	6,572	6,856
Other Current Assets	4,126	3,896	4,173	4,419	4,657
Property, Plant & Equipment	3,042	3,136	3,383	3,683	4,036
Other Non-Current Assets	27,431	28,369	28,106	27,885	27,672
<b>Total Assets</b>	<b>42,158</b>	<b>42,242</b>	<b>42,658</b>	<b>43,264</b>	<b>43,789</b>
Short-Term Debt	1,534	1,030	1,020	1,020	1,020
Other Current Liabilities	9,705	10,054	9,920	9,879	9,801
Long-Term Debt	7,426	7,818	7,334	6,862	6,306
Other Non-Current Liabilities	6,091	5,646	5,839	6,035	6,222
<b>Total Liabilities</b>	<b>24,756</b>	<b>24,548</b>	<b>24,113</b>	<b>23,795</b>	<b>23,349</b>
<b>Total Equity</b>	<b>17,402</b>	<b>17,694</b>	<b>18,545</b>	<b>19,468</b>	<b>20,440</b>
<b>Total Equity &amp; Liabilities</b>	<b>42,158</b>	<b>42,242</b>	<b>42,658</b>	<b>43,264</b>	<b>43,789</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 12.

## Company Sector

Industrials/Multi-Industry

## Company Description

JCI is a leading global provider of HVAC, building controls, fire & security equipment, services, and software. The company also provides data-driven "smart building" services and solutions powered by its OpenBlue software platform and capabilities. The company's North American operational headquarters are in Milwaukee, Wisconsin. JCI employs approximately 101,000 people worldwide.

## Investment Rationale

We see the JCI story as combining self-help and structural outgrowth driven by smart buildings controls and software. However we see near-term risks from slowing non-residential construction. While JCI shares trade at a discount to peers, we believe this reflects elevated execution risk.

## Stock Data

Average Daily Volume

6,501,467

## Quarterly Earnings Estimates

	2023	2024
Q1	0.67A	0.51A
Q2	0.75A	0.76E
Q3	1.03A	1.17E
Q4	1.05A	1.22E

# 1QF24 adj. EPS of \$0.51 comes above BofA estimate, but ops come short

## Exhibit 1: 1QF24 earnings variance

JCI 1QF24 adj. EPS of \$0.51 comes ahead of BofAe \$0.49

	Actual	Reported		BofA Estimate		Variation Versus BofA Est.		
(in US\$ mn, except per share data)	1Q:23A	1Q:24A	YOY % Chg.	1Q:24E	YOY % Chg.	Dollar	Percentage	EPS
<b>Segment Sales</b>								
Building Solutions North America	2,367	2,487	5%	2,443	3%	44	2%	
Building Solutions EMEA/LA	975	1,038	6%	1,014	4%	24	2%	
Building Solutions Asia Pacific	646	507	-22%	630	-2%	(123)	-20%	
Global Products	<u>2,080</u>	<u>2,062</u>	<u>-1%</u>	<u>2,102</u>	<u>1%</u>	<u>(40)</u>	<u>-2%</u>	
<b>Total</b>	<b>6,068</b>	<b>6,094</b>	<b>0%</b>	<b>6,189</b>	<b>2%</b>	<b>(95)</b>	<b>-2%</b>	
<b>Segment Operating Profit</b>								
Building Solutions North America	267	285	7%	293	10%	(8)	-3%	\$ (0.01)
Building Solutions EMEA/LA	75	80	7%	92	22%	(12)	-13%	\$ (0.01)
Building Solutions Asia Pacific	68	46	-32%	66	-2%	(20)	-31%	\$ (0.03)
Global Products	<u>422</u>	<u>369</u>	<u>-13%</u>	<u>356</u>	<u>-16%</u>	<u>13</u>	<u>4%</u>	<u>\$ 0.02</u>
<b>Segment Total</b>	<b>832</b>	<b>780</b>	<b>-6%</b>	<b>807</b>	<b>-3%</b>	<b>(27)</b>	<b>-3%</b>	<b>\$ (0.03)</b>
Corporate ePenses	(82)	(116)	NM	(105)	NM	(11)	10%	\$ (0.01)
Amortization of intangible assets	<u>(104)</u>	<u>(122)</u>	<u>NM</u>	<u>(135)</u>	<u>NM</u>	<u>13</u>	<u>-10%</u>	<u>\$ 0.02</u>
<b>Total</b>	<b>646</b>	<b>542</b>	<b>-16%</b>	<b>567</b>	<b>-12%</b>	<b>(25)</b>	<b>-4%</b>	<b>\$ (0.03)</b>
<b>Segment Operating Margin</b>								
Building Solutions North America	11.3%	11.5%	20 bp	12.0%	70 bp	(50 bp)	-	
Building Solutions EMEA/LA	7.7%	7.7%	0 bp	9.0%	140 bp	(130 bp)	-	
Building Solutions Asia Pacific	10.5%	9.1%	(150 bp)	10.5%	0 bp	(150 bp)		
Global Products	<u>20.3%</u>	<u>17.9%</u>	<u>(240 bp)</u>	<u>16.9%</u>	<u>(340 bp)</u>	<u>100 bp</u>		
<b>Total EBIT</b>	<b>10.6%</b>	<b>8.9%</b>	<b>(180 bp)</b>	<b>9.2%</b>	<b>(150 bp)</b>	<b>(30 bp)</b>	-	
<b>Net Sales</b>	<b>6,068</b>	<b>6,094</b>	<b>0%</b>	<b>6,189</b>	<b>2%</b>	(95)	-2%	
COGS	<u>3,977</u>	<u>4,102</u>	<u>3%</u>	<u>4,038</u>	<u>2%</u>	<u>64</u>	<u>2%</u>	
<b>Gross Profit</b>	<b>2,091</b>	<b>1,992</b>	<b>-5%</b>	<b>2,151</b>	<b>3%</b>	(159)	<b>-7%</b>	\$ (0.20)
SG&A	<u>1,445</u>	<u>1,450</u>	<u>0%</u>	<u>1,585</u>	<u>10%</u>	<u>(135)</u>	<u>-8%</u>	<u>\$ 0.17</u>
<b>Operating Income</b>	<b>646</b>	<b>542</b>	<b>-16%</b>	<b>567</b>	<b>-12%</b>	<b>(25)</b>	<b>-4%</b>	<b>\$ (0.03)</b>
Net financing charges	<u>67</u>	<u>99</u>	<u>48%</u>	<u>113</u>	<u>69%</u>	<u>(14)</u>	<u>-12%</u>	<u>\$ 0.02</u>
<b>EBT</b>	<b>579</b>	<b>443</b>	<b>-23%</b>	<b>454</b>	<b>-22%</b>	<b>(11)</b>	<b>-2%</b>	<b>\$ (0.01)</b>
Income Tax Provision	78	61	-22%	64	-19%	(3)	-4%	
Tax Rate	13.5%	13.8%	30 bp	14.0%	50 bp	(0)	-2%	\$ 0.00
Noncontrolling interest	<u>38</u>	<u>32</u>	<u>-16%</u>	<u>55</u>	<u>45%</u>	<u>(23)</u>	<u>-42%</u>	<u>\$ 0.03</u>
<b>Net Income (Continuing Operations)</b>	<b>463</b>	<b>350</b>	<b>-24%</b>	<b>335</b>	<b>-28%</b>	<b>15</b>	<b>4%</b>	<b>\$ 0.02</b>
<b>FULLY DILUTED EPS</b>	<b>\$0.67</b>	<b>\$0.51</b>	<b>-24%</b>	<b>\$0.49</b>	<b>-27%</b>	<b>\$0.02</b>	<b>4%</b>	<b>\$ -</b>
Diluted Shares Outstanding	690	682	-1%	680	-1%	2		\$ (0.00)
<b>Margin Analysis</b>								
	<b>Actual</b>	<b>Reported</b>		<b>Reported</b>		<b>Variation (bp)</b>		
	<b>1Q:23A</b>	<b>1Q:24A</b>		<b>1Q:24A</b>		<b>BofA Est.</b>	<b>1Q:23A</b>	
COGS	65.5%	67.3%		65.2%		(210 bp)	180 bp	
Gross Margin	34.5%	32.7%		34.8%		210 bp	(180 bp)	
SG&A	23.8%	23.8%		25.6%		180 bp	0 bp	
Operating Margin	10.6%	8.9%		9.2%		30 bp	(180 bp)	
EBT Margin	9.5%	7.3%		7.3%		10 bp	(230 bp)	
Net Margin	7.6%	5.7%		5.4%		(30 bp)	(190 bp)	
Segment Incremental Margin	52.9%	-200.0%		-20.9%		17910 bp	(25290 bp)	

Source: BofA Global Research estimates, company reports

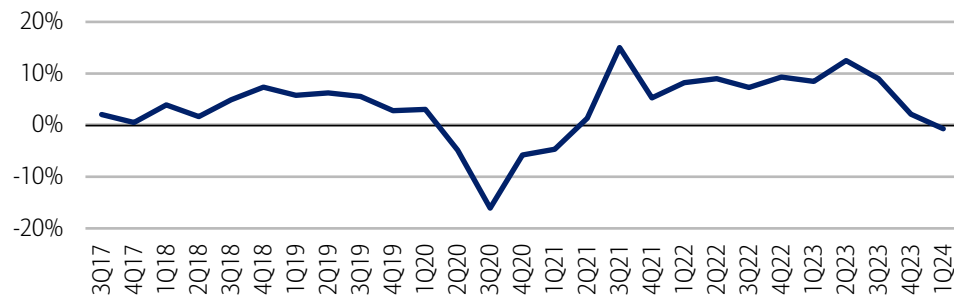
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# 1QF24 earnings review

JCI reported 1QF24 organic growth down 1%.

## Exhibit 2: Total company organic growth was down 1% in 1QF24

JCI total company quarterly organic growth %y/y



Source: BofA Global Research, company filings

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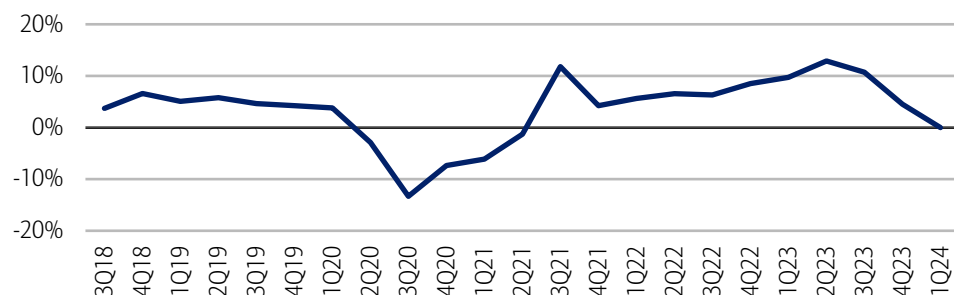
## Building Solutions:

Building Solutions organic growth was flat. Services grew 5% and install was down 2%. The company has positive price/cost. Building Solutions backlog grew organically 7% y/y to 12.1bn.

- **North America:** Organic sales grew 4%, led by strength in applied HVAC. Orders were +6%. Total backlog is up to \$8.4bn or 11% y/y. Margins expanded 20bps y/y to 11.5%, driven by the execution of higher margin backlog.
- **EMEA/LA:** Organic sales grew 2%, led by low-SD growth in fire & security, applied HVAC, and industrial refrigeration. Orders were up 5%, with backlog of \$2.4bn increased +10% y/y. Margins were flat at 7.7%
- **Asia Pacific:** Organic sales decelerated to (21)%y/y, led by Industrial refrigeration being down (40)% and Fire & Security being down (20)%. Orders were down 31% y/y, with backlog of \$1.3bn down (21)% y/y. Management noted called out weakness in China driving the softness in APAC results.

## Exhibit 3: Building Solutions organic growth was flat in 1QF24

Building Solutions quarterly organic growth %y/y



Source: BofA Global Research, company filings

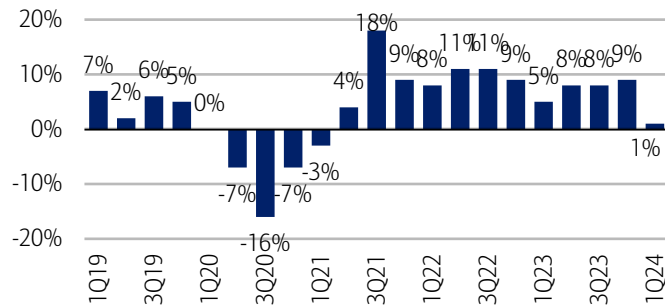
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## Field orders up ~1% y/y

One of JCI's strategic priorities is to grow the services business, which is 50/50 recurring/non-recurring. Service margins are about 2x the company average. Field orders were up 1% in the quarter, with service orders up 5% and install orders down 2%. The field backlog reached \$12.1bn, or up 7% y/y. The growth in backlog came from Install backlog up 8% y/y.

**Exhibit 4: Field orders grew 1% in 1QF24**

Quarterly field orders growth % y/y

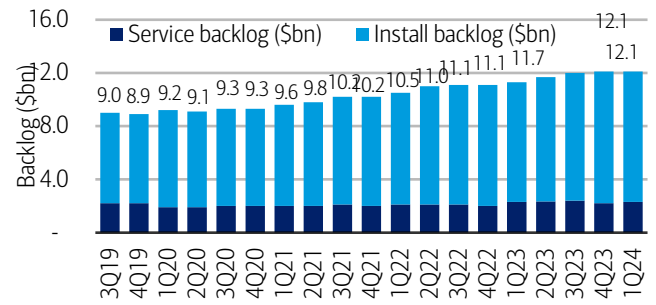


Source: BofA Global Research, company reports

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**Exhibit 5: 1QF24 field backlog was up 7%**

Quarterly field backlog, services and install (\$bn)



Source: BofA Global Research, company reports

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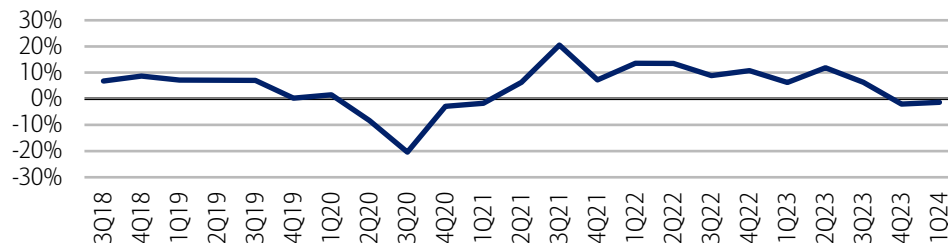
**Global Products: price helps to partially offset volume declines**

Global Products organic growth was (1)%, of which 3% was pricing, helping to partially offset (4)% volume declines. Resi HVAC declined high-SD. Segment EBITA margins declined 240bps y/y driven by absorption/mix and other. The third party backlog is \$2.3bn, down (10)% y/y.

- **Commercial HVAC:** Applied HVAC sales were up low single digits and light commercial was up low single digits.
- **Residential HVAC:** Global residential HVAC sales declined high single digits, driven by over 20% declines in North America, partially offset with low single digit growth in the rest of the world.
- **Fire & Security:** Fire & Security product sales were down low single digits in the quarter.
- **Industrial refrigeration:** Sales were up +35%.

**Exhibit 6: Global Products organic growth was down 1% in 1QF24**

Global Products quarterly organic growth %y/y



Source: BofA Global Research, company filings

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## Quarterly earnings metrics for HVAC peers

The exhibit below compares quarterly earnings metrics from the last six quarters across the major HVAC manufacturers. We look at reported revenue y/y growth, incremental margins, adjusted EPS growth, organic revenue growth, and EBITDA y/y growth. The numbers for Carrier, Trane, and Lennox 4Q23 reflect estimates as the companies have not reported yet.

### Exhibit 7: JCI's results calendarized with HVAC peers

Quarterly earnings metrics for HVAC OEM peers

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
<b><u>Revenue growth</u></b>								
Carrier	-1%	-4%	2%	-1%	13%	15%	5%	1%
Trane Technologies	11%	9%	18%	14%	9%	12%	12%	9%
Lennox	9%	10%	18%	13%	4%	-2%	4%	5%
Johnson Controls	9%	4%	5%	4%	10%	8%	6%	0%
<b><u>Organic Revenue Growth</u></b>								
Carrier	10%	7%	8%	5%	4%	6%	3%	3%
Trane Technologies	12%	11%	19%	16%	9%	11%	9%	6%
Lennox	9%	11%	17%	13%	2%	3%	10%	6%
Johnson Controls	9%	7%	9%	8%	12%	9%	4%	-1%
<b><u>EBITDA Growth</u></b>								
Carrier	3%	1%	-1%	0%	4%	14%	20%	16%
Trane Technologies	6%	7%	21%	21%	18%	18%	18%	14%
Lennox	3%	4%	14%	27%	18%	22%	33%	25%
Johnson Controls	9%	17%	7%	11%	13%	-3%	9%	-9%
<b><u>Incremental margins</u></b>								
Carrier	-104%	-16%	-4%	18%	-2%	13%	65%	110%
Trane Technologies	5%	14%	20%	22%	28%	27%	29%	26%
Lennox	-2%	4%	13%	23%	77%	-206%	113%	77%
Johnson Controls	14%	-14%	27%	50%	18%	33%	22%	-400%
<b><u>Adj. EPS growth</u></b>								
Carrier	14%	9%	-2%	-10%	-5%	13%	28%	26%
Trane Technologies	11%	12%	26%	34%	26%	24%	23%	16%
Lennox	4%	9%	21%	11%	20%	23%	31%	31%
Johnson Controls	21%	3%	13%	25%	20%	20%	11%	-24%

Source: Company filings, BofA Global Research estimates

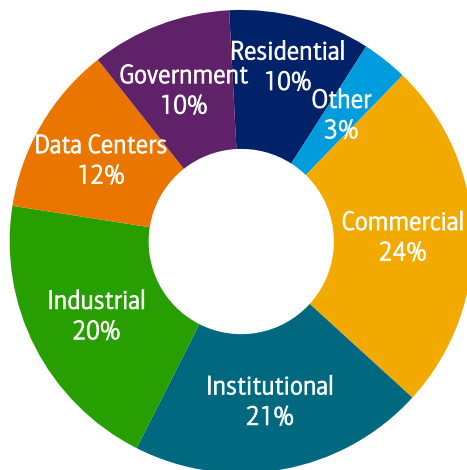
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## JCI's Diverse Verticals

JCI provided a breakdown of the verticals it works in. We estimate roughly what percent each vertical comprises of total revenue based on the provided chart.

**Exhibit 8: JCI verticals**

Estimated size of JCI's verticals



Source: BofA Global Research estimates, company filings

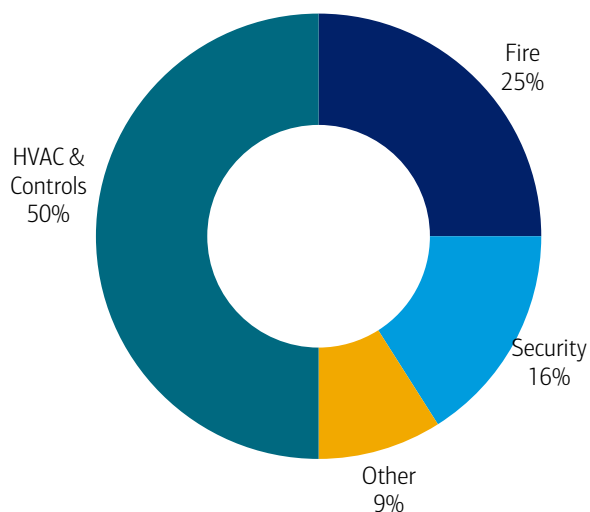
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**Estimated breakout for Building Solutions and Global Products**

JCI provided a breakdown of contribution to Building Solutions and Global products. We estimate roughly what percent each comprises of total revenue based on the provided chart

**Exhibit 9: JCI's Building Solution breakout by % of revenue**

Estimated Building Solutions breakout

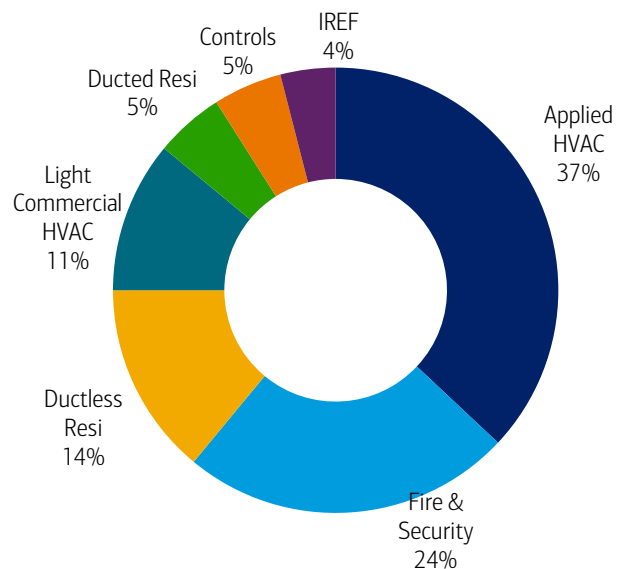


Source: BofA Global Research estimates, company filings

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**Exhibit 10: JCI Global Products breakout by % of revenue**

Estimated Global Product breakout



Source: BofA Global Research estimates, company filings

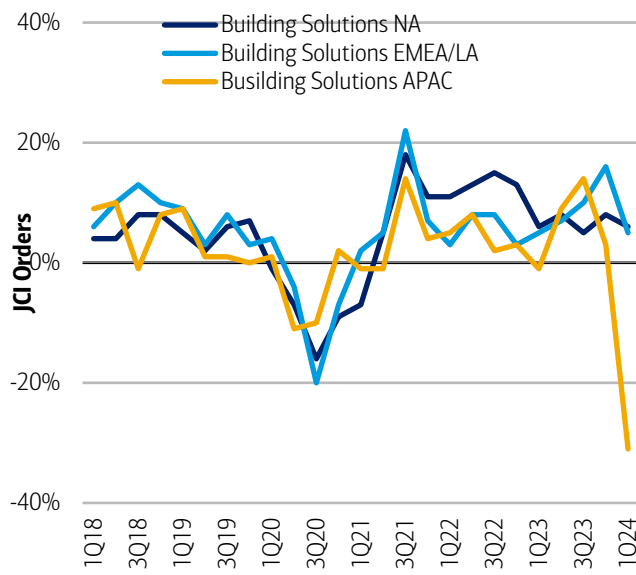
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**An in-depth look at Building Solutions trends**

Below we look at both organic orders and sales for Building Solutions 2018-2024.

**Exhibit 11: Building Solutions orders 2018-2024**

1QF24 saw a sharp drop in APAC orders

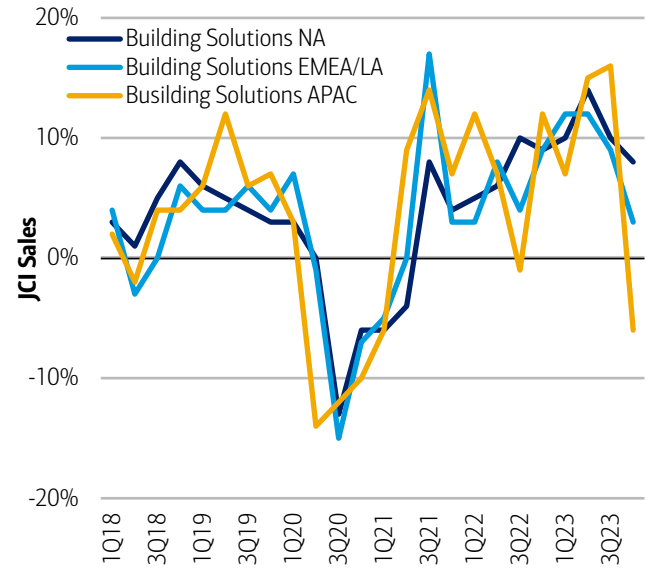


Source: Company filings

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**Exhibit 12: Building Solutions organic sales 2018-2024**

1QF24 saw a sharp drop in APAC sales



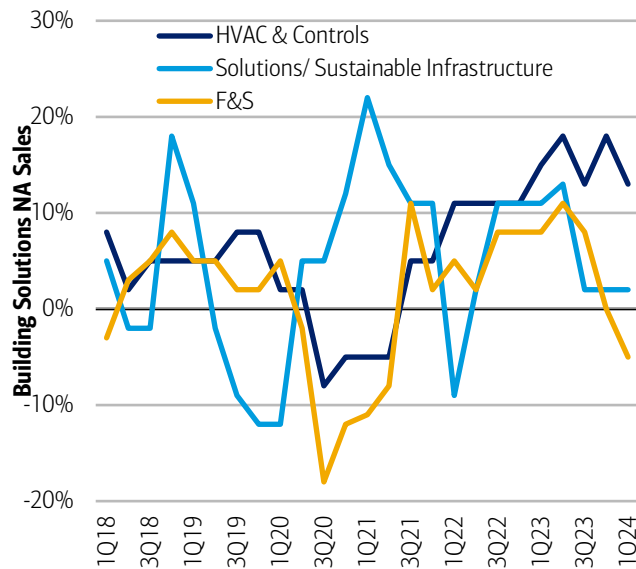
Source: Company filings

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Below we look at the sales composition for Building Solutions NA, EMEA/LA, and APAC.

**Exhibit 13: Building Solutions NA sales breakout 2018-2024**

In 1QF24 Applied HVAC led organic sales

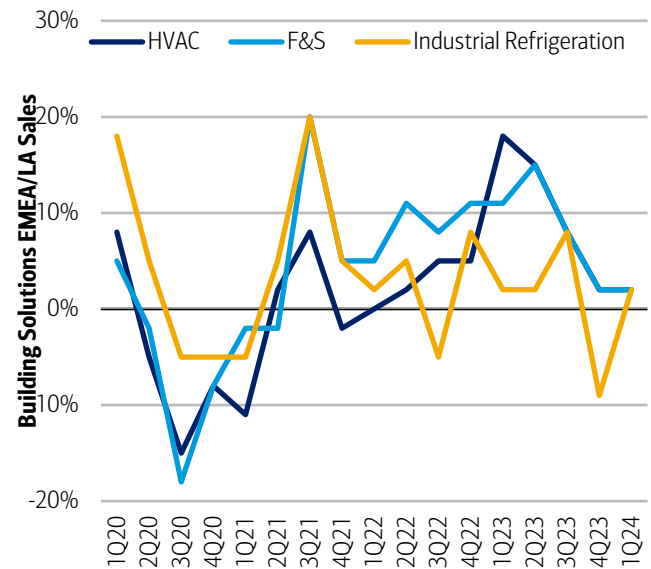


Source: Company filings

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**Exhibit 14: Building Solutions EMEA/LA sales breakout 2020-2024**

In 1QF24 all three product categories grew LSD



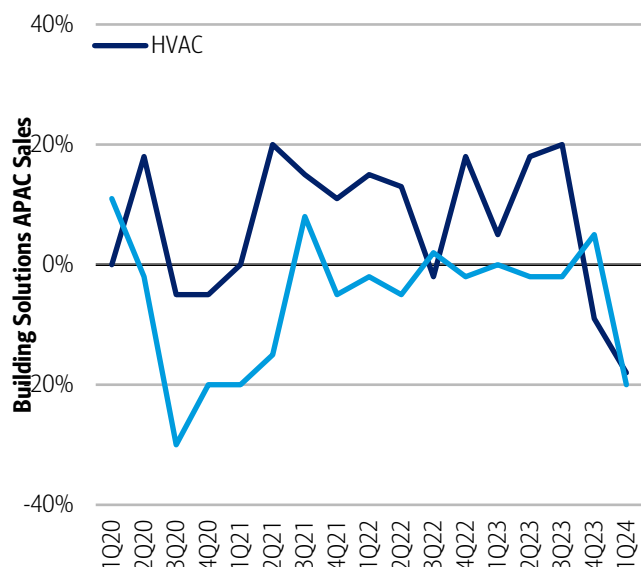
Source: Company filings

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**Exhibit 15: Building Solutions APAC sales breakout**

In 1QF24 F&amp;S sales were down (20)%y/y



Source: Company filings

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**Lowering FY24 adj. EPS to \$3.66**

Management lowered FY24 adjusted EPS guidance to \$3.60 - \$3.75 from \$3.65 - \$3.80, due to China being weaker than expected. Organic growth guide was maintained at up ~mid-single digits. Segment EBITA Margin was raised to up ~50 to 75bps from up ~25bps. We lower our FY24 EPS estimate to \$3.66 within updated guide. We forecast \$0.76 adj. EPS in 2Q, within the company's \$0.74-\$0.78 guide.

**Exhibit 16: We lower our FY24E adj. EPS**

BofA old and new FY24E/FY25E estimates, JCI FY24 guidance

	JCI FY24 guidance		BofA FY24 estimates		BofA FY25 estimates	
	As of 4QF23	As of 1QF24	Old	New	Old	New
Organic revenue growth	Up ~MSD	Up ~MSD	5.9%	4.5%	4.6%	4.6%
Segment EBITA margin	Up ~25bps+	Up ~50 to 75bps	53bps	62bps	53bps	53bps
Adj. EPS	~\$3.65 - \$3.80	~\$3.60 - \$3.75	\$3.70	\$3.66	\$4.17	\$4.12
Tax rate	~13.75%	~13.75%	13.7%	13.7%	14.5%	14.5%
Weighted-average shares	~675mn	~675mn	675mn	675mn	664mn	664mn
Free cash flow conversion	~85%	~85%	85%	85%	88%	88%

Source: BofA Global Research estimates, company reports

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**Valuation**

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.



**Exhibit 17: JCI comparable valuation analysis**

We base our \$60 PO on 12x EV/EBITDA on 2025E

Company	Stock Price 1/30/2024	P/E		EV/EBITDA		EBITDA margin		EPS Growth		P/FCF		Revenue growth	
		2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
ATLPF	SEK165.55	28.9x	27.2x	18.0x	16.7x	26.2%	26.5%	-0.3%	6.1%	26.9x	25.0x	-1.4%	4.1%
EMR	\$94.66	17.9x	24.4x	13.9x	N/A	25.8%	N/A	14.5%	-26.5%	20.2x	18.2x	12.6%	-100.0%
HON	\$203.28	20.1x	18.1x	14.0x	13.1x	26.7%	27.1%	9.9%	11.2%	21.9x	19.4x	5.8%	5.8%
CARR	\$55.96	19.5x	18.1x	13.1x	12.1x	17.4%	18.4%	5.6%	7.8%	20.4x	20.9x	22.3%	0.2%
LII*	\$440.62	22.2x	19.9x	16.4x	14.7x	19.7%	20.1%	11.1%	11.8%	27.9x	22.2x	6.0%	6.8%
TT	\$257.14	25.9x	23.8x	18.5x	17.0x	18.3%	18.7%	10.4%	8.6%	26.3x	24.3x	5.3%	4.7%
DKILF	JPY 22,715.00	21.8x	20.0x	10.6x	9.7x	14.2%	14.3%	15.2%	8.8%	25.7x	26.6x	7.1%	5.7%
SMAWF	€182.45	17.8x	15.7x	11.3x	10.2x	19.2%	19.7%	3.8%	13.4%	18.4x	16.2x	4.8%	5.9%
SBGSF	€200.00	26.8x	24.1x	15.9x	14.3x	20.4%	20.8%	8.8%	10.9%	26.2x	25.2x	3.0%	6.5%
<b>Average</b>		<b>22.3x</b>	<b>21.3x</b>	<b>14.6x</b>	<b>13.5x</b>	<b>20.9%</b>	<b>20.7%</b>	<b>8.8%</b>	<b>5.8%</b>	<b>23.8x</b>	<b>22.0x</b>	<b>7.3%</b>	<b>-6.7%</b>
<b>JCI</b>	<b>\$54.82</b>	14.5x	12.9x	10.1x	9.4x	15.6%	16.1%	6.7%	12.4%	17.7x	15.0x	4.8%	4.5%
<b>JCI at PO</b>	<b>\$60.00</b>	15.9x	14.1x	11.2x	10.4x	15.6%	16.1%	6.7%	12.4%	19.4x	16.5x	4.8%	4.5%

Source: BofA Global Research estimates, Bloomberg

\*Bloomberg consensus estimates

Note: all fiscal-year estimates are calendarized

BofA GLOBAL RESEARCH

## Price objective basis & risk

### 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.

## 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.

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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

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

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### 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

Total Assets – Current Liabilities + ST Debt + 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

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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## Important Disclosures

### Johnson Controls Int (JCI) 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 <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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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