TE Connectivity Ltd.

Thoughts from investor call with CEO Terrence Curtin

Reiterate Rating: BUY | PO: 155.00 USD | Price: 142.82 USD

Company's secular growth drivers remain strong

As part of our 'View from the Top' series, we hosted an investor call with TEL CEO Terrence Curtin. Global footprint and local incumbency remains a strength as the company remains levered to secular growth in connectivity for both data and power, and growth of content in EVs & ICE. TEL remains confident in its growth trajectory through two secular drivers in the auto market, Electrification (powertrain specific, EV focus) & Electronification (powertrain agnostic, sensors & features in the car). The growth in auto content per vehicle TEL has seen over the last few years (from $60 to $80) can be attributed ~2/3rd from EVs and ~1/3rd from the electronification trend. Rate and pace of EV adoption is stronger in Asia than other parts of the world as companies work to match the tech to consumer demands, ~14mn EVs were produced in Asia alone last year. The heavy lifting for margin improvement is paying off. We reiterate Buy as TEL continues to deliver solid overall growth and profitability despite macro pressures.

Industrial Solutions – destocking impact lingers on

Industrial equipment remains the end-market within this segment facing destocking issues and has seen broad weakness over the last 6 months. Mgmt noted it's still unclear when the destocking will end. However, Aerospace & Defense, Energy, and Medical end-markets remain strong and Mgmt expects sequential growth throughout the rest of the year. There remains more work to be done to improve margins in Industrials, which are also impacted by bolt-on deals that can be a headwind in the short term.

Communications Solutions – Cloud digestion almost over

Mgmt. noted ~50% more content in an AI application than Cloud. Industry is in the late innings of the inventory digestion in Cloud. The broader datacom market still has inventory to be worked through but execution can keep segment margins elevated.

Capital allocation – bolt ons and buybacks

The company's capital allocation policy remains the same, looking for bolt on opportunities but not overpaying, and using buybacks when it makes sense. Mgmt noted the last few years asset prices have been high compared to return opportunities, but they are looking for more bolt on acquisitions (especially in industrials).

Estimates (Sep) (US$)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
EPS	7.31	6.73	7.54	7.90	8.37
GAAP EPS	7.46	6.73	7.54	7.90	8.37
EPS Change (YoY)	12.1%	-7.9%	12.0%	4.8%	5.9%
Consensus EPS (Bloomberg)			7.58	8.37	9.30
DPS	2.12	2.30	2.36	2.36	2.36
Valuation (Sep)					
P/E	19.5x	21.2x	18.9x	18.1x	17.1x
GAAP P/E	19.1x	21.2x	18.9x	18.1x	17.1x
Dividend Yield	1.5%	1.6%	1.7%	1.7%	1.7%
EV / EBITDA*	13.2x	14.3x	13.2x	13.1x	12.7x
Free Cash Flow Yield*	3.8%	5.4%	5.2%	4.8%	5.0%

* For full definitions of *iQmethod*SM measures, see page 18.

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Stock Data

Price	142.82 USD
Price Objective	155.00 USD
Date Established	24-Jan-2024
Investment Opinion	B-1-7
52-Week Range	115.00 USD - 146.84 USD
Mrkt Val (mn) / Shares Out (mn)	44,385 USD / 310.8
Free Float	99.8%
Average Daily Value (mn)	286.27 USD
BofA Ticker / Exchange	TEL / NYS
Bloomberg / Reuters	TEL US / TEL.N
ROE (2024E)	18.4%
Net Dbt to Eqty (Sep-2023A)	21.9%
ESGMeter™	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".

EV: electric vehicle

ICE: internal combustion engine

iQprofile[SM] TE Connectivity Ltd.

iQ**method*[SM] **– Bus Performance

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	14.1%	12.7%	12.6%	11.8%	11.7%
Return on Equity	22.2%	19.1%	18.4%	16.7%	16.1%
Operating Margin	18.2%	16.7%	18.7%	18.6%	18.9%
Free Cash Flow	1,700	2,400	2,293	2,118	2,200

iQ**method*[SM] **– Quality of Earnings

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.5x	1.3x	1.2x	1.2x
Asset Replacement Ratio	1.0x	0.9x	1.0x	1.2x	1.3x
Tax Rate	18.8%	19.1%	21.1%	21.0%	21.0%
Net Debt-to-Equity Ratio	28.6%	21.9%	15.6%	9.1%	3.0%
Interest Cover	44.9x	33.5x	41.8x	43.4x	45.7x

Income Statement Data (Sep)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	16,281	16,034	16,108	16,763	17,358
% Change	9.1%	-1.5%	0.5%	4.1%	3.6%
Gross Profit	5,244	5,055	5,515	5,739	5,996
% Change	7.3%	-3.6%	9.1%	4.1%	4.5%
EBITDA	3,751	3,471	3,761	3,775	3,912
% Change	8.1%	-7.5%	8.3%	0.4%	3.6%
Net Interest & Other Income	(34)	(36)	(30)	(44)	(68)
Net Income (Adjusted)	**2,381**	**2,137**	**2,352**	**2,433**	**2,544**
% Change	**9.8%**	**-10.2%**	**10.1%**	**3.4%**	**4.5%**

Free Cash Flow Data (Sep)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,381	2,137	2,352	2,433	2,544
Depreciation & Amortization	785	794	750	651	624
Change in Working Capital	(940)	8	(251)	(172)	(145)
Deferred Taxation Charge	(147)	(77)	(1,217)	0	0
Other Adjustments, Net	389	270	1,385	0	0
Capital Expenditure	(768)	(732)	(725)	(794)	(822)
Free Cash Flow	**1,700**	**2,400**	**2,293**	**2,118**	**2,200**
% Change	**-14.4%**	**41.2%**	**-4.4%**	**-7.7%**	**3.9%**
Share / Issue Repurchase	(1,412)	(945)	(824)	(580)	(580)
Cost of Dividends Paid	(685)	(725)	(734)	(727)	(718)
Change in Debt	(558)	(591)	(1)	0	0

Balance Sheet Data (Sep)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,088	1,661	1,996	2,807	3,710
Trade Receivables	2,865	2,967	2,932	3,051	3,160
Other Current Assets	3,315	3,264	3,382	3,492	3,579
Property, Plant & Equipment	3,567	3,754	3,873	4,016	4,214
Other Non-Current Assets	9,947	10,066	11,776	11,776	11,776
Total Assets	**20,782**	**21,712**	**23,958**	**25,142**	**26,438**
Short-Term Debt	914	682	613	613	613
Other Current Liabilities	3,718	3,781	3,401	3,459	3,509
Long-Term Debt	3,292	3,529	3,585	3,585	3,585
Other Non-Current Liabilities	1,961	2,065	2,226	2,226	2,226
Total Liabilities	**9,885**	**10,057**	**9,825**	**9,883**	**9,933**
Total Equity	**10,897**	**11,655**	**14,133**	**15,259**	**16,505**
Total Equity & Liabilities	**20,782**	**21,712**	**23,958**	**25,142**	**26,438**

* For full definitions of *iQmethod*[SM] measures, see page 18.

Company Sector

Connectors, Passive Components & Distribution

Company Description

TEL is the world's largest maker of passive electronic components (75% of sales) led by a leading share (20-25%) in connectors (50% of sales). TEL's biggest served markets have longer cycles, such as auto (30% of sales) & telecom equipment (19% of sales). TEL also produces components for telecom & energy networks (14% of sales) that protect/connect cabling.

Investment Rationale

TEL has significant potential long-term benefit from secular growth in the automobile industry. As OEMs continue to add features to make vehicles safer, greener, and more connected, TEL should benefit from content growth. Strong cash flow, share buybacks and dividends should continue to provide valuation support.

Stock Data

Average Daily Volume	2,004,415

Quarterly Earnings Estimates

	2023	2024
Q1	1.53A	1.84E
Q2	1.65A	1.84E
Q3	1.77A	1.92E
Q4	1.78A	1.97E

Transcript

Wamsi Mohan: Thank you so much. Hello. And good afternoon. Good morning, everyone. Welcome to our View from the Top Call Series. Before I get started, I need to mention any conflict disclosures as related to the individual companies with securities discussing the call today can be found on the call invitation. I'm so excited to welcome Terrence Curtin again to our CEO Call Series. This is the fifth year in a row that Terrence has been able to join us. It's been a privilege hosting him for all these years.

As you all know, Terrence is the CEO of TE Connectivity. Prior to assuming the role of CEO in March of 2017, Terrence served as TE's president where he was responsible for the company's connectivity and sensor business as well as M&A. In March of 2016, he was elected to the board of directors. And Terrence has had many prior roles at TE, including CFO and also the company's corporate controller. So he comes to us with a wealth of experience and expertise, as you all know. And it's a privilege to host him again. So thank you so much for joining us Terrence. Welcome. Great to have you here again.

Terrence Curtin: Wamsi, thanks for having me back again and I'm really excited to spend the next hour with you and I do appreciate everybody that's listening in today, spending time to learn more about TE today.

Wamsi Mohan: Thank you so much Terrence. Well maybe to start off at a high level, one of the really interesting things about TE's business is that there are some really exciting secular trends that are driving each of your end markets. So maybe if we were to start with transportation and just talk through some of the big maybe secular teams that TE is levered to, maybe that's a great place to start.

Terrence Curtin: Sure. So you're right. With what we do with connectivity and let's face it, with the largest connector company in the world, some of the key things that you think about where a connector plays a part is where does data need to move in an application or where does power have to come to? And I think when you think about transportation and start there, first off being whether it's a car or a truck, you have a couple trends that are going on that really make sure we drive content growth, that we grow much higher than production.

And when you think about our transportation segment, two factors that are very important. And what's interesting is we use two words that sound alike when we talk about it. Electrification, which is the powertrain. How's the powertrain done with electric motors and batteries? And then the other one is electronification, which is the electronics that happen. And when you sit there that can be in comfort, that can be in safety and certainly all the other features that we've grown accustomed to, including anything that would be on, you move up the autonomous tier.

So when you think about both of those trends, both of those trends play to us. And when you think about transportation and certainly in the car, our largest content opportunity that we have at TE and it's been driving a lot of growth is around the electric vehicle. When you think about the electric vehicle, there's about 20 million of them made in the world this year. And what we get excited about at TE is how global we are to serve that.

And these are investments that started well before me in Asia, but certainly are things that you see us capitalize on. And you see the growth in electric vehicles in Asia, which are about 70% of all electric vehicles made are in Asia. That's our largest region. And you see the benefit from it. You saw it in our last quarter results. We had high single digit growth in our automotive business on a lower single digit growth auto production. And it's been something that's been driving growth.

But it's not the only thing driving growth in automotive, certainly the biggest driver. But the other thing that's important is that electronification. And that happens no matter what type of vehicle is, whether it's a combustion engine or whether it's an electric vehicle. And that's really the features that really make data come through in a car as well as other features as anything has to have a data or power put to it. And when you think about both of those together and our global position, which we're very proud of, it really are things that have driven growth. And we expect to continue to drive growth that we can grow four to six points above auto production.

And auto production, even if you take, auto production is well off peak. Auto production that was probably in 2017 and 2018. But when you think through a world where auto production has been relatively sideways the past couple years and probably will be, we're going to be able to drive growth through to that content position. And the other thing I just would say – I know I talked about our global position with what we do, we're completely agnostic to the solution. We want to drive the best connectivity, whether it be on a high powered vehicle that you need the voltages that really for the electric vehicle or it's around data. And one of the things that's really nice with our position, we're essentially on every vehicle on the planet.

And that really makes sure we don't have platform disconnects or OEM disconnects. And that's one of the things I think is very unique about TE when you think about automotive and we get to win in both trends. We don't really have any negative element of the transition from combustion engine to EV. It's all upside. And really when you look at content, our content on a combustion vehicle is about $70 a car, going up to an EV, it's about 2X that amount, a plugin hybrids in between. So really as the consumer picks what vehicles they want, it's very good for us as you continue to see increased EV penetration around the world. So let me pause there because I know I gave a mouthful there on your first question and I know you want to ask more than one.

Wamsi Mohan: Yeah. No, that's super helpful. And it's a very interesting distinction between electrification and electronification, both of which you're lever to. I guess maybe, a question that seems to be on everyone's minds is that we're starting to see these larger and larger price cuts around EVs. How would you characterize that in terms of maybe rate and pace of adoption? Do you think that the rate and pace of EV adoption and maybe you want to refer to this regionally, what are some of the trends we're seeing? Is pricing having an impact on that at all?

Terrence Curtin: Well, I think when you think about an electric vehicle, a couple of things, and I'll talk regionally in a moment. There's always an electric vehicle adoption. We've always said there's three very important elements in the journey of electric vehicle adoption. And you can think about that within a region with an OEM or anything. First one is, does the technology work? I think whether you think of a battery electric or certainly a hybrid electric, that's a check. The technology's out there, it's working.

Second element really is, what do the consumers want? Let's face it, you can have technology that works, but there's an element here that says, what does a consumer want? And that's going to be different by country. And even within countries you see different things. The third element is when you deal with an electric vehicle, it does need infrastructure investment that helps support the adoption too. So there's really technology, certainly consumer appetite and you also get into the infrastructure side of it. And all three of those things are very important to adoption rates.

So you always see Asia has always been the biggest supporter on the infrastructure side of it. So that is further along. So when we think about the 20 million electric vehicles made in the world last year, about 14 million of them. And that's full electric to hybrid or in Asia. And that's where we see the biggest adoption. We do not see that slowing down. And in places like China, we're pushing 40% of new vehicles are electric.

Now, you take places like Europe. Europe, you have regulation that's in place. Certainly those regulations have pushed Europe to move faster towards electric vehicles. They're about 4 million of those 20 million units. I think you see some incentives are coming off. You see some things where there's been a little bit slower adoption recently, but you still have pressure around regulation.

And then the third area, which is the United States we always viewed would be the slowest to adopt. It's a big country. The infrastructure's further behind. And you also have consumers that right now we're in a real element of, if I'm doing electric vehicles, what do I want? You do see some shifts to more plug-in hybrids than the full hybrid at the full electric. And all of those are things that are playing out at different rates in the world.

Now, when we zoom back out and think about the world, we still see that you're going to get about 25% EV growth in the world this year. It still will be driven by Asia. You also have certain Asian OEMs and Chinese OEMs making real inroads on exporting. So certainly that benefits us. Those vehicles right now were made in Asia. And the price element is something that has to occur because it needs to be at a price point where consumers adopt it.

So I think as you continue to move up, the volumes made, you do move up scale. I think we all know automotive is a scale business and you see people trying to get to, how do I get cost points down to an area where you get further adoption? That's good for us. And what's really nice is we always view – we play a role in that scaling. Being the world's largest automotive connectivity company, it is something that as we scale, that benefits the industry as well. So we've been moving our margins up because you're only talking about something really 15 years ago we got into, there was a point in time, it was very low margin.

One of the things that you see in our transportation segment margin improvement is part of, it's moving the EV margins up and that gap's closed nicely because we're getting scale advantage. And certainly, I think every OEM is trying to get to scale advantage too, to really get to price points where you get further adoption. And you do see that in places like China. You do see electric vehicles that are running 30, 40, $50,000 consistently. And if electric vehicles are going to be a $100,000 each, it's not going to have mass adoption.

So we do view this as part of the process that you go through. We probably won't see growth rates like we saw last year as the numbers get bigger, but we still see a lot of adoption growth as we go forward. And let's face it, consumers play a key role in what features they like, what models they like, whether they want a plug-in hybrid or full electric. The consumer picks that not the OEM.

Wamsi Mohan: Yeah. No, for sure. That all makes a lot of sense. I guess Terrence, if I think about the auto market you said relatively flattish, that's built into your expectations here and your guidance. But when I think about where we are relative to historical levels, we're still in that low 80-ish million number. I know several years ago, the top was, that's going to a 100 million units over time and it's still probably is, but how do you think about the opportunity over time in terms of transport margins at a higher scale?

I know your long term is target of 20% margins, but you also mentioned you're trying to move EV margins up higher and you just have a phenomenal quarter of margins. So as we think about the longer term trajectory of margins and transport, maybe what are the puts and takes that we should think about that make maybe number for the long term?

Terrence Curtin: Yeah. I think a couple of things. First off being, you're right. We think we're going to be able, when you think about transportation, be around that 20% and last quarter we were a little bit higher than it. Now, we also told people we had to do some self-help work to get there. Number one is, our margins did dip below that for a period of time. We had to catch up on the price cost and we did actually close that gap and that was an impact. And we really went out to our customers not to get margin just to recover cost. So that was one element.

The second element that you really saw in the margin had to do with where you went. There was a point in time coming out of 17 and 18, we would've told you we think there would be closer to a 100 million cars made in the world. We expanded as we were ramping our EV programs. Certainly, COVID hit, we view probably a more rational view would be getting up high 80s to 90 versus that a 100. And we resized our footprint around it.

Work we did, it was restructuring dollars our investors helped pay for. Really was around, as we built the new capacity, how do we take capacity off so we're not moving things around the planet. And we did make investments to take some facilities off in Europe. We also expanded in China, put a plant in Thailand, expanded in Mexico while we were repurposing how the transportation segment needed to be laid out globally versus where it was before. And a lot of that is where the majority of production's in Asia.

So you've seen the benefit of that this past quarter. And that is where, hey, we're running closer to mid-80s and global auto production. You're getting nice capacity absorption on that. But also that heavy lifting around restructuring is primarily behind us around our automotive business. So you're seeing that. And I would also tell you some of the stability being around 80s, you're seeing how we can execute versus the environment we were in that you have to realize there was a point in time North America auto production in one quarter basically went to zero. That's not a scenario we typically plan for, and we had to resize.

So I think that was a second big element. And the third element that we closed the gap a lot, but probably still a little bit more to come is on the EV product portfolio. And I think what's important, when somebody thinks about an EV and they think about TE, there's two architectures in that car. There's the architecture that's low voltage, that is a similar architecture you have in a combustion engine. It runs low voltage, it runs all the core, convenience, electronics, just doesn't run the powertrain. And then you have the high voltage. And really when we talk about margin, we get the benefit on the low voltage across both combustion engine and an electric vehicle. Those products are similar. Also, the data architecture products are similar. So we get to scale those over 80 million cars made.

In the high voltage. You're really dealing with products that are newer to market, certainly still evolving as our customers figure out where they evolve their powertrain architecture to an electric vehicle. That's the element where we've been closing the gap nicely. And that's in the higher teens today. So the gap's closed a lot, little bit more to go and I think that can create a little bit of buffer. But I think what you saw in the first quarter with those margins being above 20% really is something that shows some of those levers have closed out, still some to go. And I think the team executed very well in an environment that, it's still a little choppy. We use the word stability, but it's still choppy out there.

Wamsi Mohan: Maybe, Terrence, if you think about your market share and think about just how you're indexed in EVs versus non-EVs, how would you characterize that and it might be instructive for people to just understand why is TE actually being so successful in EVs? What is it that gives you, is it the incumbency from the past? Is it the investments that you had made in the past that are now paying off? How should people think about why TE should be growing at least at market, if not faster the way it's for EVs?

Terrence Curtin: So I think there's two things and let me zoom out because I think that the second part of your question's more valuable. When you're working with an OEM and it's essential in any of our businesses, but it really comes true with transportation is, as they're figuring out their architectures, whether it is a Japanese OEM, the Korean OEM, the a 100 plus Chinese OEMs, you need to be engineering right next to them.

And so one of the things that I think is very unique and why we can say we're essentially on every car on the planet is our engineers are deployed in those engineering centers where cars are designed certainly as they're thinking about how their architecture evolves. So that engineering stickiness is very important. And so when we show up with a China EV maker, a US EV maker, they're speaking to somebody in local language that's designing this. This is not some product made out somewhere else in the world, shipped over and said, "Hey, here's my catalog part." It doesn't work that way in automotive. These are primarily sole source programs. And when you win that platform, that is really when you have to get into how do I tool up, how do I scale? And in some cases with certain customers, how do I scale in three regions of the world simultaneously?

And even when you think about our China customers as they try to export, you got to realize, China and Japan are the big export car nation of the world this year. They're pretty much neck and neck around 4 million units. As they look to go elsewhere, it's not only what you do in China form, it's also how do you help them around the world. And that's something we get excited about with our China OEM customers is they take advantage of the global auto market.

So that stickiness is important, not only in the engineering front, but also how do you support wherever they want to go in the world from a supply chain perspective? They still may design in one region of the world, but how they assemble, build, certainly evolves. And you should know that from other OEMs. So that stickiness is important. The other thing is we are a tier two, we design with the OEM. Certainly we sell to the tier ones, whether it's a harness maker or an electronics component aggregate manufacturer. We get designed into them, that knowledge to our customer with the 8,000 mechanical engineers we have, electrical engineers we have to really bring it to life.

And we do know the application very well. And that we are agnostic, they know we're always thinking about the right solution because we leverage our engineering resources globally as they share knowledge to really make sure they know we've seen other challenges as they're trying to work with their architecture and we get to help them with it. So it is engineering intense, it's project intense from the number of projects that we work on. And it's something that they know we're going to be there long term for them. Automotive is not an industry you come in and out of. It's an industry very – you need to be in it.

Wamsi Mohan: Yeah. No, that makes a lot of sense. And I think that's super helpful to have that perspective. Maybe if we were to just think about the point earlier about tracking in the 80 to 85 million units, that at one point was driving maybe higher dealer inventories. But wouldn't that imply that production was actually greater than true end demand and now it looks like dealer inventories are a little bit even higher. So unless consumer demand picks up, should we think that production can be stable despite these inventory levels? And it's all tied into what's happening with rates and what's happening with consumer demand, right? So are we at a point where we feel comfortable around the inventory levels at various parts in the chain? And how should investors think about that?

Terrence Curtin: Yeah. So let me break that down. You had about five questions in there, Wamsi. So if I miss one, let me go back to it. First off, let's talk about inventory a little bit. Sometimes we get asked questions of, are you worried about our component inventory at our tier one customers? because that's where we are. We're not. Certainly I know in some pockets, semis and so forth, there's extra inventory. Our service levels have been back to well above 90% shift to request pre-COVID levels for the past nine to 12 months.

So honestly, as those service levels came down, if there was a problem, we would've seen that. So our lead times never extended out like semiconductors and things like that. There was a challenge in the supply chain that at times we couldn't always hit it consistently. So that was the bigger challenge for us versus than what you hear in some other component areas. So I feel very good that between us and our customers, there isn't a destock. And I know we talk about destock elsewhere in other markets in TE, I don't believe that's true in where we play from us to our customers.

Then if you take the other element, which is, hey, where are global car inventories? Global car inventories are getting back to where they used to be. So instead of OEMs make whatever they can, I do think you're more in a demand driven environment than, "Can I just produce it and I can sell it and charge whatever I want," type mentality. So some of our OEM customers still have very low inventories. Certainly, some OEM customers have models that consumers aren't buying. That's nothing new.

I think we're in a little bit more of, it's going to be a demand driven environment. Maybe that'll create us to bounce around, around that 85. But I don't view we're anywhere near peak of what it used to be in the mid-90s. And I think we're going to continue to watch it. Certainly interest rates play a role but it's different in different parts of the world on whether it's a company car in Europe versus a personal finance car in the United States. Each country's a little bit different on that.

Wamsi Mohan: Okay. That's super helpful perspective. Maybe just talking about electronification for a second. If we think about maybe an electronification is probably there both in EVs and non-EVs, but when you think about the electronification piece, what is the growth rate that you would say that, that by itself is driving in terms of content growth?

Terrence Curtin: Yeah. Sure. No. So first off being, an example I always like to give when people ask this question is, we talk so much around electrification and the EV. People always view all of our content growth has been EV driven. And if you go back and I'll go back before the price increase recovery. Our content went from 60 to 80. And when you think about that, and that was over a time when car production went down. A little bit over half of that content increase, like $12 or so, was due to the electric vehicle taking off, the content bump there. $8 or so was electronification. So the Ethernet architecture in the car, the comfort features in the car.

Also, you get into electronification is anything that happens around the missions on a combustion vehicle to make it – you have compute and semiconductors going in there. And once you do that, you typically have to connect them to something to get in the architecture. Sensors always add connectivity. So when you think of all of that, electronification is a driver. It's not quite as big as electrification. Both are important. And if you think about our four to six, I would tend to think, two-ish to 2.5-ish or 3-ish is electronification. The rest is the electric vehicle element. And let's face it, the electric vehicle element does relate to the curve of adoption of electric vehicles. So if it's happened quicker, you should see our content grow a little bit quicker. It's a little bit slower, we may be at the low end of that four to six. But I think that's a reasonable way to think about it.

Wamsi Mohan: Yeah. No, that's super helpful. That's really helpful, Terrence. You just mentioned sensors, so it might be a good segue into talking about sensors a little bit. I think from an investor perspective or from an analyst perspective, we hope that sensors might have been a larger piece of the business by this point in time. Just curious what your thoughts are on where the progress has been or what the headwinds that you have encountered within sensors have been?

Terrence Curtin: Honestly, I don't think it's just an analyst view. It's also our view. So I think we're aligned on that. And we've told people probably three, four years ago we did a reset of our sensor strategy. And so when we bought the sensor asset almost 10 years ago now, and added to it, the strategy was, hey, maintain the markets they had as we grew into transportation, the automotive market. And the real challenge we had was they really didn't have a position in the automotive market. And were trying to keep something and grow it and engineers don't grow on trees.

So quite honestly, we've had a strategy reset and we've made the tough decision like you've seen us make before of, if we're going to be good in something, we have to exit some stuff. So we've been organically pruning and this year, we talked about it on the earnings call, we'll probably have about $50 million of exits this year around applications we don't want to be in five, 10 years from now. The applications we're focused on are certainly transportation. We're focused on industrial applications, factory automation as well as medical. So those three are where we're really a prioritize. And areas that were getting in our way, we've been pruning with our customers to really make sure we help them transition.

And we do think that'll put us on a better growth trajectory than we've been on because it's been below what we expected and that's why we made that choice. But certainly, it was something we had to reset the strategy on. And we will have those prunings this year. Like I said, about 50 million, there'll be less in 2025 than they should be behind us. So we've been doing this for the past couple of years, but we do think it'll get us onto a better rate. If you even think this quarter we just had, we grew in automotive applications, we had nice growth similar to what we did in our automotive business. We had the pruning. And then the industrial markets, like we talked about in our connector industrial markets. There's a lot of moving pieces right now with destocking and some slowness. So we also got impacted by that in our sensors business. But we do think once we get through the pruning, we'll have a better growth path around those three core applications.

Wamsi Mohan: So it's about 30 minutes into the call and transport is roughly half your business, so maybe we should segue to talk about other half of the business.

Terrence Curtin: I'm good with that. I'm absolutely good with that. So thank you.

Wamsi Mohan: So Terrence, on industrial, can we just talk a little bit about maybe what some of the secular teams within industrial that you're most excited about are?

Terrence Curtin: So you've been around me for a decade or so now. Industrial is very broad and I think, let's make sure everybody's aligned around what industrial is in TE. Our focus is very much around aerospace and defense. We're benefiting from commercial air, we're also benefiting from defense and that's going to be with us for some time. So when we get into destocking and markets, what's really nice is single aisle aircraft or getting back to pre-COVID levels. Certainly, there's work to be done to get that humming more across the entire supply chain.

Secondly, we've done a nice job in what we call energy, which is really around utilities and renewable energy. That business has turned into a mid to high single digit growth business for us. You can see it throughout the entire cycle. That's been very unique. Our energy business grew because what we've done around really making sure solar, wind applications – and once again this quarter we drove growth on those, that's going to be with us. The third area where we play there is in medical. And that's really, we're focused more on interventional procedures. We saw a nice double-digit growth. We think that'll grow high digits. Certainly as we come out of COVID that's recovered nicely. That's going to continue to be a growth driver.

And then the fourth area is where we play, which is more around general industrial equipment, robots, factory automation, connectivity into the drives and motors. We go into the automation players of the world. That's the one that we've done a nice job adding into it. You saw really nice growth. I'll tell you, this year we're going to have a pause in growth because of slowdown and destocking that we're seeing. That destocking happened much later than other areas we sold the stock in, and I would say we're right in the middle of it.

So I do think you're going to see a pause in growth this year in that section of it. But the other three, we're going to continue to see sequential organic growth every quarter. And we like all those businesses. The thing I would tell you, we do expect our margin to be in the mid-teens in that segment, really because our industrial equipment business is our highest margin business in that segment. So we have self-help going on there that you know about, but certainly an area this year due to what's going on industrial equipment until that destock's over, I think that's going to create a little bit pause in our margin journey, but I think we'll maintain it in the mid-teens even as that one section of the segment is down a little bit.

Wamsi Mohan: So would you say that destock then, Terrence is largely within the industrial equipment and –

Terrence Curtin: Absolutely.

Wamsi Mohan: in particularly factory automation within that?

Terrence Curtin: Very much so. Very much so. What we saw, and what we're seeing, clearly the factory automation space was impacting. And we saw some slowness and we communicated last year really around Asia, where you had things that were happening around consumer electronics, would've hurt our Japanese customers that feed a lot into the consumer electronics automation. I would tell you in the past six months, what we saw was broader weakness around the world. We saw our European automation customers get a little bit slower, certainly also in North America.

And then the topper on that is about 50% of this business goes through our distribution partners, now we're seeing that happening as well. So you really have both on the OEM side where we serve them directly as well as in the distribution side, destocking occurring and I know everybody asked me for the exact date when destocking's over. I don't know. I think we'll be dealing with it for a good chunk of our fiscal 2024.

Wamsi Mohan: Okay. We're, we're 36 minutes into the call and we haven't spoken AI, so that's unusual for most calls these days. But maybe segueing into communications. I know that there has been this opportunity that you're looking forward to capitalize on in terms of AI within the comm segment. So can you just talk about what is it exactly that TE does here? What are some of the drivers and why is it taking until the second half of this fiscal year for you to start to see inflections in revenue growth there?

Terrence Curtin: So a couple things. Early on in this call, I talked about when you think about connectivity, it is around, where does data move and where does power move? And when you think about AI, it's both of those, but different than auto, it's more about the data movement than the power movement. Whereas we talked a lot about EV, which is a lot about, hey, we're up to 800 volts and how you get that charge into a car. When you're dealing with AI, what we're dealing with is things that are 112 gig, data movement going to 224 from a workload perspective, autonomous data in the car, Ethernet in the car is like 10 to 20 meg. So just to put things into perspective, that's the technology difference, certainly different environments.

But what we do here, a couple of things, socket on the GPU or TPU, we're one of the world leaders in that. You also get into, as they think about their workload of architectures, how the interconnects come off the back planes and so forth. And then in some cases you're getting into a cable back plane to make sure you're moving the data around at speeds that don't create latency. So when you look at what we do, certainly the semiconductor companies are creating the brain that we're the arms and legs to, to really make sure as they think about these workloads that they need for the AI applications. And that's where our connectivity cable, black plane, total assemblies come in.

And that's where we talked about – we deal with about 50% more content in an AI application than we do in a typical cloud application. And one of the things that certainly everybody saw with our CS segment, our communication segment, it was where we positioned ourselves in cloud to really take advantage of that, both from a growth as well as from all the cost actions we did to really drive the margin up into the high 20s in that super cycle.

What's nice is, as we get back in, the cost structure of this segment's in a great place, you're going to see as we get volume coming in, and we've started to get AI volume. What'll happen is we are still dealing with the latter ends of the stocking across in that unit that we call DND. You still have destocking happening around telecom equipment, enterprise type equipment, wireless equipment. That's a little bit of a headwind, that'll be anniversary here in a couple of quarters that you'll see the AI growth more evidently. So our wins in AI, when you deal with, whether it be where we're partnering with a semiconductor company or certainly the big AI players in the west, that's a $1.3 billion of wins. We think we'll have about $200 million of that 1.3 come in this year, they're ramping. And feel very confident and excited about it. And let's face it, this is the first year it's making a difference. It's going to have longer legs with it.

So it's one of the things we like about our portfolio is, it's not just one thing. We talk about EV earlier, certainly what happened in EV we talk a lot about in cars. It also impacts truck and certainly electronics in the truck are important. But as you move through these things, there's multiple content levers and AI is one that we get really excited about that it can do similar to what we saw in cloud and it's going to have legs.

Wamsi Mohan: Yeah. Okay. No, that's super helpful, Terrence. If we think about cloud itself, I think obviously you called out the super cycle in comm and then you saw the weakness as cloud inventory was getting digested. Where do you think we are in that part of cloud inventory digestion? It seems like from some of the other companies that we cover, we're hearing that we're at the tail end of it and things are starting to pick up and 2024 could be a strong CapEx year again for cloud spending. So how's TE thinking about the trajectory X sort of the AI piece?

Terrence Curtin: Certainly last year was a year where you saw, I forget the percentages when cloud was going like this, everybody was trying to get the supply chain, go ahead. And then last year cloud CapEx went sideways. Guess what? When everybody's building like this and you do that, you're going to have inventory built up and the brakes went on a little bit. I would say in cloud, we're at the last innings of that. I would say where we see areas where there's still destocking to go, I shouldn't say a lot. And certainly telecom, enterprise applications, we view that separate than cloud. So I think cloud, we're at a fresh start again, that's behind us. I do think in the broader Datacom telecom space, there are enterprise telecom applications that still have inventory to be worked through. But cloud and AI, I think that's all behind us. So similar to what you're really hearing.

Wamsi Mohan: Right. Okay. That's super helpful. Maybe transitioning a little bit to margins. You had astounding gross margins this past quarter. I know there's a lot of heavy lifting over time that is culminated into these margins. How do you think about the sustainability of these margins and how should investors think about, 24% is actually very, very, very impressive when you think about margin rates on – 34% gross margin, excuse me. Very, very impressive. How should investors think about the sustainability of these gross margins? And what are some of the moving pieces, like whether it is pricing that's run rated, whether it's cost, I know inflation had been a component. You've done so much footprint optimization, restructuring. How should we just think through this?

Terrence Curtin: So a couple of things, and I know earlier Nicole, we spent a lot of time in transportation. So there was price catch up there, certainly the footprint optimization there as well as improving EV margins. So all of those play a role in that one element of our gross margin. I think just jumping over to CS, I'll be honest with you, when you look at what we've done, our cost base is in a very good spot. So you've seen us be in the higher teens. I actually think throughout this year we'll stay in the higher teens and then it'll be volume dependent off of there. And that's why we get excited about AI.

The area where we have to do more margin work is really obviously industrial. Yeah. We talked about that. Industrial, we still think we can get that up into the higher teens. Now, the one caveat I'll probably give the industrial that doesn't relate as much to the other two is, industrial's also the area we typically bring acquisitions into. So no different, we just announced one here with Schaffner. They typically dilute our margin a little bit until we get them up to run rate. So we'd completely had not changed our view of where we can get industrial margin too in the higher teens.

We'll work through this destocking, but depending upon the pace of acquisitions into our industrial segment, because that's probably the most fragmented space we play in, you'll every once in a while see a little bit of dilution. You'll also see a little bit of restructuring because it's M&A to say, "Hey, how do I get this cost structure right?" But it's a model that we think's very good as we continue to build market share in those markets because we're typically a number one or number two, but we might only have 12% share. It's very different than what we talk about in our CS segment or in our transportation segment.

So still a fragmented space, I think there'll be opportunity both to grow or improve the margins. But I think overall, I think the gross margin you saw, and it was a little bit overheated because of auto production being a little bit heavy in the first quarter. I think the structural results you've seen or the margin results you've seen is really due to the structural. On the pricing front, just to add color to it, while we've caught up, I would say, and we talked about it last week, I think material cost is still going to be a big element of where pricing goes from here.

We're seeing elevated capital rates and while certainly things like freight have come down a little bit, certainly that's an element that we're watching very closely. And even this year we think price will be neutral at the TE level due to still areas. It isn't accelerating, it's moving a little bit more sideways from material cost. And we're going to keep an eye on that from our pricing this year.

Wamsi Mohan: Okay. That's helpful. Maybe transitioning a little bit into China and start thinking through – lots of things in the domestic market has been weak in general, but from a demand perspective more broadly, not specific to TE, but I know that you guys have been there for a long time. You got probably more than your fair share or maybe worked for a higher share of exposure at the domestic OEs. How should we think about TE's positioning in China more broadly and then maybe more specifically in autos and EVs?

Terrence Curtin: So first thing is we've been in China for 35 years, all right? So there is an element there. China is important, but I do think it's not important for every one of our units. So when you sit there and you think about our $3 billion of revenue in China, largest unit by far is automotive. It's the largest car producing country in the world. Arguably, could be the largest car exporter very soon, if not already. And when you think about the EV trend, the EV trend has been there. So it's been good for us. We've been focused on it and actually we just started building our six factory to really make sure we serve our customers locally in China. So when you sit there, our engineers are there, our manufacturing's there, we have to bring that innovation there locally. It's a market that moves very fast.

And I know I said last week on the call, I was just there three weeks ago. I'm always amazed on how many new vehicles I see and the quality of those vehicles that I get to drive around in and say, "Wow, form, fit, function." The evolution is just amazing. So number one is when you think about China for TE, it does start with auto. And that's about two thirds of our China position. The rest of it is really breaking down into industrial transportation. So this is going to be your heavy truck, construction equipment that's made locally, important market that we stay local in. Our appliance business. You have to realize Chinese OEMs, when you take hire, they own GE appliance and things like that. They are very global already. And about 50% of all appliances made in the world come out of Asia. So that business, which is a very good ROIC business for us, we talked about it. And we have leading share there globally. We win there a lot.

Then you get into industrial equipment where we play on factory automation. So how do we help our global customers win there? And also how do we serve all the local customers that are playing the industrial equipment space? And then certainly there's still parts of the telecom supply chain where we're allowed to play, where that's just how it works. So they're the markets that you really think about with us, aerospace, energy, medical, really aren't businesses where we do play in China significantly. So it's very much our transportation and CS segments.

And China for us has always been – there's always been China competitors for 35 years. And I think the thing that we've been very focused on is, how do we make sure we localize our supply chain? How do we make sure we have localized engineering to service our customers locally? And when you think about TE today, TE still exports more into China than we export out of China. So we still have efforts to localize even more.

And in those areas where our customers has asked us for a China plus one option, we have new facility in the Philippines, we expanded our operations in Mexico, we just put a new operation expansion into Morocco. One of the things is we want to be local, we want to make sure we're in region for region. That's some of the things we do with the restructuring. And we're trying to be as much self-contained as we can, as we serve our customers in China and we continue to make investments.

Wamsi Mohan: So just so I understand this correctly, you're saying that off the 3 billion revenue exposure about 2 billion is autos, that's largely domestic consumption. And maybe as they're growing their exports, you will have leverage to that as well on the transport side. And then for the remaining billion, maybe half is domestic consumption and half goes maybe outside?

Terrence Curtin: For us, all of it's domestic consumption. So when you sit there, we do not build in China to export to the west.

Wamsi Mohan: Got it.

Terrence Curtin: It would be very few exceptions. Now, we could ship into something where an OEM then ships it someplace else in the world, but when we sit there, we want to be localized. It's very little that is actually made in China by TE and exported to the western parts of the world. We still import more into China and we export out China.

Wamsi Mohan: Okay. Got it. That's helpful. Maybe just shifting gears a little bit around supply chain. There's been a lot of news around what's happening with the Suez Canal, around Red Sea shipping issues. How specifically does it, if it does have an impact, does it have an impact on TE and what are you seeing around maybe some of the things around logistics costs or on other things that might be changing as a result of this?

Terrence Curtin: First off, because our service levels are back, I would say our service levels are backed except in our aerospace and defense unit, which obviously there's lots of news around aerospace supply chain. But the rest of TE service levels are really back to pre-COVID levels and how we supply our customers. So it's not like we're chasing. Red Sea has created an inflation in freight rates. It has not impacted our ability to service our customers. It's been a very minor impact. We continue to watch that. We're trying to make sure we help our customers in case they're impacted. If for some reason their lead time extends because of the route that they have to take their good through, we're going to try to help our customers. But from a TE perspective, the only impact right now is a little bit of elevated freight rates as people are trying to figure out where this goes and how this stays. But we're watching it closely.

Wamsi Mohan: And would you say this is localized in the Mediterranean Red Sea area or is there more?

Terrence Curtin: Absolutely. Absolutely.

Wamsi Mohan: Okay. Great. Maybe really quick touching on your backlog, right? Your backlog was at record levels 6 million. What are you seeing now in terms of orders and just – I know obviously at your earnings, what you disclosed, but how should investors think about the trajectory of the business as it pertains to that?

Terrence Curtin: So I laugh at your question because if you asked me this pre-COVID, I would tell you we're not a backlog company. Why you asking about backlog? But clearly during what everything that happened in COVID, people did place more orders. And one of the things that we believe is that you're going to continue to see our backlog come down. As our service levels continue to be up at high levels, what we're seeing in our backlog is people aren't canceling, people are working the backlog down. So when you look at even our last couple of earnings calls, our book to bill was below one. I think you're going to see it stay below one as that backlog comes down to more natural levels.

In some cases our units are already back there, but I think it's actually a sign that as it's working down, people get more comfortable with the service element that we all struggled with during COVID. And I feel you're going to see it, but we don't see cancellations. We've seen like in the industrial space where we say, hey, got incrementally worse and that was one area of the work. You see some push outs there as we want to work with our customers, but we're not seeing cancellations at all.

Wamsi Mohan: Okay. Got it. So as we think about where these levels are, what's optimal or normalized levels that you think ultimately you get to?

Terrence Curtin: Well, if it was up to me, I'd like more backlog. So yeah, it depends who you want to be optimizing. But it does depend upon our businesses, so typically our automotive business has the lowest backlog. We're typically dealing with six to seven weeks of backlog. So when you look at it by different businesses, we probably still have about a billion dollars of backlog that would be above normal. I think that'll continue to work down. We also had backlogs still building in places like our aerospace business where we're still at the service levels we need to.

So I think at the overall level you can continue to expect it to work its way down, Wamsi. I hope our service levels stay up where they are because that's what the customers expect from us. So I don't view the backlog coming down as a negative by any means because in many ways it's a vote of confidence of, "TE told me they were going to ship on this date, you guys are hitting it. I don't need to build buffer stock." And that's some of what we're dealing with in some of these areas that have destocking was the entire supply chain. We're letting the customers down. They built buffer stock all over the place and hopefully that all gets worked through this year in 2024.

Wamsi Mohan: Yeah. Okay. That's super helpful, Terrence. I know we just got about five minutes left, so I just want to touch on the cap allocation. How should investors, I know you guys have had a very steady message on this, so I don't think that your answer is going to be very surprising, but in some ways is there – because of what has happened, so many dislocations from a macro perspective, so many things have changed in the way the supply chains are managed. Is there any reason to think that the cap allocation strategy should be any different?

Terrence Curtin: Well, I think you're right. I'm not going to surprise you with what I say. So let me just be very direct. But I think the first thing is, I always believe you have to start with how good the cash generation of this business is. And that creates a lot of flexibility for us. And while we might sound very mechanical at times around the capital allocation strategy, we got to realize the cash generation model is one of the biggest assets of TE, not only how we serve customers.

So I think what you've seen, we got back on track last year. We did build up some inventory when we had the supply chain, we made a conscious decision to say, "Hey, supply chains are getting better, let's get this back down." And you saw that last year and you saw very good cash conversion. You see us off to a great start this year. We think we're going to put up a good cash conversion number this year. And from a capital perspective, we like where our leverage level is. It does provide us flexibility because we do like bolt-on M&A.

I think between our cash generation and our balance sheet, we have opportunity to do bolt-on M&A. We did Schaffner, we'd always like to do more of the Schaffner type things and the ERNI type things that we've talked to investors about. And the past couple years, we haven't been able to, not because of effort, in some cases just where prices went and we just didn't see a return opportunity. And therefore, we returned the capital to our owners.

So I know we always – this is where I'm going to tell you, you're right, I'm going to tell you what you want to hear. We do think about over time, we'll probably be two thirds return of capital to owners between our dividend. And we just took it up nicely here a few months ago to take to our shareholders in March. Certainly share repo. We've been doing more share of repo because we didn't have M&A opportunity. I hope we have more bolt-on opportunities like Schaffner that can complement our organic engine that we talked about through most of the call.

Wamsi Mohan: Yeah. Maybe to close this out, Terrence. I just want to give you the opportunity to address the investors on here and just talk about why in your view, like TE is a solid investment at this point in time.

Terrence Curtin: Well, I think one of the things when you sit there, a couple of things. I do think we're tied to the global trends that we've talked about. AI's just starting, EV, we're still only at 20 million units out of 85. And I think we're very well positioned to continue to drive content. The margin side of it, I think you see two of our three segments performing well. I think the industrial one still has self-help opportunity. So you're still going to get margin uptick as we go from here and how we continue to return capital and use capital, I think we've been very disciplined around that. So I think that's very important.

All of those, when you think about how do we grow the cash flows at TE and how do we use the cash flows at TE? I think those are both important elements. And one of the things I would just say, I know that destocking word has been thrown out a lot, but one of the things that when I think about the past year or so, our content has absorbed a lot of the destocking. So even when I think about our first quarter, we don't like saying we were flat. We have a $100 million dollars of stocking. It's the content and drivers that we talked about today, the EV outperformance growth, the AI growth, certainly the renewable energy growth, they're the things, so hey, we're absorbing it, I think reasonably. Certainly we're all dealing with it and there are things that are going to be very well positioned as we move forward, and certainly it's up to the investor to make that decision.

Wamsi Mohan: Well Terrence, I want to thank you for joining us here for the fifth consecutive year. It's been absolutely a privilege to have you on these calls and really appreciate your time here for all the insights that you've shared with us, and we look forward to having you again next year for sure. But I want to say, it's always impressive to me how this company has evolved from, I don't know, we were just talking about, when I started covering it back in 2008, 2009 to until now, the amount of transformation that the company has gone through, where the margins have gone through, and how much the peak to trough margins have come in and the cyclicality has gone down in the business, all so super impressive under your stewardship. So really appreciate you taking the time and look forward to speaking soon again.

Terrence Curtin: Well, thank you for hosting me. Certainly the team gets credit for all that work that you highlighted there. I also hope you have a safe trip to India tomorrow.

Wamsi Mohan: Thank you so much.

Terrence Curtin: So safe travels. Thank you everybody for listening today. Thank you.

Wamsi Mohan: Thank you. Thank you everyone for joining. If you have any follow up questions, do reach out and we'll try our best to get an answer for you. Super.

Terrence Curtin: Thanks, Wamsi.

Wamsi Mohan: Thank you, Terrence.

Price objective basis & risk

TE Connectivity Ltd. (TEL)

Our PO of $155 is based on 20x our C24E EPS estimate. The 20x is within the historical range of 17x to 35x. We believe a target multiple of 20x is justified as it balances risks from high exposure to the cyclical auto market and current macro headwinds from inflationary pressures and supply chain constraints, versus benefits from market outperformance from content growth and secular trends in automotive and industrials.

Downside risks to our PO are a worse-than-expected slowdown in the automotive sector and high exposure to the sector (>40% of sales), a general slowdown in the global economy from impact of COVID-19, and supply chain disruptions.

Analyst Certification

I, Wamsi Mohan, 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 - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amphenol	APH	APH US	Wamsi Mohan
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Corning Inc.	GLW	GLW US	Wamsi Mohan
	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Nutanix Inc	NTNX	NTNX US	Wamsi Mohan
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
NEUTRAL				
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp	CDW	CDW US	Ruplu Bhattacharya
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
UNDERPERFORM				
	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan
	Sanmina Corporation	SANM	SANM US	Ruplu Bhattacharya
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya
	Vizio	VZIO	VZIO US	Wamsi Mohan

*iQ*method SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 − Tax Rate) + Goodwill Amortization	Total Assets − Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations − Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt − Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations − Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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

iQdatabase ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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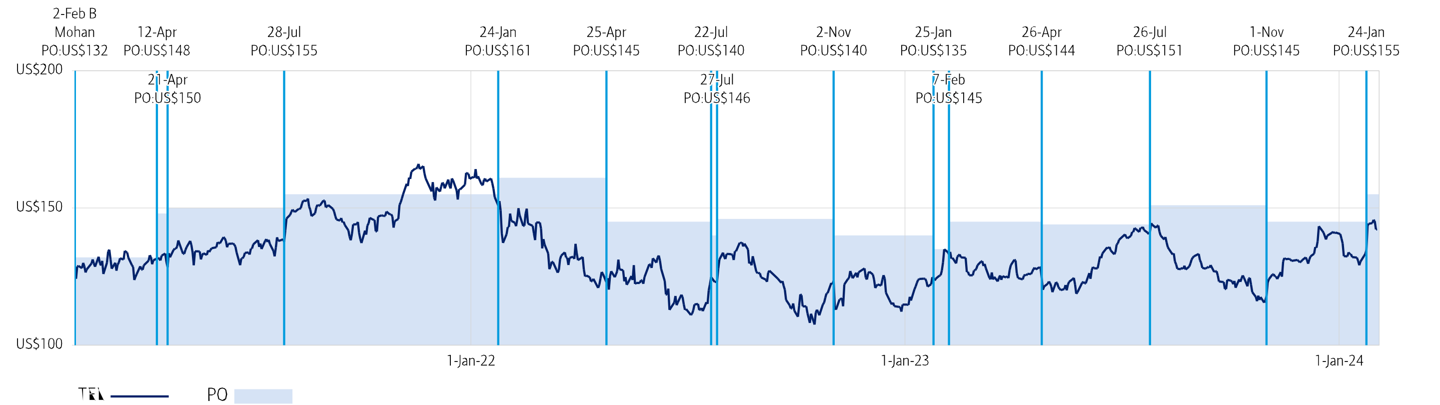
TE Connectivity Ltd. (TEL) Price Chart



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: Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	32	54.24%	Buy	13	40.63%
Hold	11	18.64%	Hold	3	27.27%
Sell	16	27.12%	Sell	4	25.00%

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]
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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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