Industrials/Multi-Industry

Multi-industrial Question Bank: A Guide for the Perplexed

Price Objective Change

15 February 2024

Equity
Americas
Industrials/Multi-Industry

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Question Bank

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Valuation metrics

Exhibit 1: Multi-industrial summary valuation metrics

Summary valuation metrics

				Revenue Growth (%)			Operating Margin (%)			EPS Growth (%)		
	Ticker	**Price**	**Price Obj.**	**2022**	**2023E**	**2024E**	**2022**	**2023E**	**2024E**	**2022**	**2023E**	**2024E**
3M	MMM	$92.42	$110	-3.6%	-4.5%	1.4%	21.1%	20.3%	21.5%	-6.4%	-7.4%	14.4%
Allegion	ALLE	$131.18	$95	14.1%	11.5%	3.5%	20.2%	21.9%	20.7%	9.9%	14.4%	-1.5%
AMETEK	AME	$173.41	$182	10.9%	7.3%	12.0%	24.4%	25.9%	25.3%	17.1%	11.5%	7.7%
Carrier	CARR	$55.00	$55	-0.9%	8.2%	17.8%	14.2%	14.5%	15.2%	3.1%	15.4%	11.3%
Core & Main	CNM	$43.62	$28	32.9%	1.1%	2.3%	11.7%	11.0%	10.2%	N/M	0.4%	0.0%
Dover	DOV	$160.89	$180	7.6%	-0.8%	2.0%	16.9%	17.2%	18.0%	10.7%	4.2%	3.7%
Eaton	ETN	$275.62	$300	5.7%	11.8%	7.4%	14.7%	17.0%	17.9%	12.0%	21.6%	9.2%
Emerson	EMR	$106.24	$120	-17.4%	11.3%	12.5%	18.9%	18.8%	18.6%	-10.5%	20.7%	15.5%
Flowserve	FLS	$41.97	$44	2.1%	18.8%	5.2%	6.2%	9.6%	10.6%	-20.6%	N/M	20.4%
Fortive	FTV	$83.58	$85	10.9%	4.1%	6.5%	24.3%	25.9%	27.0%	14.6%	7.1%	4.2%
General Electric	GE	$146.50	$162	3.0%	-14.4%	0.0%	7.9%	8.6%	8.6%	23.3%	1.7%	59.2%
Honeywell	HON	$194.87	$250	3.1%	3.4%	5.5%	22.0%	23.2%	23.8%	8.8%	4.8%	9.8%
Illinois Tool Works	ITW	$254.12	$235	10.2%	1.1%	3.2%	23.8%	25.1%	24.7%	14.7%	-0.2%	2.9%
ITT	ITT	$123.11	$135	8.1%	9.9%	11.6%	15.9%	16.9%	17.6%	9.5%	17.5%	16.2%
John Bean Technologies	JBT	$103.18	$85	15.9%	-23.1%	6.6%	9.2%	10.6%	11.0%	25.0%	-15.8%	14.8%
Johnson Controls International	JCI	$57.07	$60	6.4%	6.2%	4.6%	11.6%	12.6%	13.4%	12.3%	18.6%	13.6%
Montrose Environmental Group	MEG	$33.01	$40	-0.4%	15.2%	10.8%	-5.1%	-3.3%	0.7%	N/M	N/M	N/M
Parker Hannifin	PH	$521.91	$600	15.1%	12.9%	5.0%	19.7%	21.8%	21.9%	19.8%	11.9%	9.0%
Pentair	PNR	$74.98	$76	9.5%	-0.4%	2.5%	18.6%	20.8%	22.3%	8.2%	1.2%	9.0%
Rockwell	ROK	$279.93	$280	12.5%	13.8%	5.9%	17.1%	17.6%	19.7%	7.5%	22.4%	10.2%
Trane Technologies	TT	$272.81	$282	13.1%	10.5%	7.1%	14.9%	16.3%	16.7%	21.2%	19.3%	10.8%
Vontier	VNT	$36.43	$40	6.5%	-3.1%	0.7%	20.0%	19.1%	20.1%	7.0%	-7.1%	6.8%
Vertiv	VRT	$64.97	$72	13.9%	21.1%	11.1%	3.9%	12.6%	15.4%	-29.9%	N/M	30.6%
AVERAGE				**8.9%**	**5.0%**	**6.0%**	**15.1%**	**16.6%**	**17.4%**	**8.4%**	**7.4%**	**12.5%**
MEDIAN				**8.8%**	**6.8%**	**5.1%**	**15.4%**	**16.9%**	**17.8%**	**11.3%**	**7.1%**	**9.5%**

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

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Exhibit 2: Multi-industrial summary valuation metrics

Summary valuation metrics

		P/E				Cash P/E			EV/EBITDA			Dividend Yield		
	Ticker	**2022**	**2023E**	**2024E**	**10-yr Avg**	**2022**	**2023E**	**2024E**	**2022**	**2023E**	**2024E**	**2022**	**2023**	**2024**
3M	MMM	9.4 x	10.1 x	8.8 x	15.7 x	13.7 x	10.1 x	16.6 x	7.3 x	7.5 x	7.1 x	6.4%	6.5%	6.5%
Allegion	ALLE	21.9 x	19.2 x	19.4 x	17.7 x	29.3 x	22.0 x	19.4 x	18.5 x	15.3 x	15.3 x	1.2%	1.4%	1.4%
AMETEK	AME	NM	27.4 x	25.4 x	17.9 x	39.7 x	25.1 x	25.1 x	23.0 x	21.3 x	18.6 x	0.5%	0.6%	0.6%
Carrier	CARR	23.5 x	20.3 x	18.3 x	N/A	34.1 x	21.9 x	NM	16.3 x	14.1 x	13.9 x	1.1%	1.3%	1.4%
Core & Main	CNM	20.1 x	20.0 x	20.0 x	N/A	28.6 x	10.1 x	17.4 x	13.4 x	12.1 x	11.7 x	0.0%	0.0%	0.0%
Dover	DOV	19.0 x	18.3 x	17.6 x	13.4 x	39.5 x	19.8 x	17.9 x	15.1 x	14.5 x	12.9 x	1.2%	1.3%	1.3%
Eaton	ETN	NM	NM	28.0 x	12.0 x	NM	38.6 x	32.3 x	29.6 x	24.3 x	21.8 x	1.2%	1.2%	1.3%
Emerson	EMR	27.6 x	22.9 x	19.8 x	16.8 x	30.6 x	27.6 x	22.2 x	20.2 x	15.1 x	14.9 x	1.9%	2.0%	2.0%
Flowserve	FLS	NM	21.0 x	17.4 x	16.3 x	NM	NM	23.9 x	20.2 x	12.7 x	10.9 x	1.9%	1.9%	1.9%
Fortive	FTV	26.5 x	24.8 x	23.8 x	20.4 x	24.9 x	23.9 x	22.0 x	21.8 x	19.1 x	17.5 x	0.3%	0.3%	0.4%
General Electric	GE	NM	NM	NM	2.1 x	33.9 x	31.6 x	31.6 x	20.7 x	23.2 x	23.4 x	0.2%	0.2%	0.2%
Honeywell	HON	22.2 x	21.2 x	19.3 x	15.2 x	29.5 x	29.9 x	22.0 x	15.8 x	14.3 x	12.8 x	2.0%	2.1%	2.3%
Illinois Tool Works	ITW	26.0 x	26.1 x	25.3 x	0.0 x	NM	25.0 x	24.4 x	20.5 x	18.9 x	18.3 x	2.0%	2.1%	2.3%
ITT	ITT	27.7 x	23.6 x	20.3 x	14.4 x	NM	23.7 x	22.7 x	17.5 x	15.2 x	12.8 x	0.9%	0.9%	1.0%
John Bean Technologies	JBT	21.5 x	25.6 x	22.3 x	16.0 x	NM	29.2 x	26.0 x	15.0 x	13.0 x	11.8 x	0.4%	0.4%	0.4%
Johnson Controls International	JCI	18.4 x	15.5 x	13.7 x	N/A	27.2 x	20.8 x	15.3 x	12.3 x	11.4 x	10.3 x	2.4%	2.5%	2.6%
Montrose Environmental Group	MEG	NM	NM	NM	N/A	NM	20.6 x	15.5 x	NM	40.9 x	29.4 x	0.0%	0.0%	0.0%
Parker Hannifin	PH	26.1 x	23.3 x	21.4 x	15.1 x	30.8 x	26.1 x	19.9 x	0.0 x	8.6 x	13.5 x	0.8%	0.0%	0.0%
Pentair	PNR	20.4 x	20.1 x	18.5 x	17.8 x	NM	20.8 x	18.8 x	17.8 x	15.6 x	13.9 x	1.1%	1.2%	1.2%
Rockwell	ROK	27.6 x	22.5 x	20.4 x	N/A	NM	NM	20.5 x	22.2 x	18.4 x	15.6 x	1.6%	1.7%	1.8%
Trane Technologies	TT	NM	NM	28.0 x	14.0 x	NM	NM	NM	25.1 x	21.6 x	19.7 x	1.0%	1.1%	1.2%
Vontier	VNT	11.8 x	12.7 x	11.9 x	N/A	22.5 x	14.6 x	11.9 x	10.9 x	10.7 x	10.1 x	0.3%	0.3%	0.3%
Vertiv	VRT	NM	NM	28.9 x	N/A	NM	39.5 x	32.6 x	NM	24.2 x	19.0 x	0.0%	0.0%	0.2%
AVERAGE		**21.5 x**	**20.7 x**	**20.4 x**	**13.9 x**	**29.5 x**	**23.9 x**	**21.8 x**	**17.2 x**	**17.1 x**	**15.5 x**	**1.2%**	**1.2%**	**1.3%**
MEDIAN		**21.9 x**	**21.0 x**	**20.2 x**	**15.2 x**	**29.4 x**	**23.7 x**	**21.2 x**	**17.7 x**	**15.3 x**	**13.9 x**	**1.0%**	**1.1%**	**1.2%**

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

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Revenue breakdown by region

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

Exhibit 3: Revenue breakout by region

Multi-Industrial coverage revenue breakout by geographic exposure

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

Source: BofA Global Research estimates, company report

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

Exhibit 4: Revenue breakout by end market

Multi-Industrial coverage revenue breakout by end market exposure

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

Source: BofA Global Research estimates, company report

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3M – MMM, Neutral, $110 PO

- '24 guide of $9.35-$9.75 represents ~3% EPS growth at midpoint v. $9.24 reported in '23. What are the scenarios bookending the forecast at the high and low end? What would it take for 3M to outperform the initial guide the way it did in '23? It appears that the operating outlook is simply a function of adding $200mn of incremental savings and then another $141mn of lower charges in '24 to '23 operating profit. There doesn't seem to be benefit from operating leverage, mix or lower input costs – is this the right framework, why the absence of any operating leverage in the model in '24?

- Cadence of the restructuring program in '24? What is a good way of modeling benefits (given the tailwinds from '23) v. costs? How is '24 restructuring different from '23 actions? You have given restructuring costs of $0.10-0.15 but not now benefits, how should we be modeling the benefits? What should we assume to standing up costs for HC spin embedded in your outlook?

- SG&A has come down materially over the past several years (down to 14.9% in '23 v. 20.1% in '18) offsetting most of the Gross Margin decline (49.1% to 41.1% during the same period) what has driven this dynamic? How low can SG&A still go post restructuring, what would it take for GM to expand again – what is a good run rate for both?

- '23 FCF was very strong at $6,294mn/123% conversion. What are incremental opportunities for working capital release in '24? What are the drivers of 95-105% conversion range at the low and high end?

- Pricing: What's embedded for realized price in the 0-2% y/y revenue guidance? Low single digit for the full year? Does it noticeable decelerate as you go through the year?

- What are the levers needed to return to organic top-line growth? For business such as Consumer and Health Care it appears organic guide for 2024 is below peers, is it the difference in macro outlook or the difference in underlying product? What are the internal growth initiatives you can point to improve the underlying growth?

- Can you discuss exit of PFAS manufacturing? Are there any stranded costs? How is 3M thinking about replacing the impacted product lines? Is there a potential for 3M to exit before 2025?

- What trends have you seen since reporting earnings in January? Have you seen the macro/demand environment pick up from 4Q23 as we move into 1Q24?

- Dividend policy post- HC spin? What are your thoughts about the appropriate payout ratio for 3M going forward? How do you balance dividend with opportunities for share buyback at the current stock price level?

Safety & Industrial

- The company highlighted destock for EMEA and greater China. For Safety & Industrial how should we think about destocking throughout 2024? Can you quantify the drag in 4Q, the only product lines up y/y were industrial adhesives and tapes and roofing granules?

- Roofing granules were up 24% y/y in 4Q23– what is the dynamic driving this strength, is the momentum sustainable into '24?

- Can you comment on the Auto aftermarket trends. Sales were down sequentially and y/y in 4Q? What would it take for the segment to return to growth?

- Have we reached the bottom for disposable respirators? Does '24 segment guidance for flat-LSD growth for the segment assume any headwind v. '23?

Transportation & Electronics

- Historically 3M auto's outperformance versus IHS forecasts has been 400bps. How much of the outperformance would you attribute to electrification? Can we expect EV business to continue to outgrow given difficult comps in '23 (+30%). How should we think about relative outperformance by region, particularly NA v. China?

- Consumer electronics was described as stabilizing in 4Q and is expected to be up y/y. Smartphone shipments are up, how should we think about the timing of recovery? On the conference call, management commented that the semiconductor market will start 2024 soft and improve throughout the year. Is this the right framework 3M's specific business? What are you seeing in the market? How is the semi business being impacted by your exiting of PFAS?

Health Care

- If procedure volume growth is +LSD, what would keep Health Care revenue flat? What's the offset to price & volume growth here? When do you think hospital budgets start to stabilize and when will the impact be felt?

- During the call the stand-up costs for HC spin were described as $0.07-$0.08 in 1Q24. Can we run-rate these costs for the rest of the year or is there a cadence you would call out? What are these costs and why are you not excluding them from your operational guide?

Consumer

- Consumer discretionary next year and how should we think about recovery if there is any? How is the channel evolving? Is there any strategic alternatives for the business?

Legal

- Other than the March 25th deadline in the Combat Arms MDL, are there any important dates you would flag? Now that the final fairness hearing has happened for the public Water Suppliers what is your confidence in the settlement? What other important dates in the AFFF MDL would you flag? Is a personal injury bellwether still expected for late 2024/ early 2025?

Allegion – ALLE, Underperform, $95 PO

- Electronics has been highlighted as one of your key priorities during your analyst day. What is driving different electronics adoption by region (NA ~10%, EMEA ~5%, ANZ ~8%)? What is the impact of electronics growth on margins? How does the push into electronics impact your supply chain strategy?

- Software and services is another key strategic priority for the company how has the addition of Stanley Access Technologies change the business model going forward, ho can Allegion leverage its new services expertise in its core hardware business. What are the strategic opportunities available to the company related to software, are there obvious adjacencies, white spaces that you can target? How is Interflex strategy evolving - what are the opportunities to scale it up with existing customers, what else can you do with it?

- Capital allocation priorities, how should we think about acquisitions? Are there any sizeable opportunities available in the market? How high are you comfortable levering up, can you flex north of 3x? What is a good run rate for leverage historical range seems to be 1.5-2.5x. What is behind your 2-3% capital deployment contribution on top of 8-10% EPS growth – helps us frame it.

- EBITDA margins going forward, what would it take to exceed prior peak – You are highlighting 50-100bps per year going forward but is this this right framework given higher percentage of the service business and potential internal software investments.

Americas

- Residential: How should we model the timing of housing starts vs. completions? Help us think about the channel - are there differences in inventory levels between big box and homebuilders. When does the market bottom. Competitive dynamic in North America particularly v. Assa Abloy, ability to fully regain market share in the big box?

- Where is the institutional market today - how do you track the impact of the federal stimulus v. local bond issuance (which was down)?

- How should we think about your commercial market exposure in North America, key verticals to consider, new v. remodel. How is the business impacted by work from home?

- Pricing environment in North America?

- How to think about NA margins in the long run with the addition of Access Technologies. How has Access technologies changes/enhanced your go to market model?

- How has the ramping up of the Mexico plant been going? What other opportunities are there to nearshore certain products? How is Mexican labor inflation impacting your operations?

International

- Can you take us around the world what are some of the weaker and stronger markets? Can you help us size the portable security business - how much has it declined? When does it bottom? Why does it impact the margin so much. What are the key opportunities to improve the channel in the international markets?

Ametek – AME, Neutral, $182 PO

Orders & backlog trends

- $3.5bn backlog versus $1.7bn pre-COVID… up ~100% versus ~30% for revenue. How do you see backlog normalizing over the next 12 months?
- How much of the backlog is tied to Aerospace & Defense (~20% of revenue)? What are the other long-cycle/backlog-driven end markets for Ametek?
- Organic orders (2)% y/y in 4Q23. How much of this is driven by destocking? How much from shorter lead times?

Paragon Medical

- Pre-acquisition, Paragon had double-digit revenue growth. Now expecting mid- to high-single digit growth on destocking and portfolio pruning. Are new program wins slowing?
- What did the private equity owner (American Securities) do to improve the company over its three years of ownership?
- Understand that you see medium-term margin expansion towards the 30% range. However, given the regulated nature of medical device markets, will you need to make investments to expand internationally (existing manufacturing locations in Poland and China)?

China

- Asia is 21% of total, with China roughly ~10% of total. Management expects flattish orders in China for 2024. What are the secular reasons for this stability?
- Have you been impacted by any of the increased US-China trade restrictions? How do you think about this risk factor?

Short-cycle exposure

- Peers with communications test & measurement exposure have seen weaker demand as 5G-related spending is waning. What's Ametek's broad exposure to the communications end market? Has Ametek seen similar trends?
- Discrete automation peers have reported weak orders (ABB, ROK, etc.). When would you expect to see the trough in demand for discrete automation end market?
- Ametek has a number of operating companies in the industrial power space (power protection, ruggedized power supplies, backup batteries, power supply components). This would seem to be an area of potential destocking by OEMs and distributors. Is this an area of weaker-than-average demand?

ROIC targets

- Your ROIC target for acquisitions is 10% by year three (cash metric). Ametek has been successful in maintaining ROIC at +/- 12%. How do you ensure that, even as deal sizes get larger (e.g., $1.9bn for Paragon), you continue to hit ROIC targets?
- How do you think about 80/20 within your business units? Given very few divestitures, are you using 80/20 on a product-line basis?

Organic (and inorganic) revenue targets

- Ametek's largest end markets are MedTech (~21% of total), Aerospace & Defense (~18%), and Industrial Power (~10%). What makes these end markets attractive?

- How do you think about normalized revenue growth? Does pricing return to the historical 1-2% level – or have we entered a “new normal”? (Note: guiding for 3pts pricing in 2024)
- How do you incentivize business managers to invest into areas of secular growth? These might depress near-term margins/profits, but be good medium-term trade-offs?
- How many points of M&A benefit does Ametek target annually? Given the bottom-up approach to deal sourcing, do you balance business mix among end markets?

APi Group – APG, Buy, $36 PO

Chubb

- Where do you stand in terms of the number of Chubb branches (~200 in total) that were unprofitable in 2023? What portion need to be closed in 2024 versus are on track to flip profitable?

- In November you raised the Chubb synergy target again to $125mn from $100mn previously. What were the areas of incremental value capture you discovered?

- Chubb's 2025 EBITDA margin target of 15% is above the total company's 13% target. Is security/monitoring a much higher margin business? What are the other factors that drive the higher profitability?

Safety Services segment

- What portion of the growth in recurring inspection revenue comes from winning existing buildings versus new construction?

- How do you compare the cost/benefit of greenfield locations versus acquisitions to expand your geographic footprint?

- How do you compete against companies with broader service offerings – such as Johnson Controls?

- What portion of revenue comes from national accounts? Are these growing faster than the overall segment? Has the Chubb acquisition given a meaningful lift to growth here?

Specialty Services segment

- When you think about the 13 operating companies that make up this segment, are there ones that are particularly cyclical (e.g., oilfield services)? Are there ones with structurally lower margins?

- Appreciate the focus for acquisition is on Safety Services, but should we think about the announced divestiture of a civil contracting business as the start of a trend?

Corporate & balance sheet

- Many companies use a FCF conversion metric that is based on net income. Is there a reason you think EBITDA is better – given you do have cash interest expense and cash taxes?

- When would you expect to complete your IT upgrades and fix the material weakness in financial reporting? Are you spending meaningful amounts on the upgrade?

- Would you convert the Series B preferreds to common when shares are above the $36.90 conversion price?

- How do you think about corporate expenses? Are all the additional costs from more international operations in the run-rate today or is there more to do?

M&A strategy

- Chubb gave you a strong European footprint in security. How do you think about the relative merits of acquiring commercial security firms in the US? Would you ever consider self-performing the monitoring in the US?

- Given your projected FCF and 2.0-2.5x target leverage, do you have the integration bandwidth for taking on ~10 smaller (<$10mn EBITDA) companies annually? How long before an acquisition is fully integrated (both systems & people)?

- Are there M&A targets with higher (~30+%) recurring revenue mixes? Or does the pipeline consist mainly of well-run installation companies with <15% inspection work?

Aspen Technologies – AZPN, Buy, $255 PO

ACV growth

- In the "core" Aspen products (Engineering + Manufacturing & Supply Chain), can you quantify how much of the growth is coming from sustainability spending? Are these for traditional applications (e.g., reductions via efficiency) or new approaches (e.g., carbon capture, hydrogen)?
- Given the cyclicality of the upstream oil & gas market, how can you convince prospects/clients to sign multi-year contracts?
- Digital Grid Management had been selling perpetual licenses for decades. If you successfully converted all of the current perpetual licenses to term licenses, what would the relative ACV be (relative to $56mn in FY23)?
- Emerson highlighted a win at an existing DeltaV paper & pulp customer (e.g., cross-selling into the DeltaV installed base). Was did Aspen replace? How is the pipeline for these types of deals?
- At the time of the Emerson transaction, you were targeting $70mn of EBITDA from cross-sales by FY26, or ~$140mn of revenue. Where do you stand on that target after year one? What would FY24 guidance imply for year two?
- Guidance implies ACV additions accelerate in 2H versus 1H. Is this about the timing of renewal bookings or are you calling for an underlying acceleration in demand?

Margins

- Adjusted SG&A costs are ~$500mn. At the time of the Emerson transaction, you were targeting $40mn of cost synergies. What have you executed on and what is timeline for hitting the $40mn target?
- As Digital Grid Management transitions to third-party implementations, should we expect your lower-margin services revenue to decline over time?
- FY24 guidance implies a ~65% incremental margin. Is that a reasonable framework for outer years as well?
- Legacy Aspen had ~40% FCF as a % of ACV. Are there any structural reasons why the Emerson assets (SSE + DGM) should not approach this same FCF yield over time?
- Is there a meaningful margin difference between term license revenue additions from SSE + DGM versus Heritage AspenTech?

Strategy/corporate

- Any update on the CFO search?
- Where is the M&A pipeline? Are there other targets in the mining or life science space that could aid in helping Aspen grow these markets?
- Understand that you are still offering perpetual license as an option for DGM. Is there a point where you go 100% term license? Or would that put you at a competitive disadvantage versus GE and others?
- How do you see clients calendar year 2024 budgets shaping up?

Atmus Filtration Technologies – ATMU, Buy, $29 PO

Revenue trends

- What was the aggregate impact of destocking on 2023 revenue growth that will not repeat in 2024? 2-3pts? Higher?
- Know you are expecting pricing to return to 1-2pts in 2024. How do you view the trade off between pricing and market share?
- China is ~6% of revenue (or ~12% if you include JV revenue). How much of a drag was China in 2023? What is your outlook for 2024?
- Third-party forecasts and competitors are surprisingly optimistic about 1H on-highway production volumes. Does that view (1H growth / 2H decline) fit with your framework for 2024?
- What are some of the ways you can gain market share in the off-highway market? Is this a focus area for you?

Gross margins

- What was the one-time impact to 2023 gross margin from the stand-up of new distribution centers?
- If you snapped the line today at current commodity & freight costs – what would the y/y benefit be to gross margin in 2024?

EBITDA margin

- Know that volume is the biggest factor behind margin. If you lower first-fit volumes offset aftermarket growth, does that constrain your ability to drive margin expansion?
- Given aftermarket sales have higher margins, how much of a mix tailwind is there for you? Hypothetically, if aftermarket (~80% of revenue) is up 3% and first-fit down 12% that would yield flat volumes… but what would the mix benefit be to EBITDA margins?
- Do you see equity income from your China JV at “floor” levels? Could this be a source of potential upside in 2024?

FCF

- Current plans are for $20mn of separation-related capex in 2024. Is there a risk some of these projects get pushed out further to the right?
- Do you have a target FCF conversion (as % of net income)?

M&A

- Would you be disappointed if you did not announce your first non-vehicle filtration acquisition by year-end 2024? What is the median EBITDA size of prospects in the pipeline?

Carrier – CARR, Underperform, $55 PO

- Using $2.55 as a base and the same 14% growth rate it is assuming for '24 EPS growth implies EPS of ~$2.91 for '25. What are the levers needed to achieve the 14% growth to hit the 2025 EPS target?

- What is the opportunity to "attach" software solutions like Abound and Lynx to Carrier's installed base?

- What is driving China strength? Orders were up ~20% in 4Q23, was this a function of comps or outperformance? You noted that most of your China exposure is now 75% industrial/infrastructure v. 30% in the past, could you talk about this transition?

- How is the bankruptcy process going for KFI? Has there been plaintiff pushback? Is the bankruptcy affecting the timing of the resi/commercial fire divestiture?

- Inventory in 2023 was down y/y, but still elevated vs pre-COVID. Are you expecting to reduce inventory further in 2024? What are the levers to return to historical inventory levels?

- How much cash should we assume you have available for buybacks/other in '25 – ie FCF + incremental M&A proceeds + potential leverage

HVAC

Resi

- For resi, although destocking is now expected to continue in the short term in '24, is the destocking going to be as significant as it was in 4Q23? How did the ambiguity of the EPA's original refrigerant transition guidelines affect destock in 4Q23? When does resi business return to growth in '24?

- Based on commentary it appears, Carrier will be one of the first companies to put its new refrigerant product in the market for resi, do you think this gives you a significant advantage? As the EPA has amended the sell through rules, are you going to continue to produce the r-410a products after launching the r-454b line?

- With the March increase on the old R-410a HVAC units, how should we think about the costs of the new refrigerant units in comparison, ie is the 15-20% price increase cited is incremental to this price increase?

- As heat pump adoption rises how do you see competition evolving from new lower priced entrants - ie the Chinese product. How can Carrier lever Giwee and Toshiba product better in North America going forward?

Light Commercial

- With light commercial guided to be down mid-single digits, how should we think about the underlying demand v. Inventory in the channel. When do you expect light commercial demand to turn positive?

- With orders related to the ESSER funds have to be placed by September 30th, how should we think about the size of your education vertical for 2025 (both applied and light commercial)? With states first applying for rebates created under the IRA in January, are you expecting to see a benefit from the IRA in 2024 or is the benefit delayed until 2025?

Applied

- What is Carrier's datacenter exposure? Can the rate of growth be sustained over the next several years? Is there anything different about the HVAC product for the data centers. Do you need new cooling solutions to service the AI data center market?

How should we think about Carrier industrial exposure? Do you have visibility on reshoring particularly as construction for semiconductor fabs and electric vehicle plants pick up into '24? How is your pipeline, are you seeing any orders stemming from these conversations? How is the data center demand visibility?

- How is Carrier driving higher service attachment rates – aftermarket up 12% in '23, 10% in '22. What's a good aftermarket growth assumption in '24 and beyond. What changes have you been making to incentivize the salesforce to sell more applied product with services. Was it about the number of people? technology? Incentives?

Viessmann

- What makes Viessmann distribution network such a valuable asset? How can you leverage Carrier, Toshiba and Giwee product with Viessmann distributors? How do you scale up Viessmann distribution for higher volumes in Europe? What are the opportunities with Viessmann distributors for Carrier in North America?

- What are the sources of savings/synergies at Viessmann going forward? Is it facility consolidation, sourcing?

- Have you recalibrated LT heat pump growth opportunity in Europe? Originally you have forecasted the European market to growth to 4-6mn units by '27 and 6-10mn units by 2030. How should we think about the regulatory environment for climate change legislation is Europe vs a year ago? How are you thinking about the recent changes to the European Union's Energy Performance for Building Directive which now allows more leeway on implementation? Does this impact the long-term adoption rates for heat pumps? During the September business update and 3Q23 earnings, you were relatively constructive on Viessmann outlook into year end, however EBITDA came in at €650mn vs expected €700mn. What happened towards the end of the year? What were the negative surprises? What are you forecasting for the German heat pump market in '24 (v. '23 at 356,000), how do you see the quarterly cadence. How much backlog coverage does Viessmann have?

- Why would boiler demand grow in 2024 in the face of weak German construction market and consumer demand? Was there pent-up demand in 2023?

- What is driving the guide for Viessmann's PV business to be down in 2024? Is the PV business impacted by German Court decision taking away manufacturing benefits? When do you expect the business to bottom?

Refrigeration

- For North America and Europe tuck/trailer you guided to outperform ACT forecast citing previous outgrowth. What is driving the outperformance? What are you doing to win market share vs your competitors? Can you go into more detail on your forecast for container recovery –you noted "strong rebound in the container business, both in terms of market and in terms of share" ?

Core and Main – CNM, Underperform, $28 PO

- How do you see market growth in 2024 shaping up versus your medium-term outlook of 2-4%?
- Core & Main's product lines go in towards the later stages of construction. If we saw an upturn in non-residential construction starts, how much of a lag would there be to higher revenue for the company?
- Residential had improved sequentially in 3QF23, what trends do you expect in 2024 for new residential lot development?
- How are you thinking about pricing in 2024? Given declining commodity prices, when would you expect to see that flow through in pricing for your commodity products?
- When do you anticipate seeing a tangible benefit from the Bipartisan Infrastructure Law's water related funds?
- Core & Main has a roughly ~17% market share how are you thinking about competition and growing market share?
- Where do you stand relative to the expected 100-150bp of gross margin normalization after the inflationary period last year? What are the drivers of margin growth for 2024 other than the private label?
- Buybacks have been a sizeable use of your cash flow over the past 12 months. With CD&R now fully out of the stock, how do you think about cash return to shareholders?
- Is there a potential for Core & Main to start paying a dividend, what would the timing of that decision look like?
- Management's 5-year plan targets ~$1bn of capital for M&A, or $200/year. Relative to that outlook – how is the pipeline and M&A landscape in 2024? Better or worse than normal?
- Private label is a key initiative for gross margins. How do acquisition multiples for water product manufacturers compare to typical distributor multiples? Gross margins are higher – but what about EBITDA margins?
- Can you give a case study for a private label acquisition? How much did the Core & Main network increase revenue?

Dover – DOV, Buy, $180 PO

Revenue trends

- Engineered Products: Should Environmental Solutions Group (waste trucks) be growing in the HSD range in 2024 given positive orders and the non-repeat of US auto strike? What are your expectations for Vehicle Services Group (auto lifts & repair equipment)?

- Clean Energy & Fueling: Overall segment bookings were up y/y in 3Q and 4Q. What are trends like in the Clean Energy businesses (Acme Cryogenics, Rego, Liqal)?

- Imaging & ID: Know this is a GDP+ type business with ~70% consumables/aftermarket. Have you seen any from reshoring on the equipment side?

- Pumps & Process Solutions: When would you expect to see the turn in BioPharma orders? Are there any pockets of growth that could be helpful in 2024 (e.g., industrial pumps)? How much of a drag will Maag (polymer processing) be in 2024?

- Climate & Sustainable Tech: What are potential offsets to weaker demand at Belvac (can making equipment) and SWEP (heat exchangers; component of heat pumps)?

Margins

- In 2024, you'll have ~$40mn of carryover benefits from 2023's restructuring actions. Are you planning additional restructuring actions in 2024?

- How much of a price-cost spread will you have in 2024 versus 2023?

- Mix was a headwind for 2023 margin in several segments (lower underground equipment in DCEF, lower biopharma in DPPS). Based on your current outlook – is mix likely to be a neutral-to-positive to Dover in 2024?

FW Murphy

- FW Murphy (closed 12/4/23) has ~$120mn of revenue and mid-20% EBITDA margins. How quickly can you transition the back office to existing centers of excellence? Could that be 100-200bp lift to margins? Other areas of synergies?

- What are the areas of revenue synergies? You highlighted this is complementary to Cook Compression business unit. Can you sell FW Murphy controllers into that installed base? Or bundle them with new sales?

M&A

- Since 2018 (start of CEO Tobin's tenure), Dover has divested businesses with ~$0.6bn in revenue and acquired businesses with ~$1.0bn in revenue. Would you expect to be again active on both the acquisition & divestiture fronts in 2024?

- Is the refrigeration case business separable from refrigeration systems business? Were you surprised by the amount of interest in Carrier's refrigeration case business?

FCF

- Would lower inventory be a modest tailwind to FCF in 2024?

Eaton – ETN, Buy, $300 PO

- Eaton's 2025 margin targets were for ~21.5%. The company achieved 22% operating margins in 2023, with 22.6% margins at the midpoint in 2024. The key driver of upside has been Electrical Americas. How is your approach to internal margin targets evolving with the increased secular drivers for Electrical (data centers, grid, reshoring)?

- Eaton issued its 5-8% organic revenue CAGR from 2020-2025 in March 2022. Eaton has grown organic topline at 10% on a 4-year stack (2021-2024E) and all-in revenue at 9% from 2020-2024E. Organic growth would need to turn negative for Eaton to not outperform it's 5-8% target. How does Eaton internally think about raising its targets? What does Eaton need to see to raise?

- How does Eaton think about pricing going forward? Schneider pricing decelerated from high-single digits to mid-single digits throughout 2023. Are industry capacity constraints supportive of more pricing?

Electrical

- What are your expectations about growth by end market?

- In 3Q23 earnings, Eaton upgraded its Data Center market growth rate to a +16% CAGR from 2022-2025. In your analyst day from 2022, you talked about a +7% CAGR for the data center and distributed IT market. Like-for-like, how much did Eaton raise its growth? Our math is that distributed IT would have grown at a 5% CAGR, largely from Tripp Lite, and that the data center at an 8% CAGR would blend to ~7% CAGR. This would imply data center raised from 8% CAGR to 16%. Is that the correct way of thinking about it?

- Eaton has been relatively well-insulated from the destocking headwinds facing many other multi-industrial names. What does it take to drive destock?

    - What conversations does Eaton have with its distributors about their inventory levels? What would make Eaton concerned about potential destocking?

- Can you talk about the timing of Eaton's capacity additions?

    - Is Eaton concerned about competitors also adding capacity?

    - How does Eaton decide internally how much capacity to add?

- With the current expansion coming online in 2025, what was the algorithm to determine how much to add?

- What does Eaton need to see in the marketplace to increase it further?

- How does it impact incrementals as all this capacity starts to come online?

- As data centers get more complex, hotter, and take up more space, liquid cooling has emerged as a competitor to traditional methods of cooling. What conversations does Eaton have with customers about the changing cooling landscape? What are their concerns?

- Vertiv acquired a company in the liquid cooling space called CoolTera. Would Eaton consider pursuing a similar strategy?

    - Has Eaton considered investing organically build out liquid cooling? Why/why not?

- Utility is about 10% of Eaton's portfolio, but growth has been accretive the last two years. Historically this was a dilutive margin business. Would this be dilutive to margin going forward as it continues to outgrow other parts of the business?
- Who are Eaton's main competitors in grid?
- In March 2022, Eaton highlighted that it wanted to do a future ~$700mn in revenues of acquisitions in the industrial sector. Eaton has not done any acquisitions within this business since the investor day. Given the excitement around data centers and electrification, could an industrial acquisition still be in the future?
    - What is the logic to grow the Industrial business? What would the priorities be here?
- Can you give an update on what you're seeing in the Global Energy Infrastructure Solutions business? And to clarify, this is included in Electrical Global?
    - How would Eaton size the margin profile of this business?
    - What are Eaton's key oil & gas customers saying?
    - What major trends is Eaton seeing in the oil & gas space by region?
- The demand environment is very supportive for electrical. Eaton just announced a three-year $375mn program. The last time Eaton did a similar-sized restructuring program was 2015-2017, a period with flattish revenue. Can you discuss the rationale for undertaking a restructuring program now?
    - What are the key goals of the restructuring program?
    - What are the risks associated with doing a current restructuring program during such a high growth time period?
- Can you size Eaton's electrical content on industrial facilities? What do you estimate Eaton's market share is?

Aerospace

- Since 2019, Eaton has acquired Souriau (from TransDigm) and Cobham Mission Systems. How has this shifted the aerospace portfolio?
    - Would you consider further growing your aerospace business?
    - What are the key programs in commercial to track that drive your aerospace business?
    - Key programs in defense?
- Long-term, how should we think about Aerospace growth? Can it be a HSD-grower in the next 3-5 years? Structurally, should It undergrows the peer set given the filtration/golf grips business?
- Given the peer set, it seems your Aerospace business is undergrowing peers given slower growth from the filtration and golf grips businesses. Has Eaton thought about divesting these businesses?
- Can you size Eaton's filtration business? What end markets does it sell into? What demand trends are you seeing? When does destocking end?

Vehicle

- How does Eaton track its vehicle markets? What is the right IHS data for this business?

- The company's 2025 target is for 19% operating margins in Vehicle. 2024 guidance is for 16.5% margins at the midpoint. How does this guidance fit inside the framework for the long-term 19% target? What needs to happen to reach the 19% target?

eMobility

- At the 2022 investor day, Eaton guided to 27% organic CAGR for eMobility driven by 14% market growth and 13% outgrowth. The segment has grown about 17% from 2021-2024E. BofAe is modeling 24% growth this year. Can the business re-accelerate from here?

    - How should we think about the margin inflection in eMobility? The segment guide is for 1-2% in 2024. Old targets were for 11% margins in 2025 – is that still achievable?

- What's the algorithm to raise margins in eMobility? Is it scale, is it working through contracts and backlog, what are the key buckets here?

Capital allocation/M&A

- Can you talk about Eaton's capital allocation strategy? What is driving the accelerated buyback? Given the current valuation, why not pursue M&A?

- Under Craig Arnold, Eaton has pursued a joint-venture strategy to engage in China (7 major JVs total, 4 since 2021 all focused on electrical). Can you talk about the strategy in the China market?

Emerson – EMR, Buy, $120 PO

Test & Measurement

- Revenue declines in FY24 are being offset by ~$80mn in realized cost synergies, keeping EBITA margins in the low 20% range. Plans for incremental ~$105mn in cost synergies over FY25-26 would bring EBITA margins up to ~29%. Doesn't this suggest that the 31% margin target is achievable in 3 years versus 5 years?

- Merger plan baked in zero revenue synergies, but on 1Q call you said you are exploring sales plans for EV and semi markets. How realistic are revenue synergies given different buyers (e.g., R&D department versus plant ops)?

- What are your plans for National Instrument's software offerings (e.g., LabView and industry-specific)? Was National Instrument's discounting software to win hardware deals? Churn rates, net dollar retention, and SaaS/term versus perpetual license mix?

Aspen Technology

- At the time of Emerson's acquisition of a majority stake, Aspen was planned as the M&A vehicle for future software acquisition. Do you still plan for Aspen to be the "home" of future software acquisitions?

- Relative to your internal expectations, how are the revenue synergies from using Emerson salespeople as a channel to sell Aspen software? Based on announced wins, it seems as if Emerson has more success at new project wins versus selling into the DeltaV installed base. Is that correct?

- Under what scenario would Emerson acquire the remainder of Aspen (e.g., Schneider-Aveva) ? Alternatively, under what scenario would Emerson sell down its stake in Aspen (e.g., ROK-PTC)?

Portfolio

- How does the Safety & Productivity segment "fit" inside Emerson's current portfolio?

- How do you think about your exposure to Energy (~21%) end markets within the context of portfolio management?

Margins

- Medium term target of 35% incremental margin. How does synergies from National Instruments acquisition and Aspen Tech's structurally higher incremental margin influence that over next 3 years?

- Could FY24 guidance for low to 40-45% incremental margins be a good framework for FY25-26 given these factors?

Evolution of automation

- How quickly do you see the market moving to software-defined automation (e.g., automation using non-proprietary hardware)?

- What is Emerson's strategy for maintaining market share in this transition?

- How is PlantWeb software evolving to aid companies in closed-loop (or self-optimization) automation?

- How does Emerson differentiate in discrete automation offerings?

FCF

- Medium term target is ~100% FCF conversion. However, FY24 FCF guidance implies 85-90% conversion, but this includes $0.2bn of one-time costs (700bp drag). Do you expect to get to ~100% FCF conversion in FY25-26?

Flowserve – FLS, Buy, $44 PO

- Flowserve has a target for a +5% growth CAGR through 2027. This includes 3.3% core market growth and 10% growth in the 3D offerings. Can you talk about how you arrived at the 3.3% core market estimation?

- Flowserve issued an initial framework for 2024 guidance of mid-single digit growth and 100bps of margin expansion. How does this framework fit within the +5% target CAGR and the 14-16% margin target?

- The initial 2024 framework is for 20-25% adjusted EPS growth. The target for >$4.00 in EPS by 2027 implies a 19% EPS CAGR from 2023-2027 and an 18% CAGR from 2024-2027. Can you describe your visibility into maintaining a high-teens EPS growth rate through the next few years?

- Structurally, how do we think about the margins in both your segments? Which has the higher gross margins?

- If we reach your 14-16% margins in 2027, which of the segment margins is higher?

- What is the determinant of whether we hit the low end or the high end of that margin?

- Are the 14-16% margin targets dependent on the cycle?

- Pricing: Can you talk about the pricing environment, the pricing in the backlog, and how current projects/contract structures are trending currently? How many price increases were instituted in 2023 and are you anticipating further increases in 2024?

- Can you give an update on your ERP transition? What are the plans for 2024/2025? What are the major transitions left to do?

- End markets: What end markets is FLS most excited about in 2024? What about in the next 3-5 years?

    - Can we go through trends by end market? What are you seeing in oil & gas? Chemicals? Water? General industrial?

- Project lifecycle: How has the mix between large, medium, and small projects trended over the past few years? Given the current influx of Oil & Gas projects, have there been longer cycle large projects?

- Market share: Who do you view as your key competitors? How has market share trended? Did you lose share as you went through the ERP transition? Is there room to grow faster than the market as you regain share?

- LNG and Deep Offshore: What is the addressable market for FLS if new LNG projects in the US start moving forward? What about deep offshore coming back? Our understanding is low to mid-single digit as a % of revenue for both LNG and deep offshore. Is this meaningful enough to move the needle?

    - How does the administration's decision to halt export permitting for LNG impact your business?

- 3D Strategy: Can you provide some color on FLS's 3D strategy for "Diversification, Decarbonization, and Digitization." What are the key KPIs you use to track the 3D strategy progress and how does the IRA evolve your approach to the energy transition? Can you talk about RedRaven and how you track your performance?

- What does it take to turn Red Raven (IoT platform) profitable? What are your targeted incrementals for the business – we would think long-term, it would be software-level.
    - What is the internal timeline for Red Raven profitability?
- What is Flowserve's capture rate of aftermarket and servicing on the installed base? What is the company doing to improve the capture rate?
- Who are your key competitors on servicing? Is it more distributors or other OEs?
- What is the replacement cycle for your products and how is this different by segment?
- Aftermarket: how does the customer decide what to go for-rebuild, upgrade, parts replacement?

Fortive – FTV, Neutral, $85 PO

EA Elektro-Automatik

- How cyclical has EA's revenues been historically? What are the major end markets and what % is tied to EV battery build out?
- Clear cross-selling strategy – Tektronix's salespeople sell EA products. How quickly can you train the sales force and start getting pull-through on orders?
- What portion of EA's revenue was tied to software? How does EA's software strategy compare to Tektronix's?
- Now expect EA to accretive in year one – what changed versus initial guidance of dilutive in year one?

ASP

- You've talked in the past about how new product introduction takes longer in life sciences. Where are you in terms of product vitality for ASP? And outside of the US, what are you seeing in terms of growth rates and are you making investments in these regions?
- Are there any market trends which have worked against vaporized hydrogen peroxide (ASP's technology)? Are ethylene oxide (EO) or dual-sterilants (VHP + ozone) gaining share?

Connected Workflows strategy

- **Connected Reliability**: You launched Fluke solar tester and made a tuck-in acquisition (Solmetric Sept. 2023). Are there other niche adjacencies that could help improve your organic growth here?
- **Environmental Health & Safety**: Have you been able to leverage your existing Industrial Scientific/iNet hardware installed base to accelerate growth at Intelex? Would the pending SEC regulations around scope 1/2/3 carbon emissions reporting be a tailwind for Intelex software sales?
- **Facility & Asset Lifecycle**: Fortive has built out a full software offering for firms self-performing (Gordian, Accruent) or using third-parties (ServiceChannel). Why is this a secular growth market? What do you think the market growth rate is versus your own HSD revenue growth?
- **Product Realization**: EA Elektro-Automatik is the acquisition to be added around Tektronix since Fortive went public. Does this reflect a scarcity of available assets, high transaction multiples, or a lack of interest in investment in the test & measurement space?
- **Perioperative Loop**: The Provation acquisition has had HSD revenue growth since acquisition. What portion of the installed base is now on SaaS? What is the typical uplift you get from an on-premise to SaaS transition?

2025 targets

- Fortive is targeting ~$4.50 in adjusted EPS for 2025 versus current consensus of ~$4.15. How much of the gap is around your implied assumption from capital deployment?

Capital return

- Fortive recently increased its quarterly dividend for the first time since going public. How are you thinking about capital return more broadly? Are you considering moving from an opportunistic to a more systematic (e.g., offsetting share grant dilution) repurchase strategy?

General Electric – GE, Buy, Raising PO by $17 to $162

We raise our GE price objective by $17 to $162. We base our $162 price objective on a 16x (previously 14x) EV/EBITDA multiple of our 2025 estimates. Our target multiple is above the 15x peer average on 2024 estimates, which we argue is warranted given GE's above-peers earnings trajectory. We argue the pending spin-off of GE Vernova (Energy and Renewable segments) will drive a re-rating of GE Aerospace.

GE Aerospace

Commercial Services

- You expect CFM56 shop visit to peak in 2025. Would total shop visits be flattish thereafter (with LEAP shop visit growth offsetting CFM56 declines)?
- When will CF6 shop visits peak?
- Customized Service Agreements (CSAs) represent ~40% of Commercial Services. As the LEAP engine fleet grows, how much downward margin pressure is there?
- Assuming an entry into service in 2025, when would GE9X service revenue start to be meaningful? 2028 or later? How would this impact Commercial Services margin?
- Why are Widebody (36% of Commercial Services) services more profitable than Narrowbody?
- What were the difficulties in ramping internal shop visits in 2024? What are you expecting for internal shop visit growth in 2025?
- How will LEAP shop visits' turnaround times compare to CFM56? With a longer turnaround time, does that mean that GE's effective capacity for shop visits is shrinking in 2024-25?

Commercial Engines

- What is the typical breakeven a new widebody engine? GEnx had entry into service in 2011 and breakeven in 2016. Currently the 777X has a backlog of ~450-500 planes. Could GE ever reach breakeven without seeing significantly more orders for the 777X?
- LEAP is expected to reach break-even in 2025. How do you expect margins to develop thereafter?
- GE's engines are sole-sourced on a number of Boeing platforms. If Boeing's market share is permanently lower, doesn't that imply more competition on dual-sourced Airbus platforms?

Defense & Systems

- What are your current expectations for an engine decision on the Next Generation Air Defense (NGAD) program? How do you think GE's XA100 engine is positioned for winning the program?
- As a stand-alone company, will GE Aerospace be interested in increasing its Defense & Systems mix through acquisitions?

GE Vernova

Gas Power

- How do equipment margins vary between heavy duty gas turbines and aeroderivative turbines?
- You forecast the installed base of HA units to grow at a ~10% rate in the medium-term. What is the attach rate for long-term service agreements on HA units?

- What portion of Gas Power services come from long-term service agreements versus competitive wins?

Steam Power

- What is the current status of the pending divestiture of Steam Power equipment to EDF? If the sale does not occur, what would Vernova plan to do with this business? Wind down (similar to new build coal)?

Power Conversion & Nuclear

- What is the pipeline, current backlog, and margin profile of Vernova's small modular reactor (BWRX-300)?

- Power Conversion was profitable in 2022 and 2023. What are your margin expectations going forward? Are there parts of the portfolio that Vernova may look to divest as an independent company?

Onshore Wind

- Onshore wind was profitable in 2H23. Backlog margins are ~1,000bp higher than current shipments. Should we expect margins to improve by 1,000bp in 2024?

- Are we correct in assuming Onshore Wind is the main driver of the margin improvement from 2.8% EBITDA margin in 2023 to mid-single digit guidance in 2024?

- What was US versus International mix for Onshore Wind in 2023? Right in assuming international will decline in 2024, partially offsetting US growth?

Grid Solutions

- Grid Solution revenue grew 25% y/y. Based on your $12bn backlog (2x in 2023), what level of revenue growth is a reasonable base case for this business over the medium term?

- Grid Solutions was profitable in 2023. What is your medium term margin target for this business?

- Grid Solutions software revenue (currently included in the GE's Corporate segment) is ~$700mn, growing, and profitable. How is GE positioned in the grid software space? What is its market share and would you seek to make software acquisition as a stand-alone company?

Offshore

- How much of the $4bn backlog will be delivered in 2024 versus 2025? Would you expect losses to narrow in 2025 from the ~$(1)bn loss in 2024?

- Will Vernova bid on new offshore wind projects in 2024? How do you think about your targeted market participation in the US? Globally?

Honeywell – HON, Buy, $250 PO

- Long-term targets: Honeywell has a long-term segment margin target of 25%+. What are the key levers from where we are today (midpoint of guide is 23.1%) to get to 25%?

- Organic growth: Honeywell's long-term growth guidance is for 4-7% CAGR. How much price is embedded in this target? The 2024 guide of 4-6% includes 3% of price. How does this guidance fit within the long-term framework?

- Does the 25%+ target assume benefit from divesting lower-margin businesses?

- Structurally, how do you think about your pricing strategy across the different business units? Where do you get the most pricing power and where do you have the least?

- You have a target to get to 40% gross margins over time. Honeywell exited 4Q at 38.5% gross margins. What steps are you taking to get to the 40% gross margin target? What are the key areas for improvement?

Aerospace

- Current Aero outlook: Since HON reported 4Q earnings, what have you been seeing in the business – how have the commercial and defense supply chain trended and what are you seeing in the widebody recovery? What are the near-term sources of uncertainty, and what KPIs should we track to get a sense of where the market is going?

- Margins: Honeywell Aero exited 2023 with 28% operating margins in 4Q (27.5% for FY23). What is the path to your 29% margin target? What steps are required to get there?

    - Given where margins are relative to the rest of your portfolio, how do you think about the balance between growth and margin expansion?

    - Are you comfortable with 27-28% aerospace margins? Is the 29% target more of a "stretch" target?

- Commercial: How do you see build rates evolving over the next 3 years? From your perspective, what are the key source of uncertainty/bottlenecks, and what are your thoughts on the evolution/trends of commercial aftermarket over the next several years. What's your view on the timing of the next big commercial airframe program?

- Business aviation: Are you seeing any slowdown? Any structural changes in drivers in the post-COVID world?

- Defense & Space: What are the key trends, programs, and noteworthy things in the latest President's Budget as far as HON is concerned? How do you see the evolution of the international sales over the next several years? There has been a lot of talk about rising defense budgets in Europe. How and when will this impact HON?

- Defense supply chain: We are hearing about the Defense supply chain being a constraint to growth. What is the key bottleneck here? How does it alleviate?

- Retrofits, modifications and upgrades: You have previously highlighted this as a key growth and high margin opportunity. Can you please expand on this opportunity?

- Services & Connectivity: Historically you've had a big focus on connectivity – what is the latest there?

- R&D: What are the key R&D priorities in Aero currently? How does the zero-emissions roadmap figure into that?

- Energy Transition: From a big picture perspective, there are lots of physical products (e.g., hydrogen fuel cell, electric power). What does the product development roadmap look like? Also, you have initiatives like fuel efficiency programs with your partners – how do your digital capabilities play into that? Can you expand on Sustainable Aviation Fuel and the collaboration with PMT – how does Aero play into that?

- Urban Air Mobility (UAM)/Unmanned Aerial Systems (UAS), competitive landscape: On UAM specifically, can you provide us with the latest state of play, what is the competitive landscape like? Who do you see as your competition? What differentiates Honeywell here?

- UAM: What is the timeline for commercialization? How has it evolved over the past 12 months? How do you see UAM developing over the next decade plus? Can you provide insight on outlook, internal targets that you track, and key KPIs?

- UAM: Can you describe the regulatory environment around UAM and unmanned aerial vehicles? How has current policy impacted outlook for adoption of autonomous air mobility? What needs to change (incentives, tax breaks) from a policy standpoint? What is the political landscape?

- Honeywell Anthem: What is the key competitive advantage of Honeywell Anthem? Overall what is the opportunity here, and how do you think about the software strategy in your Aerospace business?

Building Automation

- When Carrier owned Global Access Solutions, it was a mid-single digit grower. What is the path to drive high-single digit growth?

- The investor day targets are for mid to high-single digit growth. This was before you acquired Global Access Solutions. Excluding M&A, what gets this business to grow mid to high-single digits?

- How should we think about the margin profile within this business between services, products, and solutions?

- How does Honeywell differentiate itself versus the competition? What would cause a customer to choose to work with you over a Johnson Controls or a Siemens?

- The incrementals in the business over the past several quarters have been very impressive particularly given little volume growth. Can you talk about the work that's been done there to drive this sort of income growth? What's the path from here to your 27% target – is it just needing the volume growth back?

- Back in 2020, Honeywell announced a joint software offering called Honeywell Forge Real Estate Operations. Can you give an update on how this business is trending? Would you replicate the offering in other parts of the portfolio?

Industrial Automation

- What parts of this business are you targeting for divestiture?

- What's the competitive landscape like for HPS? We have heard previously that it's a 3-way competition between Emerson, HPS, and Yokogawa. Any thoughts on how this has evolved?

- At the 2023 investor day, the long-term target for SPS was high-single digits. Given the PMT target was MSD-HSD, it seems this would be similar even with resegmenting. What is driving the inflection go from flattish growth to MSD-HSD growth? Is it just the end market recovery?

Energy & Sustainability Solutions

- What are the key drivers for growth in Advanced Materials? How can we model growth here? What is the industry structure? Who are your key competitors?
- Historically, Advanced Materials was the highest margin business within PMT. Is that still true in ESS today?
- Honeywell has targeted +7% served addressable market (SAM) growth through-the-cycle for UOP. UOP grew 8.3% in 2023. How do internal expectations for 2024 fit within the framework?
- Our forecast for 2024E UOP revenue of $2.7bn is still well below 2014 peaks ($3.2bn). Given the loss of the Russia business, can we structurally reach $3.2bn over time?
- Comparables indicate that a specialty chemicals/energy business would warrant a premium multiple. Have you thought about divesting this part of the portfolio and redeploying proceeds into share repurchases?

Honeywell Connected Enterprise

- In 2019, 55% of HCE sales were Aero, 26% PMT, 17% HBT, 2% SPS. Can you provide an update on how this has evolved?
- Can you please provide an update on Sparta? How are you tracking cross-sell into adjacent verticals? Have you integrated Sparta into other Forge offerings?
- What are your long-term goals for Forge?
- Internally how do you organize Forge vs. Honeywell Connected Enterprise?

Capital allocation

- We understand Honeywell has a commitment to repurchase 1% of its total share count annually. Given your balance sheet position, why not be more aggressive here?
- CEO Vimal Kapur has been very clear about his intention to do deals in the $1-7bn range. The Global Access Solutions purchase fell within this range. Will you wait until this deal is closed and integrated before pursuing another acquisition?
- What was attractive about the Global Access Solutions business?
- Can we talk about the internal M&A criteria? Do you prefer to buy complete fixer-uppers, or profitable businesses that could be run better?
- Publicly, the company stated in October that it plans to divest ~10% of its existing portfolio. Is there a timeline on this target? Can you stack rank the drivers of what makes something a candidate for divestiture?
- Have you already identified the 10% of the portfolio that Honeywell would plan to divest?
- What is the path forward if you are unable to identify 10% of the portfolio that you want to divest?

- Back in October, Honeywell announced that it would monetize Quantinuum in the next 18 months. Are you still on track to monetize it by April 2025?

ITT – ITT, Buy, $135 PO

- Long-term guidance: ITT's organic growth guidance of 3-6% in 2024 compares to the 5-7% guidance given at the 2022 investor day. How does the 2024 guide fit within this framework?

- The midpoint of 2024 EPS guidance implies 8.8% EPS growth, below the long-term CAGR target of 10+%. How does the EPS guidance fit within your long-term EPS framework?

- Can you give an overview of demand trends? Where are you seeing structural tailwinds and where are you seeing structural headwinds?

- Can you discuss the key R&D projects ITT is excited about?

- Can you please describe the decision to fund Svanehoj with commercial paper and a term loan rather than cash?

- Asia Pacific was highlighted as a platform for growth in 2022. Can you please describe what the formula here is for growth? Where are you expanding? ~80% of your Asia business is in Motion Tech. What are the plans to scale the Industrial Process and Connect & Control Technologies businesses here?

    - How large is the IP Oksan facility? Any direction is helpful.

    - How large is the Connectors Shenzen facility? Any direction is helpful.

- How does ITT structurally improve its cash flow generation? You had 100% in 2023, but historically cash conversion has been lumpy (69% FCF as a % of net income from 2012-2023 on average). What does it take to see more consistent cash generation?

Industrial Process

- Can you please talk about self-help opportunities in IP, particularly in the SFO facility? What sort of productivity investments have you been making recently to get to the ~20% long term margin target?

- What impact will closing the SFO facility's foundry have on the business? Is there a way to size the margin impact? Is the benefit embedded in 2024 guidance?

- ITT has a +MSD target for its energy end market in Industrial Process (25% of IP). Given the recent trends of energy independence and LNG coming back, how do you think about outperforming this target?

- Any thoughts on CIRCOR's KKR acquisition? ITT does not compete much directly, but it is part of the same industry. Does this have any potential to shift the competitive landscape in pumps and valves?

- The long-term growth target for Industrial Process's mining business is high-single digits. We have heard some concerns about the mining end market into 2025. What are your customers saying? How do you think about the structural potential for this business?

Motion Tech

- You have over 50% market share in Europe. How do you continue to grow that market share? Can you give any targets for continuing to expand that market share and what buckets drive it?

- On the 4Q23 conference call, there was a comment about finishing the year with 29% market share in Friction OE. The company had 28% market share in 2021 with a 33% target in 2025E. How is the market share target tracking?
    - Does faster market growth help ITT pick up incremental share?
- What are the levers to reach 18% operating margins in 2024 in 1H24 vs. 2H24? What KPIs should we watch to understand whether the 18% target will be reached sooner rather than later?
- How is your target for $0.5bn in electrified vehicle revenue by 2025 tracking?
- What's the playbook to reach ~20% margins in MT? Can we walk through the major buckets here?
- Is there any restructuring/footprint included in this target?
- What's the attachment rate for aftermarket? Are you in line with the industry? What's the margin range differential between aftermarket and OE in MT? Do you have any targets to grow the aftermarket business?
- The long-term growth trajectory for auto aftermarket is low-single digits. Do you expect to outgrow that in 2024 given lapping the destock headwinds?

Connect & Control Technologies

- This is one area of the business that ITT has telegraphed slowing and seeing destocking, particularly since distribution is 1/3 of sales. What are you seeing in terms of destocking?
- How does it impact margins if you have declining sales in short cycle industrial but growth in defense? Is that a positive margin mix?
- You've flagged a revenue growth CAGR of ~20%+ from 2021-2025 in the electrification business. How is this trending two years in? Have expectations about EV adoption been pushed to the right?
- The margin target for CC&T from your 2022 investor day is the highest of the three segments. What's the underlying framework for having a higher long-term target? Are the gross margins in the business higher? Is there more room to reduce SG&A?

Illinois Tool Works – ITW, Underperform, $235 PO

- ITW's investor day guidance for organic growth was 4+% organic. How does 1-3% guidance in 2023 fit within that framework?
- Management is guiding for ~30% operating margins in 2030. How does 25.5-26.5% 2024 guidance fit within this framework?
- The new CEO began his tenure in January 2024. Was the message at the 2023 investor day from O'Herlihy that we should see ITW be more aggressive on M&A going forward?
- Can you give an update on the M&A pipeline? Given where interest rates are, it seems the environment would be more favorable relative to 2-3 years ago.
- The organic growth guidance of 1-3% assumes a pickup from the run-rate of (0.5)% organic growth in 4Q. What gives you confidence that trends should accelerate from here?
- Management is guiding for 25.5-26.5% operating margins in 2024, or 40-140bps of expansion at the midpoint. This includes 100bp benefit from enterprise initiatives and 100bp headwind from reinvestment. If the volume leverage is less of a benefit, is there room to flex down reinvestment?
- What are the macro assumptions included in the 1-3% organic growth guidance?
- The guidance includes a 100bp benefit from foreign exchange. If we assume a 10% incremental margin, we get to after-tax EPS impact of $0.04. Is this the right framework for modeling the FX impact?
- Which of your businesses would you estimate has the most pricing? What businesses fall end on the low end of the pricing spectrum?
- Do you build your forecast top-down, or is it driven by your customer base?
- What trends have you seen since reporting earnings in January? Have you seen the macro/demand environment pick up from 4Q23 as we move into 1Q24?
- Are there dys-synergies from larger (e.g., segment-size) divestitures?

Auto OEM

- Historically, Auto OEM has outperformed auto builds by 1%, from 1Q18-4Q23. What gives you confidence that Auto OEM can grow 3-5% in a market that is forecast flat to down in 2024?
    - What does the Auto OEM guide assume about EV growth?
- At your 2023 investor day, you gave a target for the EV business to go from $400mn (~13% of segment revenues) to $1bn in 2027. What are you assuming about EV platforms that go into production over this timeframe?
    - Does this target assume a steady CAGR, or does it pick up towards the end of the decade?
- What is your content on EV platforms and how does it compare to your content on traditional ICE platforms?
- How much of your Auto OEM business goes through distribution?
- How much of your Auto OEM business is spec'd into a specific platform win?

- Can you directionally split how much of your business is Deltar (plastic fasteners), Drawform (airbags/brakes, ICE fuels, systems), and Shakeproof?

Food Equipment

- If you look at your business versus Middleby, the topline is very correlated over time. When you talk about gaining share in Food Equipment, is it from Middleby or some smaller competitors.
    - Middleby outgrew coming out of COVID (2Q20-3Q21) but Food Equipment has outgrown Middleby from 3Q21-4Q23. What does this reflect? Share gains or product mix?
    - What's the algorithm to compete with Middleby?

Test & Measurement & Electronics

- ITW is guiding for 2-4% organic growth. This compares to Fortive Precision Tech (0-2%), NATI (negative sales growth until CY4Q23), and KEYS (we forecast organic sales down 4.3% in FY24E). What is driving the divergence in the segment?
- Can you provide an update on where we are in the MTS acquisition integration? What is planned for margin expansion in MTS in this segment in 2024?
- MTS is the most recent acquisition that the company has done (closed 12/21). What have you learned from it?
- PFAS: We've seen headlines about 3M discontinuing its Novec-branded solvents for use in semis manufacturing. Can you provide some color on ITW's competing product and the size of the business?
    - Are you planning to ramp production given 3M's discontinuation?
- How does industry structure change with 3M exiting this business?

Welding

- What's differentiated about your business relative to Lincoln Electric and ESAB that allows you to maintain such a wide margin berth? (30% GAAP vs. mid-teens)
- Since 2015, Welding organic growth has largely grown entirely inline with ESAB, with the exception being 1Q22-2Q23. What is driving the divergence?
- ITW's higher equipment mix and better pricing in equipment should have driven more outgrowth relative to ESAB. Can you describe the delta?

Construction Products

- Construction Products is more levered to residential than to institutional/commercial construction markets. Does the guidance of (1)-(3)% assume rate cuts?
- Is Construction Products more levered to construction starts or construction completions?

Polymers & Fluids

- Roughly 50% of this business is in auto aftermarket. What are the trends on consumer demand/DIY channels?
- Can you talk about trends in the other part of the business? What are you seeing across the various end markets?

Specialty Products

- Does the product line simplification drag continue in 2024? What is the target "size" for the business?

- **ITW GSE (Ground Support Equipment):** OshKosh purchased JBT's AeroTech business, which competes with ITW GSE. Have you thought about divesting this particular business?

- How do you think about the entire segment in terms of how it fits inside the ITW portfolio?

John Bean Technologies – JBT, Underperform, $85 PO

- What are you seeing on end market demand? Can we go through the different markets – poultry, beverages, ready meals, warehouse automation, fruit & vegetables, pet & companion animal foods, plant-based, and pharmaceuticals?
- During the 2022 investor day, FoodTech revenue was guided to ~$2.5bn in 2025. From YE21-2025, this implies a 16% CAGR. Does this include M&A? Excluding the impact of the Marel acquisition, how is the company tracking along to this target?
- In your investor day, recurring revenue was 47.2% of FoodTech in 2021. How has this trended in 2022-2023? What is your definition recurring revenue?
- The company guided to FoodTech EBITDA margins of ~21% in 2025. The midpoint of 2023 guidance is EBITDA 16-16.25%. What is the path to ramp margins by ~500bps in the next two years?
    - On our math, Marel will be dilutive to EBIT margins given the impact of intangible amortization and other costs. Does this change the algorithm for 2025 margins?
- Margins in 2023 have been contracting y/y in the past three quarters. The midpoint of 2023 guidance implies that this continues in 4Q. What does it take for margins to inflect and start expanding again?
- Backlog peaked at $697mn in 2Q23 and has come down slightly in the past two quarters. When do we see backlog coverage return to historical levels?
- What portion of your sales are for equipment replacing manual labor versus upgrades of existing equipment or capacity expansion?
- How much are you exposed to new facilities vs. replaying an existing facility?
- Is there aftermarket/services attached? Can you size the exposure?
- Given the sale of Aero Tech— have you considered resegmenting to give more detailed color on the business?
- Consensus capex for publicly traded food companies is down MSD next year. JBT has ~40% backlog coverage on consensus revenue estimates for 2025, which compares to ~20% historically. How do these two factors play against each other in your outlook for 2024?
- You mentioned smaller companies are becoming more sensitive around the cost of debt financing. What was JBT's historical experience during 2017-19?
- US wage inflation has been persistent. Are you seeing a shift in customer appetite towards offerings that can save labor vs. new product introduction?
- Following the Marel acquisition, are you planning to resegment the business? Have you considered issuing new long term targets?
- FoodTech has grown at a 7.5% organic CAGR over the past three years. Can you give a quantification of revenue synergies from Marel? Do you expect this acquisition to be accretive to growth, long-term?

Johnson Controls – JCI, Neutral, $60 PO

- 2024 EPS guide assumes the majority of EPS growth in 2H, in line with 2020, 2021 and 2022. What is driving the return to historical seasonality vs 2023 which was more evenly weighted 1H vs 2H?

- Revenue guide of up mid-single digits assume an acceleration into 2H with 1Q down -1% and 2Q guided to be flat. This is a big acceleration from a topline perspective, despite total revenue 1H/2H split being in line with historical seasonality. On the call you explained the acceleration as 2H recovery of APAC and Global Products and continued strength from NA and EMEA/LA. What are potential offsets embedded in the guide? What are the scenarios bookending the high and low end of MSD growth? What gives you confidence in APAC/Global products given the choppy market fundamentals in the past?

- With EPS guide lowered to $3.60 - $3.75 from $3.65 -$3.80, due to China being weaker than expected, are there any other macro assumptions in embedded in guide? What are the scenarios bookending the forecast at the high and low end?

- What changes in China drove significantly more weakness that you had originally included in 2024 guidance? What is driving the weakness in China/ differentiates your business given your peers Carrier and TT both reported strength in the region during the same period?

- Margins for total JCI were down 90bps impacted by weakness in Global Products and China's macro environment. Is the guided improvement in EBITA margins a function of 2H recovery of Global Products and APAC? What other assumptions drive the acceleration?

- With the restructuring program focused on scaling of SG&A expenses, how low do you think that SG&A can go?

- Impact of inflation and supply chain on building solutions, are you seeing inflation stabilize, supply chain improve?

- Building Solutions backlog was flat sequentially with improvements in service backlog offsetting the sequential decline in install backlog. What are some of the dynamics in the backlog, install vs service?

- What is the opportunity to "attach" OpenBlue to JCI's installed base? What do adoption rates look like?

- How should we think about the timing of the announced "strategic alternatives"? What drove the decision to pursue strategic alternatives? What is the potential use of proceeds? Buybacks, M&A? What does the M&A pipeline look like?

Building Solutions NA

- Despite the six weeks of cyber impact that was most impactful to NA's service business, margins remained up as a function of execution of higher margin backlog and strength in the service business which is higher margin. How are you thinking about the ramp in North America's margins, is it a function of recovery in the service business post hack and high margin backlog booked? When are you anticipating proceeds from insurance related to the hack?

- Do you have visibility on reshoring particularly as construction for semiconductor fabs and electric vehicle plants pick up into '24? How is your pipeline, are you seeing any orders stemming from these conversations? Is data center's still ~12% of JCI's revenue, do you think it will expand as a % of revenue? Can the rate of growth be sustained over the next several years? Is there anything different about the HVAC product for the data centers. Do you need new cooling solutions to service the AI data center market?

- Fire & Security continued to decline in 1Q24, what is driving the weakness? When do you think F&S bottoms?

Building Solutions EMEA/LA

- 1Q EMEA/LA margins were flat due to the conversion of lower margin install backlog, is the anticipated strong margin expansion in EMEA/LA for the rest of the year just a factor of higher margin backlog or are there other inputs?

- EMEA/LA margins in 2Q23 were impacted by the UK pension cost. Should we think about 2Q24 margins returning to the HSD seen in 2022? Are you anticipating margins in 2Q flat or up compared to 2022?

- Can you talk about the dynamics of Fire& Security, what is driving the weakness in NA and APAC that is not being seen in EMEA? Is it that EMEA has bottomed? How big is retail as a % of Fire & Security?

- Service backlog in EMEA/LA was the only region that was up y/y, was it a function of weaker comps or strong demand in EMEA/LA vs other regions?

Building Solutions APAC

- China recovery in 2H and impact on margin/growth?

- During 1Q24, it was noted JCI would be more selective of deals in China/APAC, do you expect that to temporarily depress both revenue and margins? Which verticals are you being selective of deals – Applied, Fire & Security, or Industrial Refrigeration?

- What drove the weakness in Industrial refrigeration in APAC? Do you think it continues to decline?

- During 1Q24, the weakness in APAC results were attributed to China, what did APAC sales and orders look like in the quarter excluding China?

- Install orders in 1Q24 were down 43% y/y, how are you thinking about orders in 2024? Are you expecting sequential improvement?

Global Products

- 1Q margins were down 240bps because 1Q23 had the insurance benefit related to the warehouse fire. Is the improvement in margins into 2H a function of anything other than Global products recovery in 2H and the better cost absorption in the factories that was called out? What is the expected cadence of margin improvement?

- How are you thinking about light commercial in 2024, given Carrier is expecting it down MSD and other industry participates have indicated it flat to down 5% in 2024? Is there something in your light commercial business that would differentiate it?

- When do you expect to roll out the new refrigerant resi units? What pricing are you anticipating for the new units?

- Third party backlog was down in the quarter, what are the dynamics for that backlog?

FCF

- What is driving JCI's decision to increase the use of factoring? How should we think about the impact of factoring throughout 2024 as it was a $80mn benefit in 1Q but expected to be neutral for the full year? What actions would JCI need to take to return factoring as a % of receivables back down to historical levels?

- How should we think about restructuring and impairment costs in 2024? While 1Q was primarily restructuring, 2023 was primarily non-cash impairments. How should we think about the split for 2024? What has been driving the non-cash impairments?

- In 2023, JC Capital took up 8% of FCF, how should we think about JC Capital impacting FCF in 2024?

Legal

- Where are you with the insurance lawsuit related to AFFF coverage? How much coverage would that provide to help with a potential settlement?

- How are you thinking about the telomere bellwether now that a trial date has been set for September? Are there ongoing mediations?

- For the lawsuits in Wisconsin surrounding sales reps, are you concerned that similar cases could be filed in other states?

Montrose Environmental – MEG, Buy, $40 PO

- Measurement & Analysis (~1/3rd of revenue) has had steady high single-digit to low double-digit organic revenue growth. How does that spilt out between billable hours and price increases?
- Do you have any difficulty in growing Measurement & Analysis headcount? Staff turnover rates?
- Remediation & Reuse segment now include the Matrix acquisition, which came with 4.5% EBITDA margins. How are you tracking to the goal of reaching mid-teens EBITDA by the end of 2024?
- How should we think about the long-term EBITDA margin target of the Remediation & Reuse segment today?
- How are you thinking about the impact from Crisis response (ie. CTEH) in 2024? Will it continue to be a drag? Is CTEH impact going to continue to be reported?
- What are some of the big pieces of R&D or major initiatives you would highlight?
- What does the competitive landscape look like?
- After Epic environmental closes, when thinking about other M&A what geographies are you considering given recent deals have been for Australian, Danish, and Canadian companies? What does the M&A pipeline look like?
- What precent of projects involve cross selling? What % of projects have reoccurring revenue?
- What impacts have you seen in the business from the Methane New Source Performance Standard?
- Is the long term target still ~20% EBITDA margin? What are the puts and take needed to reach this target? What are your expectations for 2024?
- How is the transition for the biogas business doing? Is the transition still expected to depress revenue until 3Q24?
- Have you seen any projects that stem from the IRA given the tax incentives and loans for biogas projects?
- Have you seen an impact from PFAS being included under the Toxic Substance Control Act? What would be the impact be for Montrose when PFAS is designated under CERCLA?

Parker Hannifin – PH, Buy, $600 PO

- Long-term growth targets: Parker's long-term growth target is for 4-6% growth through FY27. How does 2024 guidance fit in with this framework?
    - Can you please talk about the decision to move away from an Industrial Production (e.g., 2x IP) driven target to a through-the-cycle number?
- Long-term margin targets**:** Parker has a long-term margin target for 25% in FY27. 2024 earnings guide is for 24.3% at the midpoint. How does Parker think about raising its margin target?
- Long-term EPS CAGR: What is included in the 10%+ FY27 EPS CAGR? Earnings grew 15% in 2023, and the midpoint of 2024 guidance is for 12.3% growth. Does the 10% CAGR indicate a deceleration in earnings growth in FY25/FY26? Is there incremental M&A included in the target?
- Pricing: While Parker doesn't disclose price, can you walk through the current pricing environment? Relative to previous years, should we expect price to be a bigger contributor to topline going forward?
- What are your expectations for price/cost embedded in the guide in 2H24?
- Move to long cycle: Aerospace has scaled to be 1/3 of the business. The industrial pieces of the portfolio have also become more Fundamentally, does this require a different playbook from Parker? How does increased visibility change the way you manage the business, as the company becomes more long-cycle?
- Win Strategy**:** How does the Win Strategy drive margin over time? What are the key KPIs that you track? What are the key priorities?

Industrial

- Going through the business units in Industrial, Motion was up 0.5% y/y, Flow & Process Control was down (4.3)% y/y, and Filtration and Engineered Materials was up 1.5% y/y. Can you talk about the performance of the three different sub-segments and what's driving the divergence?
- What markets are driving the weakness in Flow & Process control? I I
- Between the three Industrial units (Motion, Flow & Process Control, and Filtration/Engineered Materials) what is the most accretive to margin and what is the least?
- What is giving you confidence that in Industrial growth should improve from 3Q24 to 4Q24?
- What conversations are you having distributors about their inventory levels? What are their concerns? What gives you confidence that the destock should start to abate after 3Q? What metrics do they look at to determine when they are comfortable with their own levels?
- The filings are constructive on oil & gas end user demand. Can we talk about the trends you're seeing there? Any detail across upstream, downstream, and LNG is helpful.
- Decrementals: Parker was able to grow operating income with organic sales declines in F2Q in Industrial NA and Industrial International. Can this hold in a steeper downturn?

- Market share: Can you walk us through how Parker reaches 20% market share?
    - How should we think about the market share in different parts of the portfolio?
    - Is the strategy to grow the areas where it's weaker? What are the areas where market share is weaker?

Aerospace

- Meggitt: Management has been bullish on the Meggitt transaction and the $300mn in synergies by the end of FY26. What are the key priorities? What's the key to meeting the synergies? Can you size the relevant buckets?
- Meggitt: Can you describe the revenue synergies and opportunities at Meggitt?
- Defense: The military business grew +10.5% on a blended basis (12.5% OE, 8% AM). This is faster than an average of GE, HON, and ETN (+6% y/y). Is Parker gaining share, or does this reflect different programs?
- Wheels & Brakes: The Wheels & Brakes business (divested when the company purchased Meggitt) was ~38% EBITDA margins. Long-term, where can Meggitt margins go?
- Topline: Historically, PH was compared to PMI because it was so short term. How should we think about the drivers of topline?
- Compensation: Parker recently revamped its compensation plan. Can you talk through the changes in incentives for business managers and what you hope to achieve through these shifts?

Other

- New product blueprinting: Can you talk about shifts in your R&D strategy over time? How do you work with your customers to develop new products?

Portfolio and M&A

- Portfolio reshaping: Parker has diversified its portfolio by acquiring less cyclical businesses. What is the internal criteria Parker uses to evaluate whether its businesses are up for par?
- Prior M&A: Clarcor, Lord, and Exotic acquisitions have been successful. What have you learned from these acquisitions and from Meggitt?
    - Has the process with Meggitt changed your approach to M&A?
- M&A environment: Aerospace has been a priority end market for Parker. What other areas of the business do you like enough to scale? What are your M&A priorities?
- Scale: Today, Parker is a >$60bn market cap company. 10 years ago, prior to the acquisitions, it was a $15-20bn name. How does the scale change your approach to the M&A environment going forward?

Pentair – PNR, Neutral, $76 PO

- Pentair's long-term targets are for ~23% EBITA margins by 2025, mid-single digit plus growth for Pool, mid-single digit growth for Water Solutions, and low-single digit growth for Industrial & Flow Technologies. How does 2024 guidance fit within this framework?

- How much pricing is embedded in the growth drivers for the various businesses? Long-term, which of these businesses can take the most pricing?

- What inning are the Transformation Initiatives on?

- Pentair seems on track to reach your 23% operating margin target by 2025 with ample opportunity left in the Transformation Initiatives. What can margins do from here?

- What was the logic in rebranding the Industrial & Flow Technologies segment to "Flow"?

- Can you provide an update on the M&A pipeline? Have you considered being acquisitive again as you pay down Manitowoc debt? What's the long-term target leverage number?

    - There are a lot of adjacencies coming out of the 3M Health Care business (e.g., 3M Water Filtration competes with Everpure). Have any of these businesses been on Pentair's radar as the spin nears?

- Can you please describe the operational initiatives that are included in the Transformation Initiatives? When do we move into those phases (e.g., operations footprint, organizational excellence, etc.).

- As you rationalize SKUs, how much have you been able to reduce your tail in terms of product offerings?

Pool

- We have heard concerns on the long-term growth of Pool given demographic changes. This includes fewer millennials/Gen Zs buying homes, and the ones who do buy homes with smaller backyards. How does this balance with other trends, such as increased movement to warmer climates?

- Are you seeing your customers trade down in product, given where prices have gone?

- From our understanding, historically the company would plan its channel shipments in 1Q/4Q given the margin delta in Pool relative to Water Solutions and Flow. Has your relationship and methodology with your pool dealer channel shifted now that Water Solutions and Flow have improved margins significantly?

- What trends did you see in 4Q early buy? What conversations are you having with your distribution channel?

- There has been a trend of private equity entering the pool distribution space (e.g., Heritage Group). What are your thoughts on the pool distribution competitive landscape?

- What impact does the increasing presence of private equity in the pool space have on your business as the manufacturer?

Water Solutions

- Who are your main competitors for Manitowoc and for Everpure?
- There's a long-term target for mid-single digit growth long-term. Can you split that between Manitowoc, Everpure, and the residential flow business?
- How does the residential flow business fit in the portfolio?
- How has Manitowoc performed relative to your expectations?
- What have you learned from the Manitowoc acquisition?
- Can you size the revenue synergies from Manitowoc included in the 2024 guidance?
- What are the key customers for Manitowoc? Key customers for Everpure? What indicators can we track for the businesses?
- Can you explain the mid-single digit decline in Manitowoc in 2024?
- How much of Water Solutions is services?

Flow

- Volumes in Flow have been negative for two years. Some of this has to do with the transformation initiatives and reducing low-margin projects. When do we start to see volumes turn positive again?
- What stage are you in for reducing low margin projects?
- Between Industrial Solutions, resi flow, and commercial flow, where have we seen more focus on culling low-margin projects?
- We have estimated your beer filtration business is a fairly sizable part of Flow (7% total company, 18% of the Flow business). Is this included in Commercial flow?
- Guidance is for both commercial flow and industrial solutions to grow LSD-MSD in 2024. The craft beer category has had volumes pressured for a couple years. We have heard it is a higher likelihood that we see breweries shut down rather than open up in 2024. What trends are embedded in the guide?
- What's the replacement cycle for beer filtration equipment?
- If beer filtration trends are weak, what are the offsets within the commercial flow / industrial solutions portfolio that are stronger?

PTC – PTC, Buy, $200 PO

- Long-term ARR targets**:** PTC is guiding to +11-14% annual recurring revenue (ARR) on constant currency (c.c.) for +11-14% y/y in 2024. PTC has provided an outlook for mid-teens ARR on c.c. growth in FY25/FY26. What gives you confidence that ARR will re-accelerate in FY25/FY26?

- Long-term FCF targets**:** PTC is guiding for ~$850mn (midpoint) in FCF for FY25 and ~$1bn in FY26. In FY25, this implies 17% FCF growth (vs. mid-teens ARR on c.c. growth) and in FY26, it implies 18% FCF growth (vs. mid-teens ARR on c.c. growth). What are the levers of faster FCF growth?

- ARR by Industry: which end market do you have the largest presence in terms of ARR? Specific verticals that are of greater focus/area of expertise for PTC? How does this compare to your competitors?

- How do you think about the ARR guidance particularly as PMI continues to be sub-50, but improving sequentially?

- What is embedded in ARR guide for 2024 for China? The past two quarters, there has not been any drag from China weakness. Why is China holding up? Do you expect this to continue?

- Codebeamer has been a homerun. After doubling the revenue in 2023, how is momentum in the pipeline into 2024?

- How do you think about the SaaS transition as a driver for growth going forward?

    - Is it being de-emphasized in favor of asset performance management (e.g., ServiceMax integration; more focus on integration with Windchill by 2025)?

- How do your industrial customers think about standardizing their software versus legacy customization practices as they move to SaaS?

- How long are SaaS transition cycles? What are the main areas of pushback you receive when pitching SaaS to your customers?

- What's embedded in your guidance for ServiceMax growth in 2024?

- Can you give an update on the M&A pipeline? What are the key areas that PTC is looking to be acquisitive in?

- Windchill has been a key driver of outgrowth for several years now. Can you expand on what works so well here?

- Can you give an update on Arena and OnShape? What are the broader small-to-medium business (SMB) growth initiatives related to Arena and OnShape?

    - When do we see breakeven profitability in OnShape?

- The Atlas SaaS platform came with Arena. How is the progress on integrating Atlas with the rest of your offerings?

- What's embedded in your medium-term targets for gaining market share versus underlying growth versus price?

- How much of your business is entirely new customers versus taking share from a competing supplier?

- Can you give specific use cases around IoT adoption and the returns?
- Who are the influencers in decision-making? When you go to market, are the conversations held with IT/software engineers in the sales process, with the C-Suite, or a combination of both?
    - How has this evolved with the transition to SaaS? Is it changing the makeup of the decision-making?

Rockwell – ROK, Neutral, $280 PO

- Margins: ROK sales is ~30% direct to OE, and the rest split between distribution and machine builders. Can you describe between these three buckets, what is the highest margin and what is the lowest margin?

- 2024 guidance**:** The $12.00-$13.50 guidance only has 16% of earnings in 1Q at the midpoint. This compares to 26% average over the previous 5 years. What gives you confidence that earnings can ramp so quickly through the rest of the year?

- Distribution**:** What is your visibility into your distributors own inventory levels? What conversations are you having with your distributors?

    - What are the key concerns that your distributors are having?

    - What do your distributors need to see in order to start ordering products again?

- Orders**:** The company has guided for LSD orders growth this year. The implication is that orders can go from ~$1.7-$1.8bn in 1QF to ~$2.5-$2.6bn exiting the year. That's about the quarterly order run-rate when you were at the peak of supply chain constraints. What does it imply in the macro environment that we can back to those numbers? What gives you conviction that we can see orders ramp that much?

- Backlog normalization: Our framework for ROK backlog coverage is that while it clearly won't stay in the 60% peak range from 2022, it won't go back down to historical levels of 20%. Where do you see your backlog coverage getting to long-term?

    - What part of the backlog coverage extending is structural? Have you increased the percent of your portfolio that isn't just book-and-ship?

- Supply chain**:** During COVID, many companies increased the complexity of their supply chains in order to deliver to the customer. Can you describe if and how ROK has done this?

    - When you diversify your supply chain, how do you normalize it? How difficult is it to simplify it back?

- Lead times**:** ROK has stopped publishing its lead times on its website as of April 2023. Are there any remaining bottlenecks in supply chain? Is there anything else still behaving as a bottleneck?

- Digital strategy**:** How does a company like Rockwell grow its digital capabilities? What are the company's biggest strengths? What are your key priorities in software? Can you discuss differentiated software strategy within key industry verticals?

- M&A: ROK has done a sizable number of tuck-in acquisitions over the past several years to grow its IC&CS business. What is the appetite for internal investment versus M&A? It seems that ROK is taking a pause with a focus on debt paydown. What is the next set of M&A priorities going forward?

- Key end markets: What are the key market verticals and adjacencies that you are targeting over the next several years?

- Semiconductor industry: How has ROK been increasing its wallet share in semiconductor manufacturing? How large can this vertical be for ROK?

- Electric Vehicles: What is your strategy on Electric Vehicles and what sort of activity have you been seeing in this area? Is it your sense that the EV transition has been pushed out and to the right?
- Electric Vehicles: How is ROK positioned on EVs relative to ICE? What about hybrid?
- Automation landscape: How does Rockwell think about demand for more traditional automation hardware vs. more complex technology such as AI and robotics?
- Reshoring: What visibility do you have on reshoring and moving supply chain back to the US? Particularly as construction for semiconductor fabs and electric vehicle plants pick up into 2024. How is your pipeline trending and are you seeing conversations translate into orders? Have you been able to gain market share as companies move production to the US?
- Evolution of automation: How quickly do you see the market moving to software-defined automation (e.g., automation using non-proprietary hardware)? What is Rockwell's strategy for maintaining market share in this transition?
- Growth through the cycle**:** What is ROK's view on industrial / manufacturing renaissance in the US?
- Process opportunity**:** How large is the process automation opportunity for ROK? What is the latest expectation for Process growth through the cycle?
- Competitive dynamics**:** How does ROK think about competitive dynamics in a higher capex environment? How big of a competitive advantage is ROK's diverse portfolio and are you seeing competitors emerging on this field? (E.g., HON, EMR moving into discrete)?
- Market share**:** What's your perspective on market share in discrete in recent quarters, particularly Siemens DI?
- Impact of Mexico operations**:** What % of sales from the company's Mexico facilities are for domestic purposes and what is exported to the US?
- Emerson's discrete businesses were down low-single digits in the past quarter versus ROK's down 10%. What are the drivers of Emerson outperformance?
- Emerson acquired GE's Intelligent Platforms business in 2019 to move into the discrete. How has this impacted the competitive landscape over the past few years?
- Sales organization: The investor day seemed to really reflect vertical offerings and organization. How has ROK internally shifted its sales and operations teams in order to push more vertical-specific strategy?
- Software: How much of ROK sales are pure software? How much is SaaS?
- SaaS ARR has been growing mid-teens over the past couple of years. Software incrementals are ~70%, broadly speaking. How should we think about contribution margins going forward as SaaS continues to outgrow the rest of the portfolio? What sort of uplift can we see?
- Margins**:** 2024E ~21.5% segment margins are flat with 2017 EBITA margins on ~$3bn higher revenue. What are the offsets to the volume leverage of an incremental ~$3bn in sales? How much of the impact is M&A integration spend? What is the margin profile of IC&CS? We would have thought increasing this business would drive accretive margins to the portfolio.
- Independent cart (i-Trak)**:** How large is your independent cart business? Can you talk about the successes there, and any lessons learned?

Rush Enterprise – RUSHA, Buy, $57 PO

- ACT Research is forecasting 22% y/y declines in 2024. How does Rush view its own performance relative to the market?
- Can we go through the key end markets and geographies and discuss current trends?
- Can you talk about the dealer model in Europe? What current trends are happening with the dealer network?
- What are your thoughts on the dealer acquisition pipeline? What is the opportunity remaining for you to grow inorganically?
- What are your concerns and thoughts on union contracts? What is the risk there?
- Previously, Rush has done a great job cutting costs during downcycles. Given discipline on the cyclical upswing in 2021/2022, is there much room to flex costs in a downturn?
- Can you please give an update on California regulations and EV transition?
    - Does Rush benefit in 2024 from regulatory change?
    - What are your thoughts long-term on the impact? Is there a structural impact to Rush in the next 5-10 years from EV transition?
    - Would a Republican presidency in 2024 change the framework on the regulatory impact outside of California?
- What happens to your pricing in a down year? How does that compare to your pricing in a growth year?
- The absorption ratio has been ~130% the past three years. Long-term, what is your target for the absorption ratio? What is the ceiling?
- Given improvements to the business over the past several years, is there a floor on the absorption ratio?
- Can you please give an update on what's happening in the used truck market?
    - When do we reach normalized depreciation?
- Is the "new truck" backlog from 2023 completely depleted?
- What are you seeing from your customers on delinquency rates?
- Have you seen smaller players go out of business in the current macroeconomic environment? Does that offer opportunity for consolidation?
- If you start every year with 100 customers, and you have 100 customers at the end of the year, what would be the turnover?
- What are your thoughts on the aftermarket business next year?
- Long-term, what is your plan for the business?

Trane Technologies – TT, Neutral, $282 PO

- ’24 EPS guide of $10.00 - $10.30 represents ~12% EPS growth at the midpoint vs $9.04 reported in ’23. What are the scenarios bookending the forecast at the high and low end. What would it take for Trane to outperform the initial guide the way it did in ’23. Does EPS guide assume historical seasonality of 2Q and 3Q being the bigger quarters?

- Revenue guide of 7-8% assumes that Americas and EMEA CHVAC is up high single digits, Americas transport is down mid-single digits, resi HVAC and EMEA transport is flat, and APAC grows mid-single digits. Are the potential offsets in the guide that we should be thinking about?

- For 2024 price was guided to ~1pt, potentially a little bit better. During 2023 pricing leveled off as the year progressed, how are you thinking about the cadence of pricing throughout 2024? What is your experience on inputs and labor costs? How will price cost trend in ’24 relative to ’23? Any specifics on Tier 1 (raw mats) v. Tier 2 dynamic (components used to build system)? How has your supply chain evolved over the past several years?

- Can you talk about service growth in ’24 and beyond (HSD over the past several years)? What is the sustainable long term rate of growth? What is the impact of services growth to mix. Can you talk about the evolution of the services business model and what do services attachment rates look like within the applied business? What are the competitive advantages to owning your distribution? Are there opportunities to further enhance your distribution model? How do you work with customers to educate them on new regulations and tax incentives and how do you incorporate it in your bidding activity?

- How should we think about your backlog going forward, you noted that today it is ~90% commercial HVAC? What is normalized level of backlog going forward?

- Evolution of Mitsubishi Electric Trane HVAC US – what are key areas of focus going forward?

Americas

- When do you expect to roll out the new refrigerant resi units? What pricing are you anticipating for the new units?

- For resi, although destocking is now expected to continue in the short term in 2024, is the destocking going to be as significant as it was in 4Q23? How did the ambiguity of the EPA’s original refrigerant transition guidelines effect destock in 4Q23?

- Resi HVAC saw bookings up high-single digits in 1Q24, what is driving booking? Is it simply the comps or partially a function of pre-buy of the old refrigerant units?

- How are you thinking about light commercial in 2024, given Carrier is expecting it down MSD and other industry participates have indicated it flat to down 5% in 2024? Is there something in your light commercial business that would differentiate it?

- Other than the semi fab you have previously discussed, do you have visibility on reshoring particularly as construction for semiconductor fabs and electric vehicle plants pick up into ’24? How is your pipeline, are you seeing any orders stemming from these conversations? What is Trane's datacenter exposure? Can the rate of growth be sustained over the next several years? Is there anything different about the HVAC product for the data centers. Do you need new cooling solutions to service the AI data center market?

- What verticals are driving commercial HVAC sales other than data centers, education, and health care? What are your other verticals?
- With orders related to the ESSER funds have to be placed by September 30th, how should we think about the size of your education vertical for 2025? With states first applying for rebates created under the IRA in January, are you expecting to see a benefit from the IRA in 2024 or is the benefit delayed until 2025?
- While transport is expected to be down mis-single digits in 2024, 2H comps are easier than 1H. Should we assume sequential improvements throughout the year? When does TK return to growth?
- Can you quantify the size of the Thermal Management System (TMS) opportunity in the US, how do recent changes to tax incentives (Investment Tax Credit; Tax deduction 179D) likely to impact the rate of TMS growth in the US. What kind of customer is the most likely to adopt this tech?

EMEA

- What is HVAC technology adoption trends in Europe look like? What have been the big changes in the past 5 years (weather, COVID), you continue to experience strong CHVAC bookings in EMEA despite relatively weak European construction market fundamentals, how much is the contribution from the Middle East?
- For ThermoKing what is driving the outperformance over the past several years? What are you doing to win market share vs your competitors?

APAC

- What is driving your strength in China and what differentiates you vs peers who have called out China as a drag? What is the current mix in China? What are the key verticals for Trane?

Capital deployment

- With the $2.45bn of share repurchase authorization left (roughly ~9mn shares) and implied guide of ~2mn shares being repurchased in 2024, how do you think about balancing buybacks with M&A within your framework of $1.8bn for buyback and M&A, what would cause you to go outside this range?
- For the M&A in 2023 (Diversified Laboratory Repair, Helmer, MTA SpA, Nuvolo, and minority stake in LiquidStack) multiple thematic areas of M&A -- life science solutions, cooling for data centers, cloud based connected workplace, and industrial refrigeration and air conditioning equipment. Thematically what are the key strategic priorities for the M&A pipeline going forward? What does an average target look like in terms of size

FCF

- Inventories were up y/y. What is driving the elevated inventory? Are you anticipated being able to lower inventory levels in 2024? What do you think it takes to get back to historical inventory levels?
- What is the right way to think about cash conversion going forward?

Other

- With the recent challenges from claimants against your unit Aldrich Pump's Texas Two Step are you concerned about further challenges impacting the bankruptcy process? What impact will the plaintiffs winning the right to fast track their appeal have on your view of separating TT from the asbestos liability? Are you concerned for Aldrich's Texas Two Step given recent challenges to the legality of Texas Two Steps?

Vertiv – VRT, Buy, $72 PO

Capacity

- What is capacity utilization like inside Vertiv's own North American manufacturing facilities? How long can you support 10+% growth?

- How about your North American supply chain? Understand that you made efforts over the last three years around adding suppliers and having alternative components. What level of supplier de-commitments are you seeing now versus a year ago?

Artificial intelligence demand

- AI-related backlog at $250mn revenue or ~4% of revenue. What does that compare against a year ago? Are you seeing 100+% growth rates?

- Vertiv sized content per megawatt for AI at ~$3.25mn versus ~$2.75mn for traditional data centers, or ~20% uplift. What about the potential retrofit of existing facilities? Would you still be getting ~$3.25mn on a retrofit opportunity versus new build?

- Super Micro's CEO expects 20% of data centers to transition to liquid cooling in a few years. Vertiv sized the AI benefit at 300-400bp benefit to growth. What does that imply for AI penetration of the data center market by 2028?

- Several other companies are manufacturing cooling distribution units for liquid cooling (e.g., nVent, Boyd, Motivaair, Chilldyne). What are Vertiv's competitive advantages in this space?

Margin

- Peer EBITDA margins are in the low- to mid-20%. Vertiv's 2026 target for 20% adjusted operating margin suggests a ~21% EBITDA margin. Is there a reason why data center products should have a lower margin than electrical equipment for residential or commercial construction?

- Are gross margins for AI-related products above or below the corporate average?

- Where do you see R&D costs (as a % of revenue) trending to in the medium term? Historically in the ~5% range – are these

FCF

- Guiding for 83-87% FCF conversion in 2024. Should we think about ~85% FCF conversion as the right framework for supporting ~10% organic growth, with capacity capex and working capital uses?

- In Dec '23, Vertiv acquired CoolTera, a maker of liquid cooling products. Are there other

Vontier – VNT, Buy, $40 PO

Retail Solutions (point-of-sale, payments & automation software; 15% of revenue)

- Last year, you announced contracts with 20,000 gas stations across two large chains. Are there other large chains that are looking to transition to the iNFX platform?

- How quickly can you ramp implementations? Will it take +/- 2 years to reach full revenue run-rate on the existing contract wins?

Matco (automotive repair tools; 22% of revenue)

- Competitor Snap-on reported a 5% y/y decline in its Tools segment (4Q23), as auto repair technicians pulled back on spending (particularly for higher ticket items). What are the demand trends you are seeing?

- How can you accelerate your franchisee growth from the historical 2-3% growth?

US fuel dispensers (10% of revenue)

- Based on customers' current plans, what is the range of potential outcomes for 2024 revenue?

- Have you fully right-sized the cost basis for US fuel dispensers? Should we expect additional costs to come out in 2024?

International fuel dispensers (15% of revenue)

- Are there any regulatory drivers or government tenders to highlight as potential demand drivers in 2024?

DRB (car wash software & payments; 8% of revenue)

- Can you talk about the progress on your new SaaS offering (Pantheon)? What portion of the installed base has upgraded? Is this a tailwind to revenue growth in 2024?

- Given higher interest rates, the pace of new car wash locations is set to slow. How much of DRB's 10+% growth comes from new locations versus competitive wins, pricing, and upgrades?

Capital deployment

- How do you see Vontier balancing M&A, buybacks, and debt repayment over the next 2-3 years?

- What are the areas of highest interest for acquisitions? Did you bid on the Bulloch Technologies (Canadian payments software for gas stations)?

- After the Global Traffic Technologies (April '23) and Coats (Jan '24) divestitures, are you considering any other potential divestitures out of the portfolio?

Exhibit 5: Acronyms mentioned in report
Frequently used acronyms

ACT	Americas Commercial Transportation Research
ACV	annual contract value
AFFF	aqueous film forming foam
ANZ	Australia, New Zealand
ASP	Advanced Sterilization Products
CD&R	Clayton, Dubilier & Rice
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CHVAC	Commercial HVAC
DCEF	Dover Clean Energy & Fueling
DGM	Digital Grid management
DPPS	Dover Pumps & Process Solutions
EDF	Electicite de France
EPA	Environmental Protection Agency
ESSER	Elementary and Secondary School Emergency Relief Fund
EV	Electric Vehicle
HBT	Honeywell Building Technologies
HC	Health Care
HPS	Honeywell Process Solutions
HSD	High single digit
HVAC	heating, ventilation, and air conditioning
ICE	Internal Combustion Engines
IRA	Inflation Reduction Act
JV	Joint Venture
KFI	Kidde-Fenwal, Inc.
KKR	Kohlberg Kravis Roberts & Co
KPI	Key Performance Indicator
LNG	liquified natural gas
LSD	low single digit
MDL	multi-district litigation
MSD	mid-single digit
NA	North America
OEM	Original equipment manufacturer
PFAS	Per- and polyfluoroalkyl substances
PMT	Performance, Materials, and Technologies
PV	Photovoltaics
SEC	U.S. Securities and Exchange Commission
SKU	Stock keeping unit
SPS	Safety and Productivity Solutions
SSE	Subsurface Science & Engineering

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 6: Stocks mentioned
Prices and ratings for stocks mentioned in this report

	Ticker	Rating	Price
3M	MMM	B-2-8	$ 92.42
Allegion	ALLE	B-3-7	$ 131.18
AMETEK Inc	AME	B-2-7	$ 173.41
Aspen Technology, Inc.	AZPN	B-1-9	$ 180.37
Carrier	CARR	B-3-7	$ 55.00
Core & Main	CNM	B-3-9	$ 43.62
Dover	DOV	B-1-7	$ 160.89
Eaton Corp.	ETN	B-1-7	$ 275.62
Emerson	EMR	B-1-7	$ 106.24
Flowserve	FLS	B-1-7	$ 41.97
Fortive	FTV	B-2-7	$ 83.58
General Electric	GE	B-1-7	$ 146.50
Honeywell	HON	B-1-7	$ 194.87
Illinois Tool Works	ITW	B-3-7	$ 123.11
ITT	ITT	B-1-7	$ 123.11
John Bean Technologies	JBT	B-3-7	$ 103.18
Johnson Controls International	JCI	B-2-7	$ 57.07
Montrose Environmental Group	MEG	C-1-9	$ 33.01
Parker Hannifin	PH	B-1-7	$ 521.91
Pentair	PNR	B-2-7	$ 74.98
PTC, Inc.	PTC	B-1-9	$ 180.75
Rockwell	ROK	B-2-7	$ 279.93
Rush Enterprises	RUSHA	B-1-7	$ 47.07
Trane Technologies	TT	B-2-7	$ 272.81
Vertiv	VRT	C-1-7	$ 64.97
Vontier	VNT	B-1-7	$ 36.43

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

3M Company (MMM)

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

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

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

Allegion (ALLE)

We base our $95 price objective on a 11x EV/EBITDA of our 2025 estimates. Our 11x target multiple is in line with peers trading at 11x on 2024E.
We believe the an in-line multiple is warranted given it balances ALLE's above-peer margins and our concerns for ALLE's end markets.

Upside risks are: 1) North American residential downturn less severe than expected and 2) pricing holds up into '23. Downside risks are: 1) Greater-than-expected headwinds from raw material inflation and supply chain headwinds, 2) Lost market share to North American competitor, and 3) Emerging market slowdown could impact the company's growth, reliant on increased security demand from urbanization.

AMETEK Inc (AME)

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

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

APi Group (APG)

We base our $36 price objective on 10x our 2025E EBITDA, a discount to the 13x peer average on 2024 estimates. We argue a discount is warranted given APi Group's above-peer financial leverage

Upside risks are 1) greater-than-expected revenue and cost synergies from future acquisitions, 2) strong execution in national accounts and service line expansion strategies, and 3) greater market share gains.

Downside risks are 1) future acquisition selection and integration risks, 2) above-peer financial leverage limiting flexibility, and 3) potential downturn in construction spending.

AspenTech (AZPN)

We base our $255 price objective on a 25x EV/EBITDA multiple of our CY25E estimate. Our target multiple is a premium to the 22x peer average on CY24. We argue that a premium is warranted given oil & gas end-market demand strength and prospective synergies from recent acquisitions. Downside risks to our price objective are 1) oil price volatility and oil prices below $50, 2) integration risks, and 3) weakness in chemical industry budgets.

Atmus Filtration (ATMU)

We base our $29 price objective on 8x our 2025E EBITDA estimate. This is a discount to the peer average of 13x on 2024E to reflect below-peer margins and EBITDA growth.

Downside risks to our price objective are 1) acquisition selection and integration risks, 2) the loss of a major customer, 3) economic recession resulting in lower aftermarket volumes, 4) faster-than-expect transition to battery electric commercial vehicles, 5) pending exchange offer by Cummins.

Carrier Global Corp. (CARR)

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

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

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

Core & Main (CNM)

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

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

Dover Corp (DOV)

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

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

Eaton Corp PLC (ETN)

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

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

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

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

Flowserve (FLS)
We base our $44 price objective on a 10x EV/EBITDA multiple on our 2025 estimates. A 10x multiple puts the company at a discount to the 11x peer average multiple on 2024. We think the discount is warranted given below-peer margins.

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

Fortive Corporation (FTV)
We base our $85 price objective on a 16x EV/EBITDA multiple of our 2025 EBITDA estimate. Our target multiple is a discount to the 20x peer average on 2024 estimates. We argue a discount is warranted given below-peer margins and EPS growth.

Upside risks to our PO are: 1) stronger industrial demand, 2) better than expected pricing, 3) potential accretive acquisitions.

Downside risks to our PO are: 1) weaker-than-expected capex cycle, 2) acquisition integration risks, 3) continued weakness in China (approx. 12% of revenue).

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

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

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

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

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

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

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

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

John Bean Technologies (JBT)
We base our $85 price objective on an 9x EV/EBITDA multiple of our 2025 estimates. Our 9x target multiple is below the peer average trading at 13x on 2024 estimates. We argue a discounted valuation is warranted given JBT's below-peer EBITDA margins and below-peer cash conversion.

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

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

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

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

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

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

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

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

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

PTC Inc. (PTC)
Our PO of $200 is based on 24x CY25E EV/EBITDA. This is at a premium to industrial software peers at 22x on CY24E, warranted by visibility into accelerating ARR growth in '25/'26.

Downside risks to our PO: Macro worsens, sticky product and significant competition in core PLM market limits market share gains, declines in discrete manufacturing activity, IoT and Augmented Reality new bookings slow down to below market growth, elevated leverage post OnShape and Arena acquisitions, acquisition integration risks.

Rockwell (ROK)
We base our $280 price objective on a 15x EV/EBITDA multiple of our CY25 estimate. Our target multiple is in line with the 15x peer average on 2024E. We offset execution concerns with ROK's position in the US automation market.

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

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

Rush (RUSHA)
We base our $57 price objective on a 13x P/E multiple of our 2024 EPS estimate. Our target multiple is below the company's long term P/E multiple of 14x, which we think is fair given near-term pressures on the truck cycle.

Upside risks are: 1) improving mix of service-related revenue, 2) accretive use of free cash flow in either share repurchases or acquisitions, 3) an improvement in US truck market. Downside risks are: 1) Rush's relationship with PACCAR given the majority of revenue comes from the sale of PACCAR products, namely Peterbilt trucks and parts. 2) PACCAR has ultimate veto power on Rush's growth plans by virtue of having a right of first refusal on the purchase of additional Peterbilt dealerships. PACCAR may terminate

Rush's dealership agreements upon change of control of the company from the Rush family or if the Rush family's aggregate voting power falls below 30%. 3) The heavy truck market is a highly cyclical business that can be affected by fuel prices, interest rate fluctuations, economic recessions and customer business cycles.

Trane Technologies PLC (TT)

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

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

Vertiv (VRT)

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

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

Vontier (VNT)

We base our $40 price objective on 9.5x our 2025E EBITDA estimate. This is a discount to the peer average of 14x on 2024 estimates to reflect above-peer leverage.

Downside risks to our price objective are 1) greater-than-expected decline in US fuel dispenser revenue, 2) acquisition timing, selection, and integration risks, 3) greater adoption of electric vehicles hurting demand for retail fueling infrastructure.

Analyst Certification

I, Andrew Obin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

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

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

US - Multi-Industrials/Engineering and Construction Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	APi Group	APG	APG US	Andrew Obin
	AspenTech	AZPN	AZPN US	Andrew Obin
	Atmus Filtration	ATMU	ATMU US	Andrew Obin
	Dover Corp	DOV	DOV US	Andrew Obin
	Eaton Corp PLC	ETN	ETN US	Andrew Obin
	Emerson Electric Co	EMR	EMR US	Andrew Obin
	Flowserve	FLS	FLS US	Andrew Obin
	General Electric Company	GE	GE US	Andrew Obin
	Honeywell International Inc.	HON	HON US	Andrew Obin
	ITT Inc.	ITT	ITT US	Andrew Obin
	Montrose Environmental Group, Inc.	MEG	MEG US	Andrew Obin
	Parker Hannifin Corporation	PH	PH US	Andrew Obin
	PTC Inc.	PTC	PTC US	Andrew Obin
	Rush	RUSHA	RUSHA US	Andrew Obin
	Vertiv	VRT	VRT US	Andrew Obin
	Vontier	VNT	VNT US	Andrew Obin
NEUTRAL				
	3M Company	MMM	MMM US	Andrew Obin
	AMETEK Inc	AME	AME US	Andrew Obin
	Fortive Corporation	FTV	FTV US	Andrew Obin
	Johnson Controls International PLC	JCI	JCI US	Andrew Obin
	Pentair plc	PNR	PNR US	Andrew Obin
	Rockwell	ROK	ROK US	Andrew Obin
	Trane Technologies PLC	TT	TT US	Andrew Obin
UNDERPERFORM				
	Allegion	ALLE	ALLE US	Andrew Obin
	Carrier Global Corp.	CARR	CARR US	Andrew Obin
	Core & Main	CNM	CNM US	Andrew Obin
	Illinois Tool Works	ITW	ITW US	Andrew Obin
	John Bean Technologies	JBT	JBT US	Andrew Obin
	Keysight	KEYS	KEYS US	David Ridley-Lane, CFA

Disclosures

Important Disclosures

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

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

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

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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

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