

## Vertiv

# Updating industry forecast on more AI; raising PO to \$90

Reiterate Rating: BUY | PO: 90.00 USD | Price: 74.16 USD

## Data center market forecast now 14% CAGR through '26E

We last forecast the data center infrastructure market in October (see our [report for details](#)). We have re-run our numbers based on BoFA's forecast for artificial intelligence (AI) server shipments and Schneider Electric's revised estimates for AI electricity consumption. Our estimate for the incremental AI benefit in 2025E is 15% higher. We now forecast a 14% CAGR (2023-26E) for the market. This includes slower-growth areas such as enterprise data centers, distributed IT (e.g., data closets), and services. We reiterate our Buy rating giving AI-related demand and improving margins.

## Stronger for longer, raising our estimates and PO

We raise our revenue growth CAGR (2023-26E) for Vertiv to 12% from 11% previously. This reflects Vertiv's ~75% revenue mix in data centers and ~25% in telecom/industrial. Our Vertiv estimates are also tempered by constrained labor, supply chain, and clients' ability to source electricity for expansions. Our adjusted EPS rises \$0.01 in 2024E to \$2.35, \$0.03 in 2025E to \$3.00, and \$0.09 in 2026E to \$3.60. We now forecast adjusted EPS to grow at a 27% CAGR (2023-26E). We raise our Price Objective by \$10 to \$90 based on 20x (previously 18x) our 2025E adjusted EBITDA. Our target multiple is at a premium to the 17x peer average on 2024E. We argue a higher multiple is warranted given above-peers earnings growth.

## Next generation of AI chips could use even more power

Our analysis is based on the current generation of AI chips (e.g., Nvidia's H100 chip which uses 700 watts). Nvidia plans to launch new B100 chips sometime during 2024. According to press reports, these would use 1,000 watts, or 43% more than the current H100 chips. An 11% increase in the average AI chip power usage would double the 2026 AI benefit, increasing our forecast for data center infrastructure market 2023-2026E CAGR by 400bps to 18%. In a sign of just how energy-intensive future data centers may become, Amazon Web Services (AWS) signed an agreement this month to acquire a datacenter next to a nuclear power plant in Pennsylvania. AWS has the option to grow to a dedicated 960 megawatts of power from the plant. Much of Vertiv's content is proportional to power consumption.

| Estimates (Dec) (US\$)    | 2022A  | 2023A  | 2024E | 2025E | 2026E |
|---------------------------|--------|--------|-------|-------|-------|
| EPS                       | 0.53   | 1.77   | 2.35  | 3.00  | 3.60  |
| GAAP EPS                  | 0.20   | 1.19   | 1.93  | 2.61  | 3.22  |
| EPS Change (YoY)          | -30.3% | 234.0% | 32.8% | 27.7% | 20.0% |
| Consensus EPS (Bloomberg) |        |        | 2.33  | 2.87  | 3.41  |
| DPS                       | 0.01   | 0.02   | 0.10  | 0.14  | 0.18  |
| Valuation (Dec)           |        |        |       |       |       |
| P/E                       | 139.9x | 41.9x  | 31.6x | 24.7x | 20.6x |
| GAAP P/E                  | 370.8x | 62.3x  | 38.4x | 28.4x | 23.0x |
| Dividend Yield            | 0%     | 0%     | 0.1%  | 0.2%  | 0.2%  |
| EV / EBITDA*              | 58.4x  | 26.9x  | 20.9x | 17.1x | 14.7x |
| Free Cash Flow Yield*     | -0.9%  | 2.7%   | 3.0%  | 3.8%  | 4.5%  |

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 8.

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Timestamp: 18 March 2024 01:00AM EDT

18 March 2024

### Equity

#### Key Changes

| (US\$)        | Previous | Current |
|---------------|----------|---------|
| Price Obj.    | 80.00    | 90.00   |
| 2024E Rev (m) | 7,635.2  | 7,654.9 |
| 2025E Rev (m) | 8,501.9  | 8,532.5 |
| 2026E Rev (m) | 9,425.4  | 9,516.8 |
| 2024E EPS     | 2.34     | 2.35    |
| 2025E EPS     | 2.97     | 3.00    |
| 2026E EPS     | 3.51     | 3.60    |

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### Stock Data

|                                |                       |
|--------------------------------|-----------------------|
| Price                          | 74.16 USD             |
| Price Objective                | 90.00 USD             |
| Date Established               | 18-Mar-2024           |
| Investment Opinion             | C-1-7                 |
| 52-Week Range                  | 11.95 USD - 76.28 USD |
| Mkt Val (mn) / Shares Out (mn) | 28,327 USD / 382.0    |
| Free Float                     | 95.5%                 |
| Average Daily Value (mn)       | 635.04 USD            |
| BoFA Ticker / Exchange         | VRT / NYS             |
| Bloomberg / Reuters            | VRT US / VRT.N        |
| ROE (2024E)                    | 41.1%                 |
| Net Dbt to Eqty (Dec-2023A)    | 107.2%                |
| ESGMeter <sup>TM</sup>         | Medium                |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BoFA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BoFA ESGMeter Methodology".

# iQprofile<sup>SM</sup> Vertiv

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

| (US\$ Millions)            | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | 2.2%  | 11.6% | 15.3% | 19.7% | 22.3% |
| Return on Equity           | 14.0% | 39.6% | 41.1% | 41.9% | 39.5% |
| Operating Margin           | 3.9%  | 12.7% | 15.5% | 17.7% | 18.9% |
| Free Cash Flow             | (264) | 766   | 851   | 1,077 | 1,281 |

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

| (US\$ Millions)          | 2022A  | 2023A  | 2024E | 2025E | 2026E |
|--------------------------|--------|--------|-------|-------|-------|
| Cash Realization Ratio   | -0.8x  | 1.3x   | 1.1x  | 1.1x  | 1.1x  |
| Asset Replacement Ratio  | 0.4x   | 0.5x   | 0.7x  | 0.7x  | 0.8x  |
| Tax Rate                 | 118.8% | 27.3%  | 28.0% | 27.0% | 26.0% |
| Net Debt-to-Equity Ratio | 203.2% | 107.2% | 64.5% | 27.7% | 0.2%  |
| Interest Cover           | 1.5x   | 4.8x   | 7.7x  | 11.2x | 15.0x |

## Income Statement Data (Dec)

| (US\$ Millions)              | 2022A         | 2023A         | 2024E        | 2025E        | 2026E        |
|------------------------------|---------------|---------------|--------------|--------------|--------------|
| Sales                        | 5,692         | 6,863         | 7,655        | 8,533        | 9,517        |
| % Change                     | 13.9%         | 20.6%         | 11.5%        | 11.5%        | 11.5%        |
| Gross Profit                 | 1,616         | 2,401         | 2,788        | 3,184        | 3,595        |
| % Change                     | 6.1%          | 48.5%         | 16.1%        | 14.2%        | 12.9%        |
| EBITDA                       | 526           | 1,143         | 1,470        | 1,799        | 2,085        |
| % Change                     | -11.2%        | 117.4%        | 28.6%        | 22.4%        | 15.9%        |
| Net Interest & Other Income  | (147)         | (181)         | (154)        | (135)        | (120)        |
| <b>Net Income (Adjusted)</b> | <b>200</b>    | <b>684</b>    | <b>924</b>   | <b>1,184</b> | <b>1,421</b> |
| <b>% Change</b>              | <b>-27.9%</b> | <b>241.0%</b> | <b>35.2%</b> | <b>28.2%</b> | <b>20.0%</b> |

## Free Cash Flow Data (Dec)

| (US\$ Millions)                        | 2022A       | 2023A      | 2024E        | 2025E        | 2026E        |
|--|-------------|------------|--------------|--------------|--------------|
| Net Income from Cont Operations (GAAP) | (14)        | 503        | 741          | 1,006        | 1,242        |
| Depreciation & Amortization            | 302         | 271        | 286          | 286          | 286          |
| Change in Working Capital              | (449)       | 67         | (2)          | (32)         | (56)         |
| Deferred Taxation Charge               | NA          | NA         | NA           | NA           | NA           |
| Other Adjustments, Net                 | 8           | 60         | 26           | 28           | 29           |
| Capital Expenditure                    | (111)       | (135)      | (201)        | (211)        | (221)        |
| <b>Free Cash Flow</b>                  | <b>-264</b> | <b>766</b> | <b>851</b>   | <b>1,077</b> | <b>1,281</b> |
| <b>% Change</b>                        | <b>NM</b>   | <b>NM</b>  | <b>11.1%</b> | <b>26.5%</b> | <b>19.0%</b> |
| Share / Issue Repurchase               | 0           | 27         | (256)        | (294)        | (339)        |
| Cost of Dividends Paid                 | (4)         | (10)       | (39)         | (55)         | (71)         |
| Change in Debt                         | 219         | (262)      | (772)        | (422)        | (422)        |

## Balance Sheet Data (Dec)

| (US\$ Millions)                       | 2022A        | 2023A        | 2024E        | 2025E        | 2026E        |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents                    | 261          | 780          | 564          | 869          | 1,318        |
| Trade Receivables                     | 1,889        | 2,185        | 2,395        | 2,647        | 2,939        |
| Other Current Assets                  | 1,009        | 1,036        | 1,092        | 1,170        | 1,262        |
| Property, Plant & Equipment           | 489          | 560          | 665          | 779          | 900          |
| Other Non-Current Assets              | 3,448        | 3,437        | 3,255        | 3,082        | 2,910        |
| <b>Total Assets</b>                   | <b>7,096</b> | <b>7,999</b> | <b>7,971</b> | <b>8,546</b> | <b>9,329</b> |
| Short-Term Debt                       | 22           | 22           | 0            | 0            | 0            |
| Other Current Liabilities             | 1,876        | 2,284        | 2,522        | 2,804        | 3,119        |
| Long-Term Debt                        | 3,169        | 2,919        | 2,169        | 1,747        | 1,325        |
| Other Non-Current Liabilities         | 587          | 759          | 793          | 824          | 853          |
| <b>Total Liabilities</b>              | <b>5,654</b> | <b>5,984</b> | <b>5,484</b> | <b>5,375</b> | <b>5,297</b> |
| <b>Total Equity</b>                   | <b>1,442</b> | <b>2,015</b> | <b>2,487</b> | <b>3,171</b> | <b>4,033</b> |
| <b>Total Equity &amp; Liabilities</b> | <b>7,096</b> | <b>7,999</b> | <b>7,971</b> | <b>8,546</b> | <b>9,329</b> |

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 8.

## Company Sector

Industrials/Multi-Industry

## Company Description

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

## Investment Rationale

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

## Stock Data

Average Daily Volume

8,563,124

## Quarterly Earnings Estimates

|    | 2023  | 2024  |
|----|-------|-------|
| Q1 | 0.24A | 0.36E |
| Q2 | 0.46A | 0.58E |
| Q3 | 0.52A | 0.64E |
| Q4 | 0.56A | 0.77E |

## Updating our data center forecasts

We have updated our data center infrastructure market forecasts for updated AI server and electricity usage forecasts and extended to 2026E. We see AI adoption driving a 14% market-wide CAGR over 2023-26E. On a like-for-like basis, our estimate for the incremental AI benefit in 2025E is 15% higher than our prior October 2023.

### Exhibit 1: Data center infrastructure market – AI adoption benefit

Forecast a 13% CAGR over 2023-26E

|  | No AI adoption scenario |             |             |             |              |
|--|-------------------------|-------------|-------------|-------------|--------------|
| (\$bn)                                     | 2023                    | 2024E       | 2025E       | 2026E       | '23-26E CAGR |
| Power management                           | 12.1                    | 13.6        | 15.2        | 16.8        | 11%          |
| Thermal management                         | 4.5                     | 5.1         | 5.8         | 6.4         | 12%          |
| IT & Edge                                  | 11.3                    | 12.5        | 13.6        | 14.8        | 9%           |
| Services & software                        | 9.5                     | 9.8         | 10.1        | 10.5        | 3%           |
| <b>Data center physical infrastructure</b> | <b>37.4</b>             | <b>41.0</b> | <b>44.7</b> | <b>48.4</b> | <b>9%</b>    |
| y/y % change                               | 13%                     | 10%         | 9%          | 8%          |              |
|  | AI adoption scenario    |             |             |             |              |
| (\$bn)                                     | 2023                    | 2024E       | 2025E       | 2026E       | '23-26E CAGR |
| Power management                           | 12.1                    | 14.7        | 17.0        | 19.5        | 17%          |
| Thermal management                         | 4.5                     | 6.5         | 8.1         | 10.0        | 30%          |
| IT & Edge                                  | 11.3                    | 12.5        | 13.6        | 14.8        | 9%           |
| Services & software                        | 9.5                     | 9.8         | 10.1        | 10.5        | 3%           |
| <b>Data center physical infrastructure</b> | <b>37.4</b>             | <b>43.4</b> | <b>48.9</b> | <b>54.8</b> | <b>14%</b>   |
| y/y % change                               | 13%                     | 16%         | 13%         | 12%         |              |
| <b>Incremental AI benefit</b>              | <b>0.0</b>              | <b>2.4</b>  | <b>4.2</b>  | <b>6.3</b>  |              |

Source: BofA Global Research

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## BofA versus Vertiv & Eaton forecast

Since we last published our forecasts, both Vertiv and Eaton have presented market outlooks. Both companies see a \$33-34bn data center infrastructure market growing at a 10-11% CAGR over 2023-28.

### Exhibit 2: Vertiv's and Eaton's data center infrastructure market projections

Both companies forecast a 10-11% CAGR over 2023-28

| (\$bn)                      | '23         | '24E        | '25E        | '26E        | '27E        | '28E        | '23-'28 CAGR | Range  |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------|
| <b>Vertiv projections</b>   |             |             |             |             |             |             |              |        |
| Cloud & colocation          | 17.0        | 20.0        | 23.3        | 26.9        | 30.8        | 35.0        | 15.5%        | 14-17% |
| Enterprise & distributed IT | 16.5        | 17.2        | 17.9        | 18.6        | 19.3        | 20.1        | 4.0%         | 3-5%   |
| <b>Data center total</b>    | <b>33.5</b> | <b>37.2</b> | <b>41.2</b> | <b>45.5</b> | <b>50.2</b> | <b>55.1</b> | <b>10.5%</b> | 9-12%  |
| <b>Eaton projections</b>    |             |             |             |             |             |             |              |        |
| Data center                 | 18.0        | 21.2        | 24.9        | 28.8        | 33.2        | 37.8        | 16.0%        | ~16%   |
| Distributed IT              | 16.0        | 16.8        | 17.5        | 18.0        | 18.6        | 19.0        | 3.5%         | N/A    |
| <b>Data center total</b>    | <b>34.0</b> | <b>38.0</b> | <b>42.3</b> | <b>46.9</b> | <b>51.7</b> | <b>56.8</b> | <b>10.8%</b> | ~10.8% |

Source: Company presentations, BofA Global Research

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## Developments we are watching

- Nvidia plans to launch new B100 chips sometime during 2024. According to press reports, these would use 1,000 watts, or 43% more than the current H100 chips. An 11% increase in the average AI chip power usage would double the 2026 AI benefit (i.e., from \$6bn to \$12bn), increasing the 2023-26E CAGR by 400bp to 18%.
- In August 2023, Digital Reality (DLR, covered by our colleague David Barden), a colocation firm, announced it is offering 70 kilowatt racks using direct-to-chip liquid cooling in 28 markets. In December 2023, peer Equinix (EQIX, also covered by David Barden) announced it was offering direct-to-chip liquid cooling racks in 45 markets.
- Hyperscalers are looking into nuclear power. In March, Amazon Web Services (AWS) signed an agreement to acquire a datacenter next to a nuclear power plant in Pennsylvania. AWS has the option to grow to a dedicated 960 megawatts of power

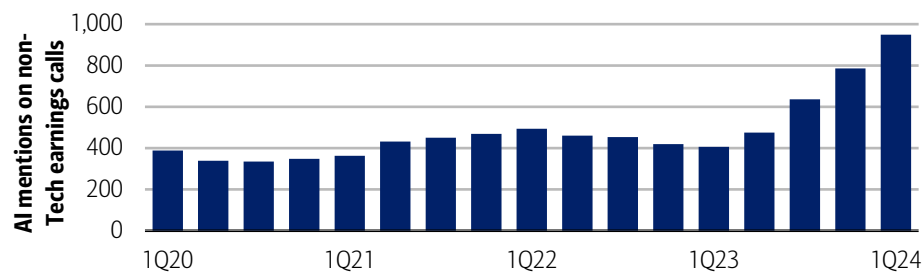


from the plant. Microsoft has hired several people to oversee a nuclear technology program.

- Corporate interest in AI continues to grow. We looked at mentions of AI during earnings calls among non-technology members of the S&P 1500. Surprisingly, industrials earnings calls had the most mentions, followed by consumer discretionary and health care.

### Exhibit 3: AI-related mentions during non-technology earnings calls

AI interest among non-technology appears to be steadily rising



Source: Bloomberg, BofA Global Research

Note: "AI & Machine Learning" topic for S&P 1500 index members' earnings calls on trailing

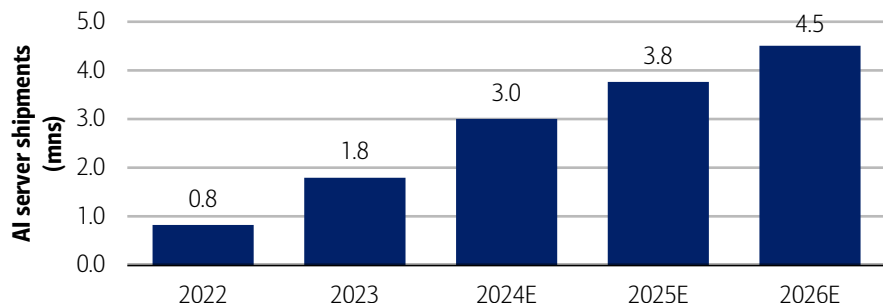
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## What AI server shipments imply

BofA's US Semiconductors & Semiconductor Capital Equipment analyst, Vivek Arya, forecasts AI server shipments to grow from 1.8mn in 2023 to 4.5mn in 2026, or a 36% CAGR.

### Exhibit 4: AI server shipments

36% CAGR between 2023-26E



Source: BofA Global Research

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### Translating from AI servers to incremental demand

The chart below takes BofA's AI server shipment forecasts and translates those into AI racks. We assume 12 servers/rack then apply the incremental costs per rack of \$10,000 for electrical and \$20,000 for thermal. This yields a ~\$7bn uplift over 2023-26E. On a like-for-like basis, our 2025E estimate is 36% higher versus our October 2023 estimates.

### Exhibit 5: Incremental AI opportunity

~\$7bn of incremental opportunity over 2023-26

| (in mns)                               | 2023E  | 2024E      | 2025E      | 2026E      |
|--|--------|------------|------------|------------|
| AI server sales (in '000s)             | 1,794  | 3,004      | 3,763      | 4,505      |
| Servers/rack                           | 12.0   | 12.0       | 12.0       | 12.0       |
| AI racks (in '000s)                    | 150    | 250        | 314        | 375        |
| Electrical cost/rack (actual \$s)      | 10,000 | 10,000     | 10,000     | 10,000     |
| Thermal cost/rack (actual \$s)         | 20,000 | 20,000     | 20,000     | 20,000     |
| Electrical costs (\$bn)                | 1.5    | 2.5        | 3.1        | 3.8        |
| Thermal costs (\$bn)                   | 3.0    | 5.0        | 6.3        | 7.5        |
| Total costs (\$bn)                     | 4.5    | 7.5        | 9.4        | 11.3       |
| <b>Incremental growth (versus '23)</b> | -      | <b>3.0</b> | <b>4.9</b> | <b>6.8</b> |

Source: BofA Global Research

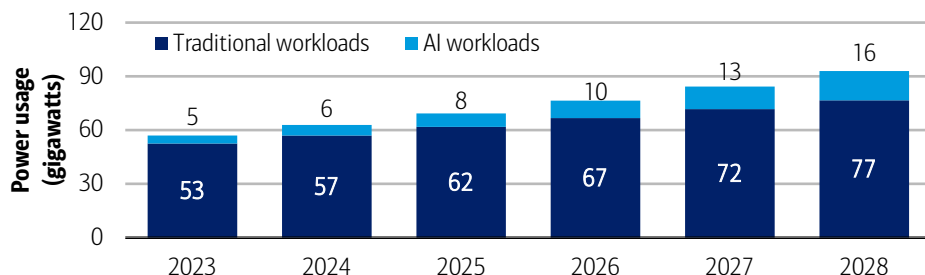
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## What electricity forecasts imply

Schneider Electric's Energy Management Research Center forecasts that artificial intelligence (AI) applications will use ~4.5 gigawatts (GW) of electricity in 2023, or 8% of total data center electricity usage. They expect this to grow to 14-19GW by 2028.

### Exhibit 6: Global data center power usage by application

AI workloads' power usage expected to grow at a 25-33% CAGR over 2023-28



Source: Schneider Electric The AI Disruption: Challenges and Guidance for Data Center Design

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## Translating from electricity forecasts to incremental demand

For AI gigawatts, we assume an incremental \$1.0mn/MW for thermal content and \$0.5mn/MW for electrical content (relative to traditional workloads). This approach implies a ~\$5bn uplift in the market over 2023E-26E.

### Exhibit 7: Data center physical infrastructure market (2023-26E)

~\$5bn of incremental opportunity over 2023-26

| (\$bn)                        | No AI adoption scenario |            |            |            |               |
|-------------------------------|-------------------------|------------|------------|------------|---------------|
|                               | 2023                    | 2024E      | 2025E      | 2026E      | '23-'26E CAGR |
| Electrical                    | 12.1                    | 13.5       | 15.1       | 16.8       | 12%           |
| Thermal                       | 4.5                     | 5.1        | 5.7        | 6.3        | 12%           |
| Total cost                    | 16.6                    | 18.6       | 20.8       | 23.1       | 12%           |
|                               | AI adoption scenario    |            |            |            |               |
|                               | 2023                    | 2024E      | 2025E      | 2026E      | '23-'26E CAGR |
| Electrical                    | 12.1                    | 15.1       | 17.3       | 19.9       | 18%           |
| Thermal                       | 4.5                     | 5.8        | 7.0        | 8.5        | 23%           |
| Total cost                    | 16.6                    | 20.9       | 24.3       | 28.4       | 19%           |
| <b>Incremental AI benefit</b> | <b>0.0</b>              | <b>2.3</b> | <b>3.5</b> | <b>5.3</b> |               |

Source: BofA Global Research

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## Valuation

We base our \$90 Price Objective on an 20x EV/EBITDA of our 2025 estimates. Our target multiple is at a premium to the 17x peer average on 2024E. We argue the higher multiple is warranted given above-peers earnings growth.

### Exhibit 3: Selected valuation metrics for Vertiv and peers

We base our \$90 price objective on 20x our 2025E adjusted EBITDA

| Company            | Ticker | Stock Price<br>3/15/2024 | P/E         |             | EV/EBITDA   |             | EBITDA Margin |              | EBITDA Growth |           | Net debt/EBITDA |             |
|--------------------|--------|--------------------------|-------------|-------------|-------------|-------------|---------------|--------------|---------------|-----------|-----------------|-------------|
|                    |        |                          | 2024E       | 2025E       | 2024E       | 2025E       | 2024E         | 2025E        | 2024E         | 2025E     | 2024E           | 2025E       |
| Legrand            | LGRVF  | \$97.74                  | 23 x        | 21 x        | 15 x        | 14 x        | 22.1%         | 23.1%        | -6%           | 7%        | 0.7x            | 0.3x        |
| Schneider          | SBGSF  | \$236.00                 | 32 x        | 29 x        | 19 x        | 17 x        | 19.9%         | 20.3%        | 5%            | 9%        | 0.9x            | 0.5x        |
| Hubbell*           | HUBB   | \$395.15                 | 24 x        | 23 x        | 17 x        | 16 x        | 22.5%         | 22.8%        | 10%           | 7%        | 1.0x            | 0.6x        |
| Eaton              | ETN    | \$297.90                 | 29 x        | 27 x        | 23 x        | 21 x        | 22.1%         | 22.2%        | 12%           | 8%        | 1.6x            | 1.3x        |
| nVent*             | NVT    | \$69.96                  | 22 x        | 20 x        | 15 x        | 14 x        | 24.4%         | 24.6%        | 14%           | 6%        | 1.4x            | 1.0x        |
| TE Connectivity    | TEL    | \$97.74                  | 13 x        | 12 x        | 9 x         | 8 x         | 23.1%         | 22.5%        | 6%            | 3%        | 0.6x            | 0.4x        |
| <b>AVERAGE</b>     |        |                          | <b>24 x</b> | <b>22 x</b> | <b>17 x</b> | <b>15 x</b> | <b>22.4%</b>  | <b>22.6%</b> | <b>7%</b>     | <b>7%</b> | <b>1.0x</b>     | <b>0.7x</b> |
| <b>Vertiv</b>      | VRT    | \$74.16                  | 32 x        | 25 x        | 21 x        | 16 x        | 19.2%         | 21.1%        | 28%           | 22%       | 1.1x            | 0.5x        |
| <b>Vertiv @ PO</b> | VRT    | \$90.00                  | 38 x        | 30 x        | 25 x        | 20 x        |               |              |               |           |                 |             |

Source: BofA Global Research, Bloomberg.

Note: \* indicates Bloomberg consensus.

BofA GLOBAL RESEARCH

## Price objective basis & risk

### Vertiv (VRT)

We base our \$90 price objective on an 20x EV/EBITDA of our 2025 estimates. Our target multiple is at a premium to the 17x peer average on 2024E. We argue the slightly higher multiple is warranted given above-peers earnings growth.

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

## Analyst Certification

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

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

| Investment rating   | Company                            | BofA Ticker | Bloomberg symbol | Analyst                |
|---------------------|------------------------------------|-------------|------------------|------------------------|
| <b>BUY</b>          |                                    |             |                  |                        |
|                     | 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            |
|                     | Honeywell International Inc.       | HON         | HON US           | Andrew Obin            |
|                     | ITT Inc.                           | ITT         | ITT US           | Andrew Obin            |
|                     | Montrose Environmental Group, Inc. | MEG         | MEG US           | Andrew Obin            |
|                     | Parker Hannifin Corporation        | PH          | PH US            | Andrew Obin            |
|                     | PTC Inc.                           | PTC         | PTC US           | Andrew Obin            |
|                     | Rush                               | RUSHA       | RUSHA US         | Andrew Obin            |
|                     | Vertiv                             | VRT         | VRT US           | Andrew Obin            |
|                     | Vontier                            | VNT         | VNT US           | Andrew Obin            |
| <b>NEUTRAL</b>      |                                    |             |                  |                        |
|                     | 3M Company                         | MMM         | MMM US           | Andrew Obin            |
|                     | AMETEK Inc                         | AME         | AME US           | Andrew Obin            |
|                     | Fortive Corporation                | FTV         | FTV US           | Andrew Obin            |
|                     | Johnson Controls International PLC | JCI         | JCI US           | Andrew Obin            |
|                     | Pentair plc                        | PNR         | PNR US           | Andrew Obin            |
|                     | Rockwell                           | ROK         | ROK US           | Andrew Obin            |
|                     | Trane Technologies PLC             | TT          | TT US            | Andrew Obin            |
| <b>UNDERPERFORM</b> |                                    |             |                  |                        |
|                     | Allegion                           | ALLE        | ALLE US          | Andrew Obin            |
|                     | Carrier Global Corp.               | CARR        | CARR US          | Andrew Obin            |
|                     | Core & Main                        | CNM         | CNM US           | Andrew Obin            |
|                     | Illinois Tool Works                | ITW         | ITW US           | Andrew Obin            |
|                     | John Bean Technologies             | JBT         | JBT US           | Andrew Obin            |
|                     | Keysight                           | KEYS        | KEYS US          | David Ridley-Lane, CFA |



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

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

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

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

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

Other LT Liabilities

Enterprise Value

### Denominator

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

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

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

Sales

Basic EBIT + Depreciation + Amortization

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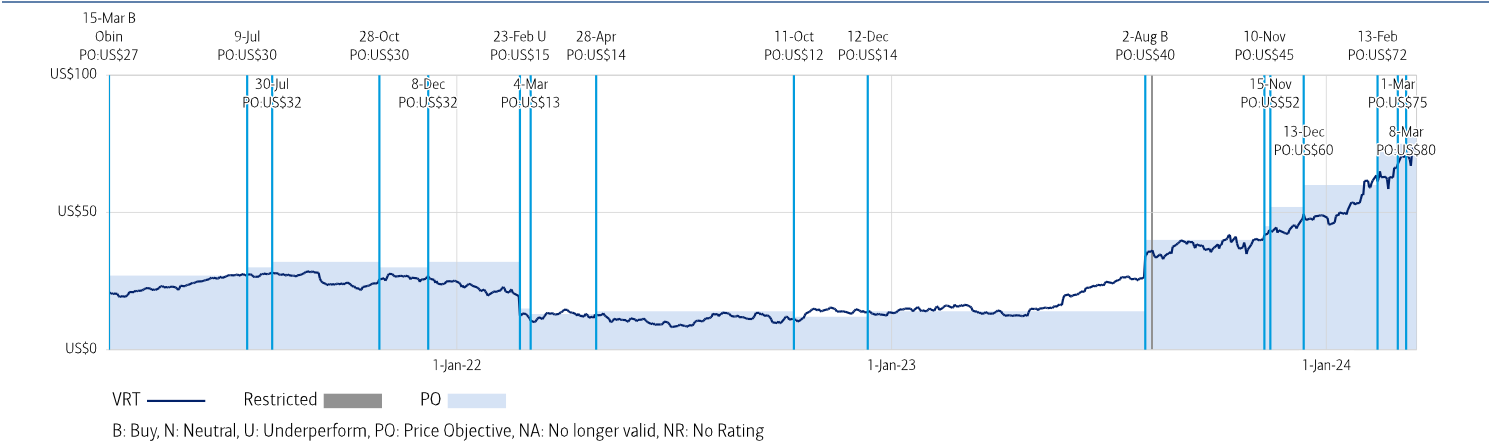
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Vertiv (VRT) Price Chart



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

| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy               | 45    | 50.56%  | Buy                                      | 25    | 55.56%  |
| Hold              | 26    | 29.21%  | Hold                                     | 13    | 50.00%  |
| Sell              | 18    | 20.22%  | Sell                                     | 7     | 38.89%  |

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

| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy               | 1895  | 53.62%  | Buy                                      | 1083  | 57.15%  |
| Hold              | 832   | 23.54%  | Hold                                     | 454   | 54.57%  |
| Sell              | 807   | 22.84%  | Sell                                     | 383   | 47.46%  |

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

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