

Vertiv Holdings Co.

(NYSE: VRT)

- Recommendation
- BUY

Current Price
\$67.64

Target Price
\$82.06
17.7%

John Ford, Brooke Portland, Brady Puckett, Will Froehlich, Abigail Bee

Investment Thesis



Future Growth in Data Center Industry

- Increased need for Data computation will lead to significant industry growth.
- CAGR of 19.3% expected over the next 5 years.

Dominant position in Global Data Center Cooling market

- Vertiv has a 23.5% share of the Global Data Cooling market, more than 10% higher than its closest competitor.

Diverse Product Offering and Strategic Partnerships

- Vertiv has strong partnerships with key players in various industries and operates a wide range of services from Infrastructure to Integrated Rack Solutions to Consulting services.

Executive Summary



1. Company Overview

- I. Business Description
- II. Business Model and Product Stream
- III. Financial Snapshot

3. Valuation Framework

- I. Peer Group Selection
- II. Discounted Cash Flow Analysis
- III. Football Field

2. Industry Overview

- I. Communications Industry
- II. Dominance in Data Center Market

4. Risks

- I. Global Supply Chain Issues
- II. Competitive Landscape
- III. Projections

A photograph of a server room with multiple rows of black server racks. The racks have glass doors and some have internal components visible. The lighting is dim, with a blueish tint. The text 'Company Overview' is overlaid in white, sans-serif font on the left side of the image.

Company Overview

Business Description

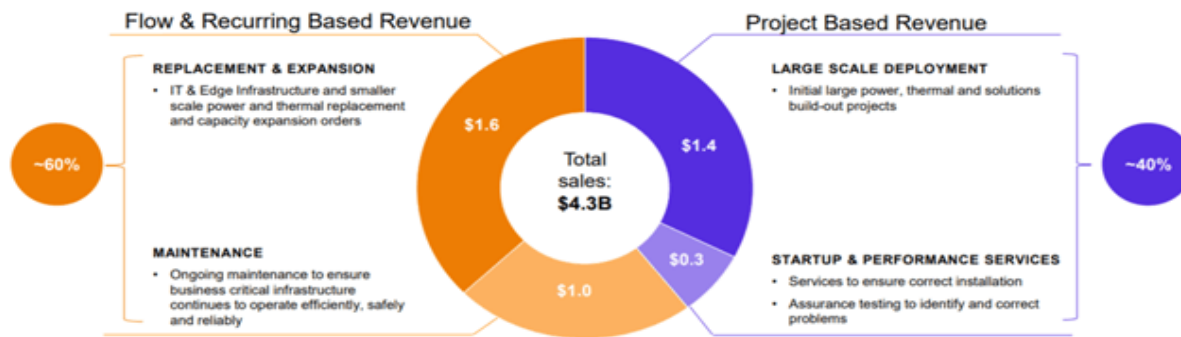


Business Description

- **Founded:** 2016
- **Headquarter:** Columbus, OH
- **Employees:** 27,000+ in over 130 countries
- **Description:** VRT manufactures infrastructural technologies and cooling services for data centers globally. They have 705,000 customers with 50 enterprise-grade products.
- **Key Executives:** Giordano Albertazzi (CEO) and David Fallon (CFO)

Revenue By Segment

3 Highly Recurring and Visible Revenues Growing Installed Base



Recurring revenue through replacement cycles and ongoing maintenance increases stability

Business Segments

Data Centers

- **Cloud & Colocation**
 - Technology leadership across all segments
 - Alignment with leading AI chip providers
 - Global scale in operations and service
- **Enterprise & Distributed IT**
 - Trusted leader with 5+ decades of institutional knowledge and talent

Communication Networks

- **Unique Portfolio**
 - Unique portfolio of both AC and DC power, coupled with thermal, services, and solutions
- **Existing Relationships**
 - Existing relationships with major players at the telecom-cloud junction

Commercial and Industrial Environments

- **Power Management**
 - Power management portfolio aligns with C&I needs
- **Engineering Experience**
 - Engineering experience to support high-stakes C&I applications

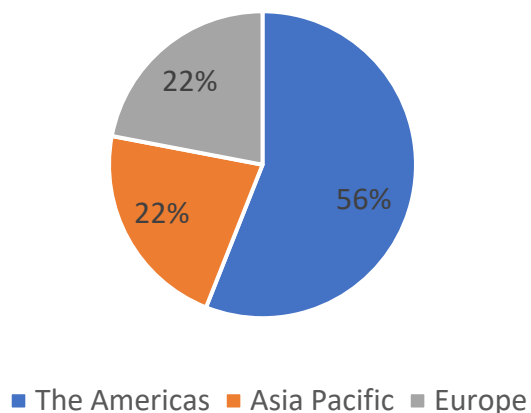
Business Description



Global Expansion

- Vertiv boasts a formidable global presence with a network of 30 Manufacturing facilities and over 200 service centers worldwide.
- Operations spanning over 130 Countries.
- Manage business across three reportable segments based on geographic region—The Americas, Asia Pacific and Europe, Middle East & Africa.

Percentage of Sales Globally



Company Offerings

Critical Infrastructure & Solutions

- Offer delivery of products to provide critical Infrastructure to Data Centers & Communication Networks. Responsible for 61% of revenue.
- Products include AC and DC Power Management, Thermal Management, and Low voltage Switchgear.

Integrated Rack Solutions

- Offers solutions that help IT infrastructure be deployed in remote locations through Integrated Rack Solutions. Responsible for 13% of Revenue.
- Products include delivery of racks, Single Phase UPS, and rack power distribution.

Services & Spares

- Provide consistent service delivery to critical facilities in all regions of the world. Responsible for 26% of Revenue.
- Services include preventative maintenance, project management, acceptance testing, engineering and consulting.

Business Description



Management



Giordano Albertazzi
CEO (2023)

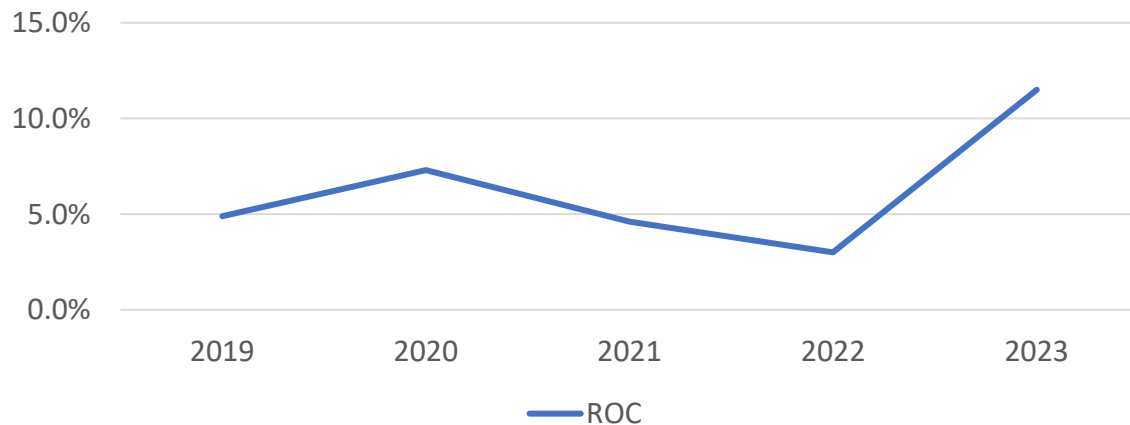


David Fallon
CFO (2017)



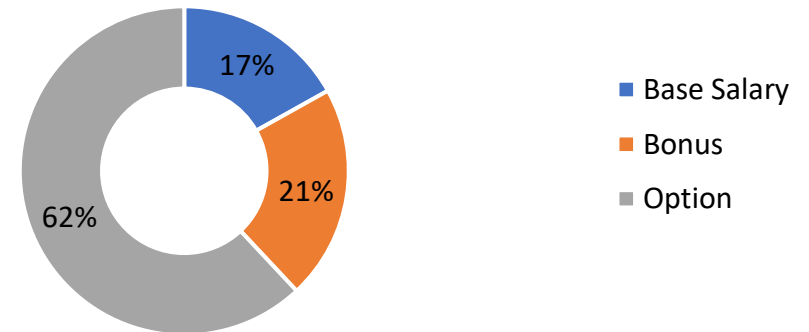
Sheryl Haislet
CIO (2020)

Return on Capital



Compensation Breakdown

Pay Mix-CEO

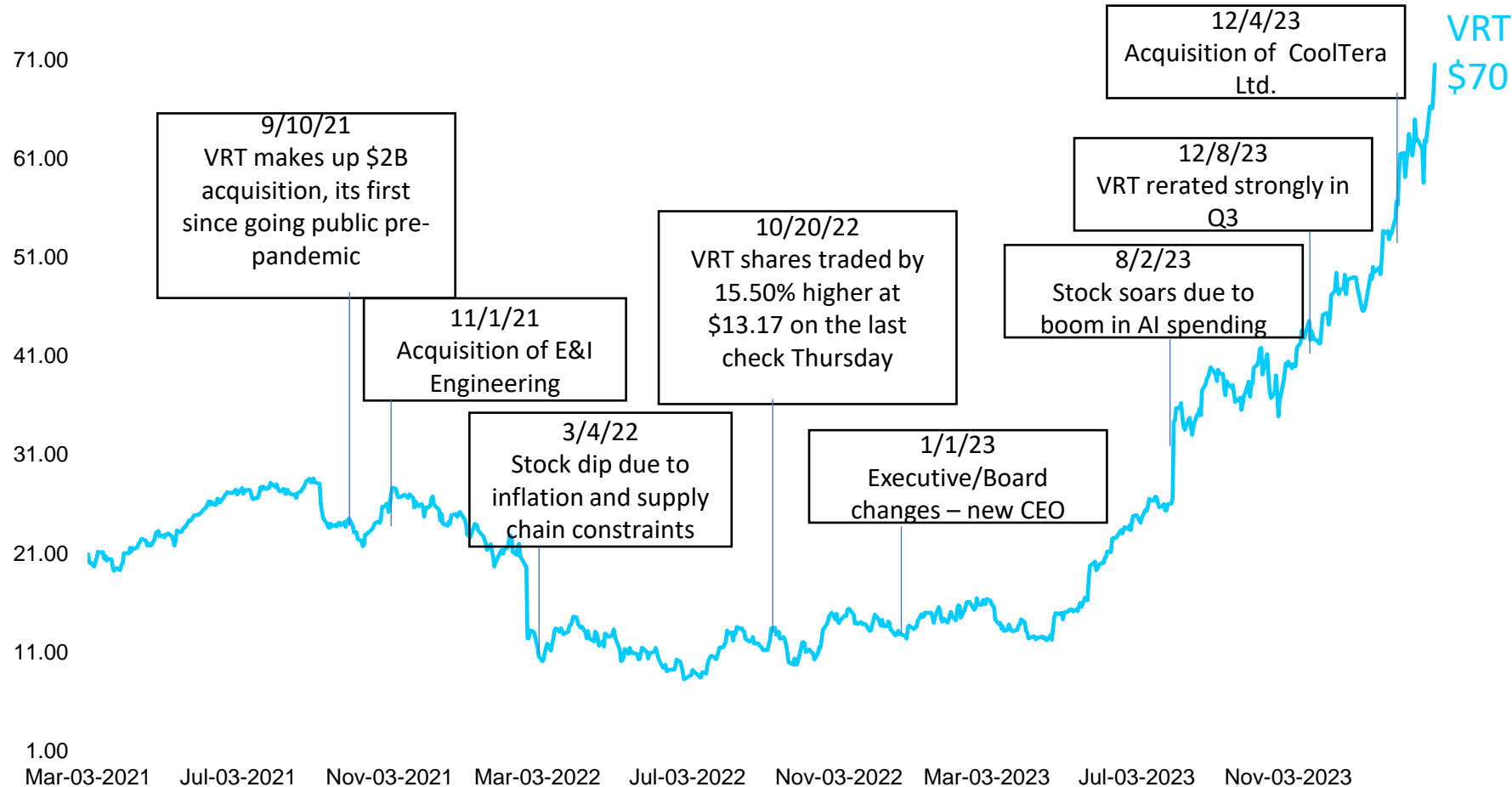


- Highly incentivized salary structure, over 79% at risk for CEO based on performance
- Internal leadership re-organization in 2023 moved Giordano Albertazzi from COO to CEO highlighting strong internal oversight
- Diverse perspectives and strong leadership with rotating board of directors annually

Earnings Growth



Vertiv Holdings Co (NYSE:VRT) - Share Pricing



Growth Drivers

- Acquisition of E&I Engineering has expanded VRT's addressable market by \$7 billion
- Acquisition of CoolTera boosts liquid cooling portfolio which further strengthens their expertise in high-density cooling solutions
- VRT stock continues to grow due to the increasing demand for critical digital infrastructure to support AI deployment at scale



Industry Overview

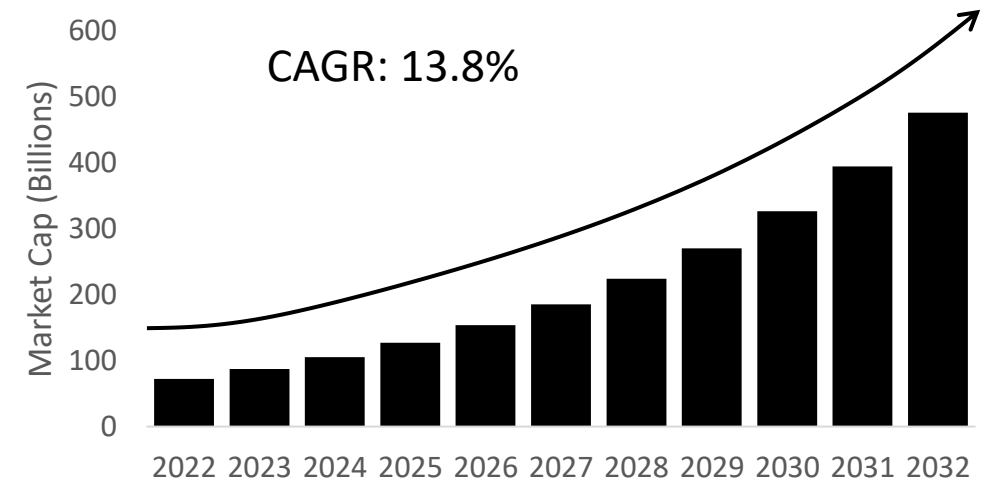
Data Center Industry



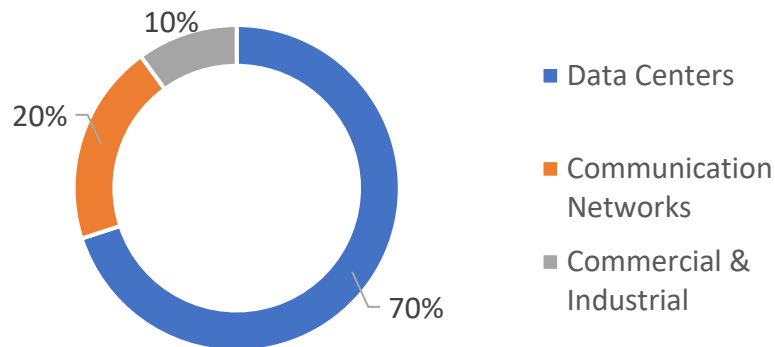
Industry Overview

- The Data center industry is experiencing rapid expansion, driven by the exponential growth of digital data creation and consumption worldwide.
- The Data Center Services Market currently sits at 98.52 Billion but is expected to grow to 250 Billion by 2028.
- The industry boasts an expected CAGR of 13.8%
- The continued need for AI, Machine Learning, and Cloud Computing will create immense data center opportunities which Vertiv's products are positioned to capitalize on.

Growth in Industry



Global Expansion



*Market Breakdown by Percentage of Revenue rounded to nearest 5%

Global Expansion

- Emerging markets, especially in Asia-Pacific and Latin America are poised drive growth in the industry due to expanding digitalization efforts and infrastructure investments.
- North America currently boasts over 40% of global revenue, with the Asia Pacific following with 35% of global revenue.
- Vertiv's global presence positions them to take advantage of these new expanding markets and growth opportunities.

Communications Industry



Industry Overview

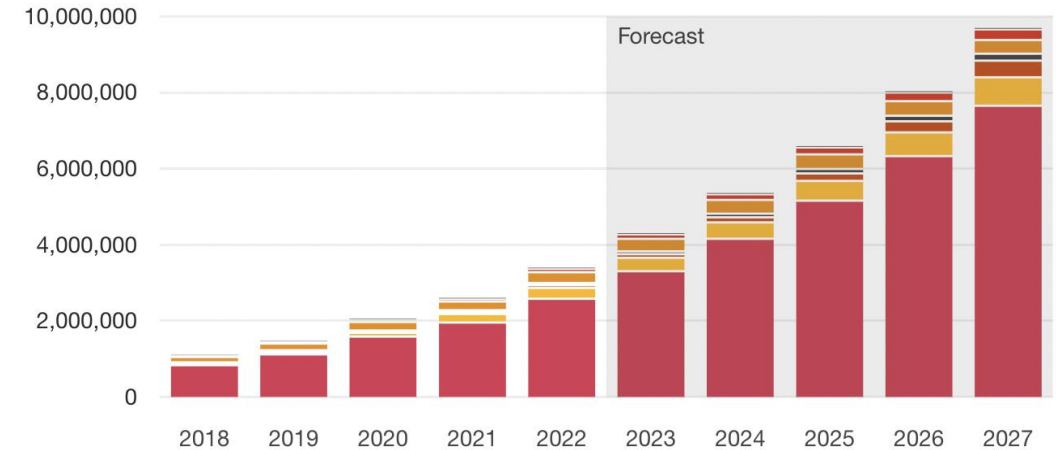
- The Communications industry is expected to surpass \$2 Trillion market cap driven by advancements in 5G Technology and Internet of Things (IoT).
- The industry boasts a expected CAGR of 6.2%.
- Global data consumption across communications networks is supposed to nearly triple by 2027, creating the need for new infrastructure and data services.
- Communication networks consist of 20% of Vertiv's revenues.

Key Players

- Vertiv collaborates with many key players in the communications industry such as AT&T, Verizon, and Vodafone to provide them solutions for all their infrastructure needs.
- Vertiv provides solutions for Macro Site, Central Office, Small Cell, and Data Center aspects of Communications companies.

Industry Growth

Data consumption (petabytes)



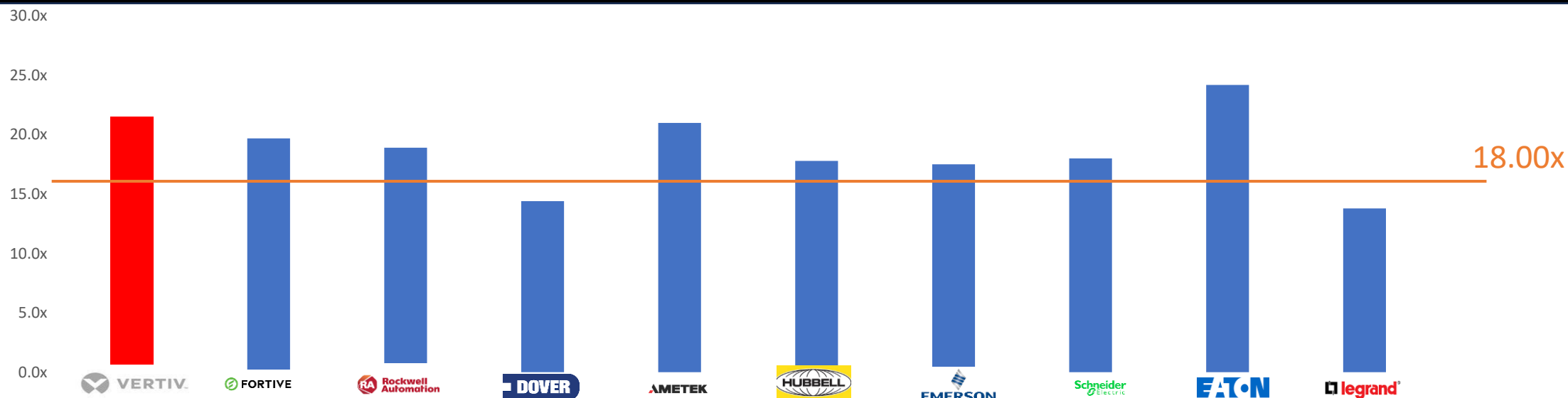
Competitive Edge

- With its expertise in critical digital infrastructure and established partnerships with industry leaders, Vertiv is well-positioned to capitalize on the growth opportunities within the communications sector, driving future revenue and market expansion.



Valuation

Public Comparable Analysis



Market Cap	\$26,960	\$30,006	\$33,016	\$23,400	\$41,740	\$20,630	\$61,820	\$117,900	\$117,200	\$26,310
TEV	\$27,600	\$31,360	\$35,600	\$26,100	\$44,191	\$20,230	\$75,220	\$122,001	\$115,640	\$28,016
Revenue '23	\$6,900	\$6,480	\$9,235	\$8,577	\$7,405	\$5,881	\$15,909	\$21,454	\$25,018	\$8,410
Revenue Growth '23	22.1%	6.84%	1.9%	1.65%	12.26%	9.47%	13.5%	25.7%	7.86%	0.9%
EBITDA Margin '23	17.20%	28.26%	21.75%	21.63%	30.52%	22.63%	27.1%	13.1%	21.94%	21.9%
Gross Margin '23	35.05%	60.09%	41.47%	37.51%	35.97%	35.15%	50.0%	35.2%	35.88%	52.3%
Beta	1.72	1.17	1.42	1.26	1.22	0.92	1.34	1.02	1.02	0.92
ROA	3.5%	5.4%	10.6%	9.56%	9.8%	12.75%	26.02%	6.3%	8.70%	7.31%

DCF - Base Case



	Historical			Projections				
	2021	2022	2023	2024	2025	2026	2027	2028
Revenue	\$4,998.00	\$5,691.00	\$6,863.00	\$7,610.00	\$8,760.22	\$10,084.30	\$11,608.51	\$13,363.09
YoY Growth		13.87%	20.59%	10.88%	15.11%	15.11%	15.11%	15.11%
Cost of goods sold	\$3,125.00	\$3,475.00	\$4,422.00	\$4,769.41	\$5,494.61	\$6,380.93	\$7,300.63	\$8,413.78
Gross profit	\$1,873.00	\$2,216.00	\$2,441.00	\$2,840.59	\$3,265.62	\$3,703.37	\$4,307.88	\$4,949.31
Selling, general & administrative	\$1,109.00	\$1,178.00	\$1,312.00	\$1,410.92	\$1,501.93	\$1,628.09	\$1,746.94	\$1,949.31
R&D Expense	\$82.00	\$95.00	\$87.00	\$112.87	\$120.15	\$130.25	\$139.76	\$155.95
EBITDA	\$682.00	\$943.00	\$1,042.00	\$1,316.79	\$1,643.53	\$1,945.03	\$2,421.18	\$2,844.05
Less: depreciation	\$(207.00)	\$(264.00)	\$(246.30)	\$(265.65)	\$(306.04)	\$(355.41)	\$(406.64)	\$(468.64)
Less: amortization	\$(20.00)	\$(27.40)	\$(23.10)	\$(20.95)	\$(19.88)	\$(19.34)	\$(19.07)	\$(18.93)
EBIT	\$455.00	\$651.60	\$772.60	\$1,030.19	\$1,317.61	\$1,570.28	\$1,995.47	\$2,356.48
Less: taxes @ 20.9%	\$(95.12)	\$(136.22)	\$(161.51)	\$(215.36)	\$(275.45)	\$(328.27)	\$(417.15)	\$(492.62)
Tax-effected EBIT	\$359.88	\$515.38	\$611.09	\$814.83	\$1,042.17	\$1,242.02	\$1,578.32	\$1,863.86
Plus: D&A	\$227.00	\$291.40	\$269.40	\$286.60	\$325.92	\$374.75	\$425.70	\$487.57
Less: Cap Ex	\$(73.40)	\$(100.00)	\$(133.68)	\$(140.79)	\$(162.06)	\$(186.56)	\$(214.76)	\$(247.22)
+ / - Changes in working capital		\$-	\$(272.00)	\$52.00	\$52.00	\$52.00	\$52.00	\$52.00
Unlevered free cash flow		\$706.78	\$474.81	\$1,012.64	\$1,258.02	\$1,482.20	\$1,841.27	\$2,056.21

Highlights

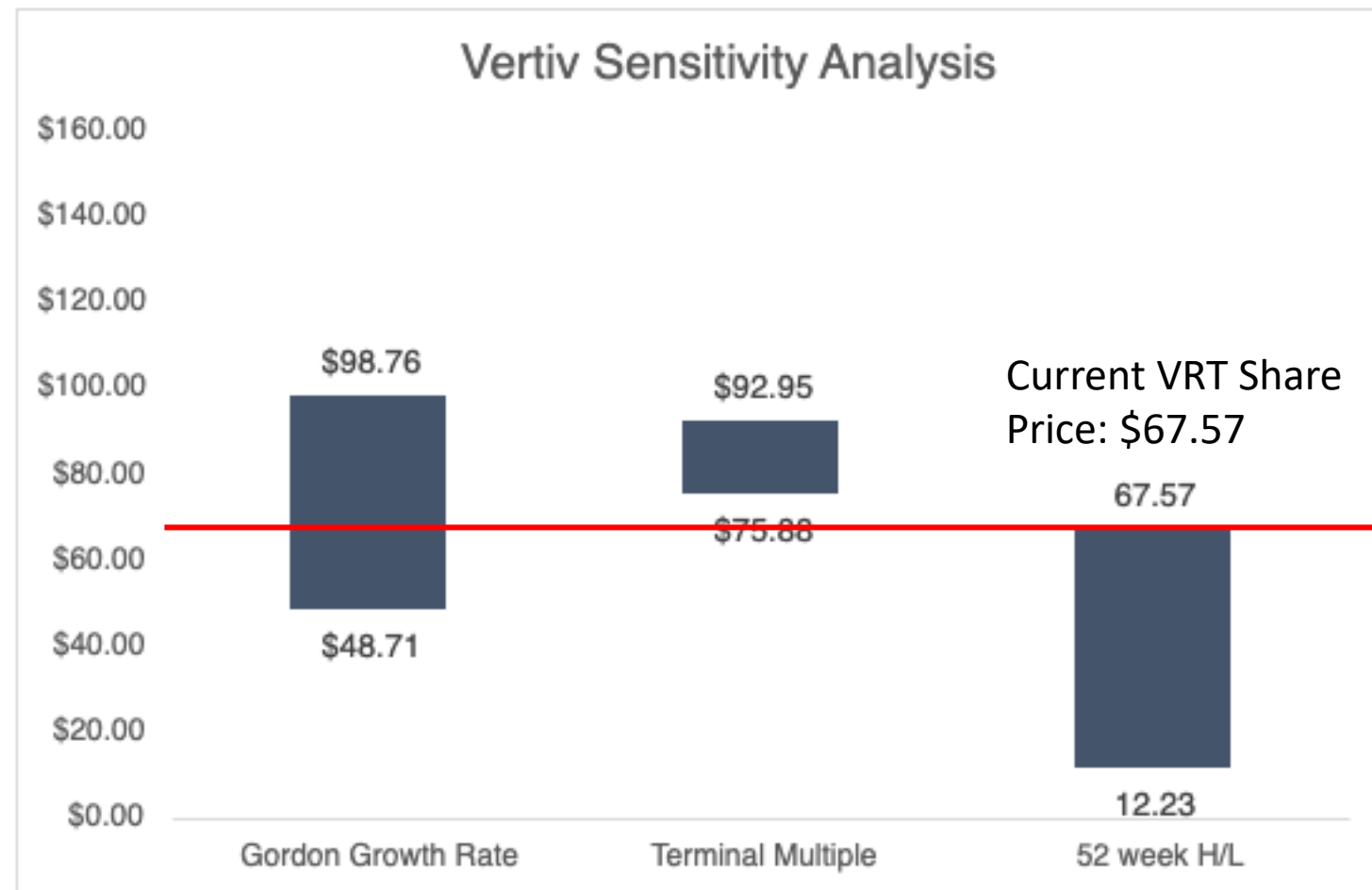
- The rapid revenue growth should continue throughout the next few years based on Analysts projections and growth of industry.
- Gross margin hovers just above 30%.
- Steady increase in R&D expense as new management is making a push to further research of new products.
- Consensus Estimates taken from CapitalIQ. Further years are extrapolated out from historical data.

DCF – Sensitivity Analysis

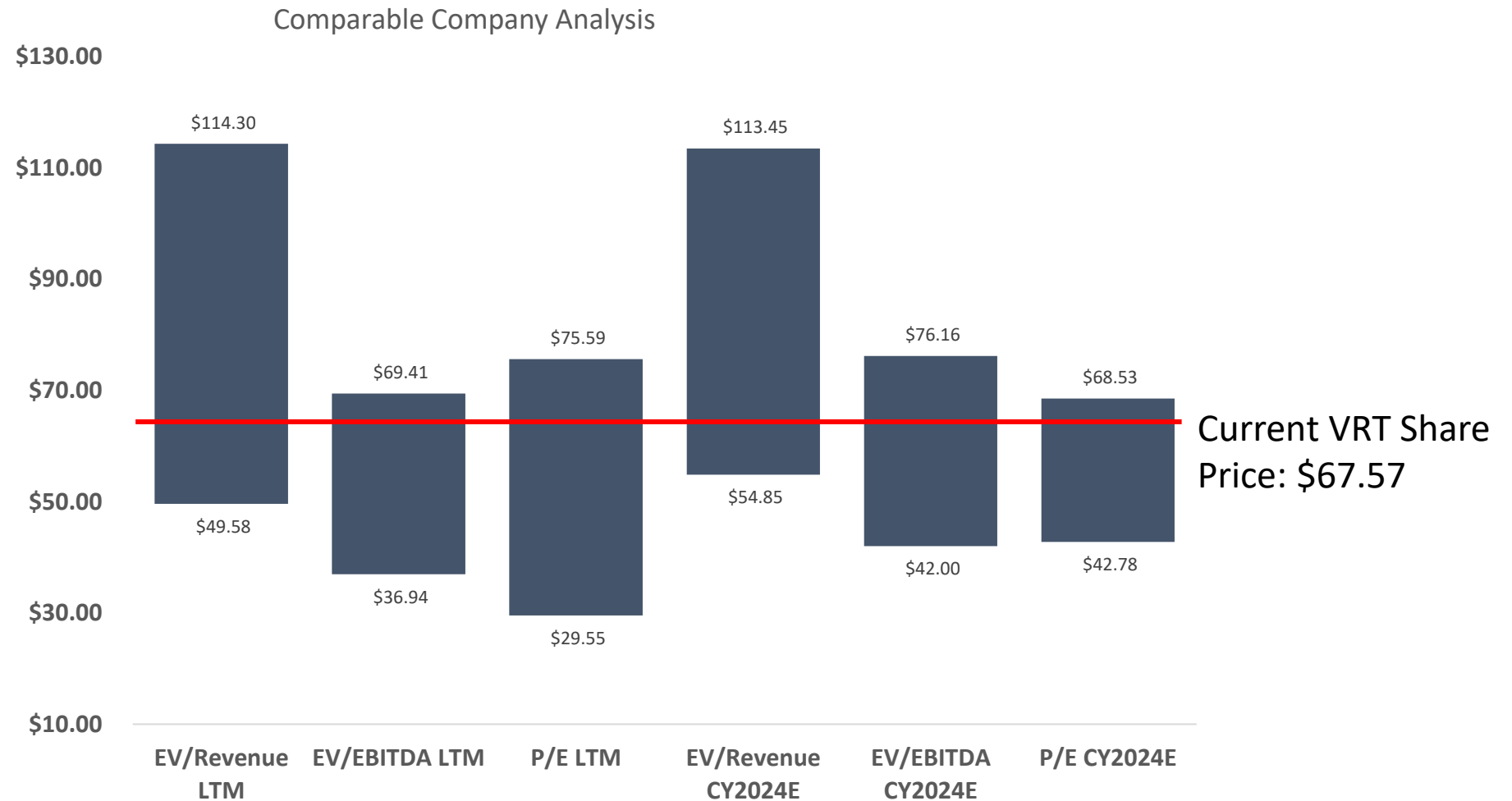


		Terminal Growth			
		4.0%	5.0%	6.0%	7.0%
WACC	12.3%	\$45.12	\$50.70	\$58.03	\$68.14
	12.1%	\$46.86	\$52.86	\$60.85	\$71.99
	11.8%	\$48.71	\$55.19	\$63.90	\$76.23
	11.6%	\$50.68	\$57.69	\$67.23	\$80.94
	11.3%	\$52.79	\$60.40	\$70.87	\$86.20
	11.1%	\$55.04	\$63.32	\$74.86	\$92.09
	10.8%	\$57.46	\$66.49	\$79.27	\$98.76
	10.6%	\$60.06	\$69.95	\$84.16	\$106.37
	10.3%	\$62.87	\$73.73	\$89.62	\$115.11

		Terminal Multiple			
		16	17	18	19
WACC	12.3%	\$74.10	\$78.27	\$82.44	\$86.61
	12.1%	\$74.98	\$79.20	\$83.42	\$87.63
	11.8%	\$75.88	\$80.14	\$84.40	\$88.67
	11.6%	\$76.78	\$81.09	\$85.40	\$89.71
	11.3%	\$77.70	\$82.06	\$86.42	\$90.78
	11.1%	\$78.63	\$83.04	\$87.45	\$91.86
	10.8%	\$79.57	\$84.03	\$88.49	\$92.95
	10.6%	\$80.53	\$85.04	\$89.55	\$94.06
	10.3%	\$81.50	\$86.06	\$90.62	\$95.18



Football Field



Risk Overview



Risks

- Global supply chain challenges, such as inflationary costs on materials, freight and labor, could hurt manufacturing operations.
- Long-term price or purchase commitments with suppliers may compel Vertiv to purchase materials, components, or services at prices exceeding current market rates.
- Cybersecurity incidents, including data breaches and ransomware attacks, could severely disrupt Vertiv's operations, resulting in revenue loss, increased expenses and reputational damage.

Beta	Sharpe	Sortino	Treynor
1.71	1.65	2.88	0.383

Allocation Strategy



We strongly recommend a long position in VRT due to the implied price target of **\$82.06** which is **17.70%** upside from the current price of **\$67.57**

Our analysis reveals that Vertiv will capitalize on the emerging data center market utilizing their infrastructure and strategic partnerships to continue to increase revenues and maximize shareholder value.

• Recommendation	Current Price	Target Price
• BUY	\$67.64	\$82.06 17.7%

Appendix



Name	Ticker	Last Twelve Months (LTM)			Year 1 Forecast - Calendar Year		
		EV/Revenue	EV/EBITDA	P/E	EV/Revenue	EV/EBITDA	P/E
Vertiv	VRT	4.0x	21.5x	55.5x	3.6x	19.1x	29.1x
Fortive	FTV	5.3x	19.7x	35.5x	4.98x	17.61x	22.77x
Rockwell Automation	ROK	4.0x	18.9x	27.3x	3.88x	17.33x	22.34x
Dover Corp.	DOV	3.1x	14.4x	21.9x	3.06x	14.17x	18.15x
AMETEK	AME	6.7x	21.0x	31.5x	6.00x	19.66x	26.11x
Hubbell Incorp.	HUBB	4.1x	17.8x	26.4x	3.71x	16.40x	22.65x
Emerson Electric Co.	EMR	4.8x	17.5x	30.9x	4.20x	17.01x	23.46x
Schnieder Electric	SE	3.6x	18.0x	29.7x	3.4x	16.5x	24.6x
Eaton Corporation	ETN	5.3x	24.2x	35.8x	4.9x	22.2x	28.0x
Legrand SA	LR.PA	3.2x	13.8x	21.7x	3.1x	13.0x	20.0x

	EV/Revenue	EV/EBITDA	P/E	EV/Revenue	EV/EBITDA	P/E
Min	3.10x	13.80x	21.70x	3.06x	12.98x	18.15x
Median	4.10x	18.00x	29.70x	3.88x	17.01x	22.77x
Average	4.05x	18.45x	30.30x	3.80x	17.17x	23.12x
Max	6.70x	24.20x	55.50x	6.00x	22.19x	29.07x

Appendix



Value Drivers	Historical			Projected				
	2021	2022	2023	2024	2025	2026	2027	2028
Sales growth		13.9%	20.6%	17.2%	17.2%	17.2%	17.2%	17.2%
Cost of goods sold (as a % total sales)	62.5%	61.1%	64.4%	62.7%	62.7%	63.3%	62.9%	63.0%
SG&A (as a % sales)	22.2%	20.7%	19.1%	7.5%	6.5%	8.4%	7.3%	11.6%
EBITDA margin	13.6%	16.6%	15.2%	17.3%	18.8%	19.3%	20.9%	21.3%
CapEx (as a % sales)		1.8%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Depreciation (as a % of COGS)	6.6%	7.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%
Additions to intangibles (amount)		\$0.0	\$0.0	\$700.0	\$700.0	\$700.0	\$700.0	\$700.0
Amortization (amount)		27.4	23.1	21.0	19.9	19.3	19.1	18.9

Appendix



Cost of Equity		Cost of Debt	
Stocks Outstanding	381.8	Credit Spread (10-yr T-bond)	0.0085
Share Price	67.57	Ytm on 10-yr	0.04352
Market Cap	25798.226	Implied Return on Debt	0.05202
Weight in Equity	0.882347998	Weight in Debt at Target	0.117652002
Regression Beta (equity)	1.71	Tax Rate	20.9%
Equity Risk Premium	0.0463		
CAPM implied Cost of Equity	0.122693	Wacc of VRT	11.31%

Appendix



Weighted average cost of capital	11.31%
Terminal growth of unlevered FCF	6.00%
NPV of unlevered free cash flow	\$5,378.7
Terminal value	41,047.5
PV of terminal value	24,022.5
Enterprise value	\$29,401.2
Less: debt	(3,124.0)
Add: cash	780.0
Equity value	\$27,057.2
Diluted Shares:	381.800
Equity Value Per Share	\$70.87
Implied Upside	4.88%

Terminal EBITDA Multiple	18
NPV of unlevered free cash flow	\$5,378.7
Terminal value	51,192.9
PV of terminal value	29,959.9
Enterprise value	\$35,338.7
Less: debt	(3,124.0)
Add: cash	780.0
Equity value	\$32,994.7
Diluted Shares:	381.800
Equity Value Per Share	\$86.42
Implied Upside	27.90%

Share Price	EV/Revenue	EV/EBITDA	P/E	EV/Revenue	EV/EBITDA	P/E
Min	\$49.58	\$36.94	\$29.55	\$54.85	\$42.00	\$42.78
Median	\$67.56	\$50.06	\$40.45	\$71.20	\$56.94	\$53.67
Average	\$66.66	\$51.46	\$41.27	\$69.50	\$57.53	\$54.49
Max	\$114.30	\$69.41	\$75.59	\$113.45	\$76.16	\$68.53