

BUY-SIDE CREDIT MEMO

Vertiv Group Corp. (VRT)

4.125% Senior Secured Notes due 11/15/2028

Prepared by: Piero Scatena

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Executive Summary

Vertiv Group Corp. is a global leader in critical power and thermal management equipment used in data centers, communication networks, and high-density AI compute clusters. Vertiv's 4.125% Senior Secured Notes due 2028 ("the Notes") are supported by secured status, strong free cash flow, and credit metrics consistent with investment-grade issuers. Despite this strength, the Notes trade at a 20–30 bp discount to BBB industrial peers, presenting an attractive relative-value opportunity.

Recommendation: BUY

Rationale: IG-like fundamentals + secured structure + AI-driven growth + spread mispricing.

Company Overview

Vertiv provides mission-critical data center power systems, cooling solutions, and services. With ~50% of revenue from the Americas and ~35% recurring service revenue, the business model benefits from high switching costs and long-term customer relationships.

Key business segments:

- **Thermal management** (liquid/air cooling)
- **Critical power systems** (UPS, PDUs)
- **Integrated systems & services**

Vertiv is one of the top global players alongside Schneider Electric, ABB, and Eaton.

Industry Overview

AI data center build-outs are accelerating globally. AI training clusters require 250–500 kW/rack, far above legacy cooling capabilities. This shift is creating exponential demand for high-density thermal systems and power infrastructure—Vertiv's core products.

Secular drivers:

- AI infrastructure growth
- Cloud migration
- Hyperscale data center expansion

- Redundancy upgrades in colocation facilities

The industry features high barriers to entry and mission-critical reliability requirements, favoring incumbents like Vertiv.

Financial Analysis

Revenue (in billions)

- 2021: \$4.4B
- 2022: \$5.0B
- 2023: \$6.9B
- 2024E: ~\$9.7B

EBITDA

- 2021: ~\$520M
- 2023: ~\$930M
- LTM 2024: ~\$1.73B

EBITDA has tripled in three years due to stronger execution, pricing discipline, and AI-driven demand.

Credit Metrics

- **Gross leverage:** ~1.8×
- **Net leverage:** ~1.0×
- **Interest coverage:** 10–12×
- **LTM FCF:** ~\$1.15B

These metrics align with BBB issuers despite Vertiv being rated below IG at the parent level.

Capital Structure & Collateral

Capital Structure (simplified)

- Term Loan A/B: ~\$2.2B
- **Secured 2028 Notes: \$1.0B (1st-lien secured)**
- Senior Unsecured 2028s: ~\$1.1B
- Cash: ~\$900M

Security Package

- First-lien on material domestic assets
- Stock pledges

- Working capital & cash
- Pari passu with term loans

Recovery

- S&P Recovery Rating: **3 (50%)**
- Secured structure provides **meaningful downside protection** rarely seen in tech-adjacent issuers.

Relative Value Analysis

Spread Levels

• Vertiv 4.125% 2028:

- G-spread: ~110 bps
- Z-spread: ~132 bps
- OAS: ~95 bps

Comparison vs. Peers:

- Eaton 2028s: ~85 bp
- ABB 2029s: ~80 bp
- BBB Industrial Index: ~95 bp

Conclusion: Vertiv trades materially wide to peers despite:

- Secured status
- Lower leverage
- Higher growth
- Strong EBITDA visibility

Fair spread = **80–90 bp** (20–30 bp tighter).

Risks & Mitigants

1. Cyclical Data Center Capex

Mitigant: AI infrastructure growth is multi-year and non-discretionary.

2. Customer Concentration

Mitigant: Broad exposure to hyperscalers + cloud service providers globally.

3. Execution Risk

Mitigant: Management has delivered margin expansion for three consecutive years.

4. Working Capital Volatility

Mitigant: High FCF cushions volatility.

Conclusion & Recommendation

Vertiv's 2028 secured notes are a compelling opportunity combining:

- Investment-grade-like credit strength
- Secured protection
- Strong growth fundamentals
- Mispriced spreads
- Improving liquidity and deleveraging trajectory

Initiate with a BUY recommendation.