

## **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.**