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Multi-Industrials

Looking into the Year Ahead

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Top picks and themes for multi-industrials into 2021

- Top picks into 2021: ETN, PH, GE, CFX, EMR, and ROK

- Top themes into 2021:
  1. Still in the early stages of the cycle for multi-industrials
  2. Reshoring—automation, localization
  3. Conglomerates are back
  4. Oil & gas shifts focus to productivity
  5. 2021 non-res construction likely better than expected

Top picks into 2021: ETN, PH, GE, CFX, EMR, and ROK

ETN ($155 PO): non-res and cyclical upside

Eaton is seeing improving demand, with 75% of its end markets up y/y by end of 3Q20. An expected cyclical recovery should benefit Eaton's aerospace segment (14% of 2020E EBIT) and short-cycle end markets. We view Eaton as a key beneficiary of re-shoring and President-elect Biden's clean energy spending platform. Stronger-than-expected non-residential construction recovery should benefit Eaton's electrical segments. As of 3Q-end, Eaton's Americas and Global electrical backlogs were up 11% and 7% respectively. ETN also has an improved and less cyclical portfolio mix post the divestiture of hydraulics, with roughly 80% of revenue tied to long-cycle electrical and aerospace. Eaton is on BofA's US 1 list, a collection of best investment ideas drawn from Buy-rated listed stocks.

PH ($350 PO): multiple expansion & de-levering

We believe PH's performance through the downturn is a culmination of years of focus on operational improvement and capital allocation. Compared to prior cycles, PH's earnings and returns are now less cyclical than our coverage average despite its more cyclical end market exposure. PH's current trading multiple of 15x EV/EBITDA on CY21 is in line with multi-industrial peers, which we think bakes in EBITDA margins that are now more in line with multi-industrials. We think execution-driven multiple expansion is still a coming part of the story in 2021 as short-cycle end markets recover and aid in cyclical operating leverage. We also see a recovery in Aerospace as a vaccine is rolled out as a longer-term growth driver. Our DCF analysis indicates that PH (similar to CFX and GE) continues to be penalized relative to our coverage given its high leverage. PH has been working down leverage quickly and we see additional upside to valuation as the company de-levers through FY22.

GE ($13 PO): FCF trajectory makes GE investible

GE shares and consensus 2021 Industrial FCF estimates both started to rise in October. We now forecast $2.6bn in 2021E Industrial FCF, versus $(1.0)bn in 2020E. We think GE has significant cushion in setting/meeting FCF expectations. Operationally, we forecast GE to have margin improvements across all segments. The pace of Aviation's revenue recovery remains uncertain, but profitability will rebound under a wide range of scenarios. This will be driven by the non-repeat of ~$1.0bn in charges, carryover benefit from 2020 cost actions, and high incremental margins. In Healthcare, high-margin Pharmaceutical Diagnostics revenue should rise and backlog growth (+1% y/y organic in 3Q) supports low- to mid-single digit revenue growth. GE targets Gas Power margins to reach high single-digit range in 2021, versus our 3.2% 2020 estimate. Our current estimates are more conservative (5.2% in 2021E), but we see momentum on fixed cost reductions.

Top picks into 2021: ETN, PH, GE, CFX, EMR, and ROK

CFX ($50 PO): cyclical upside, valuation attractive

Colfax is our top SMID cap pick. Cyclical recovery should be an uplift to FabTech (63% of 2020E revenue). We believe capital deployment could build the MedTech platform (37% of 2020E venue) to be a $3bn+ business over time. With future acquisitions, we see Colfax's adjusted EBITDA doubling over the next five years, or growing at a 15% CAGR. MedTech's surgical segment has grown revenue at a double-digit pace over the last five years. DJO's shoulder, hips, and knees businesses have been rapidly gaining market share. Current valuation is attractive relative to both FabTech and MedTech peers.

EMR ($95 PO): playing oil & gas efficiency

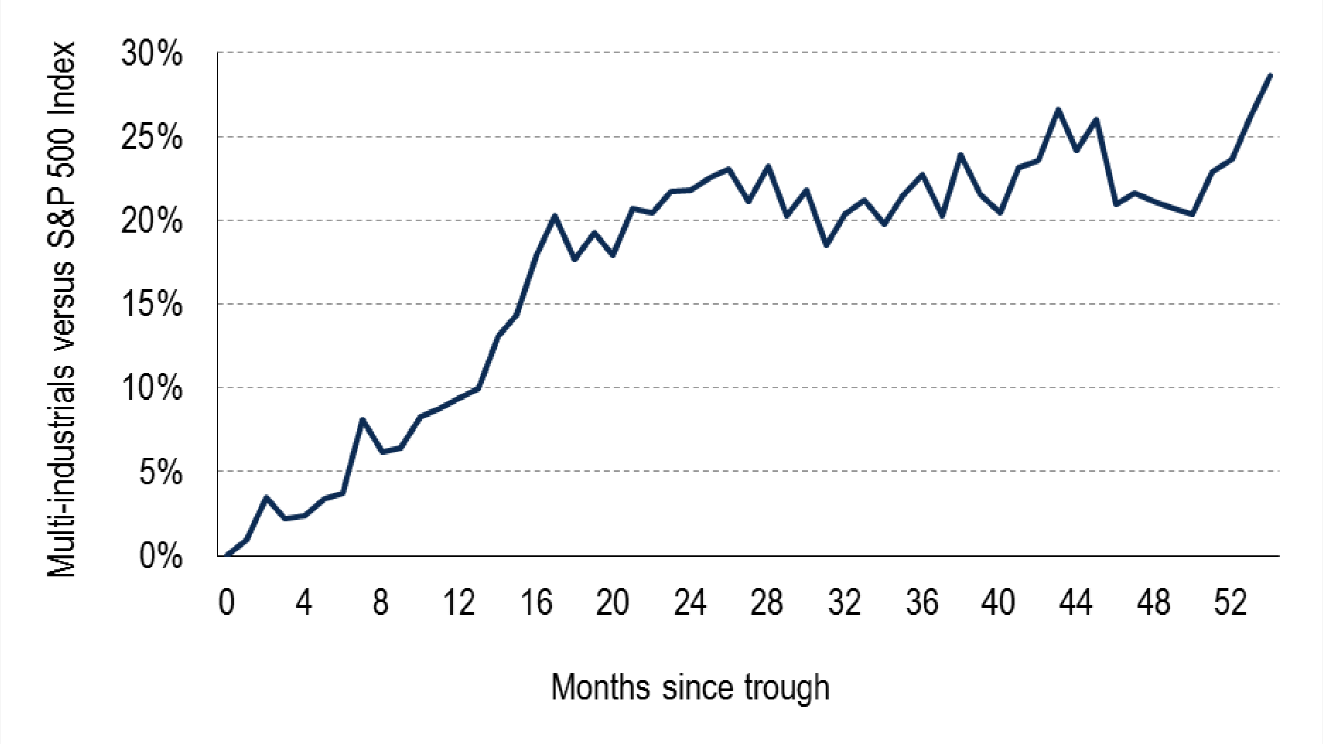
Emerson is arguably our most "contrarian" top pick. The consensus view is that the automation revenue recovery in oil & gas will take an extended period, given announced capex cuts by oil majors and still-weak demand. We are optimistic around oil & gas automation spending as we think oil & gas companies' capex budgets are likely to shift to productivity versus capacity expansion. We see EMR as the best positioned US player. This shift should act as a multiplier to the broader rebound in oil & gas capex. We think the company is well positioned with its improving mix of opex offerings (software, services, and efficiency upgrades like KOBX projects). Longer term, we see EMR becoming increasingly less reliant on capex-driven product sales to drive growth. More broadly, EMR also stands to benefit from the reshoring theme. The company is a key systems integrator for pharma and medical device companies and provides cold chain components critical to vaccine distribution. We see EMR's cost cutting plans (targeting $175mn or 90-100bp of incremental cost savings) as adding additional momentum in FY21.

ROK ($295 PO): automation pure play

We see ROK as the best way to play reshoring of US manufacturing. COVID-19's disruption of supply chains, along with tariffs and rising geopolitical tensions, are leading to a rebuilding of US manufacturing capacity. Firms are likely to focus on productivity to preserve margins, making automation players like ROK a key beneficiary. Rockwell has 7-8% share of the global industrial automation market, but a far greater share in the US (~60%). Ove the last fifteen years, ROK has grown at 2.2x industrial production. The BofA Economics team forecasts US IP to rebound in CY21. We see broader reshoring and more internal focus on software as adding momentum to ROK's recovery in FY21. We are optimistic on a cyclical recovery, supported by strong growth outlook in our Fluid Power Survey. See more on instances of reshoring manufacturing on page 8.

Thinking through the cycle for multis: economic cycle

MULTIS OUTPERFORMANCE CONTINUES 18-24 MONTH AFTER THE S&P 500 TROUGH



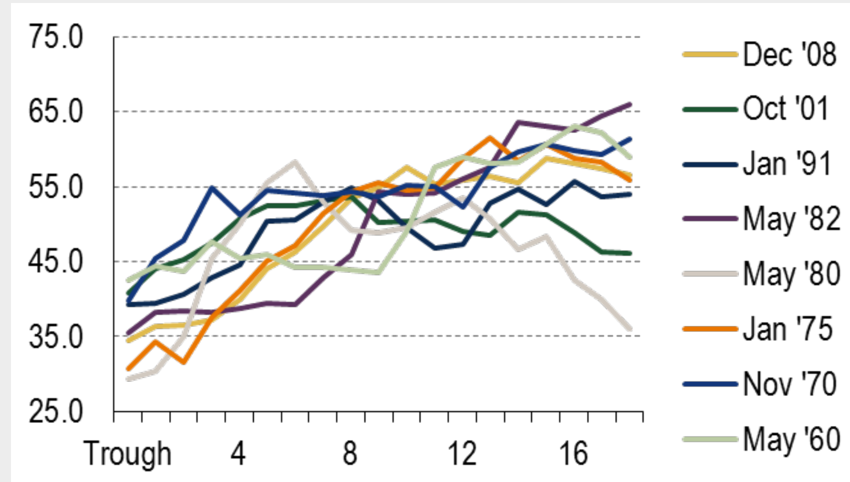
Source: BofA Global Research, Bloomberg
Note: Simple average of EMR, ETN, GE, HON, MMM, and PH share prices. Indexed to month of &&P500 trough

Thinking through the cycle for multis: PMI cycles

THE AVERAGE PMI TRAJECTORY OVER LAST EIGHT US RECOVERIES

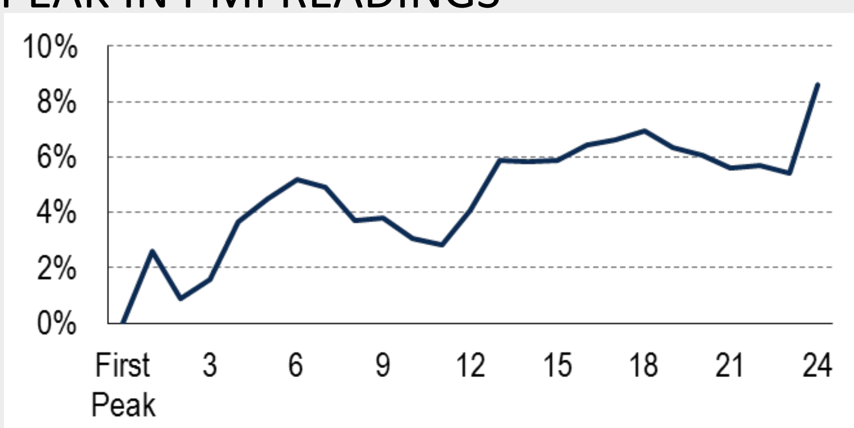
Source: BofA Global Research, Bloomberg
Note: Measured from lowest PMI reading in an economic recession (Dec ’08, Oct ’01, Jan ’91, My ’82, Jan ’75, Nov ’70, and May -60).

THE MESSY REALITY OF PMI – A VOLATILE ECONOMIC INDICATOR



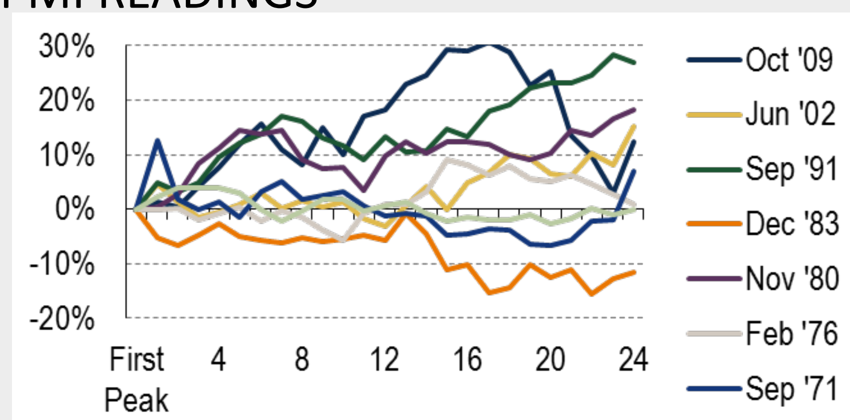
Source: BofA Global Research, Bloomberg
Note: Measured from the lowest PMI reading in an economic recession

MULTIS AVERAGE OUTPERFORMANCE VS S&P 500 FOLLOWING THE FIRST PEAK IN PMI READINGS



Source: BofA Global Research, Bloomberg
Note: Simple average of EMR, ETN, GE, HON, MMM, and PH share prices. Indexed to month of &&P500 trough

MULTIS RELATIVE PERFORMANCE VS S&P 500 FOLLOWING THE FIRST PEAK IN PMI READINGS



Source: BofA Global Research, Bloomberg
Note: Simple average of EMR, ETN, GE, HON, MMM, and PH share prices. Indexed to month of &&P500 trough

Thinking through the cycle for multis: valuation

MULTI-INDUSTRIAL RELATIVE FORWARD P/E (1980-2020)

Source: BofA Global Research, Bloomberg, Factset
Note: US recessions indicated by yellow periods. Simple average of EMR, ETN, GE, ON, MMM, and PH forward P/Es

Thinking through the cycle for multis: valuation

FORWARD P/E FOR MULTI-INDUSTRIAL STOCKS AND S&P 500 IN EARLY STAGES OF ECONOMIC RECOVERIES

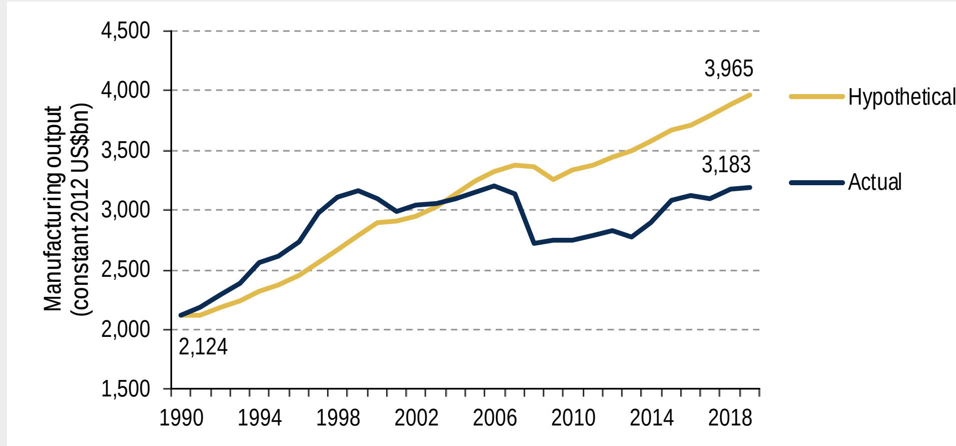
	Multi-Industrials	S&P 500	Rel. P/E		Multi-Industrials	S&P 500	Rel. P/E		Multi-Industrials	S&P 500	Rel. P/E		Multi-Industrials	S&P 500	Rel. P/E		Multi-Industrials	S&P 500	Rel. P/E
3/20	14.2x	16.3x	0.88x	2/09	9.5x	11.3x	0.84x	9/02	14.8x	14.7x	1.01x	10/90	8.9x	10.9x	0.82x	7/82	6.8x	12.6x	0.54x
4/20	18.3x	20.5x	0.89x	3/09	10.2x	12.6x	0.81x	10/02	15.9x	15.1x	1.06x	11/90	9.8x	11.7x	0.84x	8/82	8.0x	13.4x	0.59x
5/20	19.8x	21.6x	0.92x	4/09	14.2x	13.9x	1.02x	11/02	17.3x	16.0x	1.08x	12/90	10.5x	12.1x	0.87x	9/82	8.0x	12.6x	0.64x
6/20	19.7x	21.6x	0.91x	5/09	14.9x	14.4x	1.04x	12/02	17.0x	15.1x	1.13x	1/91	11.5x	12.6x	0.91x	10/82	9.9x	13.3x	0.75x
7/20	19.3x	21.8x	0.88x	6/09	15.0x	13.8x	1.09x	1/03	16.2x	14.8x	1.10x	2/91	11.9x	13.5x	0.88x	11/82	10.5x	13.5x	0.78x
8/20	20.7x	22.7x	0.91x	7/09	16.8x	14.5x	1.16x	2/03	15.7x	14.5x	1.09x	3/91	12.0x	13.9x	0.86x	12/82	10.5x	13.3x	0.79x
9/20	19.9x	21.4x	0.93x	8/09	18.1x	14.7x	1.24x	3/03	15.6x	14.5x	1.08x	4/91	12.3x	13.9x	0.89x	1/83	11.0x	13.4x	0.82x
10/20	19.9x	20.3x	0.98x	9/09	19.0x	14.9x	1.28x	4/03	16.9x	15.5x	1.09x	5/91	13.5x	14.5x	0.93x	2/83	11.5x	13.6x	0.85x
11/20	23.2x	21.9x	1.06x	10/09	17.2x	14.0x	1.23x	5/03	17.2x	16.2x	1.07x	6/91	13.2x	13.8x	0.96x	3/83	11.0x	12.7x	0.86x
12/20	24.1x	22.1x	1.09x	11/09	17.7x	14.4x	1.23x	6/03	17.5x	16.3x	1.07x	7/91	13.4x	14.3x	0.93x	4/83	11.4x	12.8x	0.89x
Δ	**9.9x**	**5.9x**	**0.21x**	**Δ**	**8.2x**	**3.1x**	**0.39x**	**Δ**	**2.6x**	**1.7x**	**0.06x**	**Δ**	**4.5x**	**3.5x**	**0.12x**	**Δ**	**4.6x**	**0.2x**	**0.35x**

Source: BofA Global Research, Bloomberg, Factset
Note: Multi-industrial is simple average of EMR, ETN, GE, ON, MMM, and PH forward P/Es

Estimating the impact of offshoring

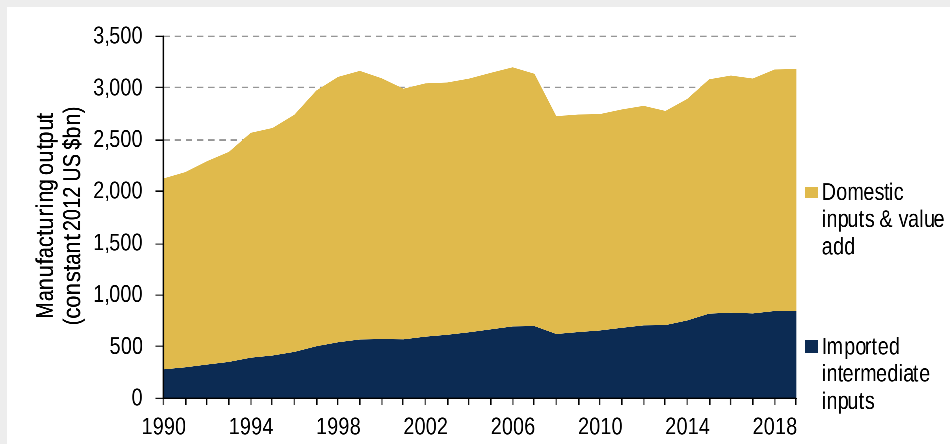
- Method 1: manufacturing share of GDP
  - World Bank estimates manufacturing value-add was 17.5% of GDP in 1990 and 15.6% in 2019
  - We show hypothetical US manufacturing output if US had followed global trend
  - $783bn difference, or $27bn/year drag
  - Reflects more than just offshoring (e.g., exchange rates, US demand, etc.)
- Method 2: imported intermediary goods
  - In 1990, imported intermediate goods were 13.1% of US manufacturing output
  - By 2019, this had more than doubled to 26.5%
  - $426bn difference, or $15bn/year drag
  - Would not reflect final production moving to another country
- BofA view: outsourcing has been a meaningful drag which is set to slow broadly and even reverse in select end markets

US OUTPUT VS GLOBAL TREND



Source: BofA Global Research, Bureau of Economic Analysis, World Bank

RISING INTERMEDIATE IMPORTS



Source: BofA Global Research, Bureau of Labor Statistics

Where US manufacturing has been hardest hit

Technology hardware manufacturing is the main cause of declining US manufacturing since 2000

Printing, apparel, motor vehicles & parts, and textiles other areas of steep declines

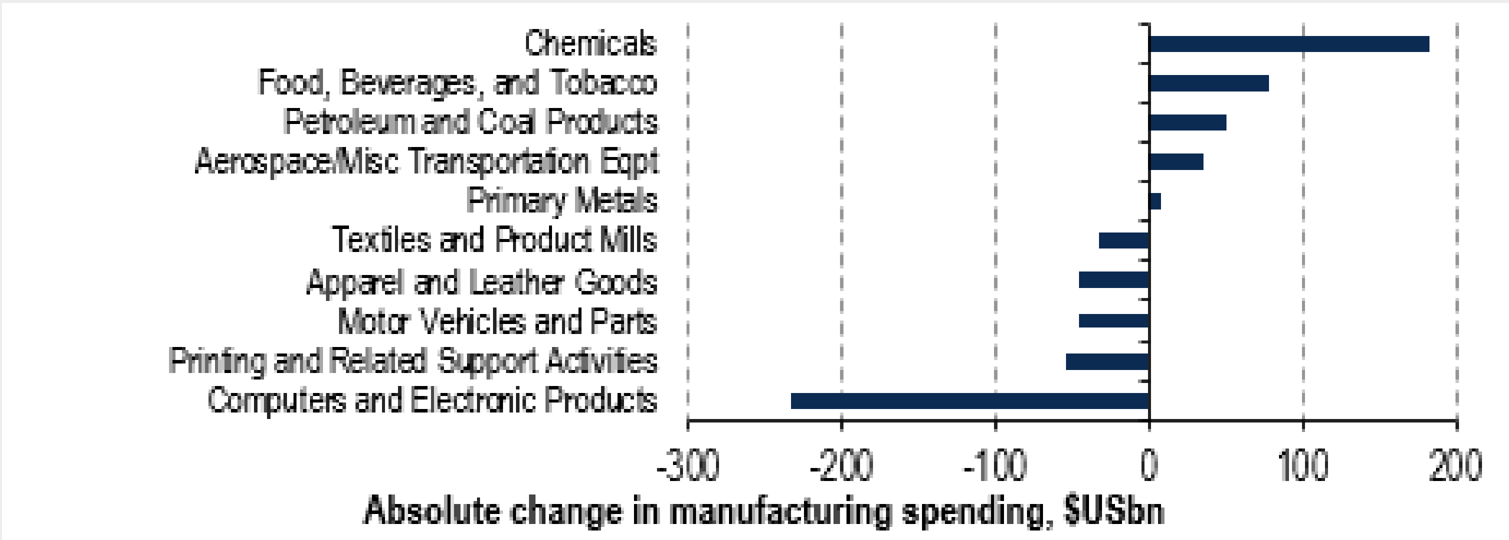
TECHNOLOGY IS BIGGEST DRAG ON US MANUFACTURING

($bn)	2020 YTD	2019	2018	2010	2000	1990	1980	1972
Fabricated Metal Products	232	248	245	204	232	147	135	126
Motor Vehicles and Parts	232	234	252	171	231	130	91	137
Machinery	219	231	236	209	232	160	176	161
Computers and Electronic Products	210	219	209	241	424	240	146	100
Aerospace/Misc Transportation Eqpt	157	183	180	164	131	133	104	82
Primary Metals	114	127	127	113	93	76	104	106
Miscellaneous Manufacturing	110	116	115	122	113	69	42	44
Nonmetallic Mineral Products	96	100	97	60	85	56	49	52
Electrical Equip/Appliances/Components	74	80	78	70	97	67	59	62
Wood Products	63	63	61	35	53	33	29	42
Furniture and Related Products	46	52	50	39	68	40	29	31
Durable Manufacturing	**1,554**	**1,653**	**1,650**	**1,427**	**1,760**	**1,151**	**965**	**943**
Chemicals	559	553	552	446	366	278	174	156
Food, Beverages, and Tobacco	483	496	481	426	431	290	177	178
Plastics and Rubber Products	149	151	152	111	140	85	51	56
Petroleum and Coal Products	120	139	149	138	74	43	54	30
Paper & Paper Products	101	102	104	99	121	97	64	60
Printing and Related Support Activities	48	54	55	60	99	74	42	38
Textiles and Product Mills	25	27	27	28	53	47	42	57
Apparel and Leather Goods	7	7	8	11	49	58	58	72
Nondurable Manufacturing	**1,492**	**1,529**	**1,527**	**1,319**	**1,333**	**973**	**662**	**648**
TOTAL MANUFACTURING	**3,046**	**3,183**	**3,177**	**2,747**	**3,092**	**2,124**	**1,627**	**1,591**

Source: BofA Global Research, Federal Reserve

Where US manufacturing has been hardest hit

TOP 5 POSITIVE AND NEGATIVE DRIVERS OF MANUFACTURING GROWTH IN THE US (BETWEEN APRIL 2000 – OCTOBER 2020), IN US$BN CONSTANT 2012

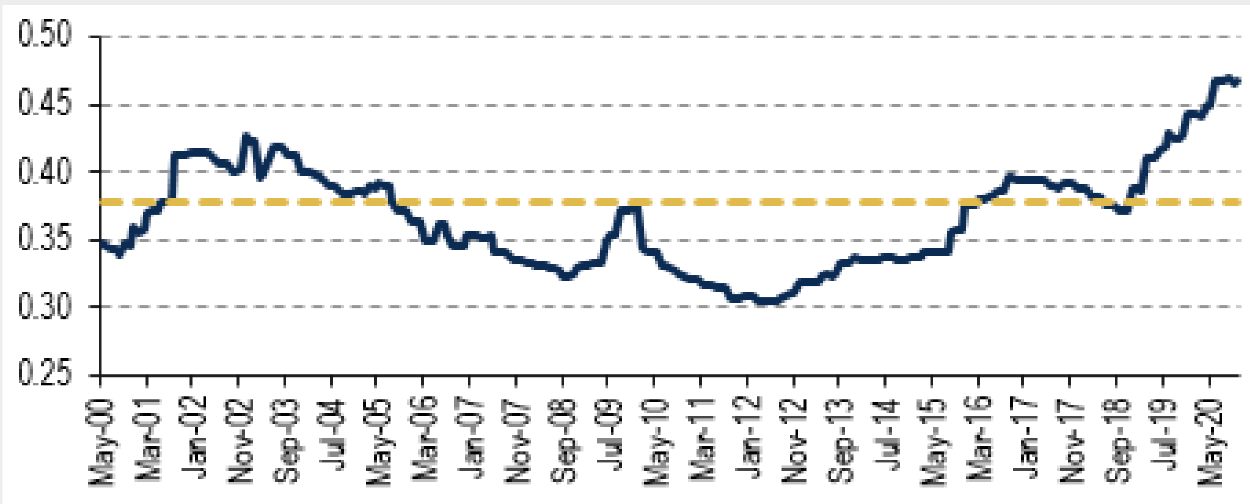


Source: BofA Global Research, Federal Reserve

Impact of manufacturing moving back west for Industrials

- We estimate that every $10bn of manufacturing revenue brought back to the US generates ~$3.8bn in PP&E spending (1/3 buildings, 2/3 equipment)
- Our calculation is based off the ratio of gross PP&E to revenue for industrial companies in the S&P 500
- If $70bn of manufacturing revenue were re-shored, this would add 100bp to US capex growth over the next decade
  - vs. growing at a 2.3% CAGR over the last ten years

INDUSTRIAL SECTOR TOTAL PP&E TO REVENUE

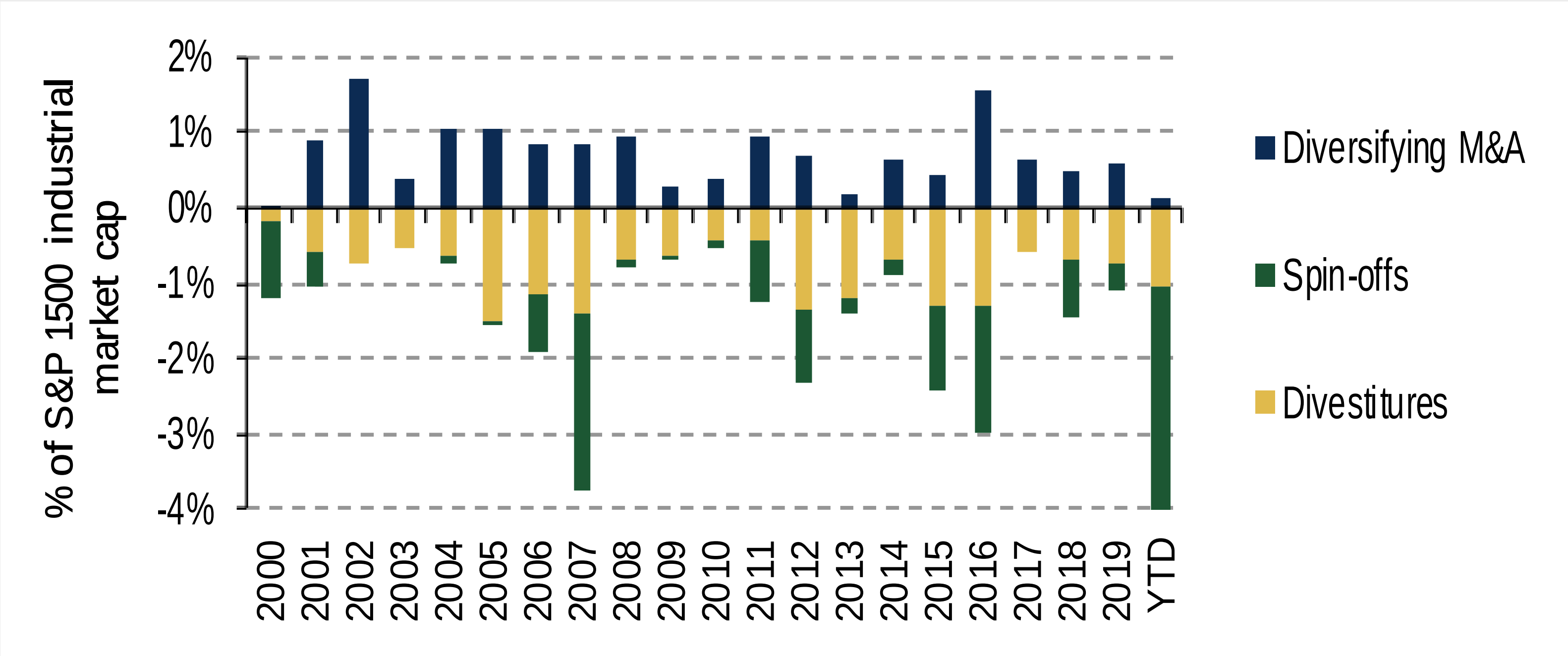


Source: BofA Global Research, company reports

US industrials have steadily reduced diversification…

- We estimate that corporate actions by US publicly traded industrial firms have reduced diversification by 1.0% of market cap annually since 2000
- Examples in our coverage:
  - Emerson has divested $12bn of revenue vs. $18bn of revenue in 2019
  - Dover has divested 45% of its revenue since 2008
  - Trane Technologies has sold or spun-off $25bn of assets since 2000

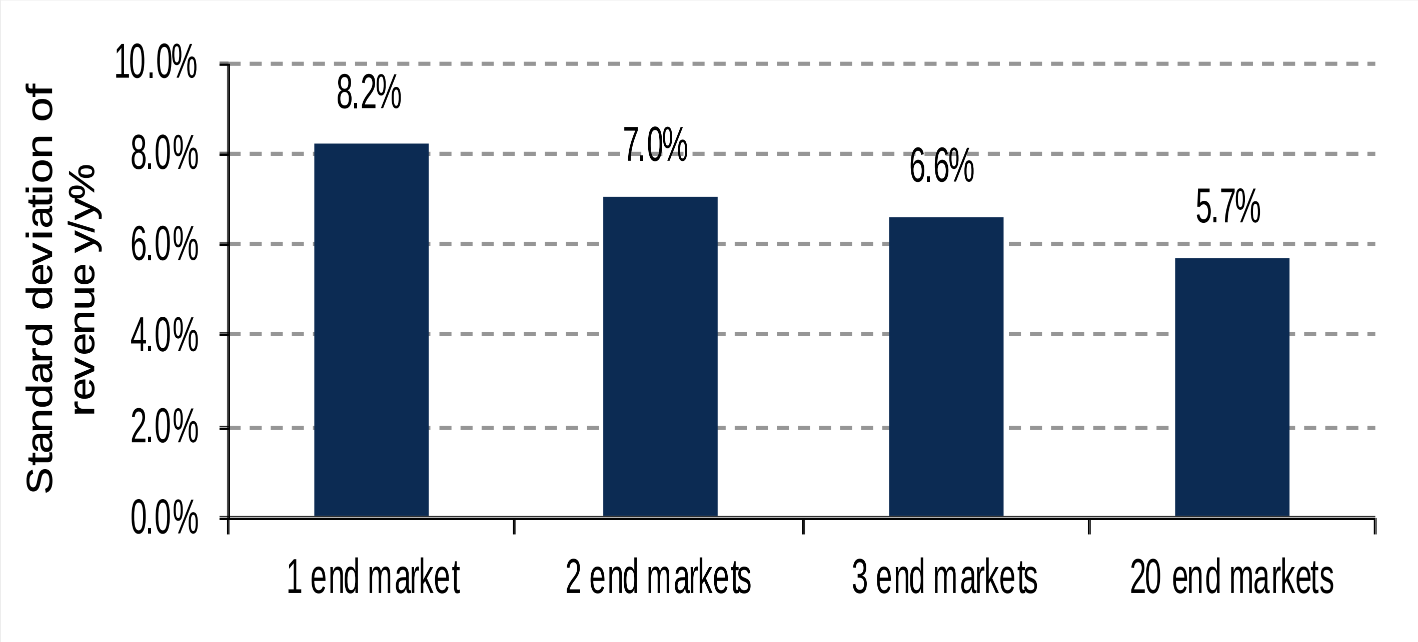
CORPORATE ACTIONS HAVE STEADILY REDUCED DIVERSIFICATION



Source: BofA Global Research, Bloomberg
Note: Corporate actions of members of the S&P 1500 Industrials Index

…even though diversification reduces risk

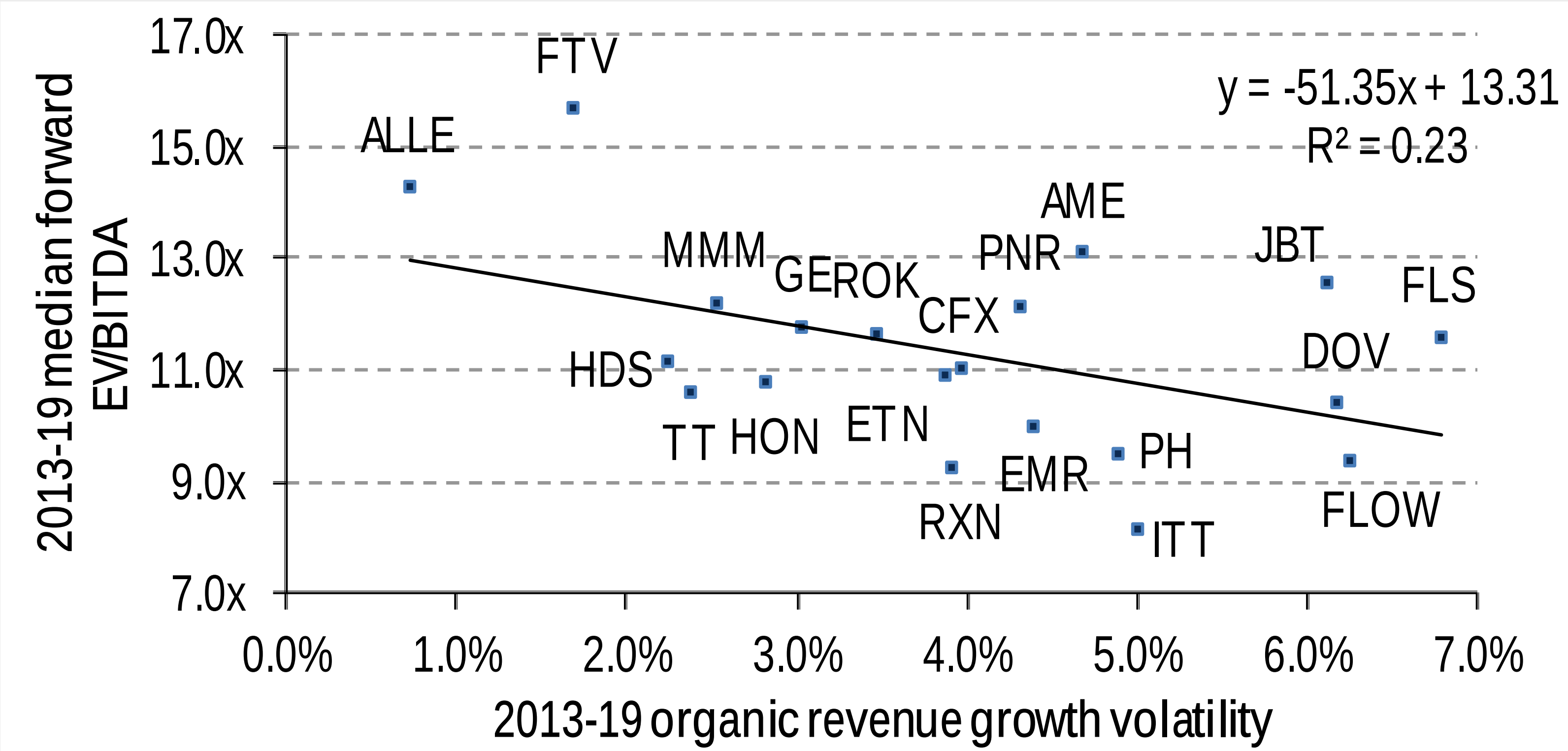
THE BENEFIT OF DIVERSIFICATION – AVERAGE REVENUE VOLATILITY (1987-2018)



Source: Bureau of Labor Statistics, BofA Global Research

Lower volatility is correlated with higher valuations

LOWER ORGANIC REVENUE GROWTH VOLATILITY CORRELATED WITH HIGHER VALUATIONS



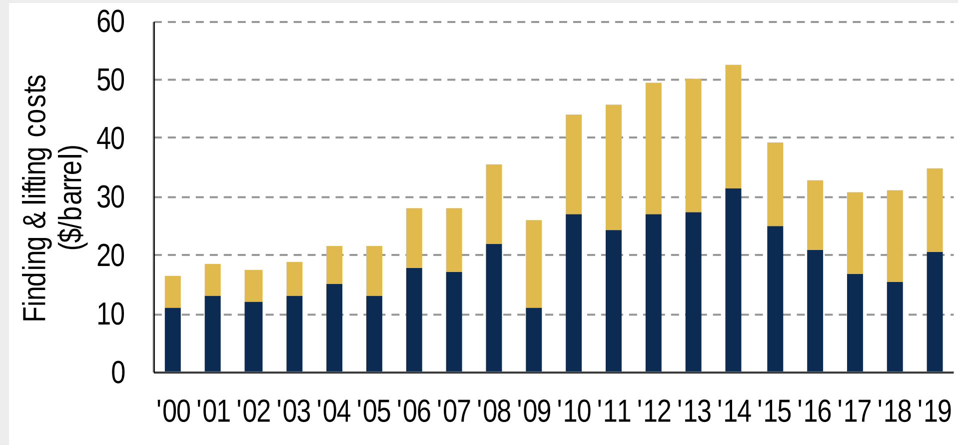
Source: BofA Global Research, Bloomberg

Oil & gas industry has not seen cost efficiency gains

Limited cost productivity

- Finding & lifting costs in 2019 were roughly flat with 2008 at $35/bbl
- Technical advances in hydraulic fracturing, drilling technology geared towards capacity growth versus cost efficiency

GLOBAL FINDING & LIFTING COSTS/BARREL

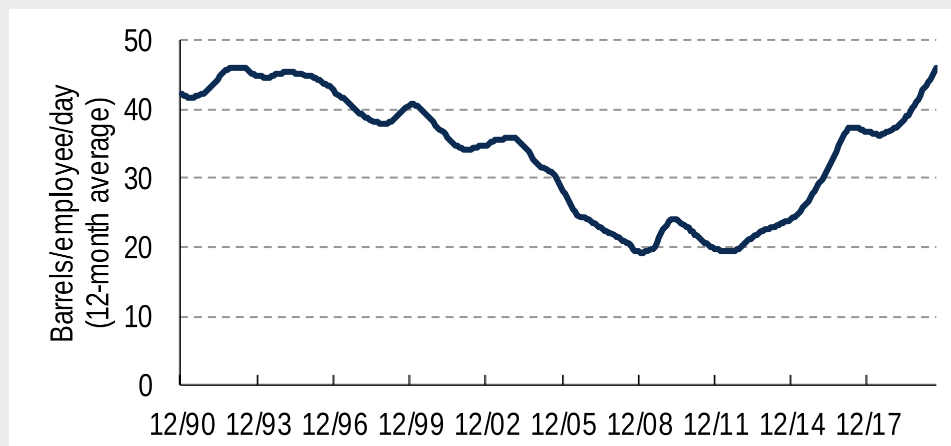


Source: US Energy Information Administration, BofA Global Research
Note: excludes proved reserve revisions

Limited labor productivity

- US oil & gas companies produced 46 barrels/employee/day in 1992 versus 42 in 2019
- Nearly 30-year stretch of stagnant labor productivity

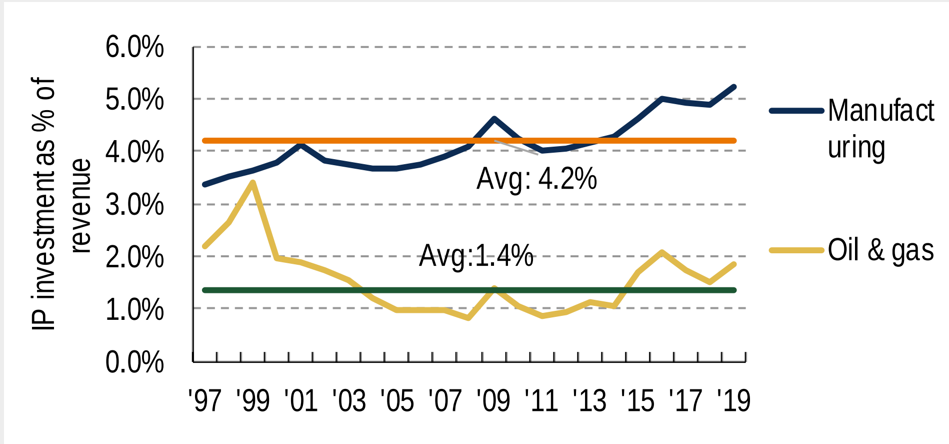
O&G LABOR PRODUCTIVITY HAS BEEN STAGNANT



Source: US Energy Information Administration, Bureau of Labor Statistics, BofA Global Research
Note: Payrolls of oil & gas extraction, support activities for oil & gas operations, and manufacture of oil operations

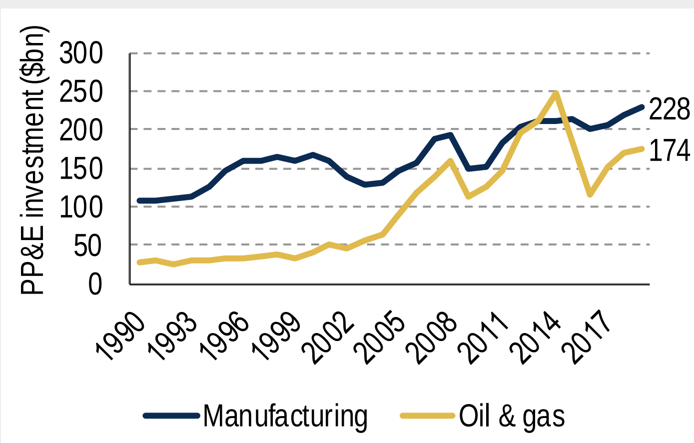
Oil & gas has under-invested in IP/software

IP INVESTMENT AS A % OF REVENUE



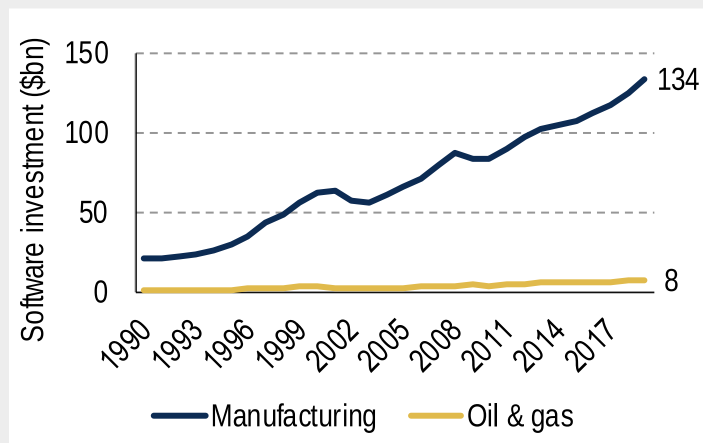
Source: Bureau of Economic Analysis, BofA Global Research

PP&E INVESTMENT SPENDING



Source: Bureau of Economic Analysis, BofA Global Research
Note: Includes investments in equipment and structures.

SOFTWARE INVESTMENT SPENDING



Source: Bureau of Economic Analysis, BofA Global Research
Note: Software includes internally developed and external third-party software. Includes non-industry focused software (e.g., Microsoft Office).

Oil & gas industry automation market

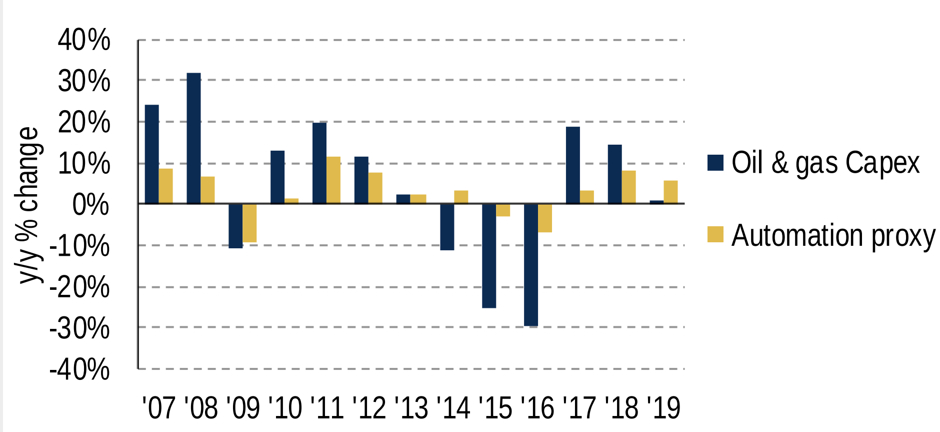
Oil & gas automation revenue

- Tied to oil & gas capex cycles (61% R2)
- However – far less volatile than overall oil & gas capex
- Aided by increasing mix of recurring revenue

O&G automation market is OpEx-focused

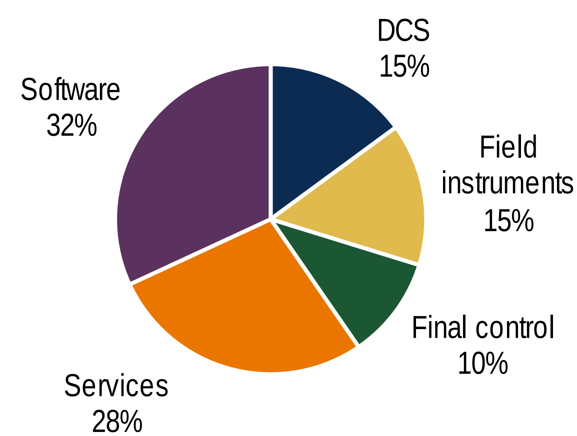
- Software 32% of market – mix of license and SaaS
- Services 28% of market – mix of project-based and recurring (MRO) services
- SaaS software and MRO services likely to see faster revenue growth

AUTOMATION REVENUE LESS VOLATILE



Source: BofA Global Research
Note: Automation proxy is Emerson & Honeywell oil & gas automation revenue.

BREAKOUT OF O&G AUTOMATION MARKET



Source: US Energy Information Administration, Bureau of Labor Statistics, BofA Global Research
Note: Payrolls of oil & gas extraction, support activities for oil & gas operations, and manufacture of oil operations

Oil & gas industry automation market

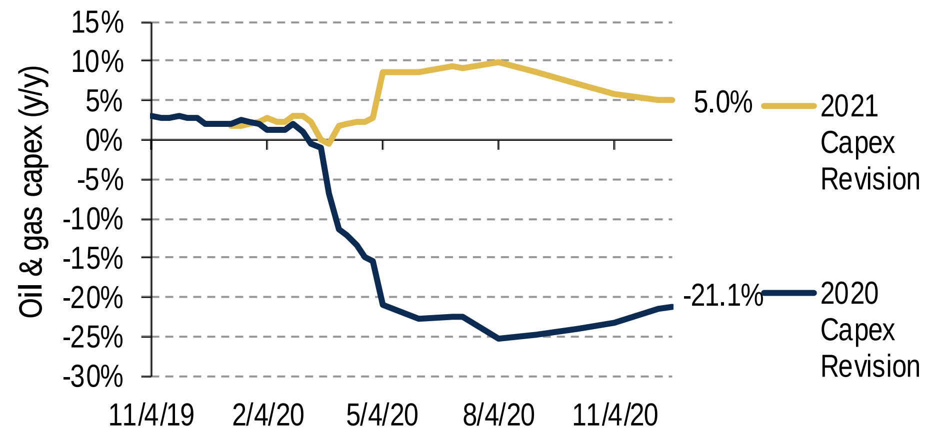
Oil & gas capex forecast

- Bottom-up capex estimates from BofA analysts
- 2021 capex is forecast to rebound
- Automation likely gains share within capex budgets

Multi-industrial coverage

- Emerson – 26% of revenue tied to O&G automation
- Honeywell – 7% of revenue tied to O&G automation (excludes UOP revenue)
- AspenTech - ~40% of revenue from upstream & midstream customers

O&G CAPEX SET TO REBOUND IN 2021



Source: BofA Global Research

O&G REVENUE FOR SELECTED AUTOMATION & S/W FIRMS

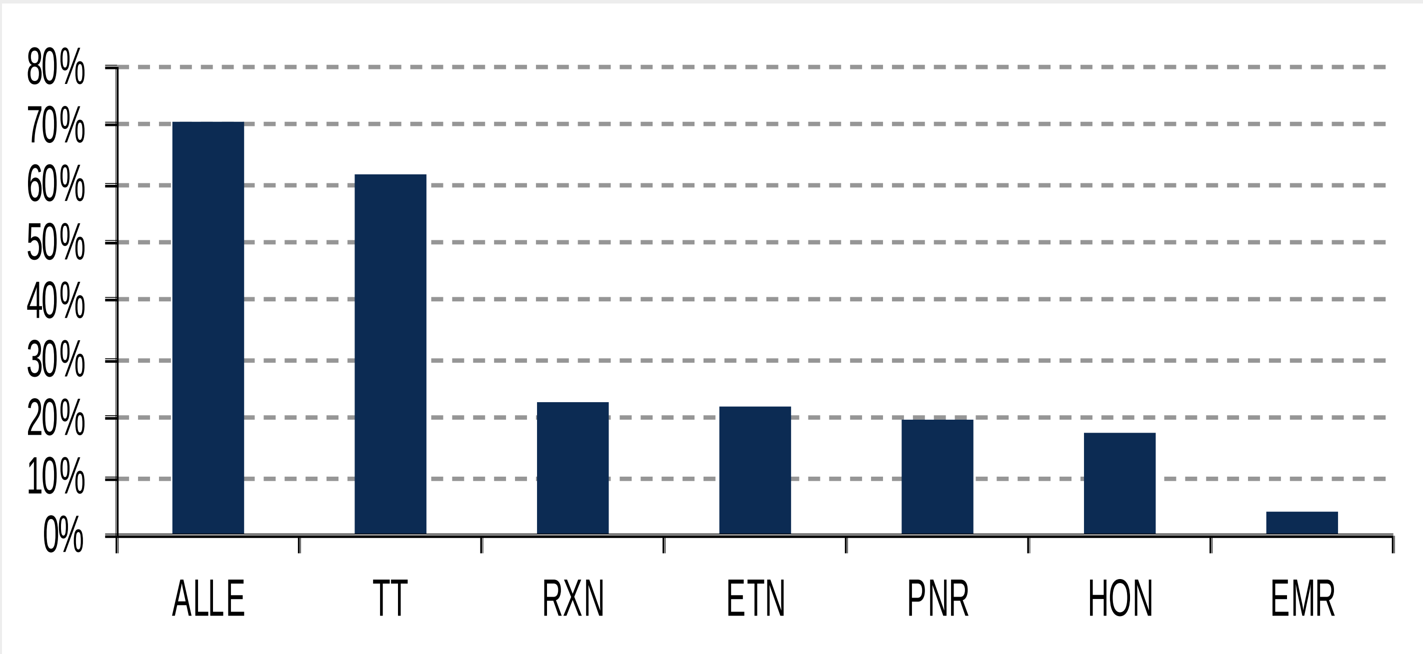
($bn)	Upstream	Midstream	Downstream	Total	Market share
Emerson	2.4	1.3	1.1	4.8	17%
Honeywell	0.6	0.7	1.2	2.5	9%
ABB	0.6	0.4	0.3	1.4	5%
Siemens	0.3	0.3	0.6	1.3	5%
Rockwell	0.5	0.1	0.1	0.7	2%
AspenTech	0.1	0.0	0.2	0.2	1%
Others	7.0	4.1	5.5	16.6	60%
Total market	11.5	7.0	9.0	27.5	100%

Source: BofA Global Research, company estimates
Note: Emerson, Honeywell, Rockwell, and AspenTech covered by Andrew Obin. Siemens and ABB covered by Alexander Virgo.

Multi-industrials with non-residential construction exposure

- We believe upside to 2021 non-residential construction should benefit Buy-rated: **ETN, ALLE, PH** (indirect exposure through machinery), **EMR, HON,** and **VRT**
- Among our coverage, companies with the greatest non-residential building exposure are: **ALLE**, **TT,** and **RXN.** We classify Buy-rated **VRT's** exposure as data centers (100% of sales)

MULTI-INDUSTRIALS WITH EXPOSURE TO NON-RESIDENTIAL BUILDING CONSTRUCTION



Source: BofA Global Research, company filings

YTD non-residential construction starts are down 28% y/y

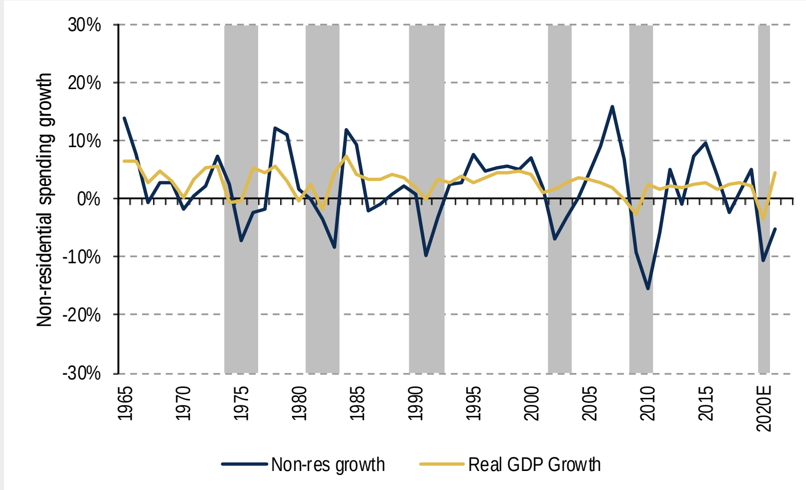
VALUE OF US CONSTRUCTION STARTS AS OF OCTOBER 2020

	Jan-Oct 2020 Construction Starts ($bn)	% Change Jan-Oct 20 vs Jan-Oct 19	% Change Oct 20 vs Oct 19
Hotel/Motel	8.8	-53.0%	-78.9%
Retail/Shopping	10.1	-29.6%	-17.6%
Parking Garage	1.6	-43.3%	-68.5%
Amusement	5.2	-20.1%	-25.2%
Priv ate Office	17.7	-39.5%	-70.3%
Gov ernment Office	9.4	-4.7%	-35.0%
Laboratory	1.5	-21.4%	-8.6%
Warehouse	19.0	3.1%	2.7%
Miscellaneous Commercial*	6.2	-65.9%	-75.8%
TOTAL COMMERCIAL	79.4	-33.8%	-52.0%
INDUSTRIAL (Manufacturing)	16.1	-68.5%	-31.8%
Religious	1.2	-20.1%	12.2%
Hospital/Clinic	9.5	-44.3%	-59.4%
Nursing/Assisted Liv ing	5.4	-35.8%	-31.6%
Library /Museum	3.4	-4.6%	-74.2%
Fire/Police/Courthouse/Prison	6.2	5.5%	-12.4%
Military	7.7	85.9%	2.3%
School/College	56.6	-14.4%	-27.2%
Miscellaneous Medical	5.8	-27.6%	-50.2%
INSTITUTIONAL	95.9	-16.4%	-34.7%
Miscellaneous Non-residential	4.5	-28.5%	-54.7%
NONRESIDENTIAL BUILDING	196.0	-33.0%	-42.6%
Airport	5.2	-20.8%	-55.6%
Road/Highw ay	54.5	-4.3%	-5.6%
Bridge	19.0	-28.9%	-50.4%
Dam/Marine	6.9	-3.3%	0.9%
Water/Sew age	27.0	4.0%	-6.1%
Miscellaneous Civ il	18.4	-50.5%	-85.1%
HEAVY ENGINEERING (Civil)	130.9	-18.4%	-39.7%
TOTAL NONRESIDENTIAL	326.9	-27.8%	-41.5%

Source: ConstructConnect Research Group

Non-residential spending tends to decline in recessions…

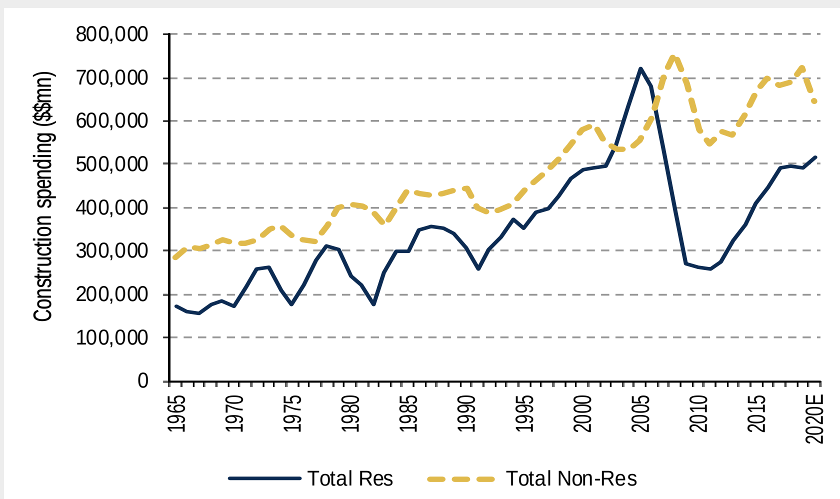
NON-RESI SPENDING (REAL) GROWTH VS. REAL GDP GROWTH



Source: BofA Global Research, US Census Bureau
Note: Grey areas highlight periods of US recession
Note: BofA Economics team forecasts used for 2020E and 2021E. Forecasts as of 12/04/20

…and lags residential construction by 1 to 2.5 years

US RESI SPENDING VERSUS NON-RESI SPENDING (REAL TERMS)

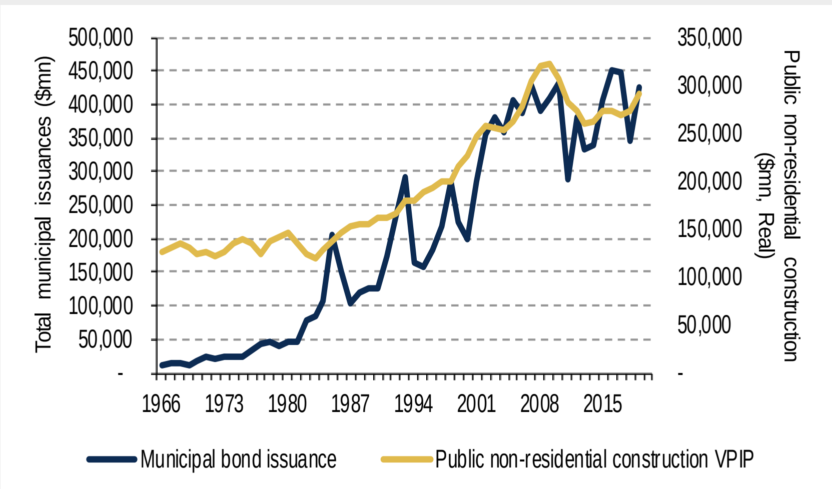


Source: BofA Global Research, US Census Bureau
Note: BofA Economics team forecasts used for 2020E.
Forecasts as of 12/04/20

Municipal bond issuances could tell a better story

- In 2019, issuances were +23% y/y. Municipal borrowings are also up YTD. Due to the long-cycle nature of construction, we view recent bond issuance trends as positive indicators for 2021 spending
- New money bonds are up 1% year-to-date. We note these moneys are used to fund new projects (versus refinancing)
- Education bond issuances are up 24% YTD. While healthcare bonds are down 12% YTD, issuances have substantially accelerated from trough levels in the spring

MUNICIPAL BOND ISSUANCES VERSUS PUBLIC NON-RESIDENTIAL CONSTRUCTION SPENDING



Source: BofA Municipals Research, Refinitiv, US Census Bureau

MUNICIPALS ISSUANCE SUMMARY, AS OF 12/04/20

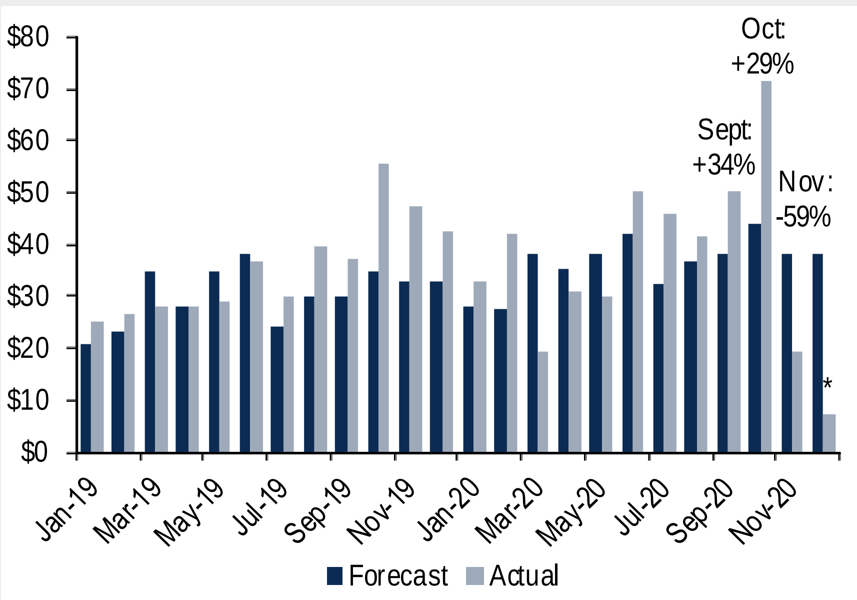
	MTD			YTD		
($mn)	4-Dec-20	4-Dec-19	YoY % Δ	4-Dec-20	4-Dec-19	YoY % Δ
Total	7,524	9,521	-21%	449,168	393,343	14%
New Money	5,494	6,636	-17%	250,372	247,944	1%
Total Refunding	2,030	2,885	-30%	198,796	145,399	37%
Transportation	2,774	2,997	-7%	58,260	62,943	-7%
Education	1,496	2,193	-32%	131,129	105,853	24%
Utilities	998	710	40%	49,849	42,798	16%
General Purpose	757	1,235	-39%	122,686	90,734	35%
Housing	746	632	18%	23,414	24,652	-5%
Development	492	563	-13%	12,149	10,089	20%
Healthcare	125	179	-30%	30,753	35,064	-12%
Electric Power	90	17	439%	10,119	10,295	-2%
Public Facilities	24	941	-97%	8,784	7,246	21%
Environmental Facilities	22	55	-60%	2,025	3,670	-45%

Source: BofA Municipals Research, Refinitiv

Bond issuances have been resilient this year

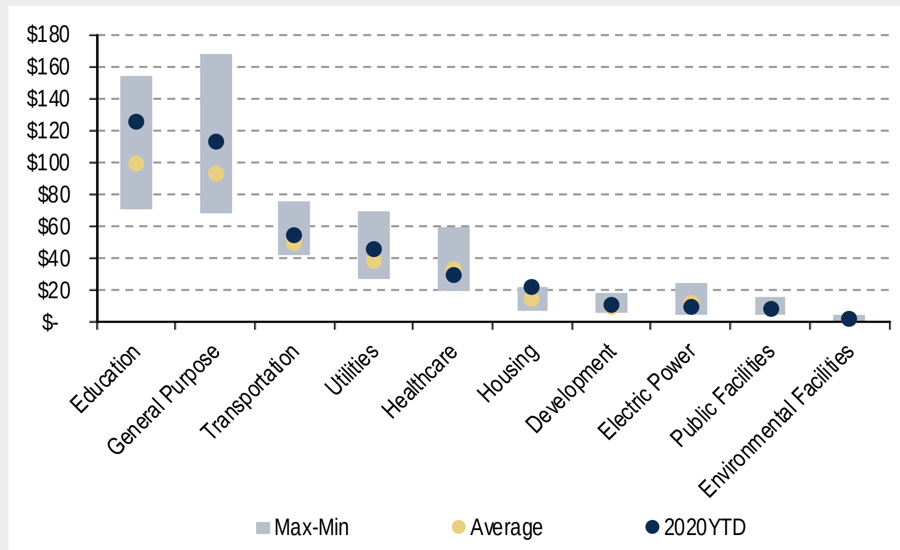
- Issuances from June through October all came ahead of BofA forecasts. November was an outlier this year, because of the federal election. Municipalities tend to avoid issuing bonds in volatile environments
- YTD, education bond issuances are above the 10-year average. General purpose, transportation and utilities issuances YTD are also trending above-average. Healthcare issuances are trending in line with its 10-year average
- As of mid-November, voters approved over $38bn of bonds on ballots– more than three quarters of the $45bn up for vote on Nov. 3

ISSUANCE BY MONTH, FORECAST VS. ACTUAL ($BN)



Source: BofA Municipals Research, Refinitiv
*December issuances as of 12/04/20

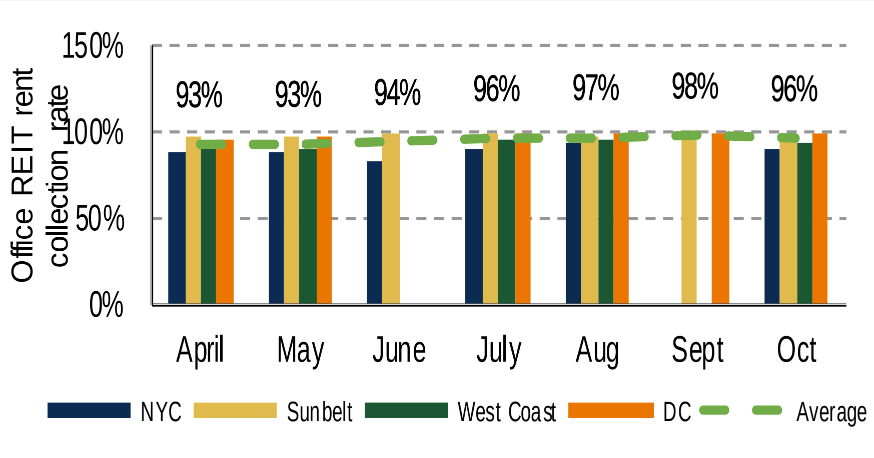
2020 YTD ISSUANCE BY SECTOR, VERSUS MAX, MIN, AVG OF PAST 10 YEARS ($BN)



Source: BofA Municipals Research, Refinitiv. Note: Max, min, and average are YTD levels of each year for the past 10 years. 2020 YTD is as of December 4 2020.

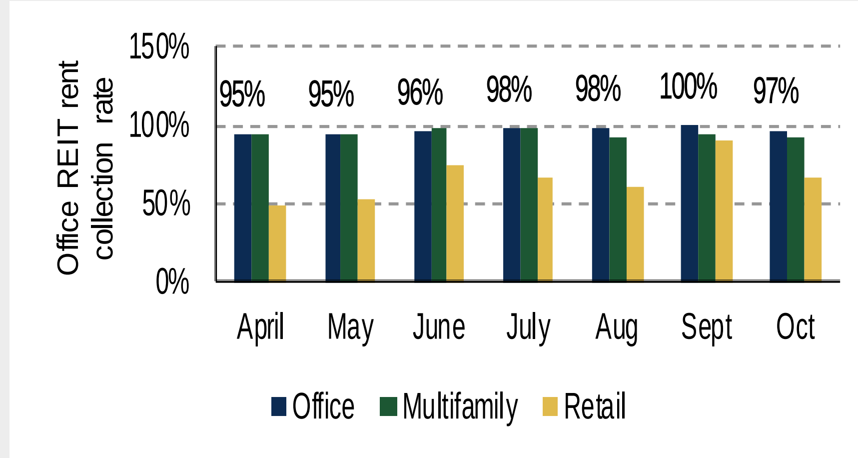
REIT rent collections are recovering from April lows

OFFICE REIT RENT COLLECTIONS BY REGION



Source: BofA REITs Global Research, company filings
Note: No June data available for West Coast, DC. No Sept data available for NYC, DC
Office REITs include: AHH, ARE, BDN, BXP, CLI, CUZ, DEI, EQC, ERST, HIW, HPP, JBGS, KRC, OFC, OPI, PGRE, SLG, VNO, and WRE

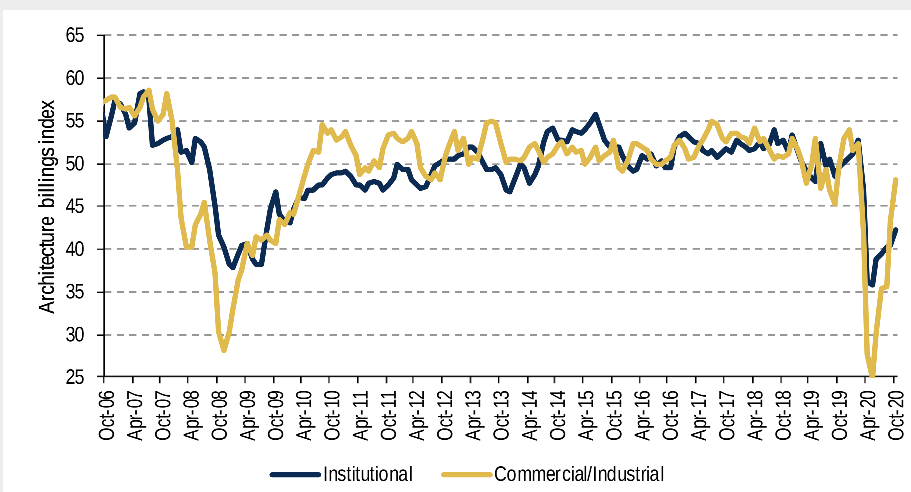
OFFICE REIT RENT COLLECTIONS BY PROPERTY TYPE



Source: BofA REITs Global Research, company filings
Office REITs include: AHH, ARE, BDN, BXP, CLI, CUZ, DEI, EQC, ERST, HIW, HPP, JBGS, KRC, OFC, OPI, PGRE, SLG, VNO, and WRE

Architecture billings index shows V-shaped recovery

MONTHLY INSTITUTIONAL AND COMMERCIAL ARCHITECTURE BILLINGS INDICES



Source: American Institute of Architects

Stocks mentioned

STOCKS MENTIONED

	Ticker	Rating	Price
3M	MMM	B-2-7	$ 176.42
Allegion	ALLE	B-1-7	$ 113.75
AMETEK Inc	AME	B-1-7	$ 118.10
Aspen Technology, Inc.	AZPN	B-2-9	$ 129.87
Colfax	CFX	C-1-9	$ 36.57
Dover	DOV	B-1-7	$ 123.86
Eaton Corp.	ETN	B-1-7	$ 116.08
Emerson	EMR	B-1-7	$ 80.90
Flowserve	FLS	B-3-7	$ 37.28
Fortive	FTV	B-1-7	$ 69.83
General Electric	GE	B-1-7	$ 10.81
Honeywell	HON	B-1-7	$ 210.04
ITT	ITT	B-2-7	$ 77.47
John Bean Technologies	JBT	B-3-7	$ 120.07
Mistras Group	MG	C-3-9	$ 7.54
Montrose Environmental Group	MEG	C-1-9	$ 31.70
Parker Hannifin	PH	B-1-7	$ 272.00
Pentair	PNR	B-3-7	$ 52.26
PTC, Inc.	PTC	B-1-9	$ 118.39
Rexnord	RXN	B-2-7	$ 37.41
Rockwell	ROK	B-1-7	$ 247.95
Rush Enterprises	RUSHA	B-1-7	$ 41.09
SPX Flow	FLOW	C-3-9	$ 59.11
Trane Technologies	TT	B-3-7	$ 141.06
Vertiv	VRT	B-1-9	$ 19.19

Source: BofA Global Research, Bloomberg

Price Objective Basis and Risk

3M Company (MMM)

We base our $190 price objective on a 20.5x P/E on our 2021 estimates. Our 20.5x target multiple is at a discount to Industrial peers trading at 28x on 2020 estimates. 20.5x is also at a discount to high quality consumer goods peers trading on 2020E. A 2021E P/E multiple of 20.5x translates into 14x EV/EBITDA on our 2021 estimates. We believe valuation at a discount to peers is warranted given 3M's lower growth outlook, choppier execution, and PFAS liability risk.

Downside risks to our PO are: 1) the company's large global and emerging market exposure, 2) a need for greater investment could be a margin headwind, 3) slower-than-anticipated global economic recovery, and 4) greater-than-expected PFAS litigation impact.

Allegion (ALLE)

We base our $141 price objective on a 19x EV/EBITDA of our 2022 estimates. Our 19x target multiple is at a premium to peers trading at 12x on 2021E, which we think is warranted given secular growth from electromechanical lock adoption, better-than-expected non-residential market heading into 2021, and strong residential backlog.

Downside risks to our PO are: 1) The cost takeout and restructuring plan may prove too ambitious, 2) acquisition integration may be a risk to execution, and 3) Emerging market slowdown could impact the company's growth, reliant on increased security demand from urbanization.

AMETEK Inc (AME)

We base our $123 price objective on a 21x EV/EBITDA multiple of our 2021 estimates. Our target 21x multiple is in line with the peer average on 2020E, which we view as fair given Ametek's higher margins, balanced by a somewhat more cyclical portfolio.

Downside risks to our price objective are: 1) weaker industrial production trends, 2) slower pace of acquisitions, and 3) disruption in the ongoing relocation of labor to low-cost countries.

AspenTech (AZPN)

We arrive at our $150 PO by applying a 24x EV/EBITDA multiple to our CY22E. This is in line with comps trading at 24x CY21E, which we think is supported by best-in-class EBITDA margins balanced by AZPN's greater exposure to oil & gas markets relative to peers. We view AZPN as appropriately valued at current levels, and see limited upside to valuation given our expectation for oil prices to remain below $50 through 2021. On P/S, our PO translates to 13x our CY22 revenue forecast.

Downside risks to our PO: oil price volatility and oil prices below $50, capex headwinds continues beyond 2021 and APM adoption rate disappoints.

Colfax Corporation (CFX)

We base our $42 price objective on a 13x EV/EBITDA multiple of our 2021 estimates. Our target multiple is a discount to multi-industrial peers trading at 14x 2021E EBITDA and a discount to orthopedic stocks, which trade at 15x 2021E EBITDA . We argue a discount is warranted given above-peer leverage. Downside risks to our PO are: 1) global capex cycle deteriorating, particularly in emerging markets, 2) challenges improving the MedTech segment, and 3) greater competition.

Dover Corp (DOV)

We base our $142 price objective on a 15x EV/EBITDA multiple of our 2022 estimates. Our target multiple is at a discount to multi-industrial peers trading at 17x 2021 estimates. We argue a discounted valuation is fair given the comp group multiple has moved up substantially and DOV's lower EBITDA margins.

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.

Price Objective Basis and Risk

Eaton Corp PLC (ETN)

We base our $135 price objective on a 16x EV/EBITDA multiple of our 2021 estimates. Our target multiple is at a discount to peers, which trade at 17.5x 2020 estimates. We argue a discount is warranted given Eaton's lower EBITDA margins and improving, but more cyclical, portfolio mix.

Downside risks to our PO are: 1) a worse-than-expected global industrial recession, particularly in commercial construction, 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 $95 price objective on a 16x EV/EBITDA multiple of our 2021 estimates. Our target multiple is a discount to multi-industrial peers trading at around 19x 2020 estimates. We argue a discount is warranted, given above-peer oil & gas end market exposure.

Downside risks to our PO are: 1) deterioration in energy capex outlook or oil price correction 2) emerging market slowdown could impact the company's growth, and 3) worse-than-expected trends in global HVAC markets.

Flowserve (FLS)

We base our $28 price objective on an 8x EV/EBITDA multiple on our 2021 estimates. An 8x multiple puts the company at a discount to the 14.5x peer average multiple on 2020. We think the discount is warranted given substantial exposure to oil & gas.

Upside risks to our PO are: 1) Recovery in 2020 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 $72 price objective on a 23x EV/EBITDA multiple of our 2021 EBITDA. Our target multiple is in line with the peer average of 23x on 2020. We argue an in line multiple is warranted given FTV's above-average software mix (approximately 15% of revenue), offset by below-peer margins

Downside risks to our PO are: 1) Weaker-than-expected capex cycle, 2) Ability to redeploy cash into accretive acquisitions, 3) Further strengthening of US dollar.

General Electric Company (GE)

We base our $13 price objective on a 13x EV/EBITDA multiple of our 2022 estimates. Our target multiple is a discount to the 14x peer average on 2021 estimates. We apply the 13x multiple to our 2022 estimates to yield our 12-month forward price objective of $13. We argue a discount is appropriate, given higher leverage and lower EBITDA margins.

Downside risks to our PO are: 1) near-term end market pressures in Aviation, 2) Execution issues within Power, and 3) Larger-than-expected capital requirements at GE Capital.

Honeywell International Inc. (HON)

We base our $240 price objective on 20x 20201E EV/EBITDA. Our target multiple is in line with the 20x peer average on 2020E. We argue an in line multiple is warranted given a more defensive portfolio yielding resilient margins and above average EPS growth balance by HON's exposure to challenged aerospace and oil & gas markets. HON also has some of the best balance sheet optionality in our coverage.

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.

Price Objective Basis and Risk

ITT Inc. (ITT)

We base our $75 price objective on a 12x EV/EBITDA multiple of our 2021 estimates. Our 12x target multiple is at a discount to the peer group trading at 14x on 2020E. We think the discounted valuation is warranted given significant cyclical end market exposure and asbestos liability risks.

Downside risks to our PO are: 1) ITT may overpay for deals in the pursuit of diversifying and expanding its product portfolio, 2) Lower capex spending in the auto, oil & gas, power gen, and other key end markets, 3) Uncertainties of asbestos litigation could be an overhang on the cash flow, 4) Greater consolidation in the flow control market may increase competition and reduce prices across the industry.

John Bean Technologies (JBT)

We base our $65 price objective on a 10x EV/EBITDA multiple of our 2021 estimates. Our 10x target multiple is below the peer average trading on 2020E EBITDA. We argue a discounted valuation is warranted given JBT's recently slower organic growth, 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, and 5) rising low-cost competition.

Mistras Group (MG)

We base our $4.50 price objective on 5x EV/EBITDA multiple of our 2021 estimate. This is a discount to the average for Testing, Inspection and Certification peers at 13x on consensus 2021 estimates, which we think is appropriate given below-average EBITDA margin, elevated leverage and higher exposure to the oil & gas end market.

Upside risks to our PO are: 1) upside from further consolidation in the sector, and 2) ability to diversify into new markets and value-added services. Downside risks to our PO are: 1) the inability to source and integrate acquisitions, 2) historical lumpiness in growth and execution, 3) greater pricing pressure.

Montrose Environmental Group, Inc. (MEG)

We base our $40 price objective on a 17.5x EV/EBITDA of our 2022 estimates. This is at a premium to the peer group average trading at 14.5x on 2020E. We believe the premium is warranted given secular growth trends from US environmental regulations, high growth driven by acquisitions and organic revenue, and a less cyclical revenue profile compared to other environmental services peers.

Downside risks to our PO are: 1) elevated financial leverage, 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 $300 price objective on a 16.5x EV/EBITDA multiple applied to our CY21 estimate. Our 16.5x target multiple is in line with the multi-industrial peer average of around 16.5x on 2020E, but a premium to the 13x average for industrial suppliers. We argue this is warranted given in line EBITDA margins to multi-industrial peers, strong FCF conversion, and less cyclical earnings profile compared to prior downturns.

Downside risks are: 1) slowdown in Global Industrial production, 2) execution on corporate restructuring programs, and 3) the ability to offset material inflation through pricing.

Pentair plc (PNR)

We base our $58 price objective on a 17x EV/EBITDA multiple of our 2021 estimates. This is below the peer group trading at 17.5x on 2020 estimates. We think the below-peer group valuation is fair given inconsistent organic revenue growth and below-peer earnings growth longer-term

Downside risks are: 1) weaker-than-expected revenue growth in end markets ex-pools 2) supply chain constraints limiting incremental margins for pools 3) weaker spending growth in Industrial and Resi/Commercial markets.

Price Objective Basis and Risk

PTC Inc. (PTC)

Our PO of $135 is based on 25.5x CY22E EV/EBITDA. This is in line to industrial software peers at 25.5x on CY21E, which we think is warranted given premium revenue growth and strong FCF trajectory, balanced by average EBITDA margins. We think the company's improving FCF warrants a multiple in line with comps. Our price objective translates into a 10x EV/Sales multiple on our CY22E, which is at a discount to peers at 11.5x.

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.

Rexnord Corporation (RXN)

We base our $40 price objective on a 12.5x EV/EBITDA of our CY 2021 estimate. This is below the peer group average of 16x EV/EBITDA on 2020 estimates. We argue discounted valuation is warranted due exposure to commercial aerospace as well as more traditional short-cycle end markets.

Downside risks are: 1) a slower than expected recovery in the company's key end markets, 2) disappointing operating leverage related to weaker than expected execution, 3) inability to source deals.

Rockwell (ROK)

We base our $295 price objective on a 20x EV/EBITDA multiple of our CY22 estimate. Our target multiple is a premium to the 15x peer average on 2021E. We argue a premium is warranted given higher returns and higher margins of ROK versus peers.

Upside risks are: 1) better global industrial production, 2) improving global capex trends, 3) potentially accretive acquisitions. Downside risks are: 1) weaker global industrial production, 2) delays in global capex, 3) greater competition, and 4) unfavorable product mix.

Rush (RUSHA)

We base our $51 price objective on a 21x P/E multiple of our 2021 EPS estimate. Our target multiple is a discount to the 22x average of industrial distributor peers on 2020 estimates. We argue a discount is warranted given expected 2020 trough earnings for peers.

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.

Price Objective Basis and Risk

SPX Flow Inc. (FLOW)

We base our $33 price objective on a 7.5x EV/EBITDA multiple on our 2021 estimates. Our target multiple is at a discount to the peer group average trading at 12.0x on 2020 estimates. We argue that a discount is warranted given weaker revenue and earnings quality versus peers.

Upside risks to our PO are: 1) restructuring benefits help offset pricing pressure and volume declines, 2) Food & Beverage margin expansion story sustainable through the cycle, and 3) FLOW valuation elevated due to potential for consolidation in flow control sector. Downside risks to our PO are: 1) Lower capex in the oil & gas, chemicals, industrials and other key end markets, 2) greater consolidation in the flow control market may increase competition and reduce prices across the industry, and 3) weaker than anticipated global industrial production growth.

Trane Technologies PLC (TT)

We base our $156 price objective on 15.5x EV/EBITDA multiple of our 2022 estimates. Our 15.5x target multiple is in line with the peer group average trading on 2021 estimates. We think the in line valuation is warranted given strong ESG factor and heavy investment in product innovation, but limited positive earnings revision.

Downside risks to our PO are: 1) a slower-than-expected economic recovery or an outright Industrial recession, translating into weaker nonresidential construction activity, and 2) lower-than-expected productivity improvement and cost synergies.

Vertiv (VRT)

We base our $23 price objective on a 15x EV/EBITDA multiple of our 2021 estimates. This is at a discount to the 16x peer average on 2020E. We argue a discount is warranted given lower margins and higher financial leverage versus peers.

Downside risks to our price objective are: 1) declines in company-owned data centers, 2) inability to execute on announced cost savings plans, 3) pricing deterioration due to competition, and 4) disruptions due to ERP rollout.

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 Adviser to The Consortium (Partners Group, InfraRed Capital Partners, DEME Concessions, GE Energy Financial Services and ADEME) in connection with its proposed sale of Merkur Offshore to APG and the Renewables Infrastructure Group ("TRIG"), which was announced on December 10, 2019.

Important Disclosures

Equity Investment Rating Distribution: Electrical Equipment Group (as of 30 Sep 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	17	68.00%	Buy	12	70.59%
Hold	3	12.00%	Hold	2	66.67%
Sell	5	20.00%	Sell	1	20.00%

Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 30 Sep 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	47	55.95%	Buy	28	59.57%
Hold	17	20.24%	Hold	14	82.35%
Sell	20	23.81%	Sell	9	45.00%

Equity Investment Rating Distribution: Machinery/Diversified Manufacturing Group (as of 30 Sep 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	29	46.03%	Buy	14	48.28%
Hold	15	23.81%	Hold	9	60.00%
Sell	19	30.16%	Sell	7	36.84%

Equity Investment Rating Distribution: Technology Group (as of 30 Sep 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	172	60.99%	Buy	115	66.86%
Hold	54	19.15%	Hold	35	64.81%
Sell	56	19.86%	Sell	24	42.86%

Important Disclosures

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1749	54.79%	Buy	1114	63.69%
Hold	677	21.21%	Hold	415	61.30%
Sell	766	24.00%	Sell	386	50.39%

* 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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. *VOLATILITY RISK RATINGS*, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. *INVESTMENT RATINGS* reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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

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