Johnson Controls Int'l PLC (JCI)

Updated November 11th, 2019 by Eli Inkrot

Key Metrics

Current Price:	$42	**5 Year CAGR Estimate:**	7.5%	**Volatility Percentile:**	41.2%
Fair Value Price:	$41	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	81.8%
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.7%	**Growth Percentile:**	57.9%
Dividend Yield:	2.5%	**5 Year Price Target**	$55	**Valuation Percentile:**	63.2%
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Total Return Percentile:**	57.5%

Overview & Current Events

Johnson Controls, originally founded in 1885, is a $35 billion industrial company that offers Building Solutions (cooling, heating, ventilation and security) around the world, with roughly 40% of its sales coming from North America. Johnson Controls is headquartered in Ireland after its merger with Tyco in 2016. In November of 2018 the company announced it was selling its Power Solutions business. Reference to this segment moving forward is reported as "discontinued operations." The Power segment made up about a fourth of Johnson Control's business and this sale now makes the company a "pure play" buildings technologies and solutions provider.

On April 30th, 2019 Johnson Controls completed the sale of its Power Business for $11.6 billion in net proceeds. The company then launched an equity tender of 102 million shares for $4.0 billion and repaid $3.4 billion of debt.

On November 7th, 2019 Johnson Controls reported Q4 and fiscal year 2019 results for the period ending September 30th, 2109. For the quarter sales came in at $6.27 billion, representing a 1.5% increase compared to Q4 2018. Results were helped by a 3.3% increase in sales in the Building Solutions North America segment and a 5.4% increase in the Buildings Solutions Asia Pacific segment. Net income from continuing operations equaled $615 million, up from $534 million, while adjusted earnings-per-share totaled $0.78 versus $0.57 previously. For the year sales came in at $23.97 billion, up 2.4% year-over-year. Net income equaled $1.71 billion, compared to $1.49 billion prior, while earnings-per-share totaled $1.96 versus $1.59 in the year ago period.

Johnson Controls also provided guidance for fiscal year 2020. The company expects organic revenue to grow in the low to mid-single-digits with adjusted earnings-per-share in the $2.50 to $2.60 range, representing a 28% to 33% year-over-year increase. The company also anticipates share repurchases of ~$2.2 billion.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.00	$2.42	$2.54	$2.66	$3.19	$3.42	$3.98	$2.60	$1.59	$1.96	***$2.55***	***$3.41***
DPS	$0.55	$0.64	$0.72	$0.76	$0.88	$1.04	$1.16	$1.00	$1.04	$1.04	***$1.04***	***$1.36***
Shares[1]	674	680	682	685	666	647	936	928	932	874	***830***	***740***

The Johnson Controls of today looks very different from the Johnson Controls of five years ago due to the Tyco merger and automotive business spinoff, which is now publicly traded as Adient (ADNT). The 2016 merger with Tyco relocated Johnson Controls to Ireland for tax purposes. Yet Tax legislation changes in the U.S. meant that the benefit of that move has evaporated and Johnson Controls was left with the integration costs of the merger.

Moreover, the complexity of looking back at historical numbers continues to evolve with the recent sale of the Power Business. We have kept the historical numbers through 2017, but we have inputted only earnings from continuing operations starting with 2018. We believe the Building Solutions segment ought to do well, but keep in mind that the business results could be increasingly volatile, as the company has become more and more concentrated.

After the sale of the Power business, Johnson Controls has a good deal of financial flexibility, which it has utilized to retire debt and buy back a significant amount of shares. This, combined with general economic growth in its building

[1] In millions.

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solutions segment, ought to continue Johnson Control's growth to a more normalized level; which we have seen take place with management's robust 2020 guidance. With much higher earnings this year, we are forecasting 6% growth.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.5	15.4	11.9	12.7	15.0	13.9	10.5	16.2	16.0	18.7	***16.6***	***16.0***
Avg. Yld.	1.9%	1.7%	2.4%	2.2%	1.8%	2.2%	2.8%	2.4%	2.8%	2.8%	***2.5%***	***2.5%***

Looking at the 2010 through 2019 period, shares of Johnson Controls have traded hands with an average P/E ratio of about 14 or 15 times earnings. Earnings-per-share were temporarily depressed after the sale of the Power Business, but they have since rebounded due in large part to Johnson Controls retiring a significant amount of stock. We are using 16 times earnings as a starting fair value baseline, taking into account the ongoing growth avenues – both organically and via share repurchases – which is weighed against a perhaps more volatile business.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	28%	26%	28%	29%	28%	30%	29%	38%	65%	53%	***41%***	***40%***

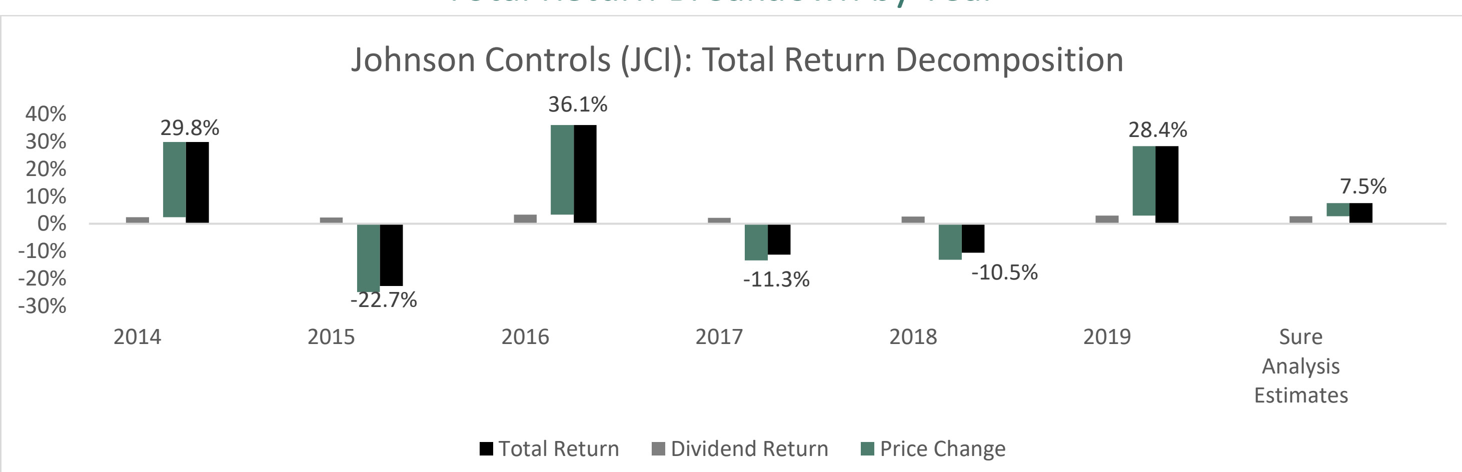
Johnson Controls is one of the key players in the building construction industry, where it provides products and services for heating, ventilation, cooling and security systems. The company's sales network and expertise are hard to replicate for new entrants. Moreover, the sale of the Power business has lead to financial flexibility, an increased focus on secular growth trends, lower capital intensity, and margin expansion.

As of the most recent report, Johnson Controls held $2.8 billion in cash, $12.4 billion in current assets and $42.3 billion in total assets against $9.1 billion in current liabilities and $21.5 billion in total liabilities. Long-term debt stood at $6.7 billion against underling earnings power of over $2 billion annually.

Final Thoughts & Recommendation

Shares are more or less unchanged since our last report, while earnings expectations are strong for this year. Johnson Controls' business continues to transform, with the newest iteration being a "pure play" Buildings Solution company. It should be noted that this transformation comes with added uncertainty in the way of a less diversified business. We are forecasting 7.5% annual total return potential, driven by 6% growth and a 2.5% starting dividend yield, offset by a small valuation headwind. We are reiterating our hold rating, noting that recession performance is likely to be poor.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	34305	40833	40604	37145	38749	17100	20837	30172	31400	
Gross Profit	5221	6059	5837	6146	6305	4531	5654	9339	9380	
Gross Margin	15.2%	14.8%	14.4%	16.5%	16.3%	26.5%	27.1%	31.0%	29.9%	
SG&A Exp.	3796	4393	4311	3627	4216	3191	4190	6158	6010	
D&A Exp.	691	731	824	952	955	860	953	1188	1085	
Operating Profit	1425	1666	1526	2519	2089	1340	1464	3181	3370	
Op. Margin	4.2%	4.1%	3.8%	6.8%	5.4%	7.8%	7.0%	10.5%	10.7%	
Net Profit	1307	1415	1184	1178	1215	1563	-868	1611	2162	
Net Margin	3.8%	3.5%	2.9%	3.2%	3.1%	9.1%	-4.2%	5.3%	6.9%	
Free Cash Flow	661	-249	-272	1309	1196	465	659	-1312	1483	
Income Tax	127	258	161	674	407	71	197	705	518	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	25743	29676	30954	31518	32804	29622	63179	51884	48797	
Cash & Equivalents	560	257	265	1055	409	597	579	321	200	
Acc. Receivable	6095	7151	7308	7206	5871	5751	6394	6666	7065	
Inventories	1786	2316	2343	2325	2477	2377	2888	3209	3224	
Goodwill & Int.	7242	7961	7929	7588	8766	8340	28564	26429	25821	
Total Liabilities	15370	18496	19181	18944	21242	19124	38089	30517	26339	
Accounts Payable	5426	6159	6114	6318	5270	5174	4000	4271	4644	
Long-Term Debt	3389	5146	6068	5498	6680	6610	12759	13572	10995	
Total Equity	10071	11042	11625	12314	11311	10335	24118	20447	21164	
D/E Ratio	0.34	0.47	0.52	0.45	0.59	0.64	0.53	0.66	0.52	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	5.2%	5.1%	3.9%	3.8%	3.8%	5.0%	-1.9%	2.8%	4.3%	
Return on Equity	13.6%	13.4%	10.4%	9.8%	10.3%	14.4%	-5.0%	7.2%	10.4%	
ROIC	9.7%	9.4%	6.9%	6.6%	6.7%	8.8%	-3.2%	4.4%	6.3%	
Shares Out.	674	680	682	685	666	647	936	928	932	
Revenue/Share	50.26	59.19	58.97	53.90	57.42	25.85	30.98	31.94	33.70	
FCF/Share	0.97	-0.36	-0.40	1.90	1.77	0.70	0.98	-1.39	1.59	

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.