Johnson Controls Int'l PLC (JCI)

Updated February 1st, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$65	**5 Year CAGR Estimate:**	4.7%	**Market Cap:**	$48 B
Fair Value Price:	$55	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	03/18/23
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.3%	**Dividend Payment Date[1]:**	04/14/23
Dividend Yield:	2.1%	**5 Year Price Target**	$74	**Years Of Dividend Growth:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Johnson Controls, originally founded in 1885, is a $48 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. 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 January 13th, 2023, Johnson Controls announced it acquired Hybrid Energy AS, a provider of high-temperature energy management solutions. With the acquisition, Johnson Controls will be able to supply high-temperature heat pumps in district heating and industrial markets, particularly Europe.

On February 1st, 2023, Johnson Controls reported first quarter 2023 results for the period ending December 31st, 2022. (Johnson Controls' fiscal year ends September 30th.) For the quarter, sales came in at $6.1 billion, a 4% gain compared to Q1 2022. The Building Solutions North America and Building Solutions EMEA/LA saw a 10% and 2% gain, respectively, while the Building Solutions Asia Pacific posted a decline of 4%. Lastly, Global Products was flat year-over-year.

Adjusted net income equaled $0.67 per share, a 24% increase compared to $0.54 per share in Q1 2022. The company ended the quarter with a backlog of $11.3 billion, up 11% year-over-year.

Johnson Controls also upgraded fiscal year 2023 guidance, expecting $3.30 to $3.60 in adjusted earnings-per-share, resulting in 10% to 20% year-over-year growth.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.66	$3.19	$3.42	$3.98	$2.60	$1.59	$1.96	$2.24	$2.65	$3.00	***$3.45***	***$4.62***
DPS	$0.76	$0.88	$1.04	$1.16	$1.00	$1.04	$1.04	$1.04	$1.07	$1.39	***$1.40***	***$1.87***
Shares[2]	685	666	647	936	928	932	778	726	721	691	***680.0***	***650.0***

The Johnson Controls of today looks very different from the Johnson Controls of six 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 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 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

[1] Estimate
[2] In millions.

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.

results could be increasingly volatile, as the company has become more and more concentrated. Additionally, Johnson will likely continue to grow through acquisitions, where it can purchase unique solutions and valuable patents.

We are forecasting $3.45 in EPS for fiscal 2023 – the midpoint of current guidance - and 6% growth.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	12.7	15.0	13.9	10.5	16.2	16.0	18.8	16.7	22.3	20.2	***18.9***	***16.0***
Avg. Yld.	2.2%	1.8%	2.2%	2.8%	2.4%	2.8%	2.8%	2.8%	1.8%	2.2%	***2.1%***	***2.5%***

Looking at the 2013 through 2022 period, shares of Johnson Controls have traded hands with an average P/E ratio of about 16 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. With shares trading at 18.9 times the midpoint of guidance this implies a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	29%	28%	30%	29%	38%	65%	53%	46%	40%	46%	***41%***	***41%***

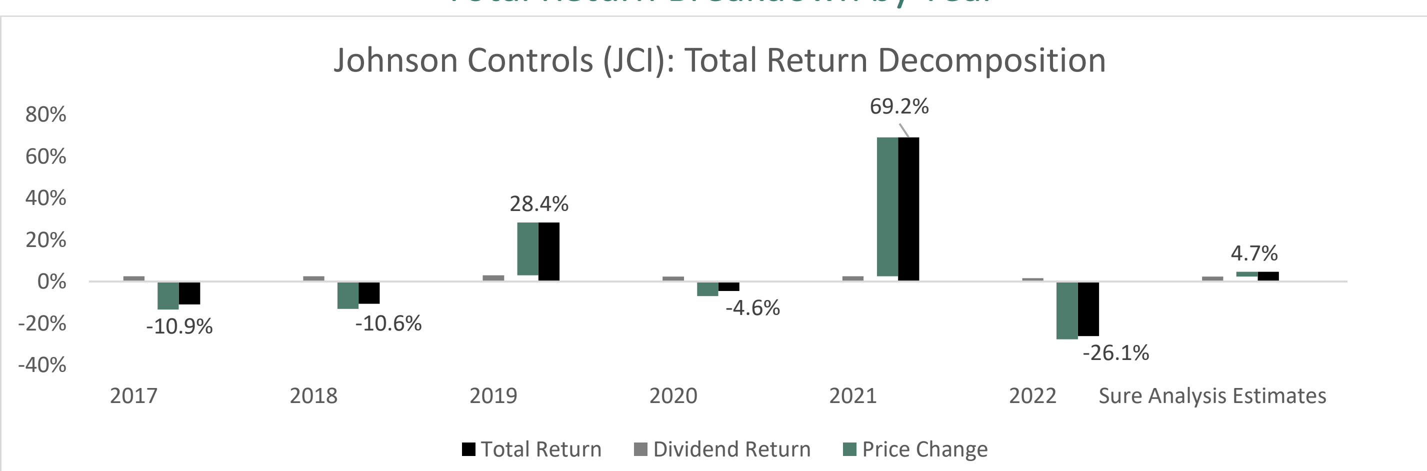
Johnson Controls is one of the key players in the building construction industry, where it provides products and services for heating, ventilation, cooling, and security systems. The company's sales network and expertise are hard to replicate for new entrants. Moreover, the sale of the Power business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

As of Q1 2023, Johnson Controls held $1.5 billion in cash, $11.8 billion in current assets and $42.8 billion in total assets against $11.6 billion in current liabilities and $26.8 billion in total liabilities. Long-term debt stood at $7.8 billion.

Final Thoughts & Recommendation

Shares are up just above 1% year-to-date, which is well below the performance of the broader market. Johnson Controls' business has become a "pure play" Buildings Solution company within the last decade. It should be noted that this transformation has added uncertainty in the way of a less diversified business, but results have been promising since 2018. We are forecasting 4.7% annual total return potential, driven by 6% growth and a 2.1% starting dividend yield offset by the potential for a valuation headwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	37145	38749	17100	20837	30172	31400	23968	22320	23670	25299
Gross Profit	6146	6305	4531	5654	9339	9380	7693	7411	8059	8343
Gross Margin	16.5%	16.3%	26.5%	27.1%	31.0%	29.9%	32.1%	33.2%	34.0%	33.0%
SG&A Exp.	3627	4216	3191	4190	6158	6010	6244	5665	5258	5945
D&A Exp.	952	955	860	953	1188	1085	825	206	845	830
Operating Profit	2519	2089	1340	1464	3181	3370	1449	1746	2801	2398
Op. Margin	6.8%	5.4%	7.8%	7.0%	10.5%	10.7%	6.0%	7.8%	11.8%	9.5%
Net Profit	1178	1215	1563	-868	1611	2162	5674	206	1637	1532
Net Margin	3.2%	3.1%	9.1%	-4.2%	5.3%	6.9%	23.7%	0.9%	6.9%	6.1%
Free Cash Flow	1309	1196	465	659	-1312	1483	616	879	1935	1394
Income Tax	674	407	71	197	705	518	-233	108	868	-13

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	31518	32804	29622	63179	51884	48797	42287	40820	41890	42158
Cash & Equivalents	1055	409	597	579	321	200	2805	1951	1336	2031
Acc. Receivable	7206	5871	5751	6394	6666	7065	5770	5294	5613	5528
Inventories	2325	2477	2377	2888	3209	3224	1814	1773	2057	2510
Goodwill & Int.	7588	8766	8340	28564	26429	25821	23810	23290	23880	21969
Total Liabilities	18944	21242	19124	38089	30517	26339	21458	22280	23140	24756
Accounts Payable	6318	5270	5174	4000	4271	4644	3582	---	---	---
Long-Term Debt	5498	6680	6610	12759	13572	10995	7219	7819	7740	8960
Total Equity	12314	11311	10335	24118	20447	21164	19766	17450	17560	16268
LTD/E Ratio	0.45	0.59	0.64	0.53	0.66	0.52	0.37	0.45	0.44	0.55

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.8%	3.8%	5.0%	-1.9%	2.8%	4.3%	12.5%	1.5%	4.0%	3.6%
Return on Equity	9.8%	10.3%	14.4%	-5.0%	7.2%	10.4%	27.7%	3.4%	9.4%	9.1%
ROIC	6.6%	6.7%	8.8%	-3.2%	4.4%	6.3%	18.5%	2.3%	6.2%	5.8%
Shares Out.	685	666	647	936	928	932	778	754	721	700
Revenue/Share	53.90	57.42	25.85	30.98	31.94	33.70	27.41	29.61	32.82	36.16
FCF/Share	1.90	1.77	0.70	0.98	-1.39	1.59	0.70	1.17	2.68	1.99

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