Johnson Controls Int'l PLC (JCI)

Updated August 1st, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$71	**5 Year CAGR Estimate:**	8.0%	**Market Cap:**	$48 B
Fair Value Price:	$63	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date[1]:**	09/20/24
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.6%	**Dividend Payment Date[1]:**	10/21/24
Dividend Yield:	2.1%	**5 Year Price Target**	$96	**Years Of Dividend Growth:**	3
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 the sale made 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 March 8th, 2023, Johnson Controls increased its quarterly dividend by one penny to $0.37 per share.

On July 23rd, 2024, Johnson announced it reached an agreement to sell its Residential and Light Commercial HVAC business to the Bosch Group. The overall deal value is $8.1 billion, with $6.7 billion going to JCI and the remainder to Hitachi (who owns 40% of the global Residential JV). JCI expects to receive around $5.0 billion in net cash proceeds, which will largely go towards debt repayment, with the remainder distributed to shareholders. The transaction is subject to regulatory approvals and is expected to close around July 2025.

On July 31st, 2024, Johnson Controls reported third quarter 2024 results for the period ending June 30th, 2024. (Johnson Controls' fiscal year ends September 30th.) For the quarter, sales increased 1% from Q3 2024 to $7.2 billion. The Building Solutions North America and Building Solutions EMEA/LA segments saw a 9% and 3% increase in sales, while Building Solutions Asia Pacific and Global Products saw a 22% and 0.4% decline, respectively.

Adjusted EPS equaled $1.14 per share, a 10.7% increase compared to $1.03 per share in Q3 2023. The company ended the quarter with a backlog of $12.9 billion, up 10% year-over-year.

Johnson Controls also narrowed its fiscal year 2024 guidance, now expecting $3.66 to $3.69 in adjusted earnings-per-share, resulting in 5% year-over-year growth at the midpoint.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.19	$3.42	$3.98	$2.60	$1.59	$1.96	$2.24	$2.65	$3.00	$3.50	***$3.68***	***$5.66***
DPS	$0.88	$1.04	$1.16	$1.00	$1.04	$1.04	$1.04	$1.07	$1.39	$1.45	***$1.48***	***$1.98***
Shares[2]	666	647	936	928	932	778	726	721	691	683	***670.0***	***650.0***

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

[1] Estimate
[2] In millions.

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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. 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 believe the Building Solutions segment ought to do well in the long term, but business results are likely to 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. Furthermore, its business is still transforming, as it is divesting its R&LC HVAC and Air Distribution Technologies businesses in 2024, which account for ~20% of sales.

We are forecasting $3.68 in EPS for fiscal 2024 – the current guidance - and 9% growth.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.0	13.9	10.5	16.2	16.0	18.8	16.7	22.3	20.2	17.0	***19.4***	***17.0***
Avg. Yld.	1.8%	2.2%	2.8%	2.4%	2.8%	2.8%	2.8%	1.8%	2.2%	2.3%	***2.1%***	***2.1%***

Looking at the 2014 through 2023 period, shares of Johnson Controls have traded hands with an average P/E ratio of about 16.7 times earnings. We are using 17.0 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 19.4 times our 2024 EPS estimate this implies a moderate valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	28%	30%	29%	38%	65%	53%	46%	40%	46%	41%	***40%***	***35%***

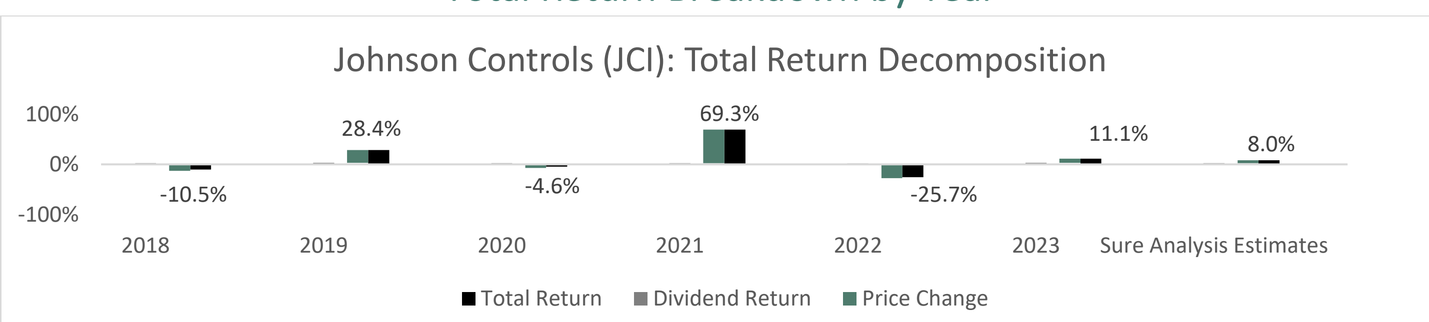
Johnson Controls is one of the key players in the building construction industry, where it provides products and services for heating, ventilation, cooling, and security systems. The company's sales network and expertise are hard to replicate for new entrants. Moreover, the sale of the Power business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

As of Q3 2024, Johnson Controls held $862 million in cash, $12.2 billion in current assets and $43.3 billion in total assets against $12.7 billion in current liabilities and $26.2 billion in total liabilities. Long-term debt stood at $7.9 billion.

Final Thoughts & Recommendation

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 8.0% annual total return potential, driven by 9.0% EPS growth and a 2.1% starting dividend yield, partly offset by -2.6% P/E multiple contraction. JCI earns a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	38749	17100	20837	30172	31400	23968	22320	23670	25299	26790
Gross Profit	6305	4531	5654	9339	9380	7693	7411	8059	8343	8971
Gross Margin	16.3%	26.5%	27.1%	31.0%	29.9%	32.1%	33.2%	34.0%	33.0%	33.5%
SG&A Exp.	4216	3191	4190	6158	6010	6244	5665	5258	5945	6181
D&A Exp.	955	860	953	1188	1085	825	206	845	830	848
Operating Profit	2089	1340	1464	3181	3370	1449	1746	2801	2398	2790
Op. Margin	5.4%	7.8%	7.0%	10.5%	10.7%	6.0%	7.8%	11.8%	9.5%	10.4%
Net Profit	1215	1563	-868	1611	2162	5674	206	1637	1532	1849
Net Margin	3.1%	9.1%	-4.2%	5.3%	6.9%	23.7%	0.9%	6.9%	6.1%	6.9%
Free Cash Flow	1196	465	659	-1312	1483	616	879	1935	1394	1682
Income Tax	407	71	197	705	518	-233	108	868	-13	-323

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	32804	29622	63179	51884	48797	42287	40820	41890	42158	42240
Cash & Equivalents	409	597	579	321	200	2805	1951	1336	2031	835
Acc. Receivable	5871	5751	6394	6666	7065	5770	5294	5613	5528	6006
Inventories	2477	2377	2888	3209	3224	1814	1773	2057	2510	2776
Goodwill & Int.	8766	8340	28564	26429	25821	23810	23290	23880	21969	22820
Total Liabilities	21242	19124	38089	30517	26339	21458	22280	23140	24756	24550
Accounts Payable	5270	5174	4000	4271	4644	3582	---	---	---	---
Long-Term Debt	6680	6610	12759	13572	10995	7219	7819	7740	8960	8848
Total Equity	11311	10335	24118	20447	21164	19766	17450	17560	16268	16540
LTD/E Ratio	0.59	0.64	0.53	0.66	0.52	0.37	0.45	0.44	0.55	0.53

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.8%	5.0%	-1.9%	2.8%	4.3%	12.5%	1.5%	4.0%	3.6%	4.4%
Return on Equity	10.3%	14.4%	-5.0%	7.2%	10.4%	27.7%	3.4%	9.4%	9.1%	11.3%
ROIC	6.7%	8.8%	-3.2%	4.4%	6.3%	18.5%	2.3%	6.2%	5.8%	7.0%
Shares Out.	666	647	936	928	932	778	754	721	700	687
Revenue/Share	57.42	25.85	30.98	31.94	33.70	27.41	29.61	32.82	36.16	38.98
FCF/Share	1.77	0.70	0.98	-1.39	1.59	0.70	1.17	2.68	1.99	2.45

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