

Otto Analytics

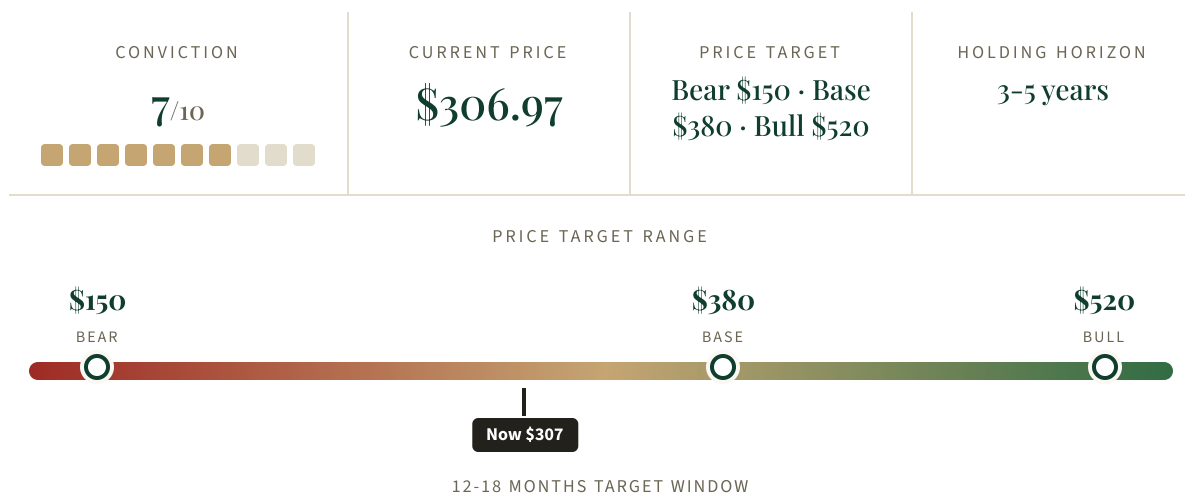
FRONTIER INFRASTRUCTURE · CONVICTION RESEARCH



VRT *Vertiv Holdings Co*

● BUY

INVESTMENT MEMORANDUM | 2026-06-29



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Thesis

Vertiv owns the power and thermal layer that every AI data center is physically built on, and that layer is the binding constraint on the entire buildout, not a commodity bolted on at the end. The business is compounding at 30% with margins that have expanded 800 basis points in three years, a backlog that doubled to \$15 billion, and free cash flow that turned a leveraged SPAC into a near-zero-net-debt cash machine. The only real argument against owning it is the price, and that argument is about when to buy, not whether.

The Debate

▲ BULL CASE

The land the miners cross

Vertiv sells the power distribution, UPS systems, switchgear, busbar, and cooling that keep GPU clusters from melting. A traditional server rack drew 5 to 10 kilowatts; a Blackwell-class AI rack draws 30 to over 100. That density jump is physics, not preference, and it pulls Vertiv's entire catalog into every new build. Over 80% of revenue comes from data centers, so this is a pure-play on the one bottleneck the hyperscalers cannot engineer around quickly: getting power in and heat out. Global data center electricity demand is on track to roughly double by 2030, and the constraint sits squarely on Vertiv's product line.

The moat you can measure

The moat is real because it shows up in the numbers. Power and thermal architecture is qualified at the facility-design stage, so switching mid-project means re-engineering and downtime risk no operator will accept. The proof: a \$15 billion backlog, roughly 1.5x forward revenue, and a book-to-bill above 1.2x. Deferred service revenue tripled in two years to \$1.8 billion, which is customers prepaying for an installed base that compounds into recurring, higher-margin service. A 300-plus center field network with sub-two-hour response SLAs would take a rival years and hundreds of millions to replicate. Vertiv co-develops next-generation power and cooling directly with NVIDIA, which hands it the thermal spec of each chip generation before it ships.

The financials confirm the story

Gross margin went from 28% in 2022 to 37% today. Operating margin went from under 4% to over 18%. Free cash flow went from negative to \$2.3 billion on a trailing basis, a 21% FCF margin, while net debt fell from \$3.1 billion to under \$700 million. Rule of 40 score is 50. That combination, 30% growth with

▼ BEAR CASE

Priced for perfection

At \$307 the stock trades near 47x forward earnings and 11x forward sales. Consensus needs 35.7% revenue growth in fiscal 2026, which would be an acceleration past the best year Vertiv has ever printed. If growth lands at 20%, still excellent for an industrial, and the multiple compresses toward 30x, the stock trades closer to \$145. The gap between "still a great business" and a 50% drawdown is thin, because almost none of the price is margin of safety.

The capex air pocket

Demand is concentrated in a handful of hyperscalers running synchronized capital programs on a shared bet about AI returns. If one of them trims 2027 construction, or a model-efficiency shock cuts compute-per-task, orders decelerate before revenue does, and the multiple breaks first. The canonical analogue is Cisco in 2000: the dominant picks-and-shovels name in a genuinely real buildout, priced at 100x, that fell nearly 90% when carrier capex turned. The trend was real. The valuation still cleared the building.

The chart says wait

The technical read is the most concrete near-term caution. VRT just printed its worst week of 2026, down 14%, off the all-time high of \$380, and now sits below its 50-day average with RSI reset below 50. The long-term uptrend is intact and the 200-day sits near \$229, but the near-term phase is corrective and unfinished. First real support is \$270 to \$285, with deeper structural support at \$230 to \$245.

expanding margins and rising cash conversion, is rare and is not what a company riding someone else's wave looks like.

The Verdict

CIO JUDGMENT

On the business, the bulls win cleanly

The seats that define the thesis both land firmly bullish, and the bear seats do not actually dispute the business. The Skeptic concedes this is "an excellent business riding a genuine secular trend." The Quant calls the fundamentals "nearly flawless." The bear case is a valuation-and-timing case wearing a thesis costume. That distinction is the whole decision: a broken thesis is a reason to avoid, a stretched entry price is a reason to be patient about sizing and timing. This is the second.

On valuation, the bears win on entry, not on ownership

The objection is fair and I am not going to wave it away. At 47x forward, you are paying for execution, and the Cisco analogue deserves respect rather than dismissal. But two things separate Vertiv from Cisco-2000: the backlog gives 12-to-18-month revenue visibility that a networking vendor never had, and the multiple is 47x, not 100x. The PEG sits near 1.5, which is rich but not unhinged for 30%-plus growth with widening margins. The answer to a stretched price is not to pass on a category leader in the defining capital cycle of the decade. The answer is to size it correctly and let the structure work.

On timing, the technician earns the conviction haircut

This is why the score is 7 and not 9. The chart is in an unfinished correction, three of the four neutral votes are explicit "wait for a better level" calls, and insiders have done zero buying into the move. None of that breaks the thesis; all of it argues against paying up for a full position today. The resolution is to act now at partial size and reserve the rest for the \$270 to \$285 zone the technician flagged, with \$230 to \$245 as the gift if the correction deepens.

Key Metrics

METRIC	VALUE	NOTE
Current Price	\$306.97	NYSE close, 2026-06-29
Market Cap	\$117.9B	~384M shares out
Revenue (TTM)	\$10.84B	+29.0% YoY
Revenue Growth (FY2026E)	+35.7%	Consensus ~\$13.9B
Gross Margin (TTM)	37.2%	Up from 28.4% in FY2022
Operating Margin (TTM)	18.3%	Up from 3.9% in FY2022
FCF (TTM)	\$2.28B	21.0% FCF margin
Rule of 40	50.0	Pass
P/E (TTM, GAAP)	77.1x	Distorted by SPAC-era amortization/tax
Forward P/E (FY2026E)	~47x	On ~\$6.49 non-GAAP EPS
P/S (TTM)	10.9x	Sector ~2-4x
EV/EBITDA (TTM)	50.8x	Sector ~15-20x
PEG	~1.5	Rich, not unhinged for the growth
Net Debt	-\$0.69B	Near net-cash post Q1-2026 refi
Backlog	\$15.0B	~1.5x forward revenue; doubled YoY
Beta (5Y)	2.04	~2x market moves both directions

Position Sizing

3.5% <small>RECOMMENDED</small>	5% <small>HARD CAP</small>	\$270-285 <small>WORST-CASE ZONE</small>
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Why this is sized small

This is a high-conviction thesis, not a high-conviction entry price, and those are different sizing problems. A 2.04 beta name trading at 47x forward, fresh off its worst week of the year, does not earn a full position on day one. A 3 to 4% starter with a 5% hard cap expresses the conviction while respecting that the stock can move 40% on a 20% market drop.

The correlation caution

This is the most crowded trade in the market dressed as diversification. If you already hold AI-accelerator names, a dominant GPU vendor, a leading foundry, or electrification peers such as the large power-management industrials, recognize that adding Vertiv concentrates that single bet rather than spreading it. A model-efficiency shock or a hyperscaler capex trim hits all of them on the same morning. Treat Vertiv as additive inside a combined AI-infrastructure cap of 12 to 15% across all names, not as a fresh, uncorrelated idea.

The downside frame

The stock has lost 45% in 2022 and roughly 70% peak-to-trough in 2025. A thesis break at today's multiple could reprice it toward \$80 to \$100. On a 4% position that is a survivable 2.8% portfolio hit. That math is exactly why the cap is 5% and the entry is staged: build the rest into the \$270-285 zone, with \$230-245 the level worth reaching for.

Thesis-Break Triggers

1. Organic revenue growth below 15% YoY for two consecutive quarters. 2. Backlog growth turns negative or book-to-bill falls below 1.0x for a full quarter. 3. CEO departure without credible internal succession, or any credible accounting-irregularity disclosure.

Bottom Line

Vertiv is the cleanest pure-play on the one physical constraint of the AI buildout: power in, heat out. The business is firing on every cylinder and the moat is one you can measure in backlog and service revenue, not adjectives. The single honest objection is price, and the answer to price is discipline, not avoidance. Buy a starter here, build into the \$270-285 correction the chart is flagging, cap it at 5%, and hold the triggers.

Sources: Yahoo Finance, StockAnalysis.com, Macrotrends, Finviz, MarketBeat, Morningstar, SEC EDGAR (10-Q Q1 2026, 10-K FY2025), FOMC April 2026 minutes — all accessed 2026-06-29.

Analyst Scorecard

4 Bull		4 Neutral	
ANALYST	RATING	TAKE	
Visionary	BULLISH	genuine AI-infrastructure supercycle, pure-play picks-and-shovels, mid-innings with re-accelerating growth.	

ANALYST	RATING	TAKE
Operator	BULLISH	multi-layered, measurable moat anchored by design-in lock-in and a \$15B backlog; widening.
Technician	NEUTRAL	exceptional 42-month uptrend but an unfinished post-ATH correction; wait for \$270-285.
Skeptic	NEUTRAL	excellent business, but priced for perfection; Cisco-2000 valuation analogue.
Quant	NEUTRAL	flawless fundamentals, but only ~24% base-case upside; not asymmetric here.
Macro Man	BULLISH	structural tailwind, near-zero net debt, capital cycle still early-to-mid.
Insider	NEUTRAL	net selling mostly mechanical 10b5-1, zero buying a mild flag, institutions net buyers.
Risk Manager	BULLISH	own it, but size it small with strict, observable thesis-break triggers.

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The Otto Analytics Lens

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