

## **Team 16 – UNC Alpha Challenge 2025**

*Long Recommendation – Veralto Corp (NYSE: VLTO)*

**ALPHA****CHALLENGE**

# Veralto Corporation (NYSE: VLTO) Overview

Veralto Corporation (VLTO), spun out of Danaher in 3Q23 as Danaher divested a margin-dilutive, non-core segment, emerged as a focused global platform in water analytics, treatment, marking and coding, and packaging and color solutions.

## Company Description

- **Water Quality (WQ) Segment:** Provides water analytics and treatment technologies that ensure clean, safe, and efficiently managed water across municipal and industrial applications.  
*Key companies: Hach, ChemTreat, Trojan Tech, etc.*
- **Product Quality & Innovation (PQI):** Delivers marking and coding, packaging workflow, and color management solutions that support product safety, traceability, and regulatory compliance for global CPG and pharmaceutical customers.  
*Key companies: Videojet, Esko, E-Rite, Pantone, etc.*

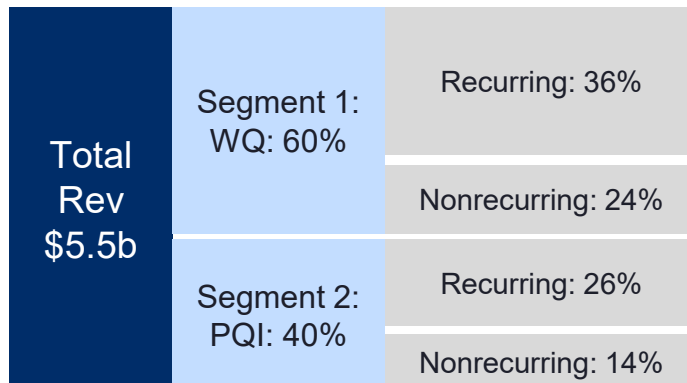
## Key Financials and Trading Statistics

Current Price (\$)	\$	98.98	52W High / Low (\$)	\$109.75 / \$85.32
Market Cap	\$	24,576	Avg. Volume (mm)	1.55
Enterprise Value	\$	25,475	Float (%)	96.0%
'25E Revenue	\$	55,133	EV/ '25 EBITDA (x)	17.5x
'25E EBITDA	\$	1,376	'25 P/E (x)	24.2x
'25E EPS	\$	3.71	Dividend Yield	0.44%

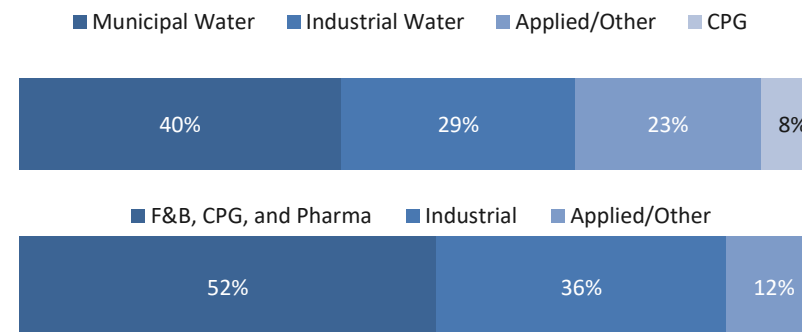
(\$mm, unless otherwise stated)

## Revenue Breakout

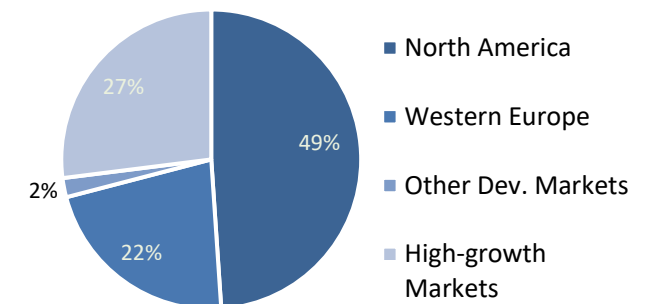
### By segment/ recurring customer



### By type of end consumer



### By geography



Source: VLTO company filings (type of end consumer estimated off of reported 2022 data)

VLTO operates across two large TAMs in Water Quality and PQI, both benefiting from strong regulatory, digital-adoption, and industrial demand tailwinds.

## Water Quality (60% of Revenue)

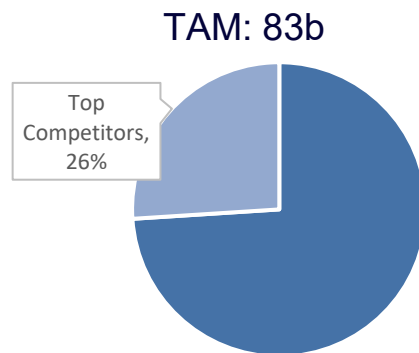
### Tailwinds

- **Increasing adoption of digital water platforms like Claros and other SaaS solutions.**
- Stricter regulations for drinking water and wastewater.
- Industrial customers using more water, especially data centers and semiconductor plants.

### Headwinds

- Slower timing of water infrastructure projects, with federal and state funds being disbursed more gradually than expected.

### TAM



**Top Competitors: 25% share**  
(XYL, TMO, ECL, PNR, etc)

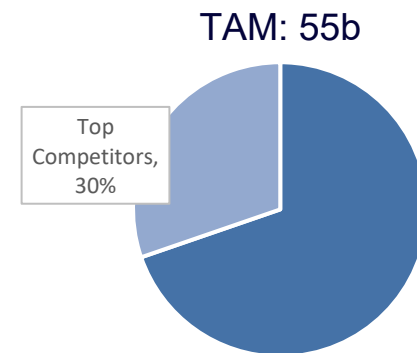
**Fragmentation:**  
(No player >5% individually)

**VLTO share: 4%**  
(Top 3 market share holder)

## Product Quality and Innovation (40% of Revenue)

- **Growing use of SaaS-based packaging and compliance platforms**
- Stricter global traceability and product-safety rules.
- Steady production volumes in food, beverage, and pharmaceuticals.

- Slower upgrades in marking, coding, and packaging automation as CPG and industrial customers defer CapEx.



**Top Competitors: 30% share**  
(DOV, BR, MATW, etc)

**Fragmentation:**  
(No player >5% individually)

**VLTO share: 3%**  
(Top 3 market share holder)

## VLTO | YTD Share Price Performance



- **Share price as of 11/21/25: \$98.98**
- 2025 YTD: **-1.60%**
- 1Y: **-6.98%**
- 5Y: **+17.05%**

- **LTM EV / EBITDA: 18.0x**
- *Peer Median:14.6x*
- **NTM P/E: 24.2x**
- *Peer Median:18.8x*

# Veralto Generates Strong FCF in a Stable, Non-Cyclical Market

## Income Statement

Period

				1	2	3	4		5	6	7	8		9	10	11	12	
	2023A	2024A	2025E	1Q26E	2Q26E	3Q26E	4Q26E	2026E	1Q27E	2Q27E	3Q27E	4Q27E	2027E	1Q28E	2Q28E	3Q28E	4Q28E	2028E
Water Revenue	\$3,039	\$3,138	\$3,323	\$850	\$883	\$916	\$908	\$3,556	\$909	\$945	\$980	\$971	\$3,805	\$973	\$1,011	\$1,049	\$1,039	\$4,071
y/y growth		3.3%	5.9%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
PQI Revenue	1982	2055	2,195	576	584	586	602	2,348	616	625	627	644	2,513	659	669	671	689	2,689
y/y growth		3.7%	6.8%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Total Revenue	\$5,021	\$5,193	\$5,518	\$1,425	\$1,467	\$1,502	\$1,510	\$5,904	\$1,525	\$1,570	\$1,607	\$1,616	\$6,318	\$1,632	\$1,680	\$1,720	\$1,729	\$6,760
y/y growth		3.4%	6.3%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Variance to Consensus Revenue			\$6	\$6	\$12	\$23	\$16	\$71					\$146					\$589
Variance to Consensus Revenue %			0.1%	0.4%	0.8%	1.5%	1.0%	1.2%					2.4%					9.5%
COGS	(\$2,120)	(\$2,088)	(\$2,185)	(\$544)	(\$560)	(\$570)	(\$569)	(\$2,243)	(\$567)	(\$584)	(\$594)	(\$593)	(\$2,338)	(\$591)	(\$608)	(\$619)	(\$618)	(\$2,436)
Gross Profit	\$2,901	\$3,105	\$3,333	\$881	\$907	\$932	\$941	\$3,661	\$958	\$986	\$1,013	\$1,022	\$3,980	\$1,041	\$1,072	\$1,101	\$1,111	\$4,324
Gross Margin	57.8%	59.8%	60.4%	61.8%	61.8%	62.1%	62.3%	62.0%	62.8%	62.8%	63.0%	63.3%	63.0%	63.8%	63.8%	64.0%	64.3%	64.0%
SG&A	(\$1,536)	(\$1,644)	(\$1,764)	(\$447)	(\$471)	(\$481)	(\$482)	(\$1,881)	(\$477)	(\$503)	(\$513)	(\$514)	(\$2,006)	(\$508)	(\$536)	(\$547)	(\$548)	(\$2,140)
R&D	(225)	(253)	(269)	(68)	(72)	(72)	(75)	(287)	(73)	(77)	(77)	(81)	(307)	(78)	(82)	(82)	(86)	(329)
EBIT	\$1,140	\$1,208	\$1,301	\$366	\$364	\$380	\$384	\$1,493	\$408	\$407	\$423	\$428	\$1,666	\$454	\$453	\$472	\$476	\$1,855
EBIT Margin	22.7%	23.3%	23.6%	25.7%	24.8%	25.3%	25.4%	25.3%	26.7%	25.9%	26.3%	26.5%	26.4%	27.8%	27.0%	27.4%	27.6%	27.4%
EPS	\$3.40	\$3.34	\$3.75	\$1.07	\$1.06	\$1.11	\$1.12	\$4.35	\$1.20	\$1.19	\$1.24	\$1.25	\$4.88	\$1.34	\$1.33	\$1.39	\$1.40	\$5.45
Consensus EPS			\$3.70	\$1.01	\$1.03	\$1.07	\$1.08	\$4.19	\$1.12	\$1.13	\$1.15	\$1.17	\$4.57	\$1.12	\$1.13	\$1.15	\$1.17	\$4.57
Variance to Consensus EPS			\$0.05	\$0.06	\$0.03	\$0.04	\$0.03	\$0.16					\$0.31					\$0.88
Variance to Consensus EPS %			1.4%	5.5%	2.7%	3.9%	2.9%	3.7%					6.8%					19.4%
EBIT	\$1,140	\$1,208	\$1,301	\$366	\$364	\$380	\$384	\$1,493	\$408	\$407	\$423	\$428	\$1,666	\$454	\$453	\$472	\$476	\$1,855
(*) 1 -tax	\$873	\$926	\$1,019	\$285	\$283	\$296	\$297	\$1,162	\$318	\$317	\$331	\$332	\$1,296	\$353	\$353	\$368	\$369	\$1,444
(+) D&A	142	143	156	36	44	41	37	158	36	44	42	37	159	36	44	42	37	160
(+) Change in WC	(18)	(101)	(34)	(39)	(24)	96	(121)	(87)	349	(398)	201	(227)	(75)	469	(522)	311	(339)	(81)
(-) Capex	(\$54)	(\$55)	(\$66)	(\$16)	(\$17)	(\$18)	(\$18)	(\$69)	(\$17)	(\$18)	(\$19)	(\$19)	(\$74)	(\$18)	(\$20)	(\$21)	(\$21)	(\$79)
Unlevered FCF	\$943	\$913	\$1,076	\$266	\$286	\$416	\$196	\$1,163	\$685	(\$56)	\$554	\$123	\$1,306	\$841	(\$145)	\$701	\$47	\$1,444
y/y growth		-3%	18%	58.3%	-17.0%	27.7%	-17.6%	8%	158.0%	-119.5%	33.2%	-37.3%	12%	22.7%	158.9%	26.5%	-61.5%	11%
Discount Rate	9.40%																	
quarterly	2.3%																	
Discounted CFs				\$260	\$274	\$389	\$179		\$612	(\$49)	\$473	\$103		\$687	(\$116)	\$547	\$36	
Terminal Value	6.00%												\$38,400					

1

Veralto has the balance sheet, cash generation, and stated appetite to run a Danaher-style bolt-on engine, adding ~130 bps of growth and ~\$0.15 of EPS that consensus ignores.

2

A 300-bps shift toward high-margin software and recurring revenue across the forecast period is already underway, driving ~\$0.30 of unmodeled EPS and structurally expanding margins.

# VLTO's M&A Engine Will Continue to Generate Outsized Growth

- **Consensus:** Assumes ~6% revenue growth through 2027, which is perfectly reasonable for the core business — about 2–3% pricing from high switching costs and regulatory demand, plus another 2–3% recurring volume growth from the installed base. But consensus stops there and assumes essentially zero contribution from acquisitions.
- **Team 16 View:** M&A will be a steady, repeatable growth engine, very similar to Danaher's historic playbook. Management has repeatedly said M&A is a priority, and they've already executed multiple deals since the spin.

## Model M&A Case Summary

	2023A	2024A	FY25E		2026E	2027E	2028E
			4Q25E	2025E			
Revenue - Organic	5,021	5,193	1,411	5,518	5,833	6,171	6,171
Revenue - Add-On			0	0	71	146	589
Total Revenue	5,021	5,193	1,411	5,518	5,904	6,318	6,760
Add-on M&A	0	363	0	0	400	400	400
Net Leverage	1.5x	1.2x		0.5x	0.1x	-0.4x	-0.8x

- Strong VLTO cashflow supports cash-funded acquisition strategy & significant de-levering
- M&A drives ~\$20 million of inc. EBIT per year, using a 25% margin, which flows through to **~\$0.15 of EPS upside by 2027 versus consensus**

## Veralto M&A Screen | 383 Companies

#	Companies (383)	
1	Proofpoint	
2	KPA	
3	Oversight Systems	
4	Assent Compliance	
5	Alcumus	
6	Canpack	
7	Zenwork	
8	MasterControl	
9	Power Semiconductor Packaging (Alp...	
10	Exterro	
11	OnPay	
12	Behavox	
13	JupiterOne	
14	Fonoa	
15	DataGuard	
16	ZenGRC	
17	DataGrail	
18	Sovos Compliance	
19	120Water	
20	OpenForce	

# Shift Toward High Margin SaaS Platforms Will Drive Structural Margin Expansion

## Veralto Has Multiple Organic/Inorganic Paths to Drive Margin Expansion

### Organic

- Esko's digital packaging workflow suite (Automation Engine, ArtiosCAD)
- Hach's Claros platform for digital water intelligence
- Aquatic Informatics' cloud data management for utilities
- X-Rite/Pantone cloud color-management ecosystems
- PQI modernization like Videojet's laser printer

### Inorganic

- **Acquired:** Tracegains (\$350mm)
- **Acquired:** AQUAFIDES (\$20mm)
- **Opportunity:** Emerald Global Water investment fund focused on recurring digital technologies
- Multiple other software and efficiency platforms to acquire

## Margin Expansion Contemplated in Forecast

	2023A	2024A	FY25E		2026E	2027E	2028E
			4Q25E	2025E			
EBIT - Team 16	1,140	1,208	340	1,301	1,493	1,666	1,855
EBIT - Consensus			340	1,329	1,442	1,570	1,570
Variance			(1)	(28)	51	96	285
EBIT Margin - Team 16	22.7%	23.3%	24.1%	23.6%	25.3%	26.4%	27.4%
EBIT Margin - Consensus			24.2%	24.1%	24.7%	25.5%	23.2%
Variance (bps)			(13)	(53)	56	86	422

## Case Study: Acquisition of Tracegains

Tracegains is a leading provider of cloud-based software solutions that enable connected data and digital workflow management to help consumer brands meet increasingly stringent compliance/reporting regulations



**95%** Recurring Revenue  
**~80%** Gross Margin  
**20%** Revenue CAGR Since 2022  
**100%** Cash-Funded

## Case Study: Acquisition of AQUAFIDES

AQUAFIDES designs, manufactures and services high-quality UV water treatment systems to safeguard and treat drinking water/wastewater

**Key end market: Data centers / AI Applications**



# Model Output & Valuation

	2023A	2024A	FY25E		2026E	2027E	2028E
<b>Revenue</b>	<b>5,021</b>	<b>5,193</b>	<b>1,411</b>	<b>5,518</b>	<b>5,904</b>	<b>6,318</b>	<b>6,760</b>
YoY Growth		3.4%	4.9%	6.3%	7.0%	7.0%	7.0%
Revenue - Consensus			1,405	5,512	5,833	6,171	6,171
Rev. Variance (\$)			6	6	71	146	589
Rev. Variance (%)			0.4%	0.1%	1.2%	2.4%	9.5%
<b>EBITDA</b>	<b>1,209</b>	<b>1,291</b>	<b>351</b>	<b>1,376</b>	<b>1,539</b>	<b>1,715</b>	<b>1,909</b>
Margin	24.1%	24.9%	24.8%	24.9%	26.1%	27.2%	28.2%
FCF	943	913	237	1,076	1,163	1,306	1,444
YoY Growth		-3.1%	-16.9%	17.8%	8.1%	12.3%	10.6%
<b>EPS</b>	<b>\$3.40</b>	<b>\$3.34</b>	<b>\$1.01</b>	<b>\$3.75</b>	<b>\$4.35</b>	<b>\$4.88</b>	<b>\$5.45</b>
EPS - Consensus			\$0.98	\$3.70	\$4.19	\$4.57	\$4.57
<b>EPS Variance (\$)</b>			<b>\$0.03</b>	<b>\$0.05</b>	<b>\$0.16</b>	<b>\$0.31</b>	<b>\$0.88</b>
<b>EPS Variance (%)</b>			<b>3.1%</b>	<b>1.4%</b>	<b>3.7%</b>	<b>6.8%</b>	<b>19.4%</b>

	LTM EV / EBITDA	NTM P/E
Dover Corporation	14.4x	19.1x
Danaher Corporation	22.3x	34.0x
Roper Technologies, Inc.	18.3x	26.2x
<b>Median - Compounders</b>	<b>18.3x</b>	<b>26.2x</b>
Pentair plc	16.6x	19.4x
Xylem Inc.	17.6x	27.7x
Veolia Environnement SA	7.1x	13.0x
Brother Industries, Ltd.	4.6x	7.7x
IDEX Corporation	14.7x	19.8x
<b>Median - Competitors</b>	<b>14.7x</b>	<b>19.4x</b>
<b>VLTO</b>	<b>18.0x</b>	<b>24.2x</b>

Price Target	
P/E Method	\$131.89
DCF Method	\$134.34
<b>Price Target</b>	<b>\$133.11</b>

Current Share Price	\$98.98
<b>Upside</b>	<b>34.5%</b>
<b>IRR</b>	<b>15.1%</b>

Capitalization and Price Target	
2028E EPS	\$5.45
(x) NTM P/E	24.2x
Multiple Target Price	\$131.89
IRR	
MOIC	1.3x
<b>Implied Price Upside</b>	<b>33.2%</b>

DCF Valuation	
Sum of Discounted FCF	\$2,477
Terminal Value	\$32,084
EV	\$34,562
(-) Net Debt	897
Equity Value	\$33,665
FDSO	250.60
Implied Stock Price	\$134.34
<b>Implied Price Upside</b>	<b>35.7%</b>



# Comparable Companies

Company Comp Set		
Company Name	TEV/EBITDA LTM - Latest	NTM Forward P/E (Capital IQ)
Pentair plc (NYSE:PNR)	16.6x	19.84x
Xylem Inc. (NYSE:XYL)	17.6x	25.86x
Veolia Environnement SA (ENXTPA:VIE)	7.1x	12.06x
Brother Industries, Ltd. (TSE:6448)	4.6x	12.94x
IDEX Corporation (NYSE:IEX)	14.7x	20.76x
Dover Corporation (NYSE:DOV)	14.4x	17.69x
Veralto Corporation (NYSE:VLTO)	18.0x	24.12x
Summary Statistics	TEV/EBITDA LTM - Latest	NTM Forward P/E (Capital IQ)
High	17.6x	25.86x
Low	4.6x	12.06x
Mean	12.5x	18.19x
Median	14.6x	18.77x

# Operating Comparables

Company Comp Set				
Company Name	LTM Gross Margin %	LTM EBITDA Margin %	LTM Total Revenues, 1 Yr Growth %	5 Year Beta
Pentair plc (NYSE:PNR)	40.4%	26.2%	0.83%	1.21
Xylem Inc. (NYSE:XYL)	38.2%	20.8%	5.58%	1.17
Veolia Environnement SA (ENXTPA:VIE)	17.6%	12.3%	(0.31%)	0.98
Brother Industries, Ltd. (TSE:6448)	42.8%	14.6%	4.30%	0.05
IDEX Corporation (NYSE:IEX)	44.6%	26.8%	7.09%	1.0
Dover Corporation (NYSE:DOV)	40.0%	22.3%	2.62%	1.31
Veralto Corporation (NYSE:VLTO)	60.0%	24.7%	6.15%	1.13
Summary Statistics	LTM Gross Margin %	LTM EBITDA Margin %	LTM Total Revenues, 1 Yr Growth %	5 Year Beta
High	44.6%	26.8%	7.09%	1.31
Low	17.6%	12.3%	(0.31%)	0.05
Mean	37.3%	20.5%	3.35%	0.95
Median	40.2%	21.6%	3.46%	1.08