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Palletizing the Automated Warehouse Opportunity

Secular Trend in High Gear; Framing the Winners in Multi-Industry & Logistics

Multi Industry | Industry Primer

- **Key Takeaway:** We view Warehouse Automation as a secular growth theme that impacts automation, electrical equipment, and logistics suppliers. The COVID-19 pandemic has accelerated the trend to automated warehousing given explosive ecommerce growth and the need for last mile delivery. Despite the likely re-emergence of the "experience economy" we think warehouse automation remains a secular winner. Our key stock ideas to leverage this theme include: **HON** (OP, Walsh), **XPO** (OP, Landry), and **SIE** (OP, Kukhnin).
- **Warehouse Automation Market to Double by 2026:** E-commerce was gaining share into the pandemic, and the emergence of COVID-19 only accelerated the transition. E-commerce as a % of retail sales has increased to 14% (approaching 25% ex auto/gas+) from 2% in 2005, and is expected to reach 27% by 2024. Supply chains have become increasingly complex, and the pandemic has given rise to a heightened awareness of the importance of supply chain continuity and the potential vulnerabilities of in-sourcing logistics. Advanced automation/intelligent machines afford shippers greater flexibility and visibility, while also lowering costs – and rising demand for these capabilities is expected to fuel a doubling of the global warehouse automation market by 2026.
- **Several "Winners" in Global Multi-Industry:** While the majority of the report focuses on Honeywell (Intelligrated) and Rockwell (Independent Cart) from an Electrical Equipment & Multi-Industry perspective, there is also a significant opportunity for electrical equipment. For example, automated warehouses typically require 40-foot ceilings to support all sorting, picking, and packaging equipment (e.g., conveyors, packaging). This increases the electrical intensity of the warehouse significantly and will benefit ETN, and ATKR. There is even discussion that the future automated warehouse will be "lights out" meaning fully automated using software and robotics. In European Cap goods, Siemens offers Intralogistics Solutions and supplies controllers and communication technology to be equipped with AGVs, conveyors and storage systems to help enable warehouse automation. Siemens also offers digital twin, PLM software and cloud-based IoT operating systems to help digitalize warehouse operations. We are raising our TP on HON to $244 (from $235).
- **Key Logistics Winners XPO, DHL:** XPO is a prime beneficiary of the structural acceleration in warehouse automation (#2 player in contract logistics globally). It is a leader in tech investment and proprietary innovation in transport/logistics, including advanced warehouse automation, intelligent machines (robots and cobots; warehouse AGVs), dynamic data science (AI and predictive analytics), and its digital freight platform – all of which are aimed at increasing efficiency, creating new top line opptys, and driving a competitive wedge between itself and its peers. It's differentiated and scalable tech platform positions the company to capitalize on the secular tailwinds in automation/e-Commerce – and we note that the company has inked $4B in contract wins YTD through April. DHL Supply Chain is also a beneficiary; it is the largest contract logistics player globally, and operates ~2k sites globally and offers a range of warehousing and supply chain mgmt solutions, with an emphasis on high impact scalable technologies.

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The Future of Warehouse Automation

The robust growth in distribution and fulfillment centers, driven largely by an increase in e-commerce, has put the spotlight on warehouse automation. The focus further intensified in 2020 as growth in e-commerce accelerated as a result of COVID-19/work-from-home trends. In order to keep up with rising demand levels, warehouse automation will become increasingly important as it helps drive improved productivity, more efficiency, increased order accuracy, and improved safety levels. Additionally, increased automation levels help warehouses adapt to new social distancing measures and operate with fewer employees. We do not expect the re-emergence of the “experience economy” to slow down this secular trend. Consumer expectations for shorter “delivery” time is also increasingly putting focus on micro-fulfilment solutions.

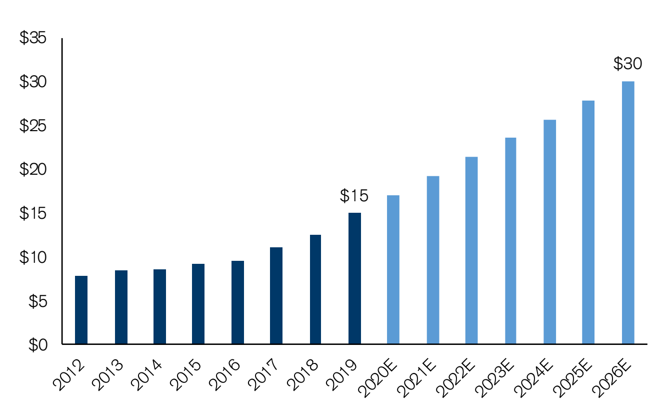
As a testament to this, LogisticsIQ estimates that the warehouse automation market will grow at 14% CAGR from 2019-2026, reaching $30B in 2026 from $15B in 2019. Berkshire Grey, a provider of AI-enabled robotics that enables automation in e-commerce fulfillment, retail re-supply, packaging/ handling logistics etc., sees a TAM of $280B+. This includes $230B+ of annual warehouse labor spend and $56B of automated material handling equipment market (expected to grow 13% per year). On 2/24/2021, Berkshire Grey announced a business combination with Revolution Acceleration Acquisition Corp that valued the business with an estimated post-transaction equity value of $2.7B.

It is estimated that only 40% of the warehouse industry employs automation and within that 30-35% only use basic automation such as package conveyance. Despite all the press, we think a few early “first movers” continue to dominate the marketplace such as Amazon, FedEx, Target, and Walmart. However, the market has broadened with 32 available case studies based on Honeywell’s Intelligrated offering.

The bottom line is that warehouse automation will take on an increasingly important role in order for companies to keep up with demand and remain competitive. And arguably, companies with more advanced warehouse operations should eventually be rewarded with a higher multiple.

The strong growth is evident from strength in Honeywell’s Intelligrated business, which reported organic sales growth of 14% (Warehouse and Workflow Solutions) and a backlog increase of 70% in FY20. In a survey conducted by Honeywell, more than half of the respondents indicated that they are increasingly open to investing in automation including industries such as e-commerce, grocery, food and beverage, and logistics industries.

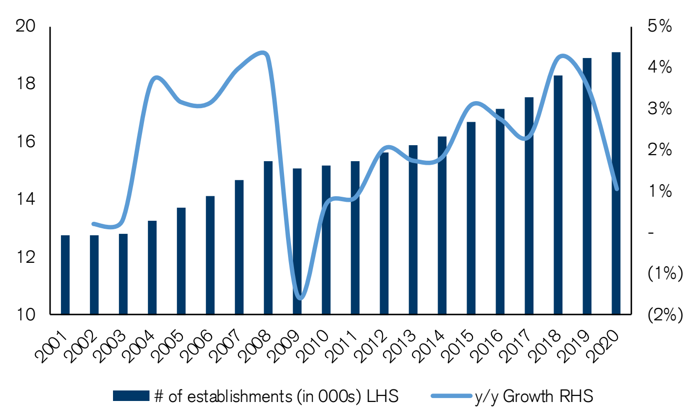
Figure 1: Global Warehouse Automation Market Expected to Double by 2026 ($ billions)



Note: 2020-2026E illustrative growth

Source: LogisticsIQ

Figure 2: Warehousing Establishment Continues to Rise



Note: Figures as of Q4 for every year except 2020 (as of Q220); Warehousing and storage category (private est.)

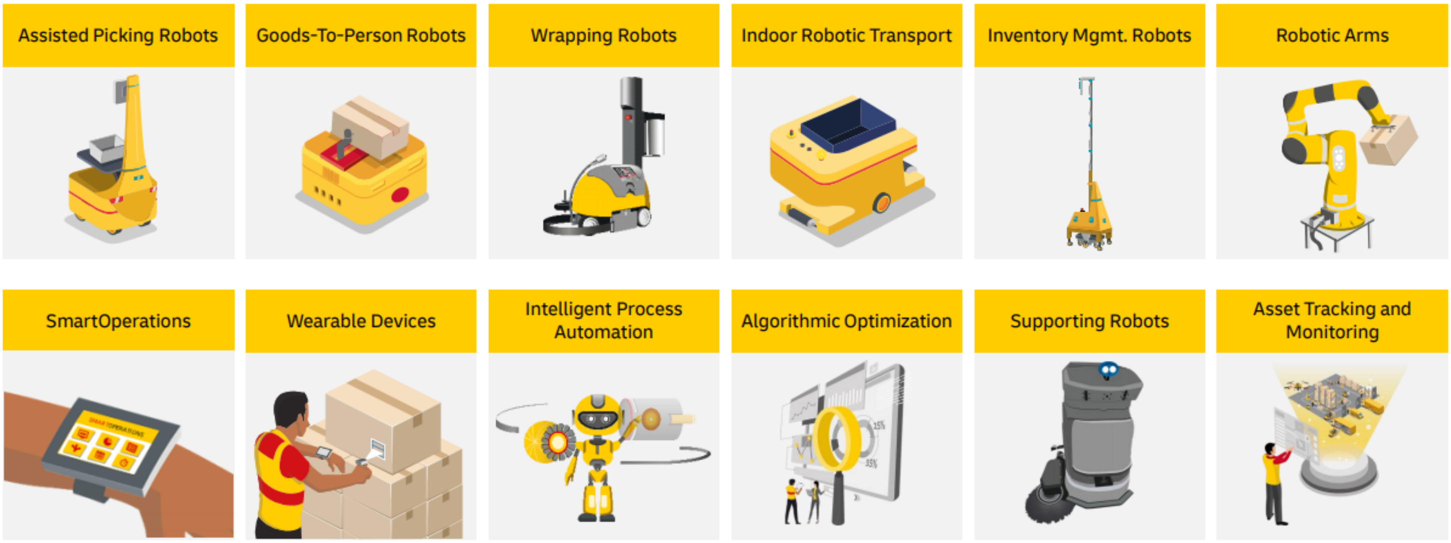
Source: BLS, Credit Suisse

Types of Warehouse Automation

There are various types of warehouse automation, and most facilities deploy an assortment of customized technologies tailored to their specific needs. Different types of automation include:

- *Assisted Picking Robots:* These robots move autonomously throughout facilities and bring packages directly to employees. They help to reduce travel time for workers, optimize travel routes, and reduce employee fatigue. Additionally, they can help increase units picked per hour by 30-180%.
- *Goods-to-Person Technologies:* This includes machines, conveyor systems, or robots, which bring shipments directly to employees for assembly or packing and can also help put away materials. These devices help drive a 200% increase in picking productivity, and improve put-away time by 50%.
- *Indoor Robotic Transport:* This includes both pallet-focused indoor robotics, which help forklifts pick up and put away shipments, and bin-focused indoor robotics, which transport items and trolleys throughout facilities.
- *Wrapping Robots:* These robots help with wrapping of shipments and materials in order to reduce physical work for warehouse staff.
- *Inventory Management Robots:* These devices monitor inventory levels and can alert staff when inventory is low.
- *Robotic Arms:* Robotic arms help to complete tasks (e.g. assembly and packaging) that can otherwise be monotonous for humans.
- *Wearable Devices:* Workers can use these devices in lieu of paper pick lists and RF scanners. These help improve accuracy and speed of picking materials, and improve picking productivity by 10-20%.
- *Pick-to-Light:* These devices can scan barcodes and alert workers where to pick up or place specific items. This in turn helps to reduce walking/searching time and also improves accuracy levels.
- *Voice Picking and Tasking:* Robots can use speech recognition and headsets in order to direct employees where to retrieve or place objects. This eliminates the need for handled devices, which in turn improves efficiency and safety.
- *Drones:* Some warehouses use drones to help with inventory management and communicating when inventory levels are low. These are more time and energy efficient than humans and forklifts in terms of barcode scanning. That said, drones are typically not used to pick and place items around a facility.

Figure 3: Various Types of Automation Deployed in Warehouses

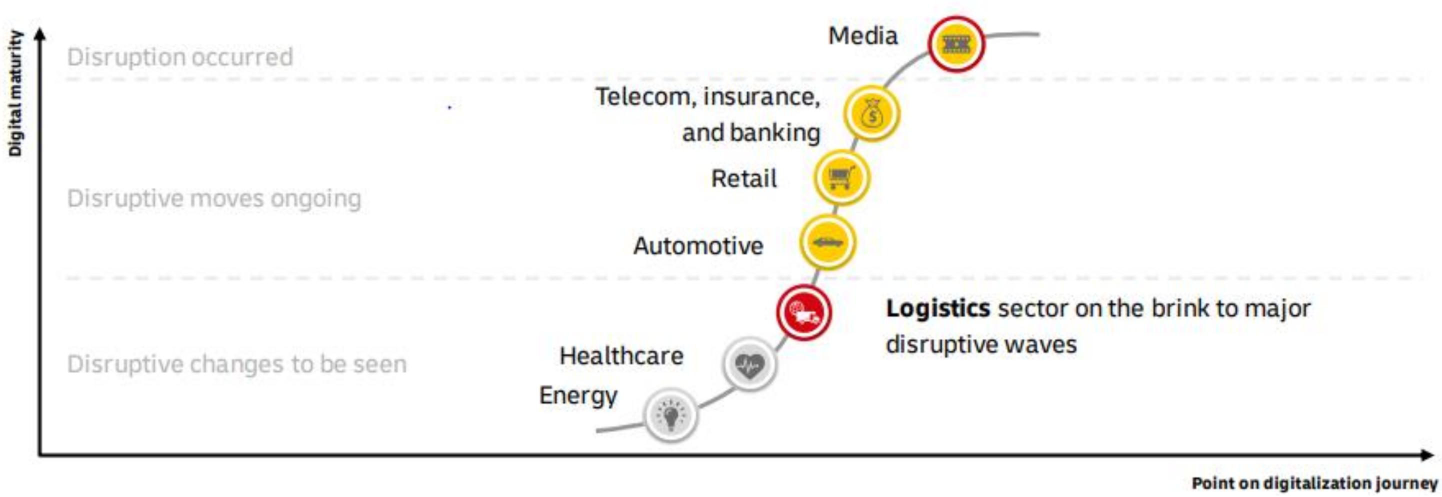


Source: DHL Group

Logistics Industry Ripe for Disruption

The Logistics industry has lagged other industries with regards to digital disruption, and there appear to be significant opportunities to drive efficiency gains and change through technology. This includes using AI and data analytics to improve demand forecasting, workforce productivity, predictive maintenance for warehouse equipment, etc. It also means increasing automation through robotics and smart operations to increase efficiency, accuracy, and safety throughout facilities. All in all, as the logistics industry continues to develop its technology initiatives, this will transform both the top line by accommodating more growth and margins as companies can operate significantly more efficiently.

Figure 4: Opportunity for Disruption is Large



Source: DHL Group

Warehouse Automation Industry Players

In Figure 5, below, we highlight key players in the warehouse automation space. The European Food Retail team hosted an expert call with AutoStore management in April 2021 ("AutoStore Call feedback: Q-grocery requires urban brownfield automation, less room for large CFC solution?", 4/22/21). Recall, in April 2021, Softbank agreed to purchase a 40% stake in the company for $2.8B.

Figure 5: Industry Mapping (Select Companies)

Material Handling Equipment and System Integrato	AGV (Automated Guided Vehicles) and AMR (Autonomous Mobile Robots)	Contract Logistics Players
• KION Group	• Omron Adept	• DHL Supply Chain
• Daifuku	• Berkshire Grey	• XPO Logistics
• Honeywell Intelligrated	• Geek+ Robotics	• Kuehne & Nagel
• Toyota	• ForwardX Robotics	• Hitachi Transport System
• Fives Group	• 6 River Systems (Shopify)	• CEVA
• Conveyco	• Grenzebach	• SNCF Geodis
• OPEX	• Fetch Robotics	• Ryder
• Shanxi Oriental Material Handing (OMH)	• Wellwit Robotics	• UPS SCS
• C&D Skilled Robotics Inc.	• JBT Corporation	• Neovia
• Hinditron	• Milrem Robotics	• DB Schenker
	• Rexroth (Bosch)	• Nippon Express

Robotics Components	Automatic Identification and Data Capture (AIDC)	Energy and Power Automation
• Siemens	• Zebra Technologies	• Schneider Electric
• Energid	• Honeywell	• Siemens
• OnRobot	• Datalogic	• Johnson Controls
• Advanced Motion Controls	• SATO	• General Electric
• Soft Robotics	• Cognex	• Alstom
• SICK	• SICK	• Cummins
• RobotIQ	• Bluebird	• Festo
• Elmo Motion Control	• DENSO Wave	• Eaton
• Harmonic Drive	• Toshiba TEC	
• Nord Drive Systems	• TSC	

Micro-Fulfillment	Machine Vision, Imaging and Wireless	ASRS and Storage
• Swisslog	• Teledyne Imaging	• ROBO Technologies Automation
• Takeoff Technologies	• Basler	• Daifuku
• Muratec	• Cognex	• Honeywell Intelligrated
• Knapp	• National Instruments	• Toyota
• OPEX	• LMI Technologies	• Fives Group
• Exotec Solutions	• Keyence	• Raymond
• Ocado Technology	• Stemmer Imaging	• Conveyco
• Commonsense Robotics (Fabric)	• FLIR	• Westfalia
• AutoStore	• Intel	• Jenbunjerd
• Alert Innovation	• Omron Microscan	• Dambach Lagersysteme GmbH & Co. KG
	• Renesas	• ALStef

Source: LogisticsiQ, Credit Suisse

Integrators

Warehouse integrators work to integrate material handling equipment, with warehouse execution systems for higher efficiency and throughput. Honeywell's Intelligrated is a warehouse integrator with offerings including AS/RS (automated storage and retrieval), conveyor systems, picking and putting technologies, palletizing/depalletizing, robotics, and sortation.

Figure 6: Major Warehouse Systems

Automation Software Stack	
Pick-and-Put	**Sortation**
Motorized transportation of materials throughout a warehouse; including automated guided vehicle (AGV) and autonomous mobile robot (AMR)	Systems to sort products and materials
Conveyor	**Transport**
Conveyor belts that deliver, move, store products	Motorized ways to transport materials througout the warehouse; also includes AGV and AMR
Storage	**Palletizing**
Equipment that stores and retrieves inventory from racks/shelves, including ASRS	System that stacks materials on pallets for storage or transportation

Source: LEK, Credit Suisse

Acquisitions

The warehouse automation industry has also witnessed M&A activity involving both strategic and financial acquirers. After the acquisition of Intelligrated, HON acquired Transnorm (a European conveyor solutions provider) and invested in FLUX (a warehouse management software company in China).

Figure 7: Select Warehouse Automation M&A

Year	Acquirer	Target
2012	Amazon	Kiva systems
2015	Siemens	Magazino
2016	Honeywell	Intelligrated
2017	THL	MHS
2017	Toyota Industries	Bastian Solutions
2017	Toyota Industries	Vanderlande Industries
2017	Honeywell	FLUX
2017	Warburg Pincus	Duravant
2017	Rockwell Automation	PTC
2017	Shopify	6 River Systems
2018	Honeywell	Transnorm
2019	THL	Fortna
2018-2020	Duravant	WECO/ motionDG/ Wulftec

Note: Rockwell made $1B equity investment in PTC; HON acquired 25% of FLUX

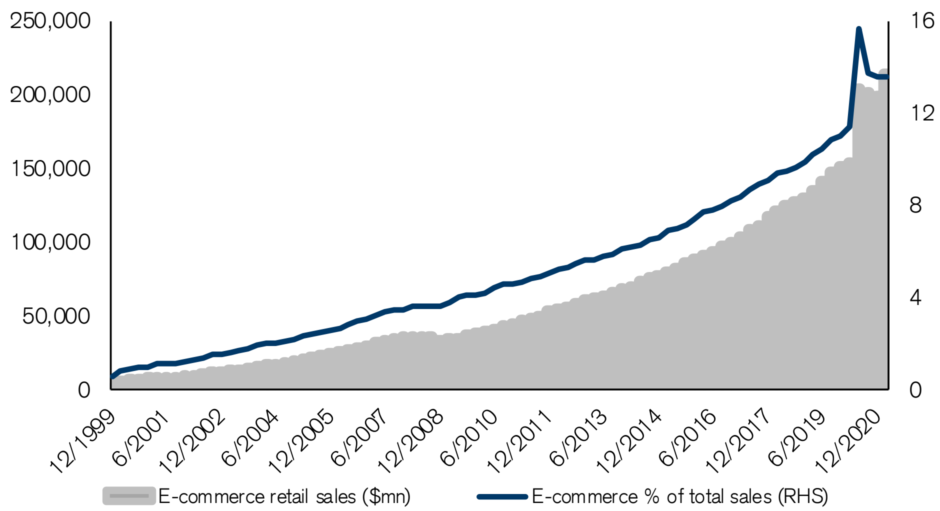
Source: L.E.K. research and analysis, Credit Suisse

Market Drivers

Accelerating E-commerce Growth

The growth of e-commerce has fueled the need for warehouse utilization, resulting in increasing need for further automation. E-commerce sales in the US has increased at 17.6% CAGR since 2005, resulting in ~14% of total retail sales (approaching 25% ex auto, gas, F&B, and grocery per Pitney Bowes), versus 2% in 2005.

Figure 8: US E-commerce Retail Sales

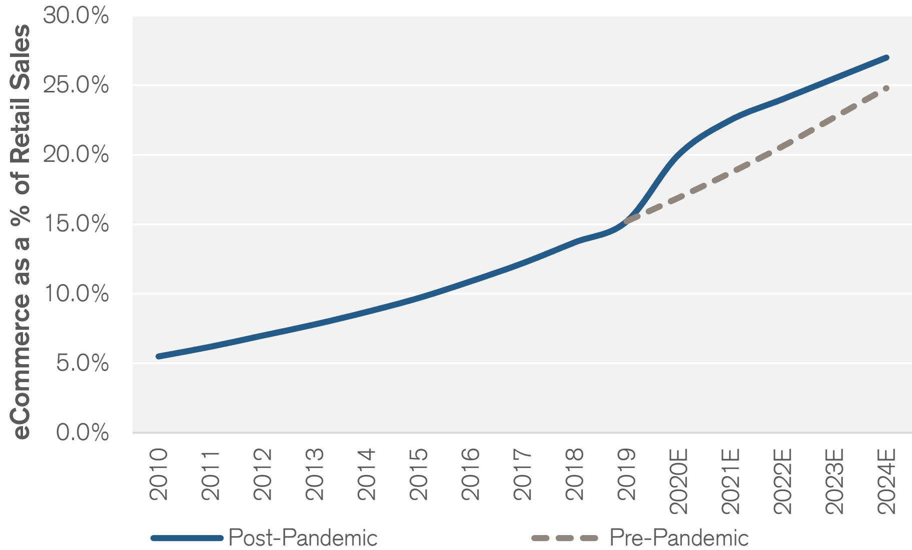


Source: US Census, Company data, Credit Suisse

We also think that e-commerce growth was accelerated by multiple years as a result of the pandemic. Prior to COVID-19, e-commerce was expected to be ~25% of total retail sales by 2024. This estimate has been revised up to 27% in 2024 given the impact of COVID. Additionally, FDX expects the U.S. small package market to double to 100m packages/day by 2023, which was recently pulled forward from its initial estimate of 2026. While UPS more conservatively estimates that the small package market will double by 2025, it's clear that the small package market is growing exceptionally quickly, helped largely by the pull forward in e-commerce demand – which speaks to the need for warehouse automation.

Moreover, we point out that a number of retailers are not currently prepared to handle rapidly growing e-commerce volumes. Roughly 52% of brands surveyed by Geodis and Accenture reveal that potential e-commerce growth is hindered by their logistics operations. As such, we believe this supports ongoing demand for warehousing and automation services.

Figure 9: E-commerce Growth Acceleration in the Wake of COVID

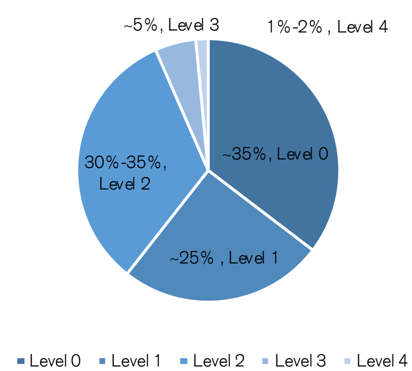


Source: Company data, Credit Suisse estimates

Automation Penetration Still Low

While there has been a focus on the expansion of warehouse footprint, automation within the warehouse remains low. A third party research firm, LEK, notes that currently 60% of warehouses use very little to no automation, while 30-35% of warehouses use basic automation such as conveyers.

Figure 10: Warehouse Automation Penetration

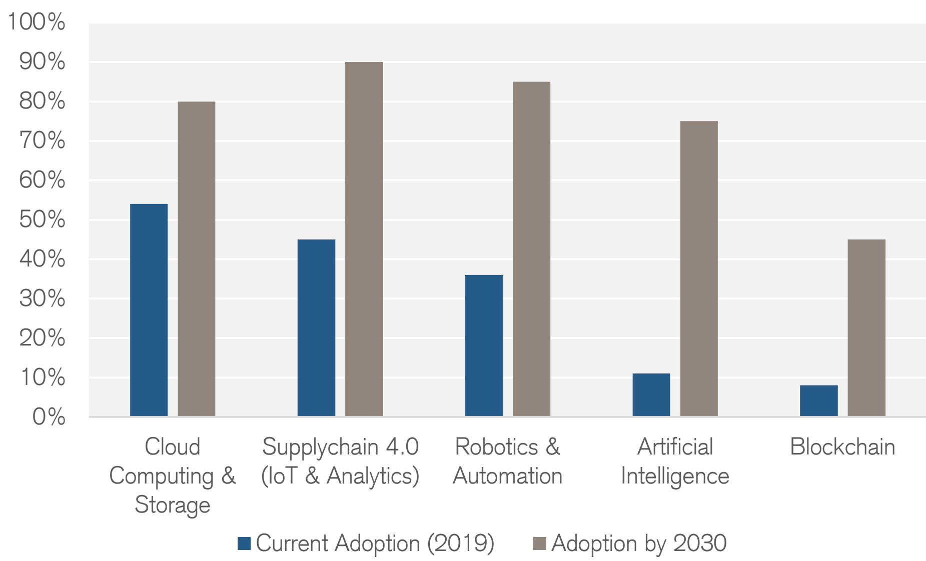


Level Description	
Level 0	Fully manual with no usage of automation software or equipment
Level 1	Manual picking supported by warehouse management software
Level 2	Mechanized support includes conveyers, picking systems; control systems remain uncommon
Level 3	ASRSs common; control/ execution systems are required
Level 4	Virtually operator free; autonomous vehicle usage is common

Source: LEK, Credit Suisse

As we can see in Figure 11, below, the adoption of AI, robotics, and blockchain is expected to accelerate from 2019 through 2030. For example, LogisticsIQ estimates that adoption of robotics & automation in 2019 was 36% and will increase to 85% in by 2030. Similarly, AI stood at 11% adoption, which LogisticsIQ estimates will increase to 75% by 2030. As such, we think the market for warehouse automation will continue to accelerate at a rapid pace, as it becomes increasingly more important in order to stay competitive.

Figure 11: Adoption of AI, Robotics, and Blockchain from 2019 to 2030



Source: Company data, Credit Suisse estimates

Supply Chain Reconfiguration

Given the rapid growth of e-commerce, we also expect supply chains to shift to accommodate these volumes, and with AMZN's one or two day Prime delivery, retailers need the infrastructure in place that affords them the agility to move goods to consumers quickly in order to stay competitive. Specifically, we think distribution hubs will be pushed closer to the consumer, and retailers are more likely to operate a number of smaller hubs near densely populated areas, rather than one large regional DC (favoring LTL given shorter haul nature). Retailers may also use storefronts as mini distribution hubs (for rapid delivery or curbside pickup) since they are typically located closer to the consumer.

Additionally, given severe pandemic-related supply chain disruptions, many retailers have shifted their inventory management strategy to "just in case" vs. "just in time." Retailers are increasing inventory levels from15 days to as many as 60 in order to protect inventory levels. This will likely lead to higher demand for warehousing for a longer period.

Onshoring is another potential trend driving demand for warehouses and automation in North America. Many shippers are moving manufacturing hubs out of China (or employing a "China Plus One" strategy) to South Asia or Mexico and the US. We see select onshoring opportunities, largely around PPE and semiconductor facilities.

All in all, the point of these supply chain changes is to move goods more efficiently and position brands closer to the consumer – which will be helped by increasing warehouse automation.

Figure 12: Potential Omni-Channel Supply Chain Solutions

Source: CBRE

Robust Demand for Industrial Real Estate

CBRE believes the industrial real estate market will continue to prosper in 2021 given low vacancy rates, high rental rates, and strong development given robust growth in e-commerce volumes. Specifically, CBRE estimates that new industrial completions will increase by 29% y/y next year given rising demand for industrial facilities. CBRE expects ~250m sq. ft. of industrial net absorption in 2021, which is well above the 5-year average of 211m sq. ft.

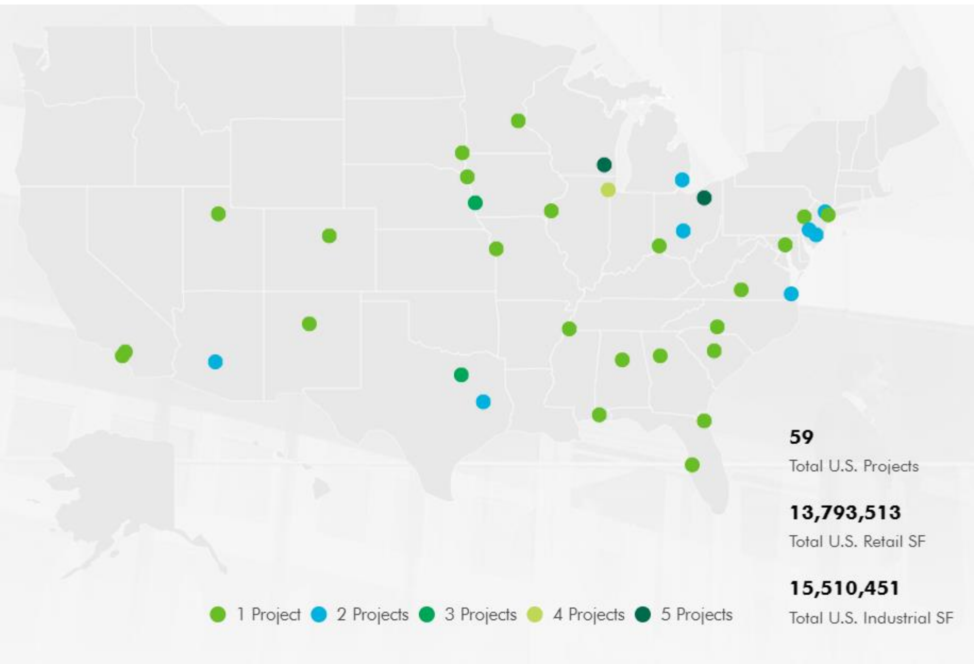
Figure 13: Total U.S. Industrial Investment Sales Volume

Source: Real Capital Analytics, CBRE Research

Retail-to-Industrial Conversions Accelerating

The growing shift to e-commerce and the subsequent shift away of brick-and-mortar has led to the conversion of retail properties to industrial sites. For example, underperforming Class B and C malls have been shifted to last-mile warehouses in some instances. Given that retail shopping behaviors have likely changed over the long term, we believe there will be more opportunities to convert traditional retail locations to warehousing space – further exacerbating an already existing trend.

Figure 14: Markets with Retail-to-Industrial Projects Since 2017



Source: CBRE Research

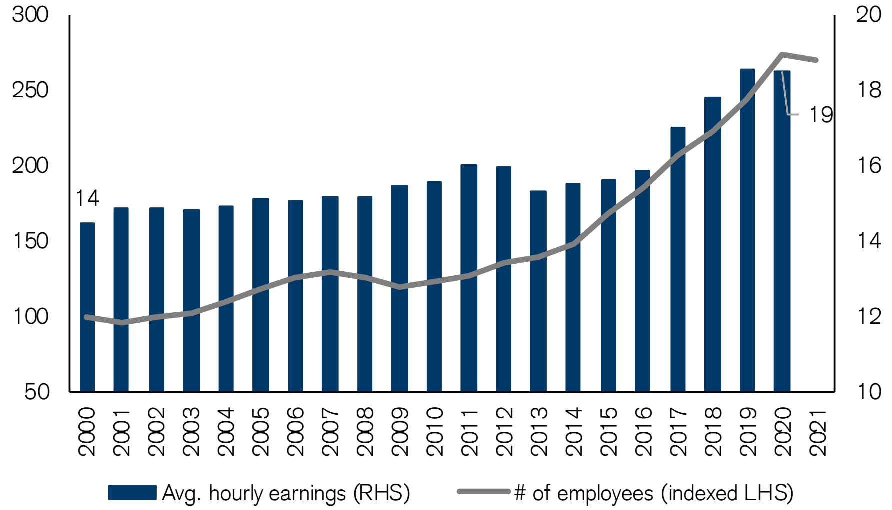
Form Follows Function…New Facilities Built to Accommodate Demand

Given that e-commerce is a key driving force behind elevated demand level for industrial real estate, CBRE pointed to key features in these buildings that suit automation. Specifically, these facilities call for ceiling heights of 40' or greater, multiple mezzanine floors, and 3m sq. ft. or more. These requirements help to accommodate larger machinery, robotics, and picking and sorting technology. As such, we expect these new facilities to adopt higher levels of automation than older warehouses may be able to easily accommodate.

Labor Demand and Rising Costs

Given the increasing demand and expansion of warehouses, there has also been a gradual increase in number of employees in the industry and hourly wage. As per BLS data, since 2000 number of employees in warehousing has tripled to 1.4mn. During the same period, hourly wage has increased 28%. During 2021, we are seeing labor inflation in several industries including retail and food service. We see potential for this to spill over into manufacturing as unfilled employment vacancies remain elevated post pandemic.

Figure 15: Employee and Earnings Trends



Note: Figures as of Dec for every year except 2020 (Jan); Warehousing and storage category (private establishment)

Source: BLS, Credit Suisse

Lights-Out Warehousing

Lights-out warehouses are facilities that are fully automated to a point where there is no manual human involvement in operations. While it is relatively new in warehousing, the concept has been in practice in manufacturing by companies such as FANUC and Phillips. While it is hard to predict when lights out warehouse centers will be widely in use, experts interviewed by Modern Material Handling estimate it to be over the next 5 – 30 years. One key challenge being the 7 to 10 years of favorable ROI timeframe associated with lights-out facilities. In the meantime, companies are focused on fully automating specific functions where applicable. For example, automated storage and retrieval system (AS/RS) used in cold-storage facilities, where human presence is limited.

Cost of Warehouse Automation

Cost of warehouse automation varies across the degree of automation implemented at a specific facility. For instance, systems that improve conventional picking cost $500k to $1mn, while a fully automated solution set would be $25mn or above. Similarly, payback on automation investments varies from 6-12 month on a simpler projects, and up to 5-10 years on a fully automated warehouse.

Figure 16: Cost of Automation at Varying Levels

	Level of Automation	Cost Range	Payback Period
Level 1	Systems to improve conventional picking	$500k - $1mn	6 - 12 months
Level 2	Mechanized solutions	$1mn - $5mn	1 - 2 years
Level 3	Semi-automatic installation	$5mn - $15mn	3 - 4 years
Level 4	Fully-automated	>$25mn	5 - 10 years

Source: Viastore Systems, Credit Suisse estimates

Contract Logistics

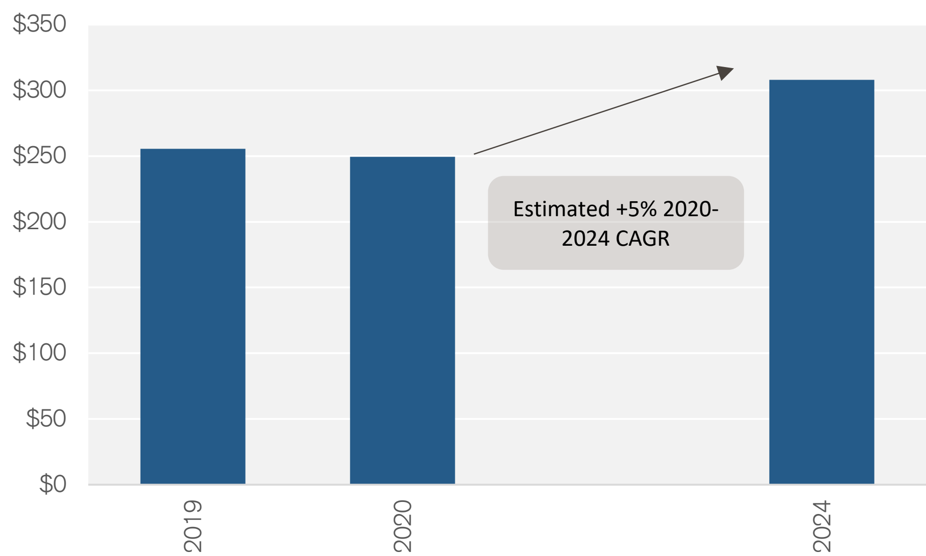
Market Underpinned by Solid Growth Expectations

The contract logistics market is the outsourcing of logistics and supply chain needs including e-commerce fulfillment, reverse logistics, warehouse and inventory management, cold chain solutions, packaging, etc. As such, it's no surprise that the global contract logistics market stands to be a key beneficiary of warehouse automation.

Given shifting supply chains and surging e-commerce demand, this market is expected to grow rapidly over the next several years – leading to rising demand for automation. Currently, the global contract logistics market is roughly $250B.

While the global contract logistics market contracted slightly in 2020, Ti Insights expects the market to grow by 5% CAGR from 2020 through 2024, helped by accelerating e-commerce growth, less disruptive trade policy, and ongoing fiscal stimulus. Specifically, North America is expected to expand by 3.1% CAGR over that period, while Asia is forecasted to be exceptionally strong at +8.0%. See Figure 17.

Figure 17: Global Contract Logistics Market Size ($ Billions)

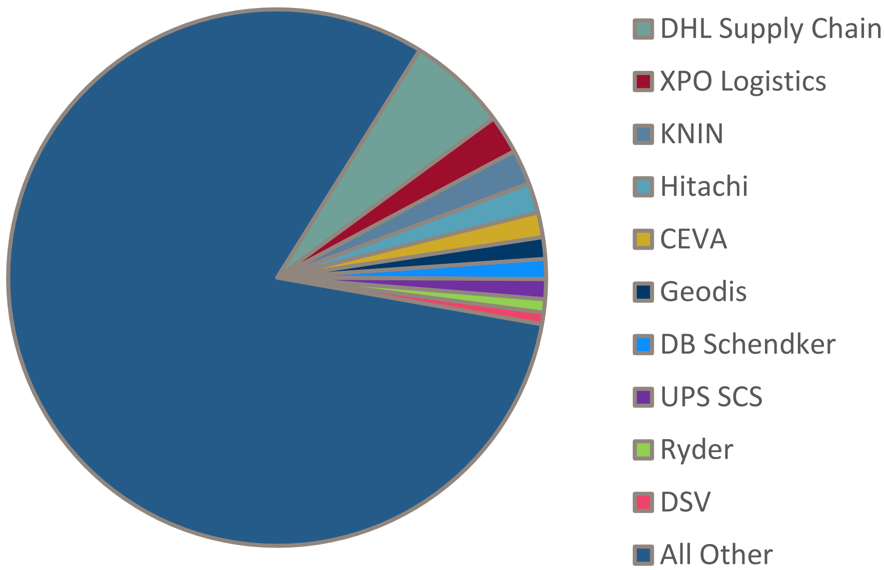


Source: Ti Insight

Plenty of Share Up for Grabs Amongst Key Players

The industry is highly fragmented, with the top ten players accounting for less than 20% share. DHL Supply Chain is the #1 player, followed by XPO, KNIN, Hitachi and Ceva. UPS Supply Chain and Ryder are also key players in the U.S. market. See Figure 18.

Figure 18: Top 10 Players in Global Contract Logistics Market



Source: DHL, Company data, Credit Suisse estimates

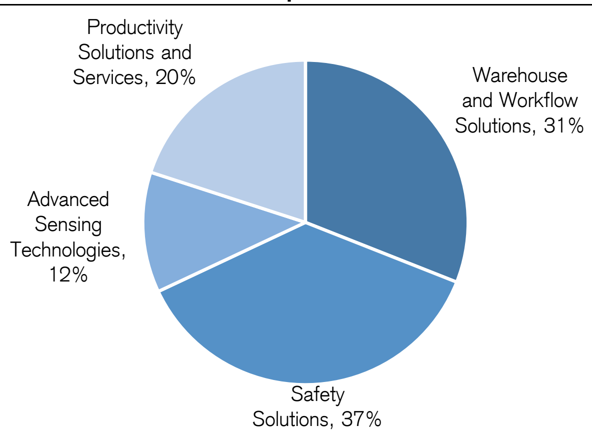
Key Stock Picks for Automated Warehousing

Honeywell Intelligrated

HON acquired Intelligrated in 2016 for an EV/EBITDA valuation of 12X, when the company's sales were estimated at $900mn. Intelligrated sales were $2B in 2020 and are approaching $3B in 2021. Intelligrated provides warehouse automation solutions, software and services, and is part of the SPS segment (31% of segment sales). Since the addition of Intelligrated, HON has acquired Transnorm (a European conveyor solutions provider) and made an investment in FLUX (a warehouse management software company in China) to further enable international expansion. While the company is mostly concentrated in North America, Honeywell is increasingly focused on Europe, China, and India, with the expectation of 25-30% sales contribution from these regions in the next 3-4 years. Intelligrated's sales are more heavily weighted towards blue chip e-commerce customers driven by their focus to implement automation in warehouses in order to meet end customer demand of faster delivery schedules. However, the mix is expected to shift towards smaller customers as automation adoption becomes less concentrated. Typical order-to-sales cycle ranges from 6 months for small projects to 18 months for larger projects. While equipment accounts for majority of the sales, software sales are meaningful and expected to grow as percentage of the total. While Intelligrated margins are dilutive to SPS segment margin, the business has improved its project/OE margins over the last several years through restructuring and scale. We expect the project business growth rate to remain elevated compared to aftermarket/services but over time this mix will shift and help drive SPS margin towards its LT target of 18-20%. Main competitors include Dematic, Daifuku, and Vanderlande.

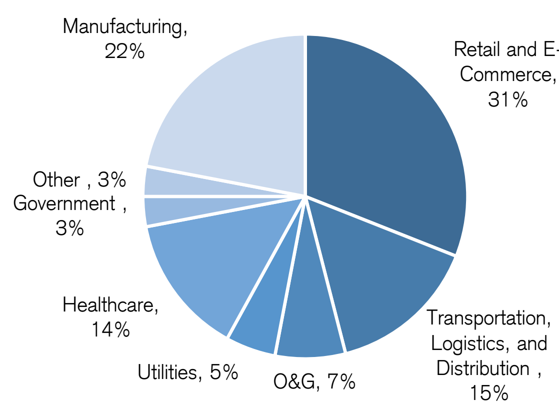
Overall, we are positive on HON and think the company can sustain double-digit earnings growth driven by its collection of businesses (Aero, Buildings, Process, Intelligrated), operating margin expansion, and capital deployment. Cash optionality and discipline remain intact. The Digital transformation is also helping drive better cash performance around inventory management and manufacturing space utilization (cost avoidance). Further, the Aerospace recovery is only just starting to recover with visibility into 2023+ as vaccines are deployed globally.

Figure 19: SPS Business Composition



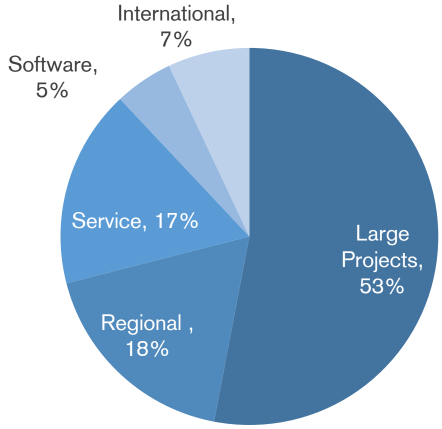
Source: Company data, Credit Suisse

Figure 20: SPS Verticals



Source: Company data, Credit Suisse

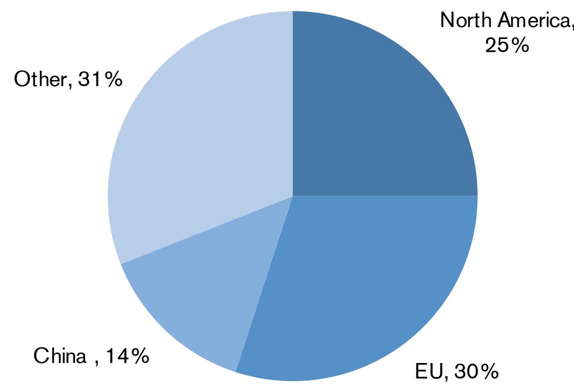
Figure 21: Intelligrated Business Mix



Note: as of SPS Investor Showcase (May 2018)

Source: Company data, Credit Suisse

Figure 22: Global Material Handling Market



Source: Company data, Credit Suisse

Rockwell Automation

Rockwell has exposure to warehouse automation through various end markets including e-commerce and Food & Beverage. In FQ221, the company's e-commerce sales grew 70%. Rockwell has highlighted its independent cart technology (ICT) as a differentiator in the space due to its precision motion and traceability characteristics. Other product offerings include controls (modular/large), drives, I/O, sensors, and safety components. Previous acquisitions such as Emulate3D (simulation) and MagneMotion (magnetic motion control and conveying systems) will also be accretive to the company's efforts to grow in warehouse automation.

Independent Cart Technology: The independent cart technology is an alternative conveyor system, which utilizes electromagnetic force for control motion. This differs from traditional conveyors, which are mechanical in nature, and rely on parts such gears, chains, and belts and could be prone to significant maintenance needs. Given that the independent cart technology uses linear motors for electromagnetic force, there is minimal need of maintenance. The flexibility in conveyor speed and "pitch" (i.e. distance between the movers) variations also makes the ICT more efficient and results in higher throughput. The "independent moving cart" also allow for greater modularity and traceability.

Overall, we think ROK's current guidance captures a cyclical upturn in discrete and hybrid markets. We remain Neutral, with our cycle view (shift to late from early) and valuation the principal gating factors. However, we expect the company to benefit from targeted reshoring activity, particularly in healthcare, PPE, and semi markets.

XPO Logistics

XPO Logistics is a transportation and logistics company operating primarily in North America and Europe. At present, XPO is a key player in North American LTL, truck brokerage, heavy goods last mile, and intermodal (which collectively account for 62% of revenue and 67% of adjusted EBITDA) – and is also the second largest contract logistics provider globally (with operations in N.A. and Europe), with one of the largest outsourced e-commerce fulfillment platforms. The logistics segment represents 38% of gross revenues and 33% of adjusted EBITDA.

XPO has been a leader in tech investment and proprietary innovation in transport/logistics over the last several years, including advanced warehouse automation, intelligent machines (robots and cobots; warehouse AGVs), dynamic data science (AI and predictive analytics), and its digital freight platform – all of which are aimed at increasing efficiency, creating new top line opportunities, and driving a competitive wedge between itself and its peers.

In our view, XPO is at the forefront of a long-term secular trend in the transports/logistics industry - with a differentiated and scalable tech platform, that importantly, is backed by a solid bench of executives that have deep experience in supply chain and technological innovation.

In December 2020, XPO announced that it would spin off 100% of its logistics segment as a separate publicly traded company (recently named GXO) – the transaction is expected to be completed in 2H21. The rationale for the spin is that by splitting the business segments, it will allow for the simplification of operations; an undiluted focus on each segment's specific strategic priorities and customer requirements; increased flexibility with respect to capital allocation (including reducing leverage and targeting investment grade credit ratings) and the pursuit of strategic M&A; among other benefits.

In our view, the spin-off of the contract logistics business will help the company to better capitalize on the secular tailwinds in automation, and to capture market share as well as to grow its wallet share with existing customers.

As a testament to this, we note that YTD through April, XPO inked ~$4B in new biz wins/contract renewals – including its largest contract ever at $1.8B (which extends through 2032), as well as a contract with Apple to build a 1m sq. ft. state of the art e-commerce fulfillment center in Indiana, which will use advanced automation and robotics to ship personalized products directly to consumers.

The backlog for contract logistics is very strong in both North America and Europe – which should result in at least HSD top line growth over the longer term.

We note that we are modeling for a 3-year segment revenue CAGR of 10% through 2023, which along with margin improvement, should drive an EBITDA CAGR of 17%.

Contract Logistics (GXO Post-Spin)

The contract logistics segment is an asset-light business that is mainly comprised by long-term contractual relationships with high renewal rates and low-cyclicality. XPO is the #2 provider in the $130B industry in N. America and Europe (with ~5% market share). It also has the largest outsourced e-commerce fulfillment platform in Europe, and a leading platform for e-Commerce and reverse logistics in North America.

The segment generated ~$6.6B of gross revenue in the TTM ending 1Q21; operates 885 warehouses in 27 countries, with 210m sqft of warehouse space globally (99m in North America; 104m sqft in Europe; and 7m sqft in Asia) (see Figure 24).

Broadly, the company manages supply chains and warehouse operations for a diverse set of customers (and geographies) whose relationships tend to be long-term and very sticky (see Figure 25 and Figure 26). XPO provides customized and high-value add solutions (including advanced automation) through a variety of services such as e-commerce fulfillment, reverse logistics (one of the fastest growing areas in logistics), warehousing and distribution, order personalization, package and labeling, cold chain logistics, inventory management, and supply chain optimization.

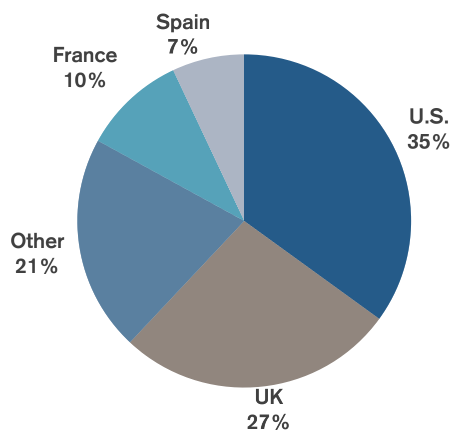
Importantly, XPO's investments in technology help set it apart from its peers and prevent commoditization. The integrated and customized suite of proprietary warehouse management software creates stickier business, allowing the company to become an integral part of customer supply chains. (See Figure 27).

Figure 23: XPO Contract Logistics (GXO) – Key Metrics

TTM revenue[1]	$6.6 billion
Countries of operation	27
Warehouses	885
Team members[2]	~93,000
Total warehouse space	~210 million sq. ft.
– Capacity in Europe	~104 million sq. ft.
– Capacity in North America	~99 million sq. ft.
– Capacity in Asia	~7 million sq. ft.

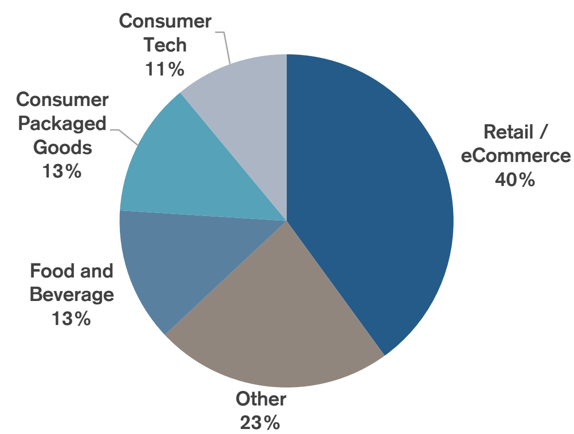
Source: Company data

Figure 24: XPO Logistics Segment Revenue by Geography



Source: Company data

Figure 25: XPO Logistics Segment Revenue by Vertical



Source: Company data

Figure 26: XPO Contract Logistics Offers Sophisticated Capabilities that are Deeply Integrated with Customer Supply Chains

ADVANCED AUTOMATION AND ROBOTICS	REVERSE LOGISTICS AND AFTERMARKET SUPPORT	SUPPLY CHAIN OPTIMIZATION	VALUE-ADD SERVICES AND CUSTOMIZATIONS
▪ Technology-enabled fulfillment and returns, continuously improved by AI and machine learning ▪ Significant increases in unit throughput ▪ Enhanced safety and workplace environment ▪ Ongoing robotics implementations planned in North America and Europe	▪ Burgeoning demand for reverse logistics, valued by e-commerce companies and retailers with high consumer expectations ▪ Full lifecycle management of returned merchandise, including return-to-retail, recycling or disposal ▪ Consistently reliable aftermarket distribution with rigorous inventory management	▪ Cross-functional forecasting platform ▪ Customer collaboration for speed-to-market and omnichannel strategies ▪ Ability to shift between short and long-term warehousing for cost flexibility ▪ Optimization of outbound and inbound logistics flows ▪ Automated replenishment of materials and parts	▪ Personalization during order fulfillment ▪ Channel-specific boxing and labeling ▪ Co-packing of similar goods for distribution cost efficiency ▪ Compliance monitoring of regulated goods ▪ Manufacturing support ▪ Carrier management ▪ Engineered packaging

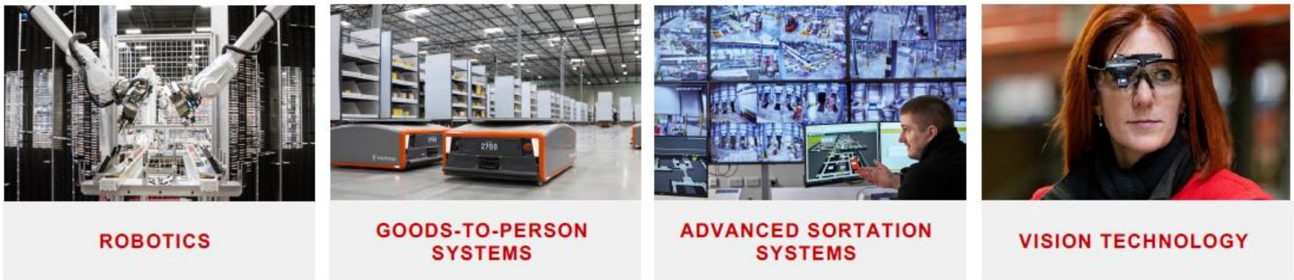
Source: Company data

A Global Leader in Warehouse Automation…

Through its focus on robotics, autonomous vehicles, automated sortation systems, drones and other technologies that speed goods through the supply chain – which drive significant productivity benefits – XPO has become a global leader in warehouse automation (Figure 26). It then integrates these technologies using its WMx (Warehouse Management) platform, and is also able to leverage its XPO Smart™ labor analytics tool to optimize productivity once the facility is up and running. At the same time, machine learning and predictive analytics allows for flexibility and automation adaptations when customer's requirements change.

Consequently, XPO's sophisticated and proprietary tech suite helps to entrench itself deep within customer supply chains (Figure 27).

Figure 27: Intelligent Warehouse Automation Drives Significant Productivity Benefits



- Automation delivers reliable, consistent outcomes for customers, with increased speed and accuracy
- Warehouse management platform integrates several types of automation as an integrated solution
- First-mover advantage with advanced automation; strongly differentiates XPO as logistics partner of choice
- Robotics work cooperatively with humans or as standalone solutions
- Collaborative robots and autonomous goods-to-person systems overcome space and labor constraints; can move between projects and sites

4-6x productivity improvement with employees supported by goods-to-person systems

2x productivity improvement with employees who work alongside cobots

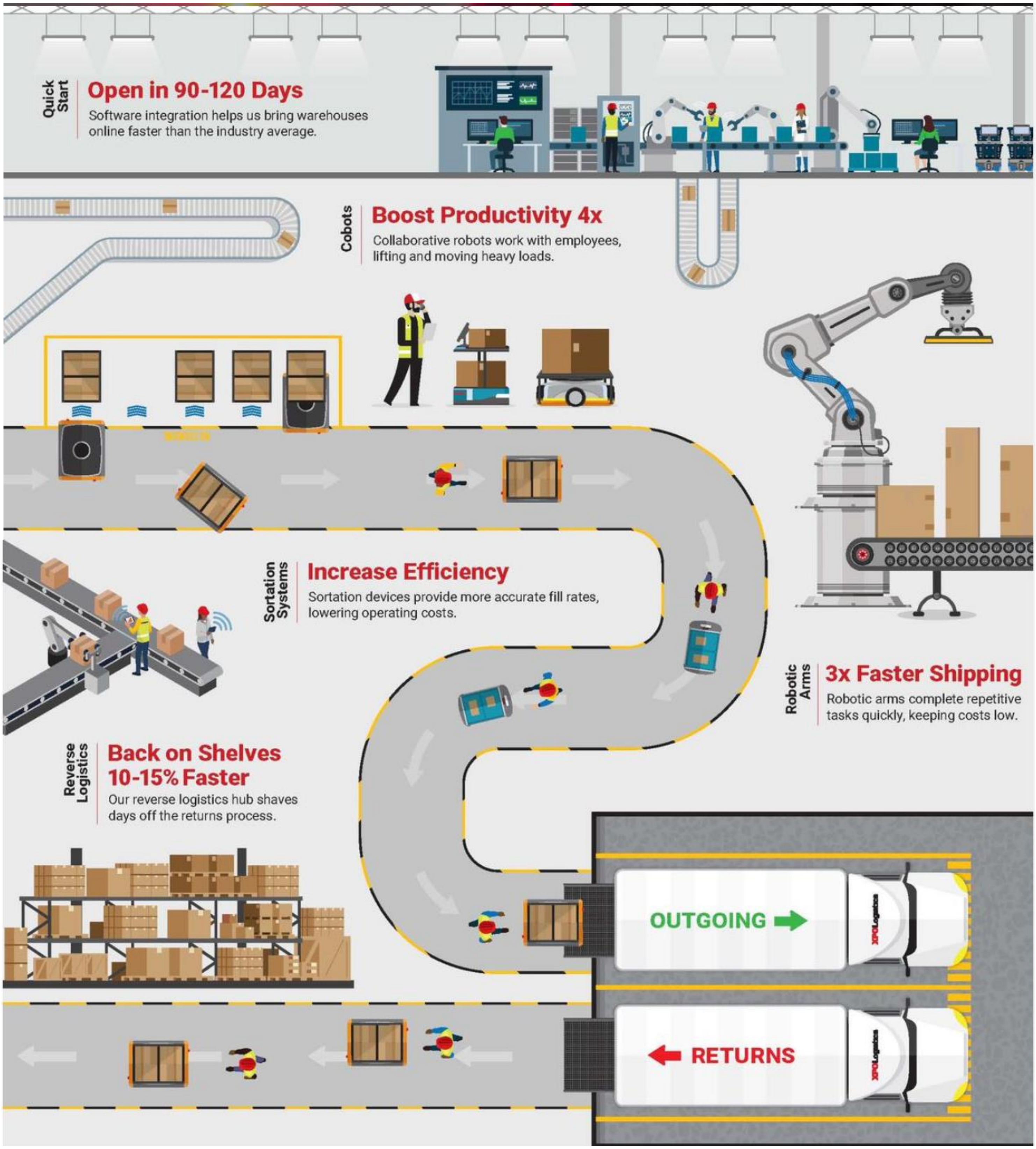
Source: Company data

Figure 28: XPO a Global Leader in Warehouse Automation with Differentiated Proprietary Technology

Strong positioning in a fast-growing industry with massive tailwinds	▪ #2 contract logistics provider in a $130 billion industry in North America and Europe, with 5% share ▪ Well-positioned to continue to benefit from the rapid growth in e-commerce and reverse logistics, customer demand for warehouse automation and the secular trend toward outsourcing ▪ Largest outsourced e-commerce fulfilment platform in Europe and a leading platform for e-commerce and reverse logistics in North America
Robust technological differentiation	▪ Global leader in innovation, capitalizing on the increasing complexity of supply chains, as B2C companies turn to 3PL partners to help them meet consumer demands ▪ Integrated technology solutions for warehouse management, intelligent automation, predictive analytics and labor productivity are valued by customers
Long-term customer relationships in attractive verticals	▪ Blue-chip customer base with 15-year average tenure of top 20 customers ▪ Long-term relationships with world-class brands, including more than a third of the Fortune 100 ▪ Deep roots in sectors with high-growth outsourcing opportunities, such as retail and e-commerce, food and beverage, consumer packaged goods and consumer technology
Resilient business model with multiple drivers of profitable growth	▪ Long runway for margin expansion through ongoing technology deployments and an asset-light business model (maintenance capex <1.5% of revenue) ▪ Proven resilience across cycles, with strong free cash flow generation ▪ Majority of revenue tied to multi-year contracts, with high visibility into revenue and earnings
Experienced and cohesive leadership	▪ Hands-on executive team with decades of logistics experience; focused on winning ▪ Long track record of delivering above-industry performance with multinational operations ▪ Successful leaders of an entrepreneurial, inclusive and team-oriented culture

Source: Company data

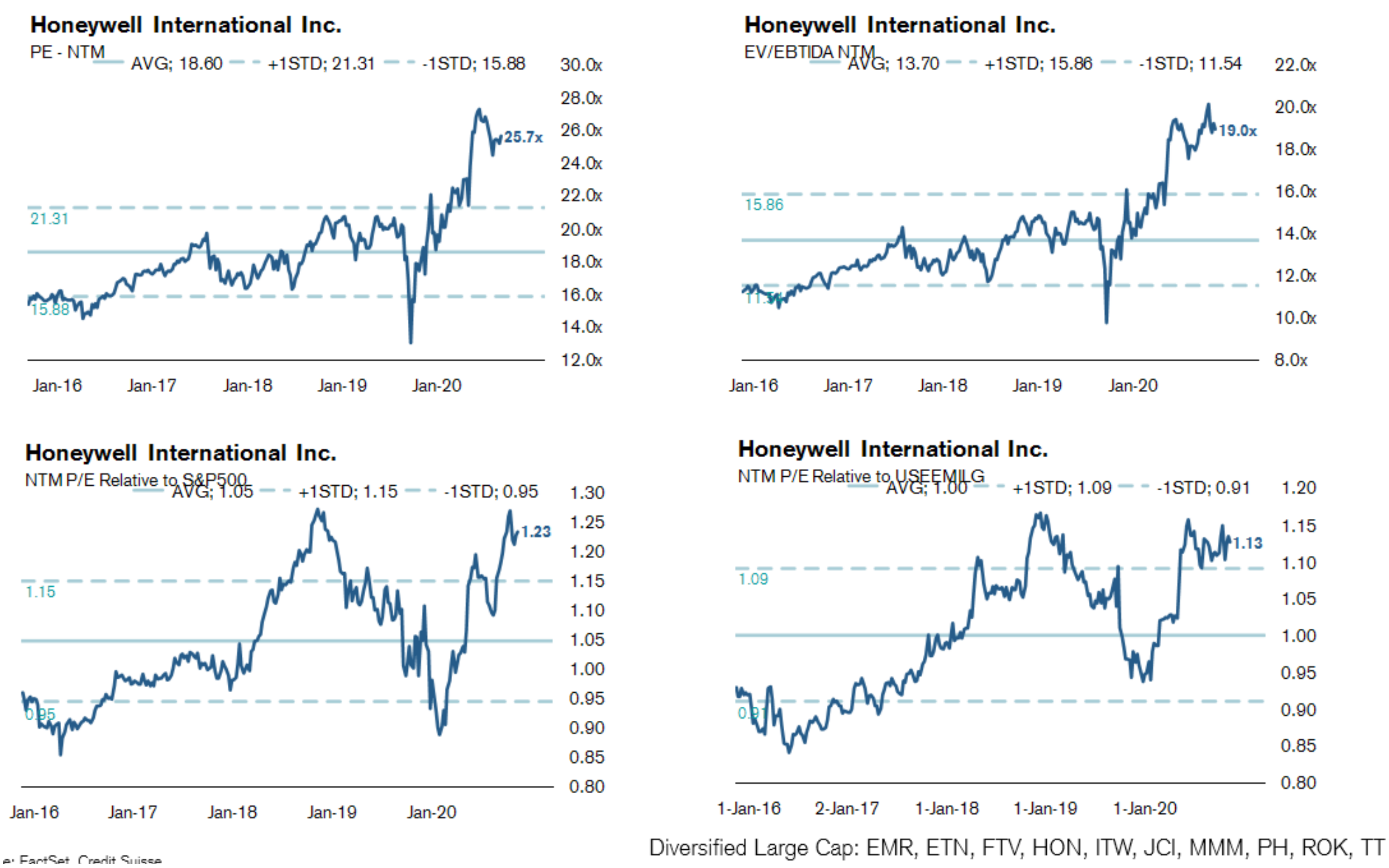
Figure 29: XPO Contract Logistics Illustration of Benefits of Technology and Automation



Source: Company data

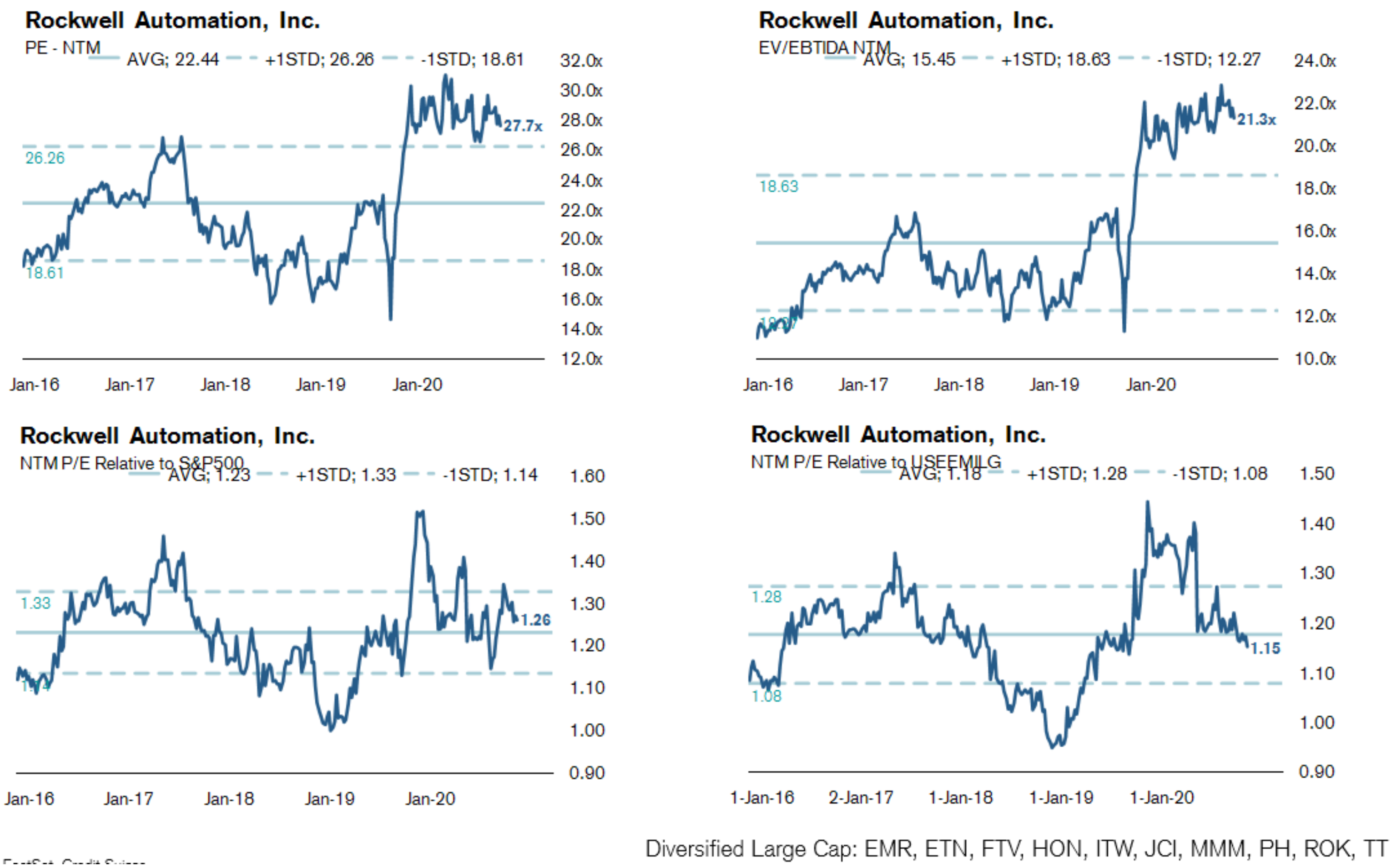
Valuation

Figure 30: Honeywell Valuation



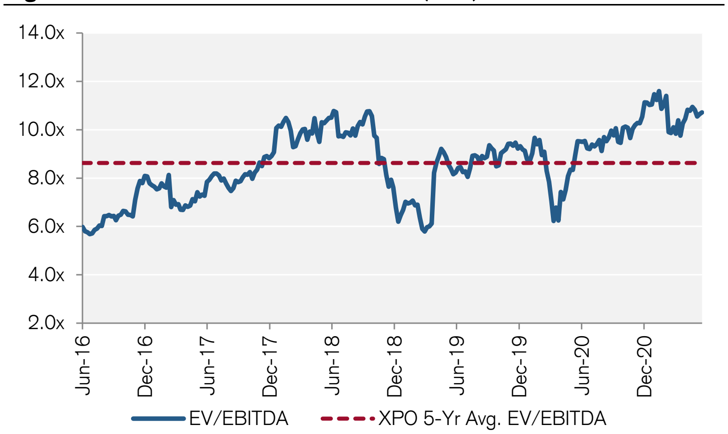
Source: FactSet, Credit Suisse

Figure 31: Rockwell Valuation



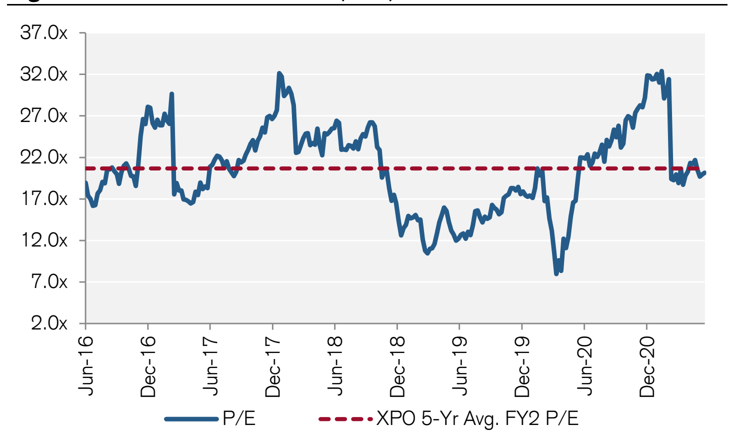
Source: FactSet, Credit Suisse

Figure 32: XPO Forward EV/EBITDA (FY2)



Source: FactSet

Figure 33: XPO Forward P/E (FY2)



Source: FactSet

Honeywell International Inc.

Palletizing the Automated Warehouse Opportunity

Multi Industry

HON

Target price (12M, US$)
244.00

Outperform

- **Estimate Revisions:** While our 2022 estimates remains unchanged, we are increasing our 2023 estimates to reflect better performance from Intelligrated within the SPS segment. We are raising our organic sales growth to 8% (vs. LT guidance of MSD+) and our segment margin to 18% (vs. LT guidance of 18-20%). We are at the lower end of the range due to adverse mix as the project business grows faster than services/aftermarket.
- **Valuation & Risks:** Our target price of $244 (up from $235) is based on 27X (from 26X) our 2022 EPS estimate of $9.05 (unchanged). This represents 25X inclusive of capital deployment and represents a positive one standard deviation band versus the S&P 500. We are raising our 2023 estimates to reflect stronger performance at the SPS segment. We think HON can hold its premium multiple driven by execution, capital deployment, and a multi-year recovery in commercial Aerospace markets. Risks include broadening of short cycle weakness, valuation impact from noncash pension income, supplier pressure from BA/AB, and software competition.

Previous target price (12M, US$)	235.00
Price (25 May 21, US$)	224.04
52-week price range	232.11 - 138.21
Enterprise value (US$ m)	164,159

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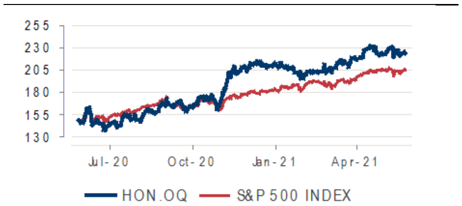
Financial and valuation metrics

Year	12/20A	12/21E	12/22E	12/23E
EPS (CS adj.) (US$)	7.10	8.01	9.05	10.25
Prev. EPS (US$)	-	-	-	10.15
Revenue (US$ m)	32,637.0	34,903.3	37,366.8	40,126.1
EBITDA (US$ m) 1	7,722.0	8,878.3	9,648.6	10,664.9
P/OCF (x)	24.4	24.3	21.3	19.3
EV/EBITDA (current)	21.3	18.5	17.0	15.4
Net debt (US$ m)	7,164	8,551	7,868	6,789
ROIC (%)	21.29	22.55	24.44	26.90

Number of shares (m)	694.56	IC (current, US$ m)	24,954.00
Net debt (Next Qtr., US$ m) 1	9,364.0	Dividend (current, US$)	3.08
Net debt/tot eq (Next Qtr.,%)	51.0		

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 25-May-2021 the S&P 500 INDEX closed at 4188.13Daily May26, 2020 - May25, 2021, 05/26/20 = US$144.94

Quarterly EPS	Q1	Q2	Q3	Q4
2020A	2.21	1.26	1.56	2.07
2021E	1.92	1.95	1.98	2.17
2022E	2.08	2.21	2.27	2.48

Honeywell International Inc. (HON)

Analyst: **John Walsh**

Price (25 May 2021): **US$224.04** Target Price: **(from 235.00) 244.00**

Rating: **Outperform**

Income Statement	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (US$ m)	**32,637.0**	**34,903.3**	**37,366.8**	**40,126.1**
EBITDA (US$ m)	**7,722**	**8,878**	**9,649**	**10,665**
Depr. & amort.	(1,002)	(1,037)	(1,085)	(1,139)
EBIT (US$)	**6,720**	**7,841**	**8,564**	**9,526**
Net interest exp	(359)	(365)	(350)	(344)
PBT (US$)	**6,501**	**7,311**	**8,194**	**9,172**
Income taxes	(1,362)	(1,572)	(1,762)	(1,972)
Minorities	(86)	(89)	(91)	(94)
Reported net income (US$)	**5,053**	**5,651**	**6,341**	**7,106**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**5,053**	**5,651**	**6,341**	**7,106**
Cash Flow	**12/20A**	**12/21E**	**12/22E**	**12/23E**
EBIT	6,720	7,841	8,564	9,526
Net interest	(359)	(365)	(350)	(344)
Change in working capital	1,363	140	112	0
CAPEX	(906)	(1,000)	(1,000)	(1,000)
Free cashflow to the firm	**5,302**	**5,495**	**6,366**	**7,058**
Acquisitions	(261)	0	0	0
Divestments	-	-	-	-
Cash flow from investments	**(987)**	**(1,000)**	**(1,000)**	**(1,000)**
Changes in Net Cash/Debt	**(1,578)**	**(1,387)**	**683**	**1,079**
Balance Sheet (US$)	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Assets				
Cash & cash equivalents	15,220	14,360	15,043	16,122
Total current assets	**28,175**	**27,202**	**28,632**	**30,514**
Total assets	**64,586**	**65,259**	**66,604**	**68,348**
Liabilities				
Total current liabilities	**19,197**	**18,755**	**19,614**	**20,417**
Total liabilities	**46,796**	**46,519**	**46,968**	**47,339**
Total liabilities and equity	**64,586**	**65,259**	**66,604**	**68,348**
Net debt	7,164	8,551	7,868	6,789
Per share	**12/20A**	**12/21E**	**12/22E**	**12/23E**
No. of shares (wtd avg)	711	705	701	693
CS adj. EPS	7.10	8.01	9.05	10.25
Prev. EPS (US$)	-	-	-	10.15
Dividend (US$)	3.43	3.18	3.59	4.06
Free cash flow per share	7.45	7.79	9.08	10.18
Earnings	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Sales growth (%)	(11.1)	6.9	7.1	7.4
EBIT growth (%)	(12.5)	16.7	9.2	11.2
Net profit growth (%)	(15.2)	11.8	12.2	12.1
EPS growth (%)	(12.9)	12.8	12.9	13.3
EBITDA margin (%)	23.7	25.4	25.8	26.6
EBIT margin (%)	20.6	22.5	22.9	23.7
Pretax margin (%)	19.9	20.9	21.9	22.9
Net margin (%)	15.5	16.2	17.0	17.7
Valuation	**12/20A**	**12/21E**	**12/22E**	**12/23E**
EV/Sales (x)	4.99	4.70	4.37	4.05
P/E (x)	31.5	28.0	24.8	21.9
Price to book (x)	9.0	8.4	8.0	7.4
Asset turnover	0.5	0.5	0.6	0.6
Returns	**12/20A**	**12/21E**	**12/22E**	**12/23E**
ROE stated-return on (%)	27.7	30.9	33.0	35.0
ROIC (%)	21.3	22.6	24.4	26.9
Gearing	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Net debt/equity (%)	40.3	45.6	40.1	32.3
Interest coverage ratio (X)	18.7	21.5	24.5	27.7
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2020A	2.21	1.26	1.56	2.07
2021E	1.92	1.95	1.98	2.17
2022E	2.08	2.21	2.27	2.48

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

Honeywell is a diversified technology and manufacturing company that makes a variety of commercial and consumer products, engineering services and aerospace systems.

Blue/Grey Sky Scenario

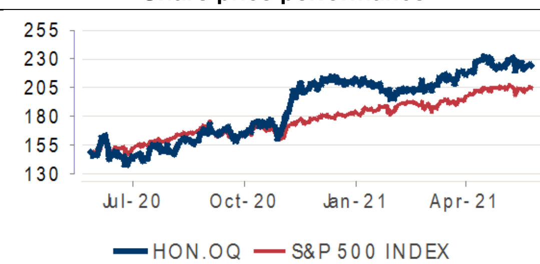
Our Blue Sky Scenario (US$) **(from 262.00) 269.00**

Our Blue Sky value of $269 is based on a 3.2% sales CAGR between 2019-2022 with incremental margins of 38%. We also assume HON increases leverage by 0.5x and uses the additional capital to buy back stock. Applying 26.0X our 2022 blue sky EPS estimate of $10.34, we get to our blue sky value of $269.

Our Grey Sky Scenario (US$) **(from 209.00) 210.00**

Our Grey Sky value of $210 is based on a -1.0% sales CAGR between 2019-2022 with incremental margins of 23%. Applying 25.0X to our 2022 grey sky EPS estimate of $8.41, we get to our grey sky value of $210.

Share price performance



On 25-May-2021 the S&P 500 INDEX closed at 4188.13
Daily May26, 2020 - May25, 2021, 05/26/20 = US$144.94

Valuation Methodology and Risks

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Amazon com Inc. (AMZN.OQ)

Method: We use the discounted cash flow (DCF) method to calculate our $4,000 target price for AMZN. Our 5-year DCF uses a 3% terminal growth rate and a market-implied discount rate derived by discounting our unlevered FCF (free cash flow) estimates from 2021 through 2026 to arrive at the stock's current trading price. We then applied this discount rate to our 2021-2026 unlevered free cash flow estimates for AMZN. We maintain our Outperform rating for AMZN shares, and factors that can provide potential upside to our estimates include: 1) re-establishment of e-commerce segment operating margin expansion as Amazon grows into its larger infrastructure, 2) ongoing margin benefit due to shipping loss moderation, and 3) upward bias to AWS revenue forecasts and likely more moderate deceleration path as suggested by ongoing capital intensity in the business.

Risk: Risks to our $4,000 target price and Outperform rating for AMZN include a deteriorating global economy, competition from major offline retailers, volatility in operating margins, and unpredictable investment spending.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Atkore Intl Grp (ATKR.N)

Method: Our $87 target price and Outperform rating for ATKR are based on 16.0X our calendar 2022 EPS estimate of $5.42. We rate ATKR Outperform as we expect it to perform in premium with its peers.

Risk: Risks to our $87 target price and Outperform rating for ATKR are (1) lack of execution in integrating strategic initiatives driven by M&A; (2) customer concentration; (3) continued volatility of commodity costs; (4) a slowdown in U.S. non-residential construction markets, (5) interest rate and credit risk.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Deutsche Post DHL (DPWGn.DE)

Method: We value Deutsche Post DHL using a DCF model. Our DCF model uses a long term EBIT margin of 10%, a WACC of 7.5% and a terminal growth rate of 2% to produce a target price of Eur56.09. Given the limited upside potential, we rate the shares Neutral.

Risk: The key upside risks to our TP of Eur56.09 and Neutral rating include: i) an accelerated global economic recovery, ii) an easing in the rate of mail volume decline, stamp price increases, USO relaxation or strengthening parcel growth, and iii) accelerated productivity gains in PeP, continued market share gains in Express and Supply Chain. The key downside risks include: (i) increasing global trade restrictions, (ii) Amazon competition build out in Germany, (iii) slowing margin expansion in Express, (iv) further Forwarding restructuring delays, (v) cost inflation in developed and emerging markets, and (vi) economic softness or geopolitical risk. The earnings and cash flow implications of these risks may impact our Neutral rating, which is driven by our existing earnings and cash flow expectations.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Eaton Corporation (ETN.N)

Method: Our $158 target price is based on 23.0X our 2022 EPS estimate of $6.85. We rate ETN Outperform based on its 12-month expected return.

Risk: Risks to our $158 target price and Outperform rating for ETN include a prolonged slowdown in new construction starts, a slower-than-anticipated recovery in commercial aerospace and vehicle markets, and capital deployment.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for FedEx Corporation (FDX.N)

Method: Our 12-month price target for FDX is $351 and our rating is Outperform. We derive this using a proprietary discounted cash flow model. We start with a base year level of profit consistent with our earnings estimate of $19.06 per share in FY22. From there, we assume FDX can generate operating profit growth of about 4.5% annually over the subsequent 3-5 year period. Based on our estimate of FDX's return on incremental invested capital (ROIIC) of 40%, we assume it costs the company ~$2.50 of incremental capital (capex + acquisitions - D&A - divestitures +/- working capital) to generate $1.00 of incremental earnings before interest, taxes (EBIT). We use a consistent discount rate across the entire airfreight sector; the rate runs in the range of about 7% - 11%, depending on prevailing investor sentiment toward the group. Once we have calculated the company's enterprise value, we add the value of cash on the balance sheet plus any anticipated dividends to be paid between now and the end of the year, we add estimated values for equity investments, subtract the value of minority interests, and subtract market value of balance sheet debt to arrive at the value available for equity holders. Our Outperform rating reflects the fact that our TP implies greater relative upside in FDX shares than the balance of our coverage universe.

Risk: Risks specific to FDX achieving our price target of $351 and our Outperform rating are the global economy (particularly Asia), fuel prices, a cyclical rotation out of the airfreight sector, competitive pricing pressures, and whether or not FedEx employees could have the ability to unionize.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for General Electric (GE.N)

Method: Our $14 target price and Neutral rating for General Electric are based on 28.0X our 2022 EPS estimate of $0.49. We rate General Electric Neutral based on its expected 12-month total return.

Risk: Risks to our $14 target price and Neutral rating for General Electric are (1) an accelerated displacement of gas power, (2) a slowdown in aerospace aftermarket, (3) asset quality deterioration within GE Capital, and (4) calls on cash besides delevering.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Honeywell International Inc. (HON.OQ)

Method: Our $244 target price and Outperform rating for HON are based on 27.0X our 2022 EPS estimate of $9.05. We rate HON Outperform based on its expected return.

Risk: Risk to our $244 target price and Outperform rating for HON are (1) a slowdown in building markets, (2) a slowdown in the global economy, (3) a slowdown in the aerospace aftermarket, (4) a relaxation of capital allocation metrics, and (5) negative impact from COVID-19.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Johnson Controls Inc (JCI.N)

Method: Our Outperform rating and $66 TP is based on 20.0X our calendar 2022 EPS estimate of $3.32. We rate the shares Outperform based on their 12-month expected return.

Risk: Risk to our $66 target price and Outperform rating for JCI include: (1) a slowdown in construction markets (2) delivering on margin targets while investing in salespeople (3) FCF generation.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Schneider Electric (SCHN.PA)

Method: We use DCF valuation to derive our EUR155 target price. Our DCF is based on a mid-cycle top line growth of 4.5%, through-cycle margin of 18%, terminal growth of 2%, WACC of 7% and company NOPAT to free cash flow conversion ratio of 85%. We rate Schneider Outperform. We continue to see an attractive investment case based on margin expansion to a targeted 17%, attractive positioning in the structurally growing Datacentre segment as well as the Industrial Automation software and the Building Information Modelling (BIM) software segment. We see scope for structural re-rating towards its quality growth peers. Our valuation is backed by SOTP and group P/E and EV/EBITA multiples relative to Schneider's key peers.

Risk: We see the following key risks to earnings forecasts and hence EUR155 target price and Outperform rating for Schneider: Prolonged shut-downs and extensive knock-on effect from COVID-19 pandemic. Execution on Productivity improvement programme and RIB Software acquisition integration.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Shopify Inc. (SHOP.N)

Method: Our $1,400 target price and Neutral rating for SHOP is based on our DCF analysis and implies a 2022 EV/Revenue multiple of ~29x. While we remain positive on SHOP given numerous LT drivers, including: the secular shift to eCommerce, Shopify Plus, International, and adoption of additional merchant services (such as Fulfillment) we see risk reward more balanced at these levels.

Risk: Risks to our $1,400 target price and Neutral rating for SHOP are (1) increased churn, (2) an inability to become profitable, (3) competitive threats, (4) inability to capture share internationally, and (5) lower than forecast Merchant Solutions attach rates.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Target Corporation (TGT.N)

Method: Our $245 target price and Outperform rating for TGT is based on ~20x our 2022 EPS. Our target price is based on our peer multiple analysis (weighted based on TGT’ s sales mix), and fundamental stock drivers (specifically, comps as a driver of valuation and relative valuation).

Risk: Risks to our $245 target price and Outperform rating for TGT include I) Reliance on sales to drive EBITDA improvement. Other costs could be an offset, including transportation; 2) Competitive landscape: risk of incremental price/other reinvestments; and 3) Structural business mix challenges.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Walmart Inc. (WMT.N)

Method: Our Outperform rating and $150 target price for WMT are based on 25x our FY23 EPS estimate. That is similar to its relative valuation during prior recessionary/slowdown periods.

Risk: Risks to our Outperform rating and $150 TP include: The consumer - a significant portion of Walmart's customer base may be impacted financially by disruption caused by workplace closures. Supply chain disruption and inventory challenges.

Companies Mentioned *(Price as of 26-May-2021)*

Amazon com Inc. (AMZN.OQ, $3265.16)
Atkore Intl Grp (ATKR.N, $77.14)
AutoStore (Unlisted)
Daifuku (6383.T, ¥9,670)
Deutsche Post DHL (DPWGn.DE, €54.19)
Eaton Corporation (ETN.N, $142.98)
FedEx Corporation (FDX.N, $310.75)
General Electric (GE.N, $13.4)
Honeywell International Inc. (HON.OQ, $224.27, OUTPERFORM, TP $244.0)
Johnson Controls Inc (JCI.N, $65.94)
Kion Grp (KGX.DE, €85.78)
Rockwell Automation (ROK.N, $260.51)
Schneider Electric (SCHN.PA, €129.04)
Shopify Inc. (SHOP.N, $1238.83)
Siemens (SIEGn.DE, €134.7)
Target Corporation (TGT.N, $227.11)
Walmart Inc. (WMT.N, $142.17)
XPO Logistics, Inc. (XPO.N, $143.64)

Disclosure Appendix

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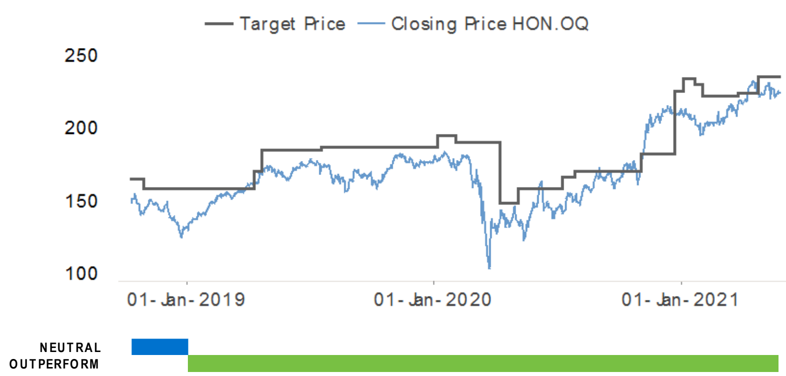
3-Year Price and Rating History for Honeywell International Inc. (HON.OQ)

HON.OQ Date	Closing Price (US$)	Target Price (US$)	Rating
11-Oct-18	148.74	164.60	N *
22-Oct-18	147.76	165.00	
29-Oct-18	141.06	158.00	
03-Jan-19	130.07	158.00	O
10-Apr-19	159.97	170.00	
22-Apr-19	168.24	185.00	
19-Jul-19	172.99	187.00	
06-Jan-20	177.51	195.00	
03-Feb-20	171.32	190.00	
08-Apr-20	139.25	148.00	
04-May-20	135.20	158.00	
09-Jul-20	141.37	166.00	
27-Jul-20	150.76	170.00	
02-Nov-20	173.61	182.00	
22-Dec-20	207.94	225.00	
04-Jan-21	207.95	234.00	
21-Jan-21	205.23	230.00	
01-Feb-21	195.56	222.00	
25-Mar-21	213.88	224.00	
25-Apr-21	224.50	235.00	



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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European (excluding Turkey) ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin America, Turkey and Asia (excluding Japan and Australia), stock ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is* *greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

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Restricted	1%	

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