Modine Manufacturing Company (MOD – $79.40*)
Buy; $155.00 PT; $4,174.4M Market Cap
Company Update
Friday, February 28, 2025

Major $180M Data Center Cooling Order from New Customer Reaffirms Strong Demand Environment & MOD's Ability to Win in the Space; Reiterate Buy, $155 PT

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Summary and Recommendation

Buy-rated Modine Manufacturing Company (MOD, $155 PT) AMC on 2/27 announced $180M in orders for Airedale by Modine data center cooling systems from a new customer that is a leading developer of AI infrastructure. The order is for high-capacity equipment that is purpose-built to meet customer objectives to provide scalable, cost-effective, and sustainable solutions for AI applications by building large-scale, building-optimized data centers. Airedale by Modine data center solution designs lower the cost of ownership by delivering superior power usage effectiveness (PUE) through free-cooling technology and advanced control systems. The products will be manufactured at MOD's state-of-the-art facilities in Rockbridge, Virginia, and Grenada, Mississippi. Delivery is expected throughout 2025 and 1H26. With this milestone win in hand and anticipation of more key wins ahead, we reiterate our Buy rating, $155 PT.

Key Points

- **Significant Order Following Recent Concerns Regarding Demand for Data Centers.** The size of this order is significant for MOD considering that MOD's data center LTM cooling revenue as of 12/31/24 was ~$575M. We believe that this order reflects continued robust demand for data centers despite uncertainty that followed disruptive news related to DeepSeek's AI models. Further, it underscores MOD's capabilities to win substantial new business from prominent new customers with its custom system solutions for data center cooling. In our view, orders of this magnitude highlight potential for the company to exceed its stated targets for the data business.
- **Valuation.** We reference a peer group of companies in the HVAC, climate control, refrigeration, thermal management, energy storage, and building automation space to arrive at our valuation of MOD. The EVs of the peer group companies represent a range of business sizes, with MOD smaller than all the peers. The broad peer group currently trades at average FY24E and FY25E EV/EBITDA multiples of ~17x and ~15x, respectively. We believe MOD remains positioned for solid long-term growth, AEBITDA margin expansion, and FCF growth. In our view, as the company scales and various elements of the transformation plan come to fruition, the shares should be valued closer to the peer group average. We apply a 15.0x multiple (unchanged; approximately in line with the peer group average, reflecting the company's recent substantial wins in the data center vertical) to our FY27E EBITDA estimate (unchanged reference) to arrive at our $155 (unchanged) price target. We further expect the company to acquire businesses that expand its geographic reach, its participation in adjacent markets, and its technological capabilities and to increase shareholder value as it grows. We also believe that MOD has the potential to exceed our estimates, especially in the longer term, as the company executes its transformational growth strategy.

Analyst certification and important disclosures can be found on pages 3 - 6 of this report.

Valuation

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Risks

Pandemic risk. Closures of offices and other facilities in efforts intended to combat pandemics, as well as social distancing and related economic restriction measures to protect society during pandemics, could disrupt MOD's operations or negatively impact revenue.

Social unrest and political uncertainty. Disruptions to normal business operations and freedom of movement caused by social unrest could potentially negatively affect the company's ability to generate revenue.

Dependence on key personnel. The company is dependent on members of the executive leadership team and other employees with specific education, qualifications, and experience. An inability to retain key employees in a competitive environment for qualified personnel could impair the company's ability to effectively manage the existing business and to continue implementing the transformation strategy.

Intense competition. Competitors that are larger, better financed, or better known than MOD or that offer similar products, features, and/or services may compete more effectively than MOD. New competitors, alliances among competitors, or industry consolidation may result in the emergence of companies that are better able to compete against MOD.

Technological innovation/IP. MOD develops product systems that use innovative technology. The company's inability to effectively evolve technological aspects of its products/systems and relevant IP could cause the company to lose market share to competitors that are more successful in developing technological innovation and IP.

International operations risk. The company offers products and services in foreign countries and seeks to enhance its international business activity. Overseas operations are subject to various risks, including U.S.-imposed tariffs, embargoes, and/or sanctions of sales to specific countries; foreign import controls; exchange rate fluctuations; and government instability.

Acquisitions. Other companies seeking to make acquisitions in the same industry could make MOD's acquisition strategy more difficult or expensive to pursue. An inability to successfully integrate acquired businesses could have a negative effect on MOD's business.

Exposure to breaches of data security. A security breach of sensitive data in the company's custody could possibly make the company liable for damages related to such a security breach, materially inhibit the company's ability to conduct business, and/or cause the company to incur costs related to preventing future incidents.

Damage to reputation. Adverse publicity resulting from negative commentary on social media or venues, regardless of the accuracy of such claims, may damage the company's reputation and ability to market its products, services, and systems successfully.

Inflationary pressures. The company is subject to wage increases and other inflationary expense pressures. Higher input costs may result in the company needing to increase product price points to offset higher costs. Revenues and margins potentially are subject to derivative pressures thereof, including the ability to effectively pass on price increases to customers without a possible material negative impact on business metrics, including cash flow/profitability and growth.

Rising interest rates. Borrowing costs and the ability to borrow and refinance debt, etc. are subject to the pressures of a generally higher/rising interest rate environment. Increasing interest rates may increase the cost of the company's existing debt service.

Supply chain disruption. MOD sources raw materials and components that are subject to potential availability constraints. The company's inability to effectively manage its supply chain could negatively impact business metrics, including revenue, cash flow/profitability, and growth.

Large-dollar orders. Large-dollar orders are inherently subject to timing risk and could potentially cause a sales/profitability shortfall in any given quarter.

*Closing price of last trading day immediately prior to the date of this publication unless otherwise indicated.

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Rating	B. Riley Securities, Inc. Research Distribution[1]	B. Riley Securities, Inc. Banking Services in the past 12 months[1]
BUY [Buy]	79.45%	40.93%
HOLD [Neutral]	19.94%	15.38%
SELL [Sell]	0.61%	0.00%

(1) As of midnight on the business day immediately prior to the date of this publication.

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