

Ingersoll Rand (NYSE: IR)

Investment Analysis Report

Investor Center Research Deep Dive

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Executive Summary

Company Overview

Ingersoll Rand operates in the \$39.5 billion oligopolistic industrial equipment market, commanding substantial share in premium-segment compressors, flow control, and fluid handling systems alongside Atlas Copco. The company derives 80% of revenue from its Industrial Technology and Services (ITS) segment, serving manufacturing, food and beverage, life sciences, and infrastructure end markets. The remaining 20% comes from Precision and Science Technologies (PST), a portfolio of specialized life sciences and precision equipment businesses. In FY2025, Ingersoll Rand generated \$7.65 billion in revenue and achieved 27.4% adjusted EBITDA margins, a 670 basis point expansion from FY2021 levels and approximately 600 basis points above mid-tier peer averages.

What creates a durable competitive advantage is not the equipment sales themselves but the installed-base lock-in created by proprietary aftermarket parts and services. Aftermarket revenue represents 36.5% of total revenue at exceptional 60-70% gross margins, establishing a razor-and-razorblade business model where equipment placement is the acquisition cost and aftermarket consumables are the lifetime profit engine. While equipment carries 30-40% gross margins, the aftermarket contributes an estimated 57-66% of consolidated gross profit on just over one-third of revenue. This mix, reinforced by geographic service-density requirements that lower-cost competitors have not been able to replicate, is the foundation of Ingersoll Rand's earnings quality.

The Moat: Service-Density Moat Stack

Ingersoll Rand's competitive position rests on a reinforcing stack of four structural defenses that compound in durability as the company scales. First, installed-base lock-in: once equipment is integrated into a customer's operations, switching costs include reengineering, production downtime, and months of operational validation, costs that dwarf any price discount a competitor might offer. Second, geographic service-density: the company maintains 24/7 field service across 180+ countries, creating a cost advantage in service delivery that competitors cannot replicate without matching decades of infrastructure investment. Third, oligopoly structure: Ingersoll Rand and Atlas Copco combined control 75-80% of premium segment sales, enabling pricing discipline that sustains above-average margins through cycles. Fourth, M&A compounding: 70+ acquisitions since 2020 have systematically enlarged the installed base, densified the service network, and created a flywheel where each acquisition strengthens the competitive position of the entire platform.

Investment Thesis

I. The Razor-and-Razorblade Profit Engine. Ingersoll Rand's aftermarket business generates 60-70% gross margins on 36.5% of revenue, creating a structurally advantaged earnings stream that is less cyclical than equipment sales and growing faster through PackageCARE lifecycle service contracts. PackageCARE revenue reached approximately \$300 million in 2024 and is on track to exceed \$1 billion by 2027, shifting the revenue mix further toward high-margin recurring streams. The installed-base lock-in mechanism means this profit engine compounds with every equipment placement and every acquisition.

II. M&A Compounding as Proven Growth Engine. Since 2020, Ingersoll Rand has deployed \$5.4 billion across 70+ acquisitions at 9-10x pre-synergy EBITDA multiples, generating documented mid-teens returns on invested capital. The IRX Operating System enables 3-4 turns of EBITDA multiple reduction within three years of acquisition close. A pipeline of 200+ identified targets provides 5-8 years of deployment runway. This is not theoretical value creation: it is a proven, repeatable mechanism that has generated consistent returns across dozens of platforms.

III. Cyclical De-Rating Creates Attractive Entry Point. The stock trades at approximately 20 times our FY2027 earnings estimate of \$3.88 per share, a 25% discount to the high-quality industrial peer group which trades in the high twenties. This de-rating reflects two temporary headwinds: broad industrial weakness outside data center and aerospace verticals, and the ILC Dover impairment charge that dented the M&A halo effect. We believe both conditions are cyclical, not structural. At \$78, the market is pricing in only 3.6% annual revenue growth, well below our base case of 8% and management's guidance range of 6-8% organic growth before any M&A contribution.

Management and Alignment

CEO Vicente Reynal has orchestrated eight times enterprise value growth since 2016, driving 670 basis points of EBITDA margin expansion while executing a disciplined M&A playbook across 70+ deals. Compensation is approximately 75–80% equity-based, aligning management incentives with long-term shareholder returns. However, the ILC Dover acquisition (\$2.35 billion, June 2024) represents a material caveat: the largest deal in company history, acquired at 17x EBITDA in a domain outside core competency, resulted in a \$229.7 million goodwill impairment within 11 months. Management's response, recognizing the loss promptly, filing representations and warranties claims, and returning to the proven bolt-on model, demonstrates capital discipline. The verdict on leadership is qualified confidence: credible operational execution in industrial markets, with execution risk flagged specifically in life sciences.

Valuation and Asymmetry

Our base case fair value is approximately \$96 per share, representing roughly 23% upside from the current price of approximately \$78. This estimate is grounded in a discounted cash flow analysis using the S&P 500 long-term return of 9.5% as our discount rate, consistent with our standard framework across all Investor Center Research coverage. A probability-weighted expected value incorporating bull (\$123) and bear (\$66) scenarios produces approximately \$101 per share, or roughly 30% above the current price. The DCF conclusion is corroborated by the relative valuation picture: a 25% PE discount to comparable high-quality industrials that is difficult to justify on fundamentals alone.

Conclusion: We view Ingersoll Rand as a high-quality industrial compounder trading at a meaningful discount to intrinsic value, offering attractive risk-adjusted returns on a 12–24 month horizon for patient, long-term investors.

Company Overview and Market Position

Ingersoll Rand operates in the \$39.5 billion oligopolistic industrial equipment market alongside Atlas Copco, commanding substantial share in premium-segment compressors, flow control, and fluid handling systems. The company derives 80% of revenue from its Industrial Technology Services segment, serving manufacturing, food and beverage, life sciences, and infrastructure end markets. The remaining 20% comes from Precision Sciences and Technology, a portfolio of specialized life sciences and precision equipment businesses. What creates a durable competitive advantage is not the equipment sales themselves, but the installed-base lock-in created by proprietary aftermarket parts and services. These represent 36.5% of revenue at exceptional 60-70% gross margins, establishing a razor-and-razorblade business model reinforced by geographic service-density requirements that lower-cost competitors have not been able to replicate.

Ingersoll Rand makes the behind-the-scenes equipment that keeps industries running. Its pumps, compressors, and vacuum systems power everything from pharmaceutical manufacturing to food processing, water treatment, and industrial production lines. The business benefits from a “razor-and-razor blade” model. Once its equipment is installed, customers rely on Ingersoll aftermarket parts, consumables, and service to keep operations running smoothly. Because its products are mission critical but a relatively small part of customers’ overall costs, Ingersoll Rand enjoys relatively strong pricing power and high margins. Additionally, a significant share of Ingersoll’s revenue (~40% in the ITS segment) comes from aftermarket services and parts, which provide a steadier source of revenue and helps offset the cyclicity of the original equipment business that is more tied to customer capital spending. Ingersoll Rand products fall into four main categories:

Compressors – which create pressurized air to do things such as power tools, drive assembly lines, and keep hospitals supplied with medical-grade air.

Blowers – which move large volumes of air or gas at low pressure, essential for things like wastewater treatment aeration, pneumatic transport in cement plants, and biogas upgrading in renewable energy.

Vacuum systems – which remove air to create clean, controlled environments for processes such as semiconductor coating, food packaging, and pharmaceutical freeze-drying.

Pumps – which move and dose liquids and gases with precision, from injecting chlorine in municipal water treatment, to transferring peanut butter in food production, to metering fertilizers in agriculture.

Why we win: Product and technology leadership

Broad flow creation and industrial product portfolio across air, gas, and liquid handling applications



- #1**
- North America air compressors
 - Oil-free compressors in China
 - Diaphragm/piston gas pumps
 - Air-operated diaphragm pumps
 - Agriculture injectors
 - Gas odorization

- #2**
- Global air compressors
 - Global blowers
 - Global industrial vacuums
 - Global positive displacement (PD) pumps
 - Chemical metering pumps
 - Progressive cavity pumps

>2,230

Active patents;
88% with sustainability benefits

>2,300

Engineers with expertise in hardware,
software, controls, and more

Compressors

Compressors generate the majority of revenue and profits for Ingersoll. Simply put, industrial air compressors squeeze air in order to create pressure. That pressure is then used to power machinery, industrial tools, material handling systems, and automated equipment. Think of an Ingersoll Rand compressor as the “air utility” for a factory. It makes compressed air that gets piped around the plant, the same way electricity gets sent through wires. That compressed air is then used to power critical functions in a variety of industries. Compressed air is used instead of direct electricity for three main reasons: 1) Safety – air tools won’t spark like electric tools, so they’re safer in places with dust, chemicals, or flammable materials. 2) Consistency – Compressed air can deliver steady force and torque, which is ideal for assembly lines that repeat the same action thousands of times. 3) Air tools don’t overheat like electric motors, so they can run continuously without burning out.

Think of a compressor as similar to a furnace located in a basement of a house. The furnace heats air and sends it through ducts so every room has warm air. A compressor works the same way for a factory but instead of heat, it makes compressed air and sends it through pipes so different machines and tools can use it.



Example use case: In large e-commerce fulfillment centers, compressors provide the air that powers automated packing machines. For example, compressed air is used to inflate protective air pillows that cushion items in boxes, to drive the pneumatic arms that fold and seal cartons, and even to operate the conveyors that move packages down the line.

Ingersoll has products in the following types of compressors. Details and specifics on the different types of compressors were sourced from the Compressed Air and Gas Institute, an industry trade association:

Vacuum Systems

Industrial vacuum products create a controlled low pressure environment that allows manufacturers to move, shape, dry, or secure materials in ways that compressed air or mechanical force alone cannot achieve. In practice, this means using pumps and systems that remove air or gas molecules from a chamber or process line to generate suction or maintain a vacuum level. These systems are critical to the manufacturing process in applications such as packaging (sealing and preserving products), pneumatic conveying (moving powders and grains), drying and distillation (removing moisture or solvents), holding and lifting (robotic pick-and-place systems), forming and pressing (plastic molding or composites), coating (semiconductors, optics, film), and general evacuation of air in sealed environments. By enabling clean, efficient, and precise material handling, Ingersoll Rand's vacuum products support a wide range of industries from food and beverage to electronics, chemicals, life sciences, and automotive.

Example use case: In food manufacturing, vacuum pumps are used to remove air from packaging before sealing. By creating a vacuum inside the bag or container, oxygen is eliminated, which prevents spoilage, extends shelf life, and preserves freshness. For example, vacuum systems are behind the tight-sealed bags of coffee, cheese, or meat you see in grocery stores.

Blowers

Blower products are designed to move large volumes of air or gas at relatively low pressures, making them distinct from compressors, which operate at higher pressures. Their role is to provide a steady, continuous flow of air that supports critical industrial processes. Blowers are widely used in wastewater treatment plants for aeration (supplying oxygen to support biological treatment), in biogas upgrading and conveying systems (moving and cleaning renewable gas), and in pneumatic transport applications such as moving powders, grains, or cement through pipelines. They also play a role in drying and dehydrating processes, as well as in industries like pharmaceuticals, petrochemicals, and cement, where consistent airflow is essential for production quality and efficiency. Because they deliver high flow at low pressure with reliability and energy efficiency, blower products are a backbone utility in many different industrial and environmental applications.

Example use case: In a wastewater treatment plant, blowers are used to push huge volumes of air into aeration tanks. That air provides oxygen for bacteria that break down sewage and waste. Without blowers constantly moving air into those tanks, the bacteria couldn't survive, and the water wouldn't get cleaned.

Pumps

Ingersoll Rand's pumps are designed to move, dose, or transfer fluids and gases across a wide range of industries. Some pumps focus on precision (like dosing or metering pumps that deliver exact amounts of chemicals in water treatment or agriculture), while others are built for tough jobs (like progressive cavity and diaphragm pumps that can handle thick slurries, abrasive fluids, or corrosive chemicals). Certain designs are made for hygienic or contamination-free environments (like peristaltic pumps in pharmaceuticals and food), while others provide reliable, rugged service in industrial processes (like liquid ring or water-powered pumps).

Example use case: In modern farming, Ingersoll Rand's dosing and metering pumps are used to inject fertilizers, pesticides, or nutrients directly into irrigation systems. These pumps deliver chemicals in precise, controlled amounts, ensuring that crops get exactly what they need without waste. For example, instead of spraying large fields unevenly, a farmer can use a pump-driven fertigation system that automatically adjusts flow rates based on crop stage or soil conditions. This improves yields, reduces chemical runoff into waterways, and lowers input costs for the farmer.

Competitive Durability and Moat Structure

Ingersoll Rand achieved 27.4% EBITDA margins in FY2025, a 670 basis point improvement from FY2021. This margin expansion was driven primarily by significant cost synergies from the 2020 Gardner Denver merger combined with the deployment of the IRX Operating System, and is reinforced by a Service-Density Moat Stack comprising four reinforcing pillars. First, installed-base leverage: customers cannot rationally switch suppliers for aftermarket services once integrated into operations. Second, geographic service density across 180+ countries creates cost advantages in service delivery. Third, oligopoly structure with Atlas Copco yields pricing discipline in premium segments. Fourth, M&A compounding systematically enlarges the installed-base moat. This structural positioning explains why Ingersoll Rand sustains 27%+ EBITDA margins while smaller competitors remain trapped at 18-22%.

The Service-Density Moat Stack is the centerpiece of competitive advantages. Management's IRX Operating System drives continuous improvement through weekly cross-functional cadences, 100-day execution sprints, and 200+ standardized operational processes. This system enables the company to acquire bolt-on targets at 9.5x to 11x entry multiples, integrate them to achieve 3-4 turns of EBITDA multiple reduction by year three through margin expansion and improved cash flow generation, and achieve mid-teens return on invested capital. The company has deployed this playbook consistently across 70+ acquisitions totaling \$5.4 billion since 2020, generating documented mid-teens ROIC while systematically improving the parent company's margin profile.

However, execution risk has materialized once. ILC Dover, acquired for \$2.35 billion in June 2024 at approximately 17x entry multiple, resulted in a \$229.7 million goodwill impairment by August 2025. This platform-sized acquisition departed from the proven bolt-on model and ventured into the life sciences domain where management lacked operational expertise. While the impairment signals that management recognizes mistakes and takes them early (representations and warranties claims were filed), it also establishes that larger platform acquisitions outside core industrial competency carry elevated execution risk. Management's return to the proven bolt-on model in FY2025 with 16 acquisitions at \$525 million suggests discipline is intact, but this assumption bears monitoring through 2026-2027.

CEO Vicente Reynal has orchestrated eight times enterprise value growth since 2016, establishing credible capital allocation track record. The challenge ahead is maintaining this discipline as entry multiples inflate modestly (10-11x in recent quarters, up 10-20% from historical 9-10x) and as the pipeline approaches the depletion phase around 2028-2029.

Core Business Model: Equipment Design and Customization

The foundation of Ingersoll Rand's lock-in strategy begins at the point of sale. Compressed air systems, fluid handling equipment, and specialty tools are routinely configured to individual customer specifications. A customer ordering a compressor for an automotive plant receives a unit engineered for that facility's pressure requirements, duty cycle, noise constraints, and ambient conditions. The level of customization creates a competitive dynamic that most equipment manufacturers do not experience.

Switching costs emerge not from contractual lock-in but from operational catastrophe. Replacing a mission-critical compressor creates production downtime, reengineering costs, and inventory disruption that customers rationally avoid for the 8-10 year average service life of the equipment. This switching calculus operates independently of price or competitive product performance. A competitor offering a 5% price discount on compressed air systems still faces the reality that a customer's production line runs on Ingersoll Rand-configured equipment. Switching means rebuilding infrastructure, redesigning downstream processes, and accepting months of operational validation before the new equipment reaches the reliability profile customers expect from mission-critical systems. The economic math is brutal: downtime costs in continuous-process industries like chemicals, pharmaceuticals, and food production run into millions of dollars per day. A \$50,000 compressor is trivial relative to that exposure.

The high customization rate (>90%) ensures that each customer's installed equipment is, in effect, proprietary to Ingersoll Rand's specification ecosystem. Equipment revenue comprises approximately 63.5% of FY2025 revenue (~\$4.86B) and grows at single-digit rates organically, reflecting cyclical in industrial capex. Equipment margins run 30-40%, compressed by competitive bidding and tariff pressures. These margins are respectable but not exceptional, which is precisely why the aftermarket is the profit engine. The equipment business is strategically important not for current profitability but for installed base creation that drives future recurring revenue.

Profit Engine: Aftermarket Consumables and Services

The true earnings driver emerges once equipment is installed. Compressors require consumables: filters, oil, belts, valves, separators. These parts wear predictably throughout the operational life of the equipment. Fluid handling systems demand seals, pump components, and maintenance kits. Power tools require wear parts and service replacements. These consumables carry gross margins of 60-70%, a structural advantage rooted in three mechanisms operating simultaneously.

First, installed-base pricing power. Customers cannot source equivalent parts without risking system compatibility and equipment warranty. A third-party replacement filter may cost 20% less, but if it damages the compressor or voids the warranty, the customer absorbs catastrophic risk. OEM parts carry an implicit guarantee of compatibility and warranty protection, justifying a 30-40% price premium.

Second, service coverage density. Ingersoll Rand maintains 24/7 field service across developed geographies. When a customer's compressor fails, a technician can typically arrive within hours in major industrial regions. Third-party service operators cannot match this density of expertise and response time without matching Ingersoll Rand's massive infrastructure investment. The installed base is served by a network of parts distribution centers, training facilities, and service technicians. Replicating this network requires decades of investment and market share accumulation.

Third, oligopoly economics. The industrial compressed air market is a durable duopoly at the premium tier. Ingersoll Rand and Atlas Copco combined control 75-80% of the high-reliability, mission-critical compressor market. Regional competitors like ELGi Equipments compete in the low-cost segment but lack the service density and premium positioning to capture

aftermarket pricing power. With limited competitive supply options, customers have few alternatives when they need OEM parts or emergency service.

In FY2025, aftermarket revenue totaled \$2,793 million, representing 36.5% of consolidated revenue against a much smaller share of equipment sales. This distribution understates the profitability concentration. While equipment revenue carries 30-40% gross margins, aftermarket revenue sustains 60-70% margins, meaning the aftermarket generated approximately \$1,676 million to \$1,955 million in gross profit on a \$2,793 million revenue base. For context, consolidated gross profit in FY2025 was \$2,944 million, implying the aftermarket contributed between 57% and 66% of total gross profit while accounting for only 36.5% of revenue. This is the genius of the razor-and-razorblade model: the blade (equipment) sells at modest margins; the razors (parts and service) are where the business generates excess returns.

Management is extending this moat through PackageCARE, a branded lifecycle service program that bundles preventative maintenance, remote monitoring, spare parts, and emergency response into multiyear contracts. Rather than customers buying parts and service transactionally, PackageCARE locks them into fixed-fee arrangements where Ingersoll Rand absorbs the risk of parts consumption and service hours in exchange for predictable recurring revenue. This is the strategic next step in the business model evolution: from transactional equipment sales and parts purchases to contractual lifecycle management. PackageCARE revenue reached approximately \$300 million in 2024 and is on track to exceed \$1 billion by 2027, further locking customers into Ingersoll Rand service agreements and shifting revenue mix toward even higher-margin recurring streams. The beauty of this transition is that the company moves from unit-based economics (per compressor sold, per filter shipped) to outcomes-based economics (annual contract value, customer retention rate), making earnings less sensitive to short-cycle industrial capex volatility.

The Business Model and Operating System Enable Margin Expansion

Ingersoll Rand's financial trajectory reveals the operational leverage embedded in the razor-and-razorblade model. In FY2021, adjusted EBITDA margin stood at 16.3%. By FY2025, that margin had expanded to 27.4%, a 611 basis point improvement, while revenue grew from approximately \$5,400 million to \$7,651 million. This is genuinely exceptional operating leverage. The margin expansion was driven primarily by significant cost synergies from the 2020 Gardner Denver merger, combined with the subsequent deployment of the IRX Operating System across acquired platforms and legacy business units.

IRX combines weekly Impact Daily Management (IDM) cadences, 100-day execution sprints, and standardized process libraries (200+ processes deployed globally) to systematically reduce cost structure, improve asset turns, and compress working capital. The system is not a one-time restructuring. It is an ongoing operational discipline embedded in how the company runs. Weekly IDM cadences mean that cost-reduction initiatives and process improvements are identified and implemented continuously, not in annual budgeting cycles. 100-day sprints create focused execution periods that sustain momentum. Standardized process libraries mean that acquisition integrations do not require building operating procedures from scratch; the company applies proven templates to new platforms, accelerating synergy realization.

The impact has been measurable and material. EBITDA margins expanded 611 basis points while organic growth remained modest, indicating that margin expansion came from operational discipline rather than volume-driven leverage. This is critical: the margin expansion was not a one-time reset from post-merger baseline; it is sustainable structural improvement. Management guidance cites 75-100 basis points of annual margin expansion as sustainable, which would push margins potentially to 28-29% range over the next 2-3 years assuming tariff headwinds normalize.

M&A as Primary Value Creation Engine

The investment case for Ingersoll Rand depends fundamentally on M&A execution. Management positions organic growth as complementary to the M&A engine, guiding to mid-single-digit organic growth for ITS and mid-single-digit-plus for PST over the cycle. However, the primary value creation mechanism is the M&A Compounding Thesis, which articulates how acquisition activity creates shareholder value through a repeatable four-step process.

First, target identification. Ingersoll Rand sources 90%+ of acquisitions sole-source, meaning the company has direct relationships with targets and does not compete in formal auctions. This multi-year relationship approach eliminates auction premium and allows negotiation of attractive multiples. The company maintains a pipeline of 200+ potential bolt-on acquisition candidates across ITS and PST with a 5-8 year runway, representing approximately \$3-5 billion in potential deployment capital. However, it is important to note that companies get added to this pipeline as relationships with potential target acquisitions are cultivated.

Second, entry multiple discipline. Ingersoll Rand enters acquisitions at approximately 9-10x adjusted EBITDA pre-synergy multiples. This is disciplined by industrial peer standards and reflects the advantage of sole-source deals without competitive bidding.

Third, integration playbook using IRX. Upon acquisition close, management aggressively applies the IRX operating system to the acquired business. The target is a 3-4 turn EBITDA multiple reduction through margin expansion, improved cash flow generation, back-office consolidation, supply chain optimization, and manufacturing footprint optimization. The company deploys a proven template rather than designing custom integration plans for each deal.

Fourth, deployment cadence. Since 2020, Ingersoll Rand has completed 70+ acquisitions, deploying \$5.4 billion in capital. The historical entry multiple of 9-10x EBITDA has been consistent. The target pipeline encompasses 200+ potential bolt-on candidates with a 5-8 year runway, suggesting the company has sufficient runway for this strategy without exhausting target supply near-term.

The ILC Dover acquisition (\$2.35 billion, June 2024) represents an outlier from this playbook: a large platform deal rather than a bolt-on, anchored in the life sciences market where Ingersoll Rand had less integration expertise. The deal experienced meaningful integration challenges, evidenced by the \$229.7 million goodwill impairment. However, management's response to this misstep demonstrates capital allocation discipline. The company has drawn clear lessons and returned to the proven bolt-on acquisition model, closing 16 acquisitions in FY2025 and maintaining medium-term M&A volume targets of \$600-700 million annually. This represents approximately 400-500 basis points of inorganic revenue growth annually, consistent with guidance and analyst expectations.

This M&A cadence, applied systematically over a 3-5 year horizon, accounts for the management guidance of 8-10% annual EPS CAGR over the next 3-5 years. The math is straightforward: if organic revenue growth remains flat to low-single-digit and M&A delivers 4-5% inorganic growth annually, total revenue growth is mid-single-digit. Combined with 75-100 basis points of annual margin expansion from IRX and minimal share dilution from M&A (shares are repurchased to offset dilution), earnings growth reaches 8-10% CAGR.

Competitive Advantage Analysis

Ingersoll Rand's competitive position rests not on a single, easily replicable advantage but on a reinforcing stack of four structural defenses that compound in durability as the company scales. This section establishes the framework, the Service-Density Moat Stack, and demonstrates how each pillar strengthens the others, creating a defensible industrial compounder that sustains above-average returns on capital.

The moat is not about technology or patent protection. It is about installed base lock-in, service infrastructure density, market structure, and disciplined capital allocation. Each defense operates independently. Together, they form a durable economic fortress.

Pillar 1: Installed Base Lock-In and the Razor/Razorblade Model

Ingersoll Rand does not make money primarily by selling equipment. It makes money by owning the installed base and selling high-margin consumables into that base for 8 to 10 years after the initial sale.

The business model is a classic razor/razorblade economics: equipment placement is the acquisition cost; aftermarket is the lifetime profit engine. In FY2025, aftermarket revenue totaled \$2,793 million against total revenue of \$7,651 million, representing 36.5% of sales. More critically, aftermarket carries gross margins of 60 to 70 percent, compared to equipment margins in the 35 to 45 percent range. The company's overall EBITDA margin of 27.4% in FY2025 reflects this leverage. Peer EBITDA margins range from 15 to 21 percent, placing IR substantially above the industrial equipment set.

What locks customers to this consumables stream is not brand loyalty but engineering necessity. Equipment placed by IR operates within a highly customized ecosystem: compressors and fluid handling systems are routinely configured to individual customer specifications, and the 8 to 10 year lifecycle creates an installed base that runs on IR consumables by design, not choice. A competitor cannot win the consumables contract by underpricing; the customer must modify production equipment to switch suppliers, a costly and disruptive decision. The switching cost is the moat. The switching cost is permanent once the equipment is running.

This lock-in generates a significant backlog: \$1.1 billion in recurring commitments from the installed base, representing multiyear contractual or operationally embedded revenue spread across the business units. While this figure is meaningful as an indicator of revenue visibility, it represents a small percentage of annual revenue and should not be overstated as a floor that prevents negative organic growth. What it does demonstrate is the stickiness of the installed-base relationship and the predictability of aftermarket demand, characteristics that provide cash generation resilience even during cyclical contractions.

The installed base also enables the company's disciplined M&A strategy: acquired targets are integrated into the existing platform, benefit immediately from aftermarket pricing power and service coverage, and carry predictable ROIC assumptions because the business model tends to be similar across 70+ acquired platforms.

Pillar 2: Service Coverage Density as Structural Defense

The second pillar of the moat is service infrastructure density. This is where Ingersoll Rand demonstrates a structural competitive advantage that cannot be easily replicated despite the apparent simplicity of the defense mechanism.

Industrial equipment does not run unattended. Compressors, aftermarket parts, and service technicians must be locally available. Mission-critical downtime in industrial production facilities costs \$100,000 per day or more. A production interruption in automotive, life sciences, or energy facilities is a catastrophic event for the customer. This economics drives a powerful customer preference: buy from the supplier whose service network can respond within 24 hours, not the competitor whose technician is flying in from Asia.

Ingersoll Rand and Atlas Copco together control approximately 75 to 80 percent of the premium compressor market. Both companies maintain dense networks of service centers, parts depots, and local technician hubs across North America, Europe, and Asia. The density of this network is expensive to build: it requires regional distribution centers, inventory carry, and salespeople in low-density markets.

Asian competitors operate at a 20 to 30 percent price discount. One might expect them to penetrate the premium segment with these economics. They do not, not because their equipment is inferior, but because they cannot economically justify the service network density required to defend mission-critical downtime economics. The cost of deploying service infrastructure across North America and Europe would be 15 to 20 percent of revenue; a competitor with a 20 percent price discount cannot absorb this cost and maintain profitability. The pricing advantage evaporates the moment a customer demands "24-hour local service, or we cannot use your equipment."

This is a structural fact, not a temporary one. It explains why Asian competitors have not captured the premium segment despite cost advantages, and why IR and Atlas Copco have held 75 to 80 percent market share for over a decade. The moat is not customer switching cost; it is supplier investment cost.

Service density also generates a flywheel within the installed base: more service technicians enable faster response times, which improves customer satisfaction, which increases the installed base, which justifies investment in more service density. Competitors attempting to enter this market face a chicken-egg problem: they cannot justify the service investment without the installed base, and they cannot build the installed base without the service investment.

IR's IRX Operating System, the proprietary continuous improvement framework introduced in the company overview, amplifies this advantage by standardizing service protocols, reducing response times, and enabling technician efficiency improvements that lower the cost-to-serve. Over a 8 to 10 year equipment lifecycle, this compounds into significant cost and customer-satisfaction advantages that a new entrant cannot match quickly. So what does this mean operationally? It means IR's organic growth, even in flat markets, will be driven by service price

realization and market share gains in installed base monetization, not top-line equipment sales.

Pillar 3: Oligopoly Structure and Pricing Power

The third pillar is market structure. Ingersoll Rand operates in an oligopolistic market where a small number of large suppliers control the premium segment and maintain pricing discipline.

The compressed air and gas equipment market is large: the Industrial and Technical Solutions segment (ITS), which includes compressors and ancillary equipment, operates in a total addressable market of approximately \$39.5 billion. This market is not fragmented; it is dominated by IR, Atlas Copco, and a long tail of small regional and specialty suppliers. The "premium" segment, where IR and Atlas Copco operate, is characterized by mission-critical application, high service requirements, and high switching costs. This segment comprises perhaps 20 to 25 percent of the total addressable market by revenue but 50 to 60 percent of profit, because margins in the premium segment run at double the rate of the commoditized segment.

In oligopolistic markets, pricing discipline emerges not from collusion but from rational economic behavior: competitors recognize that price competition in a mission-critical application is value-destructive, and thus both IR and Atlas Copco have historically maintained price discipline, raising prices with cost inflation and market conditions. This pricing discipline is reflected in IR's EBITDA margin expansion of 611 basis points from FY2021 to FY2025, a period that saw net costs increase due to supply chain inflation, tariffs, and wage pressures, yet margins expanded. The price realization came not from cost advantage but from pricing power.

Atlas Copco, the other large player, operates under similar cost pressures and faces similar market dynamics. The oligopoly is not unstable; it is stable. This matters because stable oligopolies generate consistent returns on capital, whereas fragmented markets are subject to destructive competition and margin compression. IR's positioning in a two-player oligopoly provides confidence that the 27.4 percent EBITDA margin achieved in FY2025 is defensible, not a peak from which the business will inevitably fall.

The oligopoly structure also constrains new competition: a new entrant attempting to compete in the premium segment would need to invest billions in R&D, service infrastructure, and sales organization just to reach competitive parity with IR and Atlas Copco. The barrier to entry is capital, not innovation. So what does this imply for valuation? It suggests that IR's mid-to-high single-digit organic growth rate should be valued not as a business in terminal decline but as a business with structural pricing power that can grow earnings even in flat revenue environments through margin expansion and installed base monetization.

Pillar 4: M&A Compounding as Reinforcing Mechanism

The fourth pillar is the M&A Compounding Thesis, which reinforces all three preceding defenses and represents the core growth mechanism of the business.

Over the past decade, Ingersoll Rand has deployed \$5.4 billion across 70 acquisitions, creating a diversified portfolio of mission-critical equipment companies and service platforms. The M&A strategy follows a disciplined playbook: acquire bolt-on platforms in the ITS and PST segments at 9 to 10x pre-synergy EBITDA multiples; integrate the acquired company into the Ingersoll Rand operating system; reduce turns through working capital optimization and operational

improvements; and realize 3 to 4 turns of EBITDA reduction, generating mid-teens returns on invested capital.

This playbook is not theoretical. Investor day presentations and company disclosures provide evidence of multiple reduction across the portfolio. Additionally, acquired companies see their cash flow generation improved as acquired companies frequently carry 90+ day payment terms and inventory levels that are 15 to 20 percent above IR standard; integration of the IRX Operating System yields working capital improvements of 10 to 20 days of revenue within the first two years; and improved payment terms with suppliers, once fully integrated, create additional cash flow conversion gains. The \$5.4 billion deployed across 70+ deals represents hundreds of basis points of working capital benefit realized over time.

The M&A thesis also reinforces service density: each acquired platform brings its own customer base and service footprint; integration onto the IR platform multiplies the utility of the combined service infrastructure; and the combined platform can justify higher-density service investment than either platform could independently. Over time, the portfolio effect is compounding: 70+ acquired platforms have become nodes in a unified service network, creating a competitive advantage for new acquisition targets (they gain access to IR's service density) and for existing platforms (they gain access to acquired customers).

The installed base also grows through acquisition: each bolt-on target brings an installed base that is immediately monetized through IR's aftermarket pricing and service infrastructure. The company's \$1.1 billion recurring backlog reflects not just organic customer commitments but the cumulative installed base from decades of acquisitions. This backlog anchors cash flow and provides confidence in the compounding thesis.

How durable is the M&A compounding mechanism? The company has executed 70+ deals without a major acquisition failure (ILC Dover impairment notwithstanding, a \$229.7 million write-down in FY2025 on a life sciences platform that underperformed expectations). ILC Dover represents a capital allocation failure more than an operational miss at the platform level. The decision to pay 17x EBITDA for a business outside IR's core competency, and the subsequent \$229.7 million impairment within 11 months, reflects due diligence and strategic overreach at the corporate level rather than simply poor execution by the subsidiary's management team. The broader M&A system remains intact.

Pipeline depth provides runway: management has identified 200+ acquisition targets meeting the disciplined acquisition criteria over the next 5 to 8 years. At historical deal velocity (10 to 15 per year), this represents a 7 to 10 year runway of value-accretive M&A, providing visibility to the investment horizon. So what does this mean for the compounder thesis? It means IR has a proven, scalable, repeatable mechanism for deploying capital into growth that generates mid-teens returns and improves the moat through portfolio consolidation and density effects.

Management and Capital Allocation

CEO Vicente Reynal's operational track record is credible. Enterprise value has grown eight times since 2016, adjusted EBITDA margins have expanded 670 basis points, and the company has executed a disciplined M&A playbook across 70+ deals. But Ingersoll Rand's capital allocation discipline has been tested materially by a \$229.7 million goodwill impairment on the largest acquisition in company history, recorded less than 11 months after the close of ILC Dover. This section examines what that impairment reveals about management's ability to

deploy capital in unfamiliar domains, and why the rest of the M&A system remains credible despite this outlier event.

Management Assessment: Operational Credibility with Material Execution Caveats

Leadership Track Record and Operational Transformation

Vicente Reynal became Chief Executive Officer of Gardner Denver in 2016, where he was installed by private equity owner KKR to drive operational improvement across a fragmented industrial compressor and vacuum business. Under Reynal's leadership, Gardner Denver underwent a significant transformation, and in 2020 the company merged with the industrial segment of the former Ingersoll-Rand plc, retaining the Ingersoll Rand name. The combined entity inherited two distinct operating cultures, overlapping cost structures, and no cohesive integration playbook. Over the subsequent four years, Reynal oversaw the deployment of the IRX Operating System (a proprietary continuous improvement framework combining weekly Impact Daily Management cadences, 100-day execution sprints, and 200+ standardized process libraries) across both the legacy business and an expanding acquisition portfolio, realizing significant cost synergies from the merger while simultaneously building the M&A compounding engine. The results are measurable and material: adjusted EBITDA margins have expanded to 27.4% by FY2025, a 670 basis point improvement, while revenue grew from approximately \$5,400 million to \$7,651 million.

This operational transformation is genuine. The margin expansion was not driven by a single cost action or revenue spike; it reflects systematic, sustained reduction in structural cost as a percentage of revenue. Management guides to an additional 75-100 basis points of annual margin expansion from IRX, which would position the company at 28-29% margins over the next 2-3 years assuming tariff headwinds normalize. The operating leverage embedded in this progression suggests the IRX system is working as designed. Moreover, the margin expansion occurred during a period of supply chain inflation, tariff escalation, and wage pressures that compressed margins across the industrial equipment set. Ingersoll Rand's ability to expand margins while most peers contracted signals operational discipline and pricing power. Reynal's team has demonstrated the capability to transform legacy cost structures through systematic operational improvement.

However, execution in unfamiliar domains presents a material caveat. Reynal's background is in industrial manufacturing (operational transformation at Gardner Denver under KKR ownership, roles in aftermarket-intensive businesses), which aligns directly with the compressed air and fluid handling core of ITS. The PST segment, particularly the life sciences domain, is a different market with different customer dynamics, regulatory complexity, and product-market fit requirements. The ILC Dover acquisition, a \$2.35 billion platform representing Ingersoll Rand's largest deal in company history, was anchored in this PST domain and exposed a gap between Reynal's demonstrated operational excellence in industrial markets and his execution capability in specialized life sciences applications. The impairment suggests either management overestimated the market opportunity during diligence (a forecasting error), or seller misrepresentation on customer stability or product-market fit created surprises post-close. Management subsequently filed a representations and warranties claim against the PE seller, indicating they believe they were misled on deal quality.

This claim is important context: it suggests management recognizes the mistake and is taking appropriate capital allocation discipline to recover losses.

The ILC Dover impairment is material but not disqualifying. Management's response demonstrates capital discipline: the company recognized the valuation error, took the impairment in FY2025 rather than spreading it over years of earnings guidance misses, and has returned to the proven bolt-on M&A playbook (16 acquisitions in FY2025, \$525 million deployed, maintaining medium-term guidance of \$600-700 million annually). If the impairment signals a structural inability to manage life sciences platforms, we would expect to see a pattern of integration failures and further write-downs. The data suggests otherwise: the impairment is isolated to ILC Dover, life sciences revenue within PST continues to grow in double digits, and the decentralized operating model (where domain experts run each business unit rather than centralized functional oversight) means the execution gap was concentrated within the Biopharma leadership team, not a systematic company-wide failure.

The verdict on leadership is thus qualified confidence with material execution risk flagged specifically in life sciences. Reynal is a credible operational executor in industrial markets where he has deep expertise. His track record of 8x value creation and 670 basis points of margin expansion is evidence that the IRX system works when applied to the core business. But the ILC Dover impairment signals either due diligence weakness in specialized markets or willingness to take deals at aggressive multiples to hit growth narratives.

Governance and Incentive Alignment

Reynal's compensation package totals \$8-10 million annually, with approximately 75-80% delivered in equity (restricted stock, performance units, and stock options). The Chief Financial Officer compensation runs approximately \$4.41 million, with 67% equity-based. Bonus metrics are tied to Adjusted EPS and Free Cash Flow, both appropriate measures of operational execution and cash generation. However, the absence of an explicit return on invested capital (ROIC) metric in executive compensation is a notable gap. Management guides to "mid-teens ROIC" as a target for M&A (implied ~15% or higher), yet compensation is not directly tied to achieving this return threshold. This creates a misalignment where executives are rewarded for EPS growth and cash flow generation but not penalized if capital deployed achieves low-to-mid-single-digit returns. In a capital-intensive compounder, explicit ROIC-based compensation would provide stronger alignment between shareholder interests and management decision-making.

M&A as Character Test: The Seepex, SPX Flow, and ILC Dover Cases

The M&A playbook is the core of Ingersoll Rand's value creation story. Since 2020, the company has completed 70+ acquisitions, deploying \$5.4 billion in capital. The consistency of this playbook is noteworthy: target identification relies on sole-source relationships (90%+ of deals), eliminating auction premium; entry multiples have historically ranged 9-10x adjusted EBITDA pre-synergy; the IRX Operating System is applied aggressively post-close to realize 3-4 turns of EBITDA multiple reduction within 3 years through margin expansion and improved cash flow generation; and target ROIC is mid-teens. This framework is straightforward and has been executed repeatedly across dozens of platforms. But three acquisitions illustrate the character of management's capital allocation: Seepex, SPX Flow Air Treatment, and ILC Dover.

Seepex was acquired in 2017 for approximately €431.5 million (roughly \$470-480 million), a positive-cash-flow industrial company serving fluid handling and wastewater applications. The

entry multiple was approximately 11.1x adjusted EBITDA, above the stated 9-10x range. The rationale was defensible: Seepex was a high-quality, established platform with strong market positioning and pricing power in a niche market (progressive cavity pumps). The integration was straightforward: Seepex's product portfolio complemented Ingersoll Rand's fluid handling platform; the companies operated in adjacent markets with overlapping customers; and the acquired company had excellent ROIC characteristics before integration. By most accounts, Seepex has been a successful acquisition, generating strong cash flows and benefiting from IRX integration discipline. This deal demonstrates management's willingness to pay above the stated entry multiple range when platform quality justifies it. This is disciplined capital allocation: you pay for quality, but you do not overpay for growth potential.

SPX Flow Air Treatment represents the bolt-on category at scale. Acquired for approximately \$525 million, this was a carve-out from SPX Corporation, a specialty manufacturing company. The deal was structured as a purchase of operating assets and customer relationships, a disciplined carve-out approach that avoids the cultural integration complexity of acquiring a large standalone company. SPX Flow was integrated into the Ingersoll Rand ITS platform, benefited from supply chain consolidation and manufacturing footprint optimization, and contributed inorganic revenue growth without material integration disruption. The entry multiple was approximately 9-10x, consistent with the stated range. SPX Flow illustrates execution excellence in the bolt-on model: a mid-sized carve-out that fits cleanly into the existing platform and generates predictable ROIC.

ILC Dover is the test case for capital allocation discipline in an unfamiliar domain. Acquired in June 2024 for \$2.35 billion, ILC Dover was Ingersoll Rand's largest acquisition ever, more than 4x the size of historical deal volumes. The company is a market leader in biopharma containment, bioprocessing equipment, and aerospace and defense applications. The entry multiple was approximately 17x adjusted EBITDA, well above the stated 9-10x range. The rationale was defensible from a strategic perspective: PST was a smaller segment (approximately 20% of revenue) but with a higher normalized growth rate than ITS, driven by favorable end-market dynamics in life sciences and specialty applications; life sciences was positioned as a higher-growth, less cyclical market; and ILC Dover was a high-quality, established company with strong margins and customer relationships. However, the entry multiple of 17x signaled confidence in either growth acceleration or margin expansion significantly beyond what ILC Dover had achieved historically.

In August 2025, just 11 months post-close, management recorded a \$229.7 million goodwill impairment, split between Biopharma (\$170.3 million) and Aerospace and Defense (\$59.4 million). The impairment reveals that either the purchase price assumed unrealistic growth or margin expectations, or that customer or market dynamics deteriorated post-close in ways that due diligence failed to anticipate. Management's response was immediate: they recognized the valuation error, took the write-down in FY2025 (not spreading it over earnings guidance misses over years), and filed a representations and warranties claim against the PE seller. This claim is important: it signals that management believes the seller misrepresented deal quality.

What does ILC Dover reveal about capital allocation character? First, it demonstrates management's willingness to deviate from the stated M&A discipline (9-10x entry multiples, smaller bolt-on sizes) when a larger strategic opportunity appears attractive. This is not inherently wrong, but it is a deviation from the framework that has worked consistently across dozens of smaller deals. Second, it reveals that due diligence in specialized domains (life sciences, aerospace) may be weaker than in the core industrial compressed air and fluid

handling business. The impairment suggests either forecasting weakness or that Ingersoll Rand lacked the domain expertise to identify red flags during diligence. Third, and most importantly, it demonstrates management's willingness to take the loss and move on rather than hoping the business recovers over time. The reps & warranties claim suggests management is fighting to recover capital.

The net assessment: Seepex and SPX Flow demonstrate disciplined, successful execution. ILC Dover demonstrates a willingness to deviate from the playbook when strategic narratives are compelling, and an important lesson in executing outside core competency. The character test is passed but not with distinction. Management has learned from ILC Dover and returned to the proven model. The \$525 million in FY2025 bolt-on deployments and the medium-term \$600-700 million annual guidance suggest a return to the smaller, more predictable deal sizes. This is appropriate capital discipline.

Bolt-On M&A: Velocity and Multiple Inflation

Excluding ILC Dover, Ingersoll Rand completed 16 acquisitions in FY2025, deploying \$525 million and adding approximately \$275 million in run-rate annualized revenue. This represents approximately 450 basis points of inorganic revenue growth and suggests a deal pipeline that is robust and ongoing. The median deal size in this cohort is approximately \$30-35 million, consistent with the "bolt-on" category where integration is straightforward and ROIC predictability is high.

Entry multiples have begun to inflate modestly. Historical entry multiples were 9-10x adjusted EBITDA pre-synergy. Recent deals are being struck at 10-11x, representing approximately a 10-20% increase in purchase price per dollar of EBITDA acquired. This is a documented trend, not speculation. Management acknowledges this in investor communications and argues it is not a thesis-breaker.

The risk is that entry multiple inflation continues, pushing entry multiples to 11-12x within 2-3 years. At those levels, mid-teens ROIC targets become increasingly difficult to achieve without either (a) turn reduction that exceeds historical performance, or (b) margin expansion that outpaces the rate achieved in prior acquisitions. Both are possible but not certain. The thesis assumes entry multiple inflation moderates or that management selects targets with higher pre-acquisition margins or better working capital characteristics, allowing ROIC targets to be met at higher entry prices. This assumption is reasonable but bears monitoring.

Capital Deployment Beyond M&A: Dividends and Buybacks

Ingersoll Rand operates a two-lever capital return program: dividends and share repurchases. The dividend is modest at \$0.02 per share quarterly (\$0.08 annually), a token payout that signals capital allocation priorities lie firmly with M&A and buybacks rather than income distribution. This dividend is covered by cash flow and should be considered stable. The buyback program is more significant and more discretionary. In FY2025, the company repurchased \$1.03 billion in shares at an average price of \$79.40. This was an elevated repurchase level, reflecting the weakness in the stock price during 2024-2025 as tariff and demand headwinds exceeded expectations.

This is opportunistic, rational capital allocation: buy aggressively during weakness, moderate during strength. For an investor, this pattern provides confidence that management is not mechanically repurchasing to prop up EPS regardless of valuation; instead, they are making

discretionary decisions based on price attractiveness. Combined with the conservative guidance posture and the return to the proven M&A playbook post-ILC Dover, the overall capital allocation picture is disciplined and thoughtful.

The allocation of free cash flow is approximately as follows: approximately \$600-700 million annually to M&A, \$300-350 million to buybacks (normalized), a nominal amount to dividends (approximately \$30-35 million annually at the current \$0.08 per share rate), and the remainder to debt paydown or balance sheet flexibility. This allocation assumes free cash flow of approximately \$1,200-1,300 million annually (consistent with FY2025 FCF of \$1,220 million). The weighting is heavily M&A-first, which is appropriate for an industrial compounder: sufficient M&A capital to execute the growth thesis, buybacks deployed opportunistically during weakness, and sufficient leverage flexibility to handle cyclical cash flow volatility.

Industry Overview

Industry Overview

Ingersoll Rand competes across two structurally distinct market landscapes: a mature, disciplined industrial equipment oligopoly serving compressed air and gas applications, and a smaller, faster-growing specialty market in life sciences and material handling. Understanding these markets separately is essential. They operate under different competitive rules, face different growth catalysts, and generate different margin profiles. The company's ability to compound value depends on navigating both.

Market Size and Growth Trajectory

The Industrial Technology & Services (ITS) market, encompassing screw compressors, reciprocating compressors, and compressed air treatment equipment, represents approximately \$39.5 billion in global demand as of 2025. Growth trajectories vary by segment: screw compressors, the largest category at \$12.7 billion, expand at roughly 5% annually through 2030; compressed air treatment systems at \$11.2 billion grow at approximately 4% year-over-year. The broader ITS market compounds at 4.5% compound annual growth rate. This is steady-state growth in a mature equipment category. No single year sees dramatic acceleration. Replacement cycles drive baseline demand; efficiency standards and reshoring add incremental pull above replacement.

The Precision and Science Technologies (PST) segment operates in a different orbit. The specific liquid handling systems niche (pumps, dosing equipment, and consumables for pharmaceutical manufacturing and laboratory automation) in which PST competes represents a \$5-7 billion total addressable market expanding at approximately 8% annually through 2030. This higher growth rate reflects structural demand from the pharmaceutical and biologics industries, where automation and single-use technologies are shifting production economics. The addressable market definition matters here: this is the narrow liquid handling and biopharma containment TAM, not the broader life sciences industry, which is substantially larger. If one includes all material handling and flow control applications beyond pure liquid handling, the TAM broadens significantly.

ITS is a \$40 billion slowly-growing category where volume gains accrue to disciplined competitors over decades. PST is a \$6 billion faster-growing category where market share redistribution and M&A consolidation create near-term expansion opportunities. Ingersoll

Rand's portfolio weight (approximately 80% ITS-derived revenue, 20% PST) means the company's baseline growth tracks ITS dynamics (4.5%) with upside from PST outperformance and consolidation.

Market Structure and Competitive Landscape

The ITS oligopoly operates with visible pricing discipline. The premium segment, where IR and Atlas Copco together control ~75-80% of sales, is characterized by visible pricing discipline. This figure requires three caveats. First, it excludes low-cost manufacturers in India, China, and Southeast Asia, which serve price-sensitive segments with minimal engineering service. Second, regional variation is substantial; North America shows higher concentration (Ingersoll Rand estimated at 28% share) while EMEA and Asia-Pacific fragment across more regional competitors.

Within that oligopolistic structure sits a mid-tier fragmentation. Below the Atlas Copco / Ingersoll Rand premium layer operates a splintered competitor base including Kaeser, BOGE, and numerous regional specialists. These mid-tier competitors own distinct application niches (mining, construction, automotive manufacturing) where engineering depth and service logistics matter more than brand breadth. The fragmentation creates a structural opportunity: acquisition targets abound.

The PST segment exhibits the inverse structure: high fragmentation, lower barriers, and active consolidation by large strategic buyers. The liquid handling market lacks a duopoly anchor. Market participants include Teledyne Technologies, PolymerTechnology Systems, customized integrators, and numerous specialized manufacturers. No single player commands the discipline-setting share that Atlas Copco holds in ITS. This fragmentation means price competition is sharper, customer lock-in is weaker, and acquisition multiples have historically been lower, though specialty biopharma assets command premiums. The broader flow control and specialty equipment space has seen significant consolidation activity in recent years, as large strategics acquire specialized equipment and engineering capabilities to integrate into broader industrial platforms.

ITS pricing discipline allows higher margins and enables consolidation at stable multiples. PST fragmentation offers more targets but demands stronger operational execution post-acquisition. The competitive question shifts from "can we gain share in a growing market?" to "can we consolidate faster and smarter than our rivals, then extract margin expansion from integration?"

Business Model Comparison: Competing Models Within ITS

Two distinct business model approaches compete within the ITS oligopoly. The first, dominant among premium competitors including Ingersoll Rand, pairs industrial equipment sales with consumables and aftermarket services. This model generates 30-40% of revenue from installed-base services: spare parts, maintenance contracts, and performance optimization. The service-first model represents 36.5% of revenue at 60-70% margins, significantly above equipment margins. The second model, visible in diversified industrials with broader motion and flow control portfolios, treats compressed air as one product line within a wider range of fluid power and motion-control equipment. These competitors achieve scale through cross-selling across applications (air, hydraulics, pneumatics) but typically extract lower service-revenue penetration from any single installed base.

The service-first model compounds: as the installed base grows, service revenue (high-margin, subscription-like, sticky) grows faster than equipment revenue. This accelerates margin expansion. Ingersoll Rand targets \$1 billion in aftermarket PackageCARE revenue by 2027, up from current levels, demonstrating the model's strategic weight in near-term earnings growth.

The installed-base service model creates a flywheel that favors large, dedicated competitors over conglomerates fragmenting attention across dozens of product lines. This reinforces oligopoly durability: once Ingersoll Rand establishes service density in a region, rivals struggle to displace that relationship.

Structural Tailwinds: Durable Catalysts for Above-Baseline Growth

Four structural tailwinds extend growth visibility 5-10+ years and add estimated 0.5-1.5% incremental annual growth above baseline ITS expansion.

Energy efficiency regulation mandates the retirement of inefficient compressor designs. The European Union's directive effective October 2025 phases out lower-efficiency models across the continent. U.S. Department of Energy efficiency standards, underpinned by \$285 billion in federal infrastructure investment, create similar pressure domestically. These standards favor premium equipment from leading manufacturers, typically 5-15% more expensive but consuming 15-30% less energy over seven-year operating lives. The arbitrage is economically compelling for end-users. Regulatory timelines span a decade, ensuring sustained capital reallocation.

Manufacturing reshoring accelerates compressed air demand in industrialized economies. The U.S. semiconductor manufacturing sector alone added over 244,000 jobs in 2024, supported by more than \$500 billion in fab construction capital deployment. Semiconductor fabs, automotive assembly plants, and medical device manufacturing require compressed air systems for equipment operation, cleanroom pressurization, and process control. These are premium applications. Reshored facilities in North America and Western Europe demand high-uptime equipment, dense service networks, and on-site technical expertise, all strengths of regional leaders like Ingersoll Rand.

Life sciences consumables' shift toward single-use systems drives PST segment expansion. Single-use bioreactors and filtration systems cost 20-30% more upfront than reusable alternatives but reduce operating costs by 80-90% when factoring labor, validation, contamination risk, and cleaning cycles. Biopharma manufacturers are 12+ years into this technology shift, with no reversal visible. The demand surge for liquid handling pumps, dosing systems, and specialized filtration compounds at 8-10% annually within the broader life sciences equipment market.

Aftermarket expansion in service-based contracts reflects end-user preference for predictive maintenance and availability guarantees over transactional spare-parts purchasing. Equipment operators increasingly shift from capital-expense purchasing to operating-expense service contracts. PackageCARE, targeting \$1B by 2027 (from ~\$300M in 2024), exemplifies this shift toward contractual lifecycle management. Industry sources estimate aftermarket service revenue across compressed air equipment will expand from 36% of total market revenue today to 40-42% within five years, with above-average growth among premium competitors who can afford digital monitoring and predictive algorithms.

These tailwinds are mechanical, not cyclical. They do not depend on GDP growth or manufacturing sentiment. A 2% ITS baseline + 0.5-1.5% tailwind uplift = 2.5-3.5% incremental growth, narrowing but not eliminating the growth gap between ITS and PST, and supporting margin expansion through scale and favorable product mix.

Growth Opportunities

Ingersoll Rand's growth thesis is not a bet on industrial recovery or organic acceleration. It is a thesis about a proven M&A playbook deployed systematically over a 5-to-8 year horizon, where disciplined capital allocation and operational improvement compound to drive 8-10 percent annual earnings growth. The company operates two growth engines: M&A-driven growth (the primary driver) and organic growth (the stabilizer). This section evaluates both engines, explains why M&A runway is durable through 2030-2031 and identifies the risks to that durability.

Engine 1: M&A-Driven Growth as Primary Value Creation

The M&A Compounding Thesis is the driver of the long-term investment case. Over the past five years, Ingersoll Rand has deployed \$5.4 billion across 70+ acquisitions, executing a repeatable formula that has generated consistent mid-teens returns on capital while systematically improving the earnings profile of the parent company. This is not theoretical. The track record is documented, the pipeline is visible, and the mechanics are understood.

The formula operates in four discrete steps. First, Ingersoll Rand sources targets from a pipeline of 200+ acquisition candidates maintained across the industrial technologies and precision sciences segments. The company does not participate in formal auctions. Instead, management maintains direct relationships with family-owned businesses, private equity-backed platforms, and smaller publicly traded niche players, allowing the company to negotiate sole-source deals without competitive bidding. The company maintains a pipeline of approximately 200 potential targets meeting acquisition criteria, some of which are larger businesses where a single acquisition would consume a significant portion of annual M&A capital. This pipeline visibility is the foundation of runway: at historical deal velocity of 10-15 transactions per year, the company has 7-to-10 years of value-accretive acquisition opportunity ahead. What matters for the thesis is not whether every target in the funnel closes, but whether the sheer number of available targets makes it implausible that Ingersoll Rand will exhaust meaningful acquisition options within the 5-to-8 year investment horizon.

Second, entry multiples are disciplined. Ingersoll Rand enters acquisitions at 9-to-10x pre-synergy adjusted EBITDA. This discipline exists because of the sole-source relationship model: without auction tension, sellers are comfortable accepting fair-value pricing rather than hold-out prices. Recent quarters have seen entry multiples inflate to 10-to-11x, representing a 10-to-20 percent increase in purchase price per dollar of EBITDA. This is a documented trend that bears monitoring closely through 2026-2027, but it is not yet a thesis-breaking headwind.

Third, integration playbook via the IRX Operating System. Upon close, Ingersoll Rand applies a standardized operational improvement template across the acquired business. This is not a light-touch integration. The company deploys weekly Impact Daily Management cadences, 100-day execution sprints, and 200+ standardized operating procedures refined across five years of acquisitions. The target is a 3-to-4 turn EBITDA multiple reduction within the first two to three years through margin expansion, improved cash flow generation, back-office consolidation,

supply chain optimization, and manufacturing footprint consolidation. The IRX system represents a structural competitive advantage in integration execution.

Fourth, deployment cadence anchors runway visibility. In FY2025, Ingersoll Rand closed 16 bolt-on acquisitions representing \$525 million in capital deployment and approximately \$275 million in run-rate annualized revenue contribution. This annualized revenue contribution represents 3.5-4% inorganic revenue growth in a \$7.65 billion company, accounting for approximately one-third to one-half of the company's 8-10% earnings growth guidance. Multiply \$275 million by 5-8 years of acquisition activity, and the company could add \$1.4-2.2 billion in incremental revenue purely from M&A, assuming no multiple compression and no target depletion. The math underscores why the pipeline depth matters: it is not about acquiring every available target, but about having sufficient runway to deploy capital consistently and avoid forced buying at premium multiples when targets dry up.

The durability of this M&A engine rests on three foundational assumptions, each of which bears examination. The first assumption is that target availability will persist. The U.S. industrial machinery manufacturing base comprises 45,676 companies of all sizes, but only a small fraction meet Ingersoll Rand's acquisition criteria (positive EBITDA, mission-critical products, aftermarket revenue potential, integration-ready management). Of these, Ingersoll Rand has identified 200+ meaningful targets with a 5-to-8 year deployment runway. This estimate has been stress-tested against market fragmentation data and competitor acquisition velocity. Atlas Copco executed 33 acquisitions in 2024 alone and maintains a comparable pipeline intensity, and other industrial acquirers are actively consolidating adjacent niches. The implied question is whether industry consolidation is moving faster than new targets emerge. The evidence suggests fragmentation remains substantial: the top four compressor manufacturers control 45-50% of the market, leaving a significant tail of regional, specialty, and emerging competitors. Depletion risk is real around 2028-2029 (the "low-hanging fruit" exhaustion point), but the 5-to-8 year runway appears credible through 2030-2031.

The second assumption is that entry multiple inflation remains manageable. Recent deals at 10-11x versus historical 9-10x represent a 10-20% increase in purchase price. At this inflation rate, a 10.5x entry requires greater operational improvement than a 9.5x entry to achieve the same mid-teens ROIC target. This is achievable but requires either deeper multiple reduction through margin expansion or faster EBITDA growth from bolt-on consolidation, leaving less margin for execution error. The risk is not immediate, but if entry multiples reach 12-13x by 2027-2028 while turn reduction capabilities prove sticky at 2.5-3.0x, ROIC targets compress to 10-12% territory, materially reducing the accretion benefit of continued M&A. This is the critical 2026-2027 monitoring point: either entry multiple inflation will stabilize, or the thesis begins to degrade.

The third assumption is that management will maintain acquisition discipline and avoid another ILC Dover scenario. The June 2024 acquisition of ILC Dover for \$2.35 billion represented a departure from the proven bolt-on playbook: a platform-sized acquisition anchored in life sciences (outside the company's core industrial expertise) that experienced rapid integration challenges and resulted in a \$229.7 million goodwill impairment by August 2025. Management's response was appropriate: the company filed representations and warranties claims against the seller and returned to the proven bolt-on model with 16 acquisitions closed in FY2025. The decentralized operating model means life sciences platform leadership was concentrated in ILC Dover's domain experts; execution shortfalls were specific to that platform, not a broader capital allocation failure. However, the lesson is clear: acquisitions that depart

from the core playbook (sole-source, bolt-on scale, similar operational profile) carry elevated execution risk. For the M&A thesis to hold, management must avoid larger platform plays outside core operational competency. The track record through FY2025 suggests this discipline is intact.

Engine 2: Organic Growth as Growth Stabilizer

Organic growth is the complementary driver of earnings expansion alongside M&A. Management guides to mid-single-digit organic growth for ITS and mid-single-digit-plus for PST over the cycle. The company's FY2025 organic performance was -1.3%,

The organic growth story operates on two tracks. The first track is cyclical recovery in industrial capital expenditure. Ingersoll Rand's industrial technologies segment, representing 80% of revenue, serves large, stable markets (ITS TAM \$39.5 billion, 4.5% CAGR through 2030) that cycle with industrial production, energy spending, and manufacturing capex. The company's negative organic growth in FY2025 reflected a contraction in customer capex spending driven by macro uncertainty, higher working capital carrying costs, and customer inventory reduction. Management's guidance of 0-2% organic growth for FY2026 deliberately incorporates a conservative assumption that the industrial cycle does not meaningfully improve. However, the economic reality is that industrial spending is cyclical: demand suppressed at the trough will naturally recover at the peak.

The second track is aftermarket monetization and service pricing power. The company's \$1.1 billion recurring backlog and 36.5% aftermarket revenue mix provide a revenue floor independent of capital equipment cycles. When industrial capex is weak, aftermarket spending remains stable because customers must maintain existing installed equipment. Management's IRX Operating System is driving service price realization and expanding aftermarket margins through systematic pricing increases and cost reduction. In mature markets with limited competitive intensity, this is a reliable earnings lever that operates even in flat-to-declining equipment revenue environments. The organic growth rate in the near term (2-3%) may remain depressed by capex cyclicality, but aftermarket contribution provides structural support to overall company profitability.

So what does organic growth contribute to the overall thesis? It is a meaningful component that, combined with M&A and margin expansion, builds toward management's 8-10% EPS CAGR target. Organic growth provides the revenue base expansion that M&A then compounds upon. If the company achieves mid-single-digit organic growth over the cycle, combined with IRX margin expansion and M&A-driven inorganic growth, the path to the upper end of EPS guidance becomes visible. The risk to the organic growth assumption is not moderate cyclical weakness (which is already priced in via conservative guidance), but rather persistent structural decline driven by technological disruption or market share loss to new competitors.

Aftermarket Mix Expansion: Structural Growth Within the Existing Base

Within the organic and M&A mix exists a third growth lever: expansion of aftermarket revenue as a percentage of total company revenue. The Razor/Razorblade Model generates 60-70% gross margins on 36.5% of revenue, implying aftermarket is the true profit engine. Expanding aftermarket revenue as a percentage of total revenue mechanically improves overall company margins and EBITDA contribution per dollar of sales.

Management is pursuing this through PackageCARE, a branded lifecycle service program that bundles preventative maintenance, remote monitoring, spare parts, and emergency response into multiyear service contracts. Customers move from transactional parts and service purchases to fixed-fee annual contracts where Ingersoll Rand absorbs the risk of parts consumption and service labor in exchange for predictable recurring revenue. PackageCARE revenue reached approximately \$300 million in 2024 and is on track to exceed \$1 billion by 2027, representing a 233% increase in three years. This program is the strategic next step in business model evolution: from selling equipment with transactional aftermarket to locking customers into contractual lifecycle management agreements that carry inherent switching costs.

So what is the investment impact? PackageCARE expansion directly improves company margins, as locked-in service contracts eliminate demand volatility and allow optimized parts inventory and technician deployment. As PackageCARE grows from \$300 million to \$1 billion and beyond, aftermarket mix improves, company EBITDA margins expand, and earnings scale faster than revenue. The 27.4% EBITDA margin achieved in FY2025 could plausibly reach 28-29% by 2027-2028 if PackageCARE adoption continues. This is not an aggressive assumption; it is a logical extrapolation of a program already in scale with documented adoption traction.

Life Sciences as Growth Option With Execution Risk

Precision and Science Technologies (PST), representing 20% of FY2025 revenue at \$1.55 billion, is positioned as the company's structural growth vector. The life sciences market is smaller than industrial compressed air (TAM \$6-12 billion in single-use consumables, broader addressable market \$65 billion including biopharma, liquid handling, and laboratory instrumentation) but grows faster (8-11.6% CAGR versus 4.5% for ITS). Aftermarket mix in PST exceeds 60% of segment revenue, structurally higher than ITS, improving company margins as PST scales.

However, Life Sciences execution carries meaningful risk. The June 2024 ILC Dover acquisition (\$2.35 billion), the company's largest in history, was intended to serve as a cornerstone platform in containment and bioprocessing. Instead, integration challenges emerged quickly: aerospace customer concentration created forecast risk (customers reduced orders unexpectedly), and goodwill assumptions built into the purchase price proved overstated. Management took a \$229.7 million goodwill impairment by August 2025, just 11 months post-close. This is not a failure of the M&A system overall (the company maintains strong returns on the 70+ bolt-on acquisitions), but it is a clear signal that platform-sized acquisitions outside the company's core industrial expertise carry elevated execution risk.

Management's response is appropriate: the company has returned to the proven bolt-on model for Life Sciences (evidenced by smaller bolt-on acquisitions like Scinomix, where the purchase price was undisclosed but relatively small, consistent with the company's \$52 million total acquisition spend in that quarter). The broader strategic thesis remains intact: Life Sciences is a real TAM, consumables-driven margins are genuine, and Ingersoll Rand's operational system applies. But the confidence level is MEDIUM, not HIGH. Success in Life Sciences hinges on execution discipline and avoiding further platform plays that depart from integration playbook.

So what is the investment implication? As PST grows and its higher aftermarket mix (60%+ of segment revenue) becomes a larger share of the consolidated business, company-wide EBITDA margins benefit incrementally. The magnitude depends on execution, but the directional effect

is positive. This is material but not thesis-driving. The upside is real if execution continues; the downside is meaningful if platform-sized acquisitions continue to struggle.

Risks

Material Risk 1: Capital Allocation Discipline

ILC Dover closed in June 2024 for \$2.35 billion and generated a \$229.7 million impairment charge approximately 11 months later (August 2025), approximately 10% of the purchase price written back before the platform contributed materially to consolidated earnings. This was not a slow drift in fundamentals, but a rapid repricing driven by three specific factors: aerospace customer forecast reduction (reducing the platform's end-market exposure), discount rate expansion from higher Federal Reserve policy rates, and peer valuation compression across the wider Life Sciences space. The impairment is historical, but it signals execution gaps in Reynal's pre-acquisition diligence, particularly in Life Sciences market sizing and duration assumptions.

The material risk here is not whether ILC Dover was a mistake (management has acknowledged the repricing candidly), but whether capital allocation discipline has genuinely tightened post-impairment. Management's response has been deliberate and visible: an independent governance review, enhanced diligence checklists that now include platform-level CEO interviews and third-party TAM validation, and a stated pivot toward bolt-on acquisitions in the \$5-100M range rather than large platform acquisitions. The investor case depends entirely on whether this process update sticks or reverts as the impairment recedes from memory.

Reynal's track record deserves acknowledgment. Since 2016, he has created 8x enterprise value through a combination of organic improvement (670 basis points of operating margin expansion) and M&A-driven growth. The company has deployed \$5.4 billion on 70+ acquisitions since 2020, with an average entry multiple of 9-10x EBITDA and claimed turn reduction of 3-4x, generating mid-teens ROIC by Year 3. ILC Dover represents the first material test of this system in the post-2021 era. If subsequent deals (FY2026-2027 deployments) show similar deterioration, the M&A Compounding Thesis degrades from a core pillar to a discretionary bet. Over a 3-5 year cycle, this could destroy \$2-4 billion of enterprise value relative to fair value.

The decentralized operating model, where domain experts run each profit center independently, provides a mitigant: the Life Sciences market sizing failure is a corporate diligence failure, not a platform operations failure. But the impairment does establish that even with domain expertise embedded in the organization, market dynamics can surprise. Investors should monitor three specific metrics: (1) any changes in target profile toward earlier-stage, pre-revenue, or higher-risk assets, which would suggest management is over-reaching; (2) turn reduction trends by platform disclosed at future investor days, comparing Year 1-2 outcomes against the 3-4x claim; and (3) whether future deal multiples continue inflating toward 11-12x territory, which would compress ROIC below 15% targets even with disciplined turn reduction.

Bear case falsifier: If management deploys \$1.5 billion or more on acquisitions at multiples exceeding 11x EBITDA in FY2027-2028 while simultaneously guiding to organic growth below 2%, the capital allocation risk crystallizes from a credibility concern into genuine value destruction. This would suggest neither discipline nor proper turn-reduction execution.

Operational impact: ROIC compression from higher entry multiples reduces the value creation per dollar of capital deployed across the entire M&A portfolio, directly undermining the compounding thesis. ILC Dover, which had approximately \$400 million in revenue at the time of its 2024 acquisition, has already required a \$229.7 million goodwill impairment and serves as evidence of what happens when capital allocation discipline lapses. Successful integration through 2027 is critical to restoring credibility to management's M&A process.

Material Risk 2: Organic Growth Stagnation

Ingersoll Rand reported organic revenue decline of -1% in FY2025. Management's FY2026 guidance of 0-2% organic growth reflects cautious positioning: industrial activity is stabilizing based on Q4 evidence, but breadth remains weak across most end-markets. The ISM manufacturing PMI has posted below 50 (contraction territory) for 12 consecutive months through February 2026. More tellingly, the Prices Paid component sits at 78.3, the highest reading since early 2022. This suggests that cost pressures, not underlying demand strength, are driving whatever activity exists.

The material risk is not that organic growth is currently weak (the market has mostly priced that reality), but that weakness may be structural rather than cyclical. This distinction carries enormous valuation implications. A cyclical slowdown in a high-return business eventually reverses, restoring margins and reinvigorating capital deployment. Structural decline, by contrast, suggests the secular tailwinds underpinning the total addressable market have shifted: reshoring momentum may be plateauing, Life Sciences consumable demand may be constrained by customer capital availability rather than supplier capacity, or energy efficiency retrofits may be cycling lower as the lowest-cost projects are exhausted.

The case for cyclical weakness is moderate and circumstantial. ITS (Industrial Technology Solutions) serves mission-critical applications: compressed air systems, vacuum technology, flow control, and energy-saving equipment that customers defer capex on during downturns but rarely eliminate entirely. PST (Precision and Science Technologies) serves sticky, high-frequency consumables for life sciences, biopharma, and energy efficiency applications, with typical 5-10 year operating cycles that should mean demand returns as the industrial cycle turns. Both segments have demonstrated this pattern historically. However, the 12+ month duration of ISM contraction is already at the long end of typical cycles; if weakness persists through FY2027 despite ISM eventually exceeding 50, the structural case would strengthen considerably.

The evidence against structural decline is that aftermarket revenue, which constitutes 36.5% of total revenue and carries 60-70% gross margins, has proven resilient even during cyclical troughs. Aftermarket sales are driven by the installed base, not current capex demand, and should be immune to industrial cycle weakness. If organic growth remains flat while aftermarket declines, then cyclical weakness would be confirmed. If aftermarket also declines significantly, structural headwinds become a material concern.

The M&A Compounding Thesis survives organic growth weakness reasonably well, provided organic remains flat-to-slightly-positive and M&A contributes 4-5% revenue growth. The thesis does not survive sustained organic decline. If organic turns negative again (below -2%) in FY2027 while entry multiples remain at 10-11x and turn reduction stays at 3-4x, the total company revenue growth falls to 2-3% and blended EBITDA growth falls to 3-5%, well below the

8-10% management target and insufficient to generate value creation above the weighted average cost of capital.

Bear case falsifier: Organic growth remains below -1% through FY2027, or organic turns negative while management simultaneously deploys capital on acquisitions above 10x multiples. Either scenario signals that near-term execution is deteriorating regardless of longer-term thesis durability.

Operational impact: A 2% organic miss versus guidance (0% actual versus 2% forecast) translates to roughly \$40 million in revenue, or \$12-15 million in EBITDA depending on margin profile. Combined with tariff headwinds and any share loss in mid-tier segments, organic stagnation creates a scenario where M&A must deliver 100% of the growth story, raising the bar significantly from the original thesis framing.

Material Risk 3: Tariff Escalation and Congressional Outcome

On April 6, 2026, the presidential proclamation set tariffs at 50% on steel, 50% on aluminum, and 15% on industrial equipment, with a July 24, 2026 Congressional decision point on Section 232 tariff exemption renewals. Ingersoll Rand's exposure is material but not company-threatening: approximately 40-50% of cost of goods sold faces tariff application across both segments. Steel and aluminum content flows through compressor housings, valve components, and equipment frames in ITS. PST's exposure comes from metallic content in consumable components and packaging. FY2025 tariff cost impact totaled approximately \$150 million, representing 7.2% of adjusted EBITDA, a material but manageable headwind.

The immediate market perception is straightforward: tariffs are a near-term headwind with manageable mitigation paths. Management has demonstrated pricing pass-through capability in the 2018-2019 tariff cycles, achieving roughly one-for-one recovery of tariff costs within 6-9 months. Supply chain diversification toward India (the Sanand facility targeting 84,000 compressor units and 90%+ localization by 2028) and reshoring to Mexico and Central America reduce exposure over time. Current market pricing at 17.7x EV/EBITDA assumes tariff continuation at current rates and incorporates roughly 25-30% probability of moderate escalation.

What is underpriced or essentially unpriced by the market is escalation. Movement from 15% industrial equipment tariffs to 25-35% or higher would materially alter the earnings profile. Under a moderate escalation scenario (industrial tariffs move to 35%), FY2026-2027 EBITDA faces an additional \$60 million headwind, or approximately -\$0.10 EPS impact, assuming standard 6-9 month lags for pricing realization and limited supply chain relocation by mid-2027. Under a severe escalation scenario (industrial equipment tariffs reach 50%), the impact expands to \$140 million EBITDA and -\$0.24 EPS. Neither scenario is catastrophic for a business generating \$2.1 billion in adjusted EBITDA with \$1.2 billion in annual free cash flow, but both meaningfully compress near-term returns relative to bull-case expectations.

The timing is critical. If tariff escalation occurs in H2 2026 and persists through 2027, pricing lags of 6-9 months (confirmed in FY2025 experience) mean FY2027 EPS accretion is heavily impaired. FY2026 is largely locked in; the earnings impact depends entirely on Congressional action on July 24, 2026 and management's pricing velocity thereafter. Management has claimed one-for-one pass-through in prior cycles, but execution risk is material in a softening demand environment. When competitors are simultaneously raising prices, customer resistance emerges. PST should see faster pricing (healthcare consumables are less price-elastic,

relationships are stickier), while ITS faces longer negotiation cycles with industrial customers already stretched by macro weakness.

The Congressional exemption renewal on July 24, 2026 is the key catalyst. If exemptions expire or narrow, tariffs at 50% on steel and aluminum and 15-25% on industrial equipment are likely to persist through 2027 without offsetting pricing pass-through. If exemptions renew or broaden, tariff risk is largely negated. Current market assessment suggests moderate escalation has roughly 25-30% probability. We assess escalation risk as material but not tail-risk: 35-40% probable through H2 2026 based on the pattern of Congressional behavior and trade policy signaling.

Bear case falsifier: Tariffs escalate beyond 35% on industrial equipment and persist through 2027 without offsetting pricing pass-through fully realized. Under this scenario, FY2027 EPS guidance falls below \$3.35, creating a 10%+ miss to forward expectations and material downside to fair value if multiple compression accompanies the earnings miss.

Operational impact: Moderate escalation (15%→35% industrial) = \$60 million EBITDA headwind, -\$0.10 EPS impact. Severe escalation (15%→50% industrial) = \$140 million EBITDA headwind, -\$0.24 EPS impact. Combined with organic weakness, tariff escalation creates a dual margin squeeze: volume weakness reduces fixed-cost absorption while tariff costs reduce per-unit margins.

Valuation

Ingersoll Rand trades at approximately 20 times our FY2027 earnings estimate of \$3.88 per share. That multiple sits roughly 25% below the high-quality industrial peer group, which trades in the high twenties. For a business with mid-teens returns on invested capital, a decades-long runway of bolt-on acquisitions, and margins that have expanded consistently through cycles, this discount is difficult to justify on fundamentals alone.

The de-rating reflects two temporary headwinds. First, the broad industrial economy outside data center and aerospace verticals has been weak, suppressing organic growth expectations. Second, the ILC Dover impairment charge dented the halo effect that Ingersoll Rand's M&A track record had previously enjoyed among investors. The market is pricing the stock as though both conditions are permanent. We believe they are not.

Our base case fair value is approximately \$96 per share, representing roughly 23% upside from the current price of \$78. This estimate is grounded in a discounted cash flow analysis using the S&P 500 long-term return of 9.5% as our discount rate, consistent with our standard framework across all Investor Center Research coverage.

Growth Assumptions

Our base case assumes total revenue growth of approximately 8% annually through FY2030, comprising 3-5% organic growth and an additional 4-5% contribution from M&A. On the organic side, we expect volume recovery in the low-single-digit range as the industrial cycle normalizes, supplemented by 1.5-2% annual pricing. M&A adds another 4-5% as Ingersoll Rand continues to execute its bolt-on playbook, deploying roughly \$500 million per year into targets at 9-10 times EBITDA and reducing those multiples by 3-4 turns within three years through its IRX operating system.

Margin expansion from the current 27.4% EBITDA margin toward 28% by FY2030 reflects the compounding effect of IRX-driven productivity improvements and margin accretion from acquired businesses. Combined with modest operating leverage, we estimate base case earnings growth of approximately 10-11% annually.

In the bull case, a stronger macro inflection drives organic growth toward 5-6% while an accelerated M&A pipeline pushes total revenue growth to approximately 11%. Margins expand toward 29% as acquired businesses mature and volumes provide additional operating leverage. Earnings growth reaches 13-15% annually. Our bull case fair value is approximately \$123 per share.

In the bear case, the industrial economy remains stagnant with organic growth limited to 1-2%. M&A slows as pipeline quality deteriorates and management maintains pricing discipline rather than overpaying. Total revenue growth falls to roughly 4%, margins compress slightly to 26.5% under persistent tariff and input cost pressure, and earnings growth moderates to 5% annually. Our bear case fair value is approximately \$66 per share.

DCF Framework

Our discounted cash flow model projects five years of explicit free cash flow, discounted at 9.5%, and applies a terminal EV/EBITDA multiple to derive terminal value. We use the terminal multiple method rather than a perpetuity growth approach because it produces more intuitive and transparent results, a key consideration given Ingersoll Rand's acquisition-driven growth model, where perpetuity growth rates can be misleading.

The critical assumption is the terminal multiple. We apply 17 times terminal EBITDA in our base case, which represents the approximate midpoint of the high-quality industrial peer range. At this multiple, our model produces a base case fair value of \$96 per share. In the bull case, an 18x multiple reflects re-rating toward premium industrial compounder status, producing \$123 per share. In the bear case, a 15x multiple reflects a de-rated environment, producing \$66 per share.

Scenario	Revenue CAGR	Terminal Margin	Terminal Multiple	Discount Rate	Fair Value	Upside / (Downside)
Base	8%	28.0%	17.0x	9.5%	\$96	+23%
Bull	11%	29.0%	18.0x	9.0%	\$123	+58%
Bear	4%	26.5%	15.0x	10.0%	\$66	(15%)

Applying probability weights of 50% base, 35% bull, and 15% bear produces a probability-weighted expected value of approximately \$101 per share, or roughly 30% above the current price.

What the Market Is Pricing In

A reverse DCF analysis reveals what assumptions are embedded in the current stock price. At \$78, the market is pricing in approximately 3.6% annual revenue growth through FY2030, well below management's guidance range of 6-8% organic growth alone, before any M&A contribution. The 4.4 percentage point gap between the market-implied growth rate and our base case represents our margin of safety.

This disconnect makes sense in context. The market has lost enthusiasm around two pillars of the Ingersoll Rand thesis: the organic growth trajectory and the M&A premium. If either normalizes, if organic growth accelerates toward mid-single-digits as the industrial cycle turns, or if Ingersoll Rand executes several clean bolt-on deals that restore confidence in the M&A engine, the re-rating potential is significant. A PE expansion from the current 20 times to even 24-25 times on growing earnings would alone bring the stock into the mid-\$90s.

Valuation Summary

We view Ingersoll Rand as a high-quality compounder trading at a meaningful discount to both its intrinsic value and its peer group. The DCF supports a base case fair value in the mid-\$90s, corroborated by the relative valuation picture: a 25% PE discount to comparable high-quality industrials. The risk-reward is favorable on a 12-24 month horizon for a business of this quality: one with high margins, high returns on capital, a proven acquisition playbook, and exposure to secular growth in energy efficiency and automation. Our conviction is supported by the fact that the market appears to be pricing in a permanently impaired growth trajectory that we believe is cyclically, not structurally, driven.

Conclusion

Ingersoll Rand represents a rare combination of qualities we look for in a long-term compounder: a dominant market position reinforced by installed-base switching costs, a disciplined and repeatable M&A playbook that creates measurable value, and a management team whose incentives are overwhelmingly tied to equity performance. The company's structural advantages, including oligopoly pricing power, global service density, and the IRX Operating System, create a compounding engine that grows more defensible with each acquisition cycle.

The current share price, at approximately 20 times forward earnings, embeds a growth assumption of just 3.6% annually, well below both management's guidance and the company's demonstrated organic growth trajectory. We believe the market is conflating a cyclical slowdown in short-cycle industrial activity with a structural deterioration in the business model. The ILC Dover impairment, while a legitimate blemish on the M&A record, does not alter the economics of the core bolt-on strategy that has driven 70+ successful integrations. Our base case DCF supports a fair value in the mid-\$90s, implying roughly 20% upside from current levels, with further optionality from M&A-driven earnings accretion.

We are initiating a position at a 5% portfolio weighting, reflecting high conviction in the business quality and the margin of safety offered at current prices. The primary risk we are monitoring is execution in the life sciences vertical following ILC Dover, and we will reassess if management pursues further large-scale acquisitions outside its core industrial competency. For patient investors willing to look through a temporary industrial downturn, Ingersoll Rand offers an attractive entry point into one of the best-managed compounding platforms in the public markets.

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