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Carrier Global Corp. (CARR)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Carrier's Q3 2026 Earnings Release. I would like to introduce your host for today's conference, Michael Rednor, Vice President of Investor Relations. Michael, please go ahead.

Michael S. Rednor

Vice President-Investor Relations, Carrier Global Corp.

Good morning, and welcome to Carrier's third quarter 2026 earnings conference call. On the call with me today are David Gitlin, Chairman and Chief Executive Officer; and Patrick Goris, Chief Financial Officer.

Except where otherwise noted, the company will speak to results from continuing operations, excluding restructuring costs and certain significant non-recurring items. A reconciliation of these and other non-GAAP financial measures can be found in the appendix of the webcast.

We also remind listeners that the presentation contains forward-looking statements, which are subject to risks and uncertainties. Carrier's SEC filings, including our Form 10-K and quarterly reports on Form 10-Q, provide details on important factors that could cause actual results to differ materially.

With that, I'd like to turn the call over to Dave.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Well, thanks, Mike, and good morning, everyone. We delivered a strong third quarter. Organic sales grew 15%. Adjusted operating profit increased about 35%, with adjusted operating margins expanding 260 basis points. Adjusted EPS increased 30%, or approximately 15%, excluding the impact of IEEPA refunds.

Year-to-date, free cash flow was also very strong at \$1.5 billion. Our strategy is working and we are winning. Global orders increased 35% in the quarter, with global commercial orders up over 60%. Data center orders increased 300% and year-to-date data center orders have exceeded \$3 billion, an increase of nearly 350%.

We delivered more than \$550 million in data center sales in the third quarter, exceeding our target, and we remain on track to deliver our full year commitment of \$2 billion. This momentum has contributed to record backlog of more than \$8.5 billion. And remember, that backlog excludes minimum volume commitments under long-term agreements. Earlier this month, we signed an agreement with a hyperscaler for more than \$3 billion, with a significant portion of that covered by a minimum volume commitment.

Our team is also working with several other leading hyperscalers and large colo customers to secure future agreements across our differentiated commercial HVAC portfolio, including chillers, CDUs, and building management systems. It is also encouraging that data center sales are margin accretive to our applied business.

Importantly, we see strength beyond data centers. Non-data center commercial orders increased 20% in the quarter. Residential sales in CSA increased more than 30%. Residential and light commercial sales in Europe grew 13%, aftermarket grew 9%, and the installed base created by today's commercial growth positions our aftermarket for sustained long-term expansion.

The quarter was strong, but the bigger story is how fundamentally Carrier's growth profile has changed, as you can see on slide 4. We now have a powerful combination of long-cycle commercial growth, expanding aftermarket revenue, and improving short-cycle residential and light commercial markets. This gives us both increased visibility and multiple avenues for sustained growth.

Our commercial HVAC and aftermarket businesses have grown at double-digit rates every year since spin. By the end of this year, we expect these businesses to be approximately twice their size versus spin, and by the end of next year, we expect them to represent nearly half of our portfolio.

We are winning in commercial through differentiation, as you see on slide 5. We have fundamentally transformed our commercial HVAC business. Our sales are up 2x since spin and our backlog is up 4x. We invested in a new and innovative product portfolio with us seeing great demand for our new 2 megawatt and 3 megawatt air-cooled chillers and our new family of CDUs.

In addition to products, we have significantly enhanced our digital BMS, AI and system offerings, complemented by a far more expansive field network of technicians, spec engineers, and selling professionals, all to provide our customers with differentiated outcomes, namely intelligent, autonomous, and efficient buildings.

We are also winning because of our execution and customer support. Just in the past month, two key hyperscalers have doubled down on their commitments to us, based in part on our performance, not only product, digital and systems performance, but also our onsite commissioning and field support.

Our strong demand and backlog require additional capacity. Last week, we announced a new advanced manufacturing and engineering site in Fort Worth, Texas. The facility will add approximately 1,500 highly skilled jobs, insource critical subassemblies and components, and expand our test lab capacity. We plan to begin customer deliveries from this site in the late summer of next year.

Given the tremendous backlog and growth opportunities within our CSA segment, we are appointing two proven leaders to ensure that we fully realize our growth and earnings potential in both commercial and RLC in this segment.

We announced earlier this week that Gaurang Pandya, who has been a driving force of our commercial transformation and has shown great leadership running CSA, will focus all of his efforts on the CSA commercial business, while Ed Dryden, who has been a driving force of our operational, digital and engineering transformation, within CST, will now take responsibility for CSA RLC. Both are great leaders and will continue to report to me. I will take on responsibility for overall CSA segment and we will continue to report CSA as such.

In addition to a transformed commercial business, we have market-leading resi and light commercial businesses where markets are improving, as you can see on slide 6. We had expected the CSA residential market to be below 7 million units this year. It now appears to be tracking to between 7.5 million and 8 million units. In Europe, the heating market is stabilizing, Germany has returned to growth, and demand for both heat pumps and air conditioning is extremely strong.

Beyond market recovery, we continue to outperform through product, digital and systems differentiation. The combination of Carrier, Toshiba and Viessmann gives our 5,000 engineers a unique collection of technologies to scale globally.

We are leveraging compressors, inverters, controls, drives, and software developed across our global centers of excellence to deliver our residential customers globally with intelligent, personalized, and efficient comfort. For example, in the US, we recently launched a mid-tier heat pump using Toshiba's Variable Frequency Drive and Rotary Compressor technology, and initial orders have been strong. In Europe, the Viessmann Vitocal 200-A has launched across more than 10 countries with record pre-sales.

We are also applying Viessmann's One Base digital framework to our offerings in CSA, and our systems approach continues to gain traction. Systems Profi installers in Europe delivered 70% growth in the third quarter, while in CSA we will be initiating field trials of our first integrated air-to-air heat pump and domestic hot water solution in the first half of 2027, with full launch expected by the end of next year.

Carrier Energy is progressing our integrated battery heat pump offering through key partnerships, including our selection as the first new technology partner for PG&E's SHARE program, funded by Google. And we are installing our first revenue-producing units this quarter. We are also applying the same strategy across buildings and homes: differentiated and cost competitive products, digital and controls, system solutions, lifecycle solutions and go-to-market excellence.

Before I put 2026 in perspective, I want to address Climate Solutions Europe. I am obviously disappointed with the impairment. As I've shared with you before, I remain confident in the strategic rationale and the benefits of the acquisition. In hindsight, our timing was unfortunate. I am, however, very encouraged by what we see ahead. Markets are improving, demand for heat pumps and air conditioning is very strong. We are launching compelling new product, digital and system offerings, expanding our channel partnerships, and building record commercial

backlog. I am confident that Thomas Donato and the team will deliver the growth and margin expansion that we expect going forward.

Before I turn it over to Patrick, a few comments on slide 7. When Carrier became an independent company in 2020, there were questions about our ability to generate sustained growth. The investments we have made, the portfolio we have built, and the way we now operate the company have changed that outlook. Carrier is better positioned for strong growth today than we have been in a long time.

In addition to top-line growth by overdriving on price, productivity and volume, we expect to deliver double-digit EPS growth this year despite facing unexpected in-year input cost headwinds of \$550 million to \$600 million, driven by tariffs, commodities, and supply chain inefficiencies. Gross productivity alone this year will be about \$600 million.

We recognize that these actions have been insufficient to drive the margin expansion this year that we expect of ourselves. But given that we expect the inflationary environment to carry over and continue into 2027, we have already announced a number of price increases. For example, in CSA, we have announced price actions across the portfolio of up to 10%. We will also continue to be very aggressive on driving productivity, restructuring, and cost actions, and supply chain resiliency.

Though it is too early to give guidance for 2027, thanks to the great work of our nearly 50,000 team members across the world, we expect to enter next year with record backlogs, accelerating commercial and data center demand, recovering residential markets, growing aftermarket revenue, and differentiated technologies across the portfolio, positioning us for another year of double-digit EPS growth.

With that, I will turn it over to Patrick. Patrick?

Patrick P. Goris

Executive Vice President, Chief Financial & Strategy Officer, Carrier Global Corp.

Thank you, Dave, and good morning, everyone. Please turn to slide 8. As Dave mentioned, we had a strong quarter. Reported sales growth of 12% was driven by 15 points of organic sales growth, with strong global commercial sales, particularly in the Americas, and continued improvement in resi and light commercial in the Americas and Europe. The divestitures of Riello and NORESKO were a net 3 point headwind to reported sales.

The year-over-year adjusted operating margin expansion of 260 basis points reflects the benefit of strong organic growth, including price, partially offset by increased input costs, including tariffs and supply chain challenges. In addition, we recorded an approximate \$130 million benefit from IEEPA refunds. And as you can see, free cash flow was very, very strong at close to \$700 million.

Moving on to slide 9, which shows the Q3 year-over-year earnings bridge, adjusted EPS increased 30% driven by operating profit growth and a lower share count, partially offset by a higher effective tax rate.

Let's move on to the segments, starting with CSA on slide 10. As you can see on the slide, orders continue to be exceptionally strong in this segment. Organic sales growth was also broad based across resi, light commercial, and commercial. Resi was up over 30%, benefiting from the absence of destocking, and light commercial was up high-single digits.

As expected, resi field inventory levels ended Q3 about flat to the prior year, and we continue to expect year-end field inventories to be about flat versus the prior year as well. Commercial sales were up over 25%, driven by a

significant ramp-up in data center deliveries. And our data center sales in this segment increased about 2.5x sequentially. We expect continued strong data center sales growth in the fourth quarter, both year-over-year and sequentially.

Segment operating margin of 22.2% was ahead of our guide due to the benefit of the IEEPA refunds. Excluding the refunds, margins were lower than we expected. The combination of positive but lower-than-expected price realization, increased input costs, and supply chain challenges put pressure on margins. As Dave mentioned, we are addressing these three areas.

I will review the other segments briefly as the main drivers for Carrier performance are what I just reviewed for CSA. So, let's move on to slide 11, CSE. This segment also had broad-based strong orders growth, up 30%. Organic sales in this segment were up 12%, driven by strong performance in residential light commercial up low-teens, with heat pump and air conditioning sales both up approximately 35%.

As expected, boiler sales declined high-single digits. Commercial sales reflect strong data center growth. Similar to the CSA segment, we expect data center sales to remain strong into year end. As to profitability, it is encouraging to see the segment deliver double digit margins.

Turning to Asia, on slide 12. This segment delivered about 5% orders growth with commercial up about 10%. Organic sales grew 3%, reflecting strong performance in commercial HVAC, up double digits, including in China, partially offset by continued softness in residential China. Aftermarket continues to be really strong in this region, up low-teens, and segment operating margin expansions were driven by volume growth and strong productivity.

Transportation, on slide 13. Organic sales were down 3% with growth in container, more than offset by a mid-single digit decline in the higher margin global truck and trailer business.

Turning to Q3 orders, on slide 14. Total company orders in the quarter were very strong, up 35% with growth across all segments, and particularly strong in the Americas and in Europe. Our commercial businesses in the Americas and Europe achieved strong data center order intake. Excluding data centers, commercial orders were up 20% globally. Within transport, North America truck and trailer orders were up mid-teens, encouraging, though too early to call for the recovery.

Moving on to slide 15 and shifting to our updated 2026 organic sales outlook. We now expect full year sales to be nearly \$24 billion with organic growth of about 10%, up from our prior outlook, which was a little over \$23 billion in sales. The most notable changes are improvements in resi and light commercial in the Americas and in Europe. And we also expect commercial sales in the Americas to be up a bit versus our prior guide.

Moving on to profit and cash guidance on slide 16. There is no change to our outlook with respect to adjusted operating profit, free cash flow, or share repurchases. The most notable change here is in CSA, where we now expect full year operating margin of about 19%. The reasons for the reduction in the margin outlook for this segment are the same that Dave and I covered earlier on this call: positive but lower-than-expected price realization and the impact of increased input costs and supply chain challenges.

This takes us to our adjusted EPS outlook of \$2.85 to \$2.90 for the full year. You will find the full year bridge and additional guide items on slide 19 and 20.

Finally, moving on to slide 17, our key takeaways. As you can see on this slide and as Dave mentioned, we are set up well for a strong 2027.

With that, I would ask the operator to open it up for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Julian Mitchell with JPMorgan Chase & Co. Your line is open. Please go ahead.

Julian Mitchell

Analyst, JPMorgan Securities LLC

Q

Hi. Good morning, Dave and Patrick. Maybe the first question would just be around the margin outlook in the Americas segment. It looks like the guide is implying a sort of maybe low-20s incremental margin year-on-year in the fourth quarter. Just wondered sort of as you look into next year, how quickly do you think that can step up or are those price/cost headwinds likely to linger for some time?

Patrick P. Goris

Executive Vice President, Chief Financial & Strategy Officer, Carrier Global Corp.

A

Yes, good morning, Julian. Maybe a comment about the Q4 margins. What we expect to happen in Q4 is similar to what we saw in Q3, i.e., strong organic growth. And we expect that to fall through to the bottom line. In Q3, our conversion was a little north of 30%. And the benefit of the IEEPA refunds offset the headwinds we saw from increased input costs, lower-than-expected pricing. And that story is the same for CSA as it is for Carrier.

In Q4, the story is very similar, strong organic growth. We'll see the benefits of that. But we no longer see the impact of IEEPA refund to offset increased input cost headwind and somewhat lower-than-expected pricing. With respect for next year, we think that this will improve sequentially, but I don't think we'll see a snapback in the first or the second quarter.

In terms for outlook for next year, in general, obviously, it's still a little bit early to say, but the bottom line is the following. We'll have a lot of moving pieces. As you know, we start with a very strong backlog. Short-cycle businesses are improvement. We'll see some carryover headwinds from our input costs. We also mentioned that we're implementing additional price and cost actions. And the bottom line, frankly, is that we'll target double-digit EPS growth. And I think we'll keep it at that for next year rather than talking about margins at this point.

Julian Mitchell

Analyst, JPMorgan Securities LLC

Q

That's very fair. Thank you. And then just my follow-up would be around that price/cost point. I think you said that the pricing realization had been a little bit underwhelming versus what you had hoped recently. But you also talked about up to 10% price increase to offset higher costs. So, maybe just help us sort of understand where is that price sticking and not sticking? And maybe what are you doing differently on price now than before to try and get it to stick better?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. Julian, this is Dave and good morning. I assume we're primarily focused on resi pricing in CSA. Look, we had last quarter expected mid-single-digit pricing. We ended up realizing low-single digits. If you kind of step back

and look at what happened this year, we saw a really big and immediate increase in input costs, especially tariffs when that hit us in April. And I can't speak for the others, but that did have a big impact on us when the Section 232 tariffs in April went into effect. And in that month, we pretty much immediately announced and implemented additional price increases. And as Patrick said, the price realization has been improving sequentially, but the pace has been a little bit slower than we expected.

We have experienced additional cost increases, things like steel, copper, aluminum, some of the freight charges with the higher fuel prices. And that's led us to announce additional price increases. It's up to 10% in CSA. I think it's 8% for resi, and that goes into effect towards the end of this quarter. But unlike tariffs, where perhaps we were a bit impacted a bit more, we believe that the additional input costs have likely impacted the entire industry proportionally.

I would say that in addition to the price increases that that we've announced, we've also done a number of other actions as we head into 4Q and we head into 2027. We do have some new pricing tools that help us make very good decisions by customer with some more rigor. There's some AI behind some of that dynamic pricing model that we're using. We've introduced a new brand for over-the-counter sales. It's called WeatherMaker by Carrier. And we're confident that's already gotten some traction, will continue to. And we have some new and improved side-discharge and vertical-discharge units. Look, I think this year, we were chasing pricing a little bit and our plan is to get out in front of it as we go into next year.

Julian Mitchell

Analyst, JPMorgan Securities LLC

Great. Thank you.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah.

A

Operator: Your next question comes from the line of Scott Davis with Melius Research. Your line is open. Please go ahead. As a reminder to unmute your device on your end locally.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Hey, Scott, you there?

A

Operator: We'll move to the next caller. Your next question comes from the line of Nigel Coe with Wolfe. Your line is open. Please go ahead.

Nigel Coe

Analyst, Wolfe Research LLC

Thanks, guys. Good morning. Thanks for the question.

Q

Patrick P. Goris

Executive Vice President, Chief Financial & Strategy Officer, Carrier Global Corp.

Good morning.

A

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Morning, Nigel.

A

Nigel Coe

Analyst, Wolfe Research LLC

I guess, Scott is speechless this morning. So, just come coming back to the price and, obviously, looking to push price looks to be fairly aggressive in 2027. But it seems like the pricing power in residential has really deteriorated. So, I'm just wondering how we sort of reconcile that dichotomy.

Q

And then, just on top of that, Dave, maybe just talk about what is the principal problem in resi? Is it really the consumer is tapped out? Is it competition? We hear about Asian imports. What is the big problem right now on realizing price in resi?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. Look, Nigel, I would say, the resi business is a great business. I think that if you look at what's happened this year, the input cost increases impacting that specific business were very significant and very, very sudden. So, we all – and I could just speak for us, for a Carrier, I know that for us, we of course raised price coming into the year. And when we saw those additional input cost increases, we announced additional pricing. And we've gotten more pricing this year than we expected coming into the year, but just not as much to cover what were pretty extreme impacts from things like tariffs and inflation.

A

The business is a great business. It's business that we have really good share in and that we continue to introduce new products, system offerings, digital solutions have been coming and will continue to be forthcoming. And it's a very, very unique and good business. I think that this year was a bit extreme in that price/cost dynamic. But I think these questions around, has something fundamentally changed in resi? I would tell you the answer is no. And as we look into next year, we're very clear-eyed about the carryover inflation, the expected inflation, the carryover tariff impact.

So, yeah, we announced an 8% price increase effective later this quarter. And I expect us to be incredibly disciplined and tenacious going forward, both on price and all things productivity and supply chain resiliency. So, yes, this year, it impacted our margins. I feel very confident in the margin profile of this business.

Nigel Coe

Analyst, Wolfe Research LLC

Okay. That's great, Dave. And then, obviously, recognizing that price/cost is the major driver of the Americas margin kind of revision. How much, though, is coming from mix of commercial? And I'm curious about the data center investment ramp specifically. I'm just wondering if that is also a factor. And then, just kind of feather in how this new Texas facility might impact margins going into 2027.

Q

Patrick P. Goris

Executive Vice President, Chief Financial & Strategy Officer, Carrier Global Corp.

Nigel, Patrick here. Within the Americas, mix was not a big driver in Q3 from a margin perspective. Actually, it was close to neutral. The cost this year of the new facility, there will be a couple of pennies in line with what we said basically last quarter. And then, for next year, in terms of the margin profile, as I mentioned to Julian, we're not

A

ready at this call to talk about margins for next year. There will be lots of puts and takes. We're targeting double-digit EPS growth.

Nigel Coe

Analyst, Wolfe Research LLC

Okay, guys. Thanks a lot.

Q

Patrick P. Goris

Executive Vice President, Chief Financial & Strategy Officer, Carrier Global Corp.

Thank you.

A

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thank you.

A

Operator: Your next question comes from the line of Steve Tusa with Wells Fargo. Your line is open. Please go ahead.

C. Stephen Tusa

Analyst, Wells Fargo Securities LLC

Hi. Good morning.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Hey, Steve. Welcome back.

A

C. Stephen Tusa

Analyst, Wells Fargo Securities LLC

Thanks. Great to be back. So, just on this resi business, and you mentioned the side-discharge product. Can you just talk about the market dynamics there? I know you guys have had a product for a little while, how you're approaching that strategically? And what percentage of the market – out of that 7.5 million to 8 million unit market, what percentage do you see it at today, and where do you see that going in the next few years?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Well, good morning, Steve. We do see an increased demand for the side-discharge product. And it's [ph] both (00:28:50) the ductless product, but also the unit that we call as a crossover. I know you've been asking since we spun about the hybrid units, which you were right. That continues to gain more traction, and we feel really good about our product portfolio on that ductless hybrid area. It's very good margin for us. We have very good position.

A

We have a longstanding partnership with Midea. We work closely with Paul and his team on that space, and we continue to be pleased with that partnership, which we fully expect will continue. And we continue to have a great product offering. One of the great things about the Toshiba acquisition is they have a complete set of technology that fits perfectly for that side-discharge unit. So, we're using a lot of the technology for introduction here in the United States.

So, we're very well positioned. It's a good and growing market. Look, it's probably – in terms of your question of what percent of the overall market, it's probably about 20% of the 8 million or so that we're going to see this year, the 8 million market. The market's 7.5 million to 8 million, and I think it's about 20%.

C. Stephen Tusa

Analyst, Wells Fargo Securities LLC

Got it. And how does that work with Midea? Because I think that they have their own brands that are out there. How is that like structured? Are there certain regions of the country where you have exclusive distribution? Or like, is it just you put your sticker on it, and it just goes and competes in the wild? Or how is that structured?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. I can't, Steve, get too into the details of it. But what I will say is that it's been a great partnership. They have technology. We have a certain relationship as it relates to both Carrier-branded and Midea branding, some through our channel, some through others. And we're pleased that the partnership has positioned us very well in the ductless space and that hybrid space, and we expect that to continue.

C. Stephen Tusa

Analyst, Wells Fargo Securities LLC

Got it. Okay. Thanks for the detail. Appreciate it.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thanks, Steve.

Operator: Your next question comes from the line of Joe Ritchie with Goldman Sachs. Your line is open. Please go ahead.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Thanks. Good morning, guys.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Hey, Joe.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Hey, Dave, can you just elaborate a little bit on the LTAs that you signed? You mentioned minimum volume commitments. I'm just curious if there's like a – is there margin profile of that business, and then like what pricing mechanisms do you have embedded in those contracts? I'm basically asking how protected you are against input cost inflation over the life of the LTAs.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. I think we feel well-protected, both on the minimum volume side of it and on the margin side. The margins for our data center business, those applied sales, they're accretive to our overall applied margins. And look, we're not blind to the fact that we've been in an inflationary environment. So, that does weigh into how we contract with our customers to make sure that we do our best to not get stuck eating that as inflation continues to increase. So, we feel well-protected both on the load side as we invest in new capacity, and we feel well-protected on the margin side.

Look, if you look at – I'm really proud of the team. A number of these hyperscalers, when we started talking to them a few years ago, I'll tell you, one of them that I met with asked, are we in the chiller market? Now, we have two hyperscalers that have said to us that we are amongst, if not their favorite partner across their entire supply chain. And it's because of what we do to not only deliver on time, deliver high-quality, reliable product. We delivered products. In some cases, we designed and developed products that would have taken 18 months, we did them in 6 months.

And when – the customer was there to witness the first-of-kind testing. We exceeded the competition and the spec in terms of restart time and operating at full efficiency at high ambient temperatures. And we continue to support our customers. These 2 megawatt and 3 megawatt air-cooled chillers have been very, very well-received by key customers. It's resulted in great orders. We support them through commissioning. And then even after we commission and the data center's up and running, we stay there shoulder to shoulder with our customer to ensure that the units are performing as they expect. So, they appreciate the customer support.

So, we've been winning. And now, we're at a point where our execution is helping us drive more wins in the marketplace. So, we're really excited with the backlog. So, I'm sorry, Joe, to give such a long answer to a simple question, but I'm really proud of the fact that these wins have resulted in the backlog that position us extremely well for these next few years.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

No. Great, Dave. I appreciated the color. And I guess maybe just – I know we've talked a little bit about the pricing and also input cost inflation. You [ph] did (00:34:17) reference supply chain challenges at all. I was wondering if there was anything specific, products or components that you're struggling to get access to today. Or is it more just around kind of like ramping your own capacity, just given the strength that you're seeing in the data center business?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. I would say that if you look at the fact that we introduced these new 2 megawatt or 3 megawatt air-cooled chillers, over the past, say, four months or so, that there have been some initial teething pains with the supply chain. And that's not unusual for your first production units, because it's hard to dual source right out of the gate. So, as I look ahead, here's the things that I feel really good about.

Number one is that the designs are – they're all complete and we're shipping the units. I look at the war room that we have for all things data center production. We are on track to the internal commitments we've made on dual and multi-sourcing. We're on track to a very specific materials management strategy of what parts do we want where in the world. And the design is behind us, and that has been resulting in the takt time in our factories coming way down significantly, like kind of night and day.

So, have there – were there some initial issues? Yes. Things like fans and a couple other components where we've had to fly units that we otherwise would have put on a ship. Yes. There have been some of that upfront, and that has impacted some of the input costs that we've seen. But as we go into 2027, a lot of those initial teething pains should start to subside now that we've implemented that we can do more of our dual sourcing, and we start to see more materials in the places that we want them. And the design is now, of course, stable, and we're producing the units at more rate.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Got it. Thank you, guys.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thank you.

A

Operator: Your next question comes from the line of Scott Davis with Melius Research. Your line is open. Please go ahead.

Scott Reed Davis

Analyst, Melius Research LLC

All right. Can you finally hear me, guys?

Q

Patrick P. Goris

Executive Vice President, Chief Financial & Strategy Officer, Carrier Global Corp.

Now, we can hear you.

A

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

We got you, Scott.

A

Scott Reed Davis

Analyst, Melius Research LLC

Phone wasn't muted, I promise. Anyways, I'll move on. So, look, I wanted to ask about this Fort Worth facility and the timing of it and such, because I guess the main question being, does this allow you to bid on or – at least more stuff or more aggressively, or is it more done just to kind of release perhaps some of the overburden on your other facilities that are running pretty hot right now?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

It's both. If you look at the investments, Scott, that we've made in the Americas, we've increased our capacity significantly over these last few years, both for air-cooled and water-cooled chillers, but given our backlog and given our pipeline, just not enough to keep up with all the demand. So, Fort Worth, we have a great relationship with Ross Perot Jr. and the Hillwood team, in this AllianceTexas area.

A

The facility shell should be complete here in the coming months, and then we'll do all the tenant improvements and be up and running here by mid to late summer of next year. And that's to keep up not only with the backlog

that we've committed to over these coming couple of years, but it's also to keep up with the pipeline and the win rate that we're seeing. It's going to effectively more than double our capacity in the Americas, which we need. And it's a wonderful problem to have all the growth that we've seen.

And an important point, Scott, is that it is not just for data centers. I mentioned that our growth in orders for non-data centers last quarter was 20%. And we've actually, frankly, been constraining ourselves a little bit because of capacity in the non-data center space, things like semiconductor fab, hospitality, higher education. A lot of these key verticals where we're really well-positioned with the product portfolio we built, we've had to constrain our sales folks a little bit. The capacity can free up a lot of space for those wins as well.

Scott Reed Davis

Analyst, Melius Research LLC

Q

Yeah, that makes sense. And David, it looks like Europe is showing some – more than green shoots, I suppose I should say, but they're behind the States in the ramp on DC, but they're coming. Do you feel like you have the capacity and the infrastructure in place to be able to supply that? Or do you need to get ahead of that also with some capacity adds and around something similar like you did in Fort Worth?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. What we look at, Scott, is we do a pretty good SIOP planning for our global capacity for all things commercial HVAC. So, we have capacity in France, in Montluel. We have capacity in Poland. It's primarily been for residential, but it could free itself up for commercial capacity as well. It's something that we're looking at. And then, we have capacity in places like China, Mexico, multiple. Now, we'll have the US. So, as we look at it, we're doing our best to – we're of course building in Sri City near Chennai in India. So, we're doing our best to maximize the capacity we have. We may look at Eastern Europe for a little bit more for the demand we're seeing in Europe.

I will tell you that we have plenty of capacity on the residential side. Max Viessmann and the team started in, and we kind of saw it through, but in Legnica, Poland, I will tell you, it is the single most state-of-the-art industrial site that I have ever seen. It's highly automated, highly impressive. So, we're trying to maximize a lot of our residential heat pump demand that we are seeing in that site. And that site, I encourage folks to visit. It's quite impressive.

Scott Reed Davis

Analyst, Melius Research LLC

Q

Okay. I appreciate it. Make a trip. Best of luck, guys. Appreciate it. Thanks for letting me back in.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. Thanks, Scott. Yeah. Thank you.

Scott Reed Davis

Analyst, Melius Research LLC

Q

See you, guys.

Operator: Your next question comes from the line of Andy Kaplowitz with Citigroup. Your line is open. Please go ahead.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Hey, good morning, everyone.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Hey, Andy.

A

Patrick P. Goris

Executive Vice President, Chief Financial & Strategy Officer, Carrier Global Corp.

Morning.

A

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Dave, just focusing a little more on CSE. It was nice to see the margins pick up, as you said, organic sales growth, double digits. Maybe give a little more color into the improvements the team has begun to make and the visibility into continued heat pump and air conditioning improvement in 2027.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. I'd say let me start on the growth side and then the cost side. On the growth side, as you said, Andy, we're kind of having the moment that we had expected a few years back. It's just coming later than we expected. Heat pump up 35% in the quarter. Very, very strong in Germany, of course, we're well-positioned. Air conditioning, long overdue, but that plays right to our strength. So, air conditioning up close to 35% in the quarter. We think that continues given, of course, what we saw this past summer.

A

So, both, not only the Toshiba product that is a really good business for us in Europe, but we've now introduced the Viessmann branded air conditioning that we can put through our traditional channels. So we have Toshiba through its distribution channel and the direct-to-installer selling air conditioning. And then, boilers down, we had always thought it'd be down kind of in the mid-single-digit range. It was down high-single digits in the quarter. So, pretty much as expected. And the ratio of electricity to natural gas at about [ph] 2.5x (00:42:11) in Germany. So, that's favorable for continued heat pump adoption.

So, demand very, very good right now. We saw it with resi sales up about 13%. On the cost side, Thomas Donato and the team are very clear-eyed about a very comprehensive cost-out program. So, it's a combination of we do have to look at footprint optimization, of course. We are working our supply chain in a very, very rigorous way. We have a very broad network of suppliers globally, and we've got to make sure that we optimize that for Europe.

And then, it's still – if you look at the G&A that we have across Carrier, it's our highest G&A segment that we have. So, there's still opportunity there. So, Thomas is working a very, very comprehensive plan on the cost takeout to get us back to the margin levels that we had always expected. It won't happen overnight, but we will sequentially continue to drive the margins year-over-year improvements that we expect.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Great. And then moving back to CSA, commercial, I think it was up high-single digits, you guys said. I think, Dave, you've said it would be up mid single. So, it's been trending a little bit better than the whole year. Maybe give us sort of the focus on what is going on here and what do you expect moving forward. What markets are sort of driving that strength, would you say?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah, we were up a little bit more than we thought. And this year is shaping up to be up probably about 10%, and we thought it was going to be down high-single digits or so. What's better than we thought is K through 12, that had been very strong, then it got very weak. And now, that's returning quicker and better than we had thought.

The good news is that we've been winning a lot in some of our strategic national accounts. In fact, as soon as we end this call, I'm going to get on a plane and go meet with a strategic national account. So, we've been winning. We've been very aggressive on some of our portfolio replacement programs, very structured programs. We've gotten some nice share gains. Retail is good, healthcare is good. And as I mentioned, K through 12.

What's also encouraging is that field inventory is very, very healthy. We ended 3Q down 20%. So, we feel good about this space. And 4Q should be up about 20%. It could be up even a bit more than that because customer demand's been strong. So, it's nice to see some of the recovery in this light commercial space. And you know that's a good margin business for us.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Appreciate the color, Dave.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thanks, Andy.

Operator: Your next question comes from the line of Joe O'Dea with Vertical Research. Your line is open. Please go ahead.

Joseph O'Dea

Analyst, Vertical Research Partners LLC

Hi. Good morning. First question just related to the inflation you've seen year to date, that \$0.55 to \$0.60 on input cost and tariffs. Could you give a little bit of color of the split between the two? How much of that is tariffs?

And then, looking forward, how do you think about the inflationary headwinds? Any perspective on sizing what is still to come as hedges roll off, or you just start to absorb a little bit more of the inflation that's out there on the input cost side?

Patrick P. Goris

Executive Vice President, Chief Financial & Strategy Officer, Carrier Global Corp.

Yeah, Joe, this is Patrick. What you saw on the slide that you were referring to is the incremental input cost headwinds versus the February guide, but that guide had some input cost headwinds in it. If you look at it from a full year perspective, our input cost headwinds are about \$800 million. Of that, a little less than half is tariffs. And

so, some of the input costs, of course, relate to fuel surcharges, some material costs and so on, but that is a high-level number, \$800 million, a little less than that is tariffs.

For next year, we expect there to be a carryover inflation. As you know, some of these tariffs didn't go into effect until April or so of this year. And so, from planning purposes, we are assuming that we'll have another large headwind of inflation next year as we have this year.

Joseph O'Dea

Analyst, Vertical Research Partners LLC

Q

That's helpful. And then, Dave, just in terms of developments in the US resi HVAC market this summer, it seems like it just appears like there was a pretty sharp change in the status quo in that market in a relatively short period of time in that the industry has long been considered to have a strong ability to get price for cost inflation, managed through a lot of inflation over the last five years. On the competition side, non-US competition has been part of the conversation for a while, but it appears that maybe it's a little bit more relevant now than it has been in the past.

And so, the question is just what changed over the last several months for that status quo to potentially have shifted a little bit. And is this more transitory or is this a longer duration impact?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Look, I will tell you, I do not believe there has been a fundamental change in the nature of this business. We work with a number of phenomenal distributors, and we have over 100,000 dealers. And the nature of the selling process in the Americas, in the United States, has not changed. So if you look at it, what happened this year was very, very unique. When you wake up in April and, all of a sudden, that you have a sudden influx – a sudden increase in input costs that is in the hundreds of millions of dollars, that it proved to be very difficult to offset dollar-for-dollar right away.

So, we knew that there would be some challenges offsetting dollar-for-dollar the increase not only driven by tariffs, but we also saw where we saw a sudden and fairly unexpected increase in things like copper, steel and aluminum, and then it was exacerbated by some of the fuel surcharges. So, what you want to do in this business is have a good anticipation of what the input costs will be and get out in front on pricing. And we've always been able to do that, and we expect to be able to do that next year. So, that's why normally we would have announced our price increases for 1Q. We've made them effective in 4Q.

We're going very clear-eyed into some of the price/cost challenges next year that we didn't fully foresee this year. So, for me, that's just we didn't fully anticipate the level of input cost increases that we were going to see this year. We believe we have a much better handle on it next year and we're going to get out in front of it pricing. That's not a fundamental change in the nature of this market. Is there more ductless than there had been in the past? Yes. Do we make great margins and are we really positioned on that side? For sure. So, we feel very well-positioned in the market, and we think the dynamics of the market are fundamentally the same as they have always been.

Joseph O'Dea

Analyst, Vertical Research Partners LLC

Q

That's great color. Thank you.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah.

A

Operator: Your next question comes from the line of Andrew Obin with Bank of America. Your line is open. Please go ahead.

Andrew Obin

Analyst, BofA Securities, Inc.

Good morning. How are you?

Q

Patrick P. Goris

Executive Vice President, Chief Financial & Strategy Officer, Carrier Global Corp.

Good morning.

A

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Hey, Andrew.

A

Andrew Obin

Analyst, BofA Securities, Inc.

Maybe going to Europe, just talking about what you are seeing on boilers. I think you sort of talked about that that market is – is it getting better? Can you just give us more color, because obviously important to profitability? And what's the momentum like in that market?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Look, I think the fundamental shift is to heat pumps. So, we've always expected boilers to decline. Will it be low, mid, high-single digits as we go forward? It's going to be somewhere in that range, but we expect that boilers will decline. If you're replacing an existing boiler, you're much more likely nowadays, whether it's because of some of the subsidies, or because some of the regulation, or because of the instability around fuel prices and oil prices, you are much more likely to want to shift to a heat pump if you possibly can. And that is not just in Germany.

A

We are seeing the same in Italy, we are seeing the same in Spain and Poland and Benelux. So, very good demand for heat pumps almost throughout Europe, and that's going to naturally have an impact on boilers. I think the declines will be in the single-digit range, and it will probably be somewhere in the mid, sometimes it will be closer to high.

Andrew Obin

Analyst, BofA Securities, Inc.

Thanks so much.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

I will mention...

A

Andrew Obin

Analyst, BofA Securities, Inc.

Sorry. Yeah.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

...if I may, that the margins are very good on heat pumps, too. Obviously, good margins on boilers, but the new heat pump that we just introduced in Europe, I mentioned this Vitocal 200-A, those margins are very good as well.

A

Andrew Obin

Analyst, BofA Securities, Inc.

Thank you. And just to follow-up on commercial HVAC, we're sort of having some questions coming in on pricing on commercial HVAC side. There seems to be more competition there with all the capacity coming in, particularly sort of lower-tier players. What does the pricing on commercial HVAC look like? Not resi, but how do you feel about commercial HVAC pricing? Thank you.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

I feel good, I mean, globally. So, certainly, here in the Americas and Europe, I think a lot of our customers are focused on the performance of the product, the quality of the product, the support that we give them, our capacity and ability to deliver when they need the product. So, I think the pricing has been fair and the pricing has been good.

A

Will there be certain parts of China or certain parts of Asia where there might be a bit more pricing pressure? Yes, but I would say, generally globally, that pricing has not been the biggest factor in some of the wins that we're seeing.

Patrick P. Goris

Executive Vice President, Chief Financial & Strategy Officer, Carrier Global Corp.

We've seen positive pricing in every segment in Q3, Andrew, and we expect the same in Q4.

A

Andrew Obin

Analyst, BofA Securities, Inc.

Thank you so much.

Q

Patrick P. Goris

Executive Vice President, Chief Financial & Strategy Officer, Carrier Global Corp.

That includes commercial HVAC. Yeah. Thank you. Thank you, Andrew.

A

Operator: Your next question comes from the line of Nicole DeBlase with Deutsche Bank. Your line is open. Please go ahead.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Yeah. Thanks. Good morning, guys.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Morning.

A

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Just a few tie-ups here. I think a lot of ground's been covered already, but the non-data center commercial HVAC orders up 20%. Definitely interested in that. Dave, could you just talk about like what verticals are driving the strength there?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. It's actually been pretty widespread. What we're seeing is very strong for things like the reshoring that we've seen in places like the United States. Industrial has been extremely strong. Hospitality's been good. I'd say the couple areas that we watch are commercial real estate has continued to be a bit on the soft side. We actually saw orders pick up, but I don't think enough to make any kind of trends there. We actually saw government has been a little bit weak and higher ed's been a little bit weak.

A

But beyond that, when we look across healthcare, pharmaceuticals, industrial, semiconductor fab, in Asia, we see some really good demand, even for renewables and battery factories. So, generally, we're seeing encouraging trends in those areas. We've actually, especially in the Americas, been constraining ourselves. So, we're excited to get this additional capacity on board because we've transformed the business, as I mentioned in my prepared remarks, that we're really well-positioned to win, we just need some additional capacity.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Understood. Thanks, Dave. And then just on the data center bookings, obviously really strong growth, and you guys have talked a lot about the chiller demand there. But what about what you're seeing for the liquid cooling offering, CDUs, [ph] ZutaCore (00:55:00), et cetera?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yes, very, very good demand there as well. So, we introduced our 1 megawatt. We have a 2.6 megawatt, close to 3 megawatt unit that's coming out here in the next couple of months. And then we have a 5 megawatt unit that comes out towards the end of this year. We're already booking orders for even the 5 megawatt unit that even comes out later this year. And it's not just with colos, with some of the hyperscalers, they've been placing orders for the CDUs.

A

We looked at some acquisitions in the space, and we said, effectively a CDU is a mini-chiller. We have phenomenal engineers. We can organically produce and design our own. So, that's what we've done. We're very, very pleased with the demand we're seeing.

And what's really exciting, Nicole, is when we push and we receive orders for our QuantumLeap offering, which integrates the traditional cooling, these liquid cooling CDUs, and then our BMS, and then we apply digital twins to differentiate the entire system, that's where we see the puck going. That's where we see a lot of differentiation, and it's nice to see some orders for our full QuantumLeap offerings as well.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Thank you. I'll pass it on.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thank you.

A

Operator: We've reached the end of our Q&A session. I will now turn the call back to David Gitlin for closing remarks.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Well, thank you all for joining. What I would ask is, folks, look at the last page of our prepared materials, which has our five key messages on there. We're very pleased with how we've restructured the portfolio, data center strong, growth is broad based. We are addressing the cost headwinds. We're going in very clear-eyed into next year. So, we'll get out in front both on the productivity and on the pricing side. And our free cash has been very, very strong.

So, I just want to close by thanking our 50,000 colleagues around the world who show up everyday for our customers and to support the results that we expect. So, thank you all.

Operator: This concludes today's call. Thank you for attending. You may now disconnect.

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