25-May-2021

Carrier Global Corp. (CARR)

Wolfe Research Global Transportation & Industrials Conference

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CORPORATE PARTICIPANTS

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

Sam Pearlstein
Vice President-Investor Relations, Carrier Global Corp.

OTHER PARTICIPANTS

Nigel Coe
Analyst, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Nigel Coe
Analyst, Wolfe Research LLC

Good morning. Thanks for joining us. My name is Nigel Coe from Wolfe Research. And I welcome you to our 14th Global Transports and Industrials Conference. It's my pleasure to welcome Carrier Corporation (sic) [Carrier Global Corporation] (00:21) to the conference and glad to be hosting CFO, Patrick Goris. I'm going to say Rockwell then by the way, it seems [indiscernible] (00:29) at Rockwell; and Head of IR, Sam Pearlstein as well.

So, gentlemen, thank you for joining us this morning. We've got a fair amount to get through so we'll dive into it as soon as possible. But I do want to highlight this is an interactive forum. If you've got questions from the audience, please feel free to type those into the box and I'll stop halfway through and see if there are any questions in the queue.

So, with that said, Patrick, I don't know if you want to start off with any opening comments. Otherwise, we're just going to Q&A.

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

No. Good to be here, Nigel. And we can go straight to Q&A.

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QUESTION AND ANSWER SECTION

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. Great. So, I think it's fair to say that when you moved from Rockwell to Carrier I was surprised. I think many were surprised. I'm curious if you could maybe talk about what the attraction was it moving to the Carrier, the new challenge, and then we'd go from there?

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

Sure. So, leaving a company like Rockwell after 14 years is never easy. It's a great company as you probably all know. Carrier is a special company. It's not every day that you can join a company of this size and complexity that has been part of a conglomerate for about 40 years. And is there to plot its own course. And in my role, I can be a big player in plotting that course. We have tremendous amount of opportunity, I was told that before I joined. It's absolutely true. A tremendous amount of opportunity, but it's a commercial point of view, whether it is from an internal complexity reduction point of view, whether it is from a capital deployment point of view. And frankly, I'm going to do things here that probably I wouldn't be doing at Rockwell, and that includes the whole portfolio opportunity. So, in short, very excited to be here, lots of work, but tremendous amount of opportunity for share owners and for all our employees.

Nigel Coe
Analyst, Wolfe Research LLC

Q

But Florida isn't – Florida is not too bad either. That's the place to the headquarters, so. So, we'll definitely talk about portfolio, that's one of my topics towards the end here. But I wanted to maybe get the ball rolling with just the [ph] said union (02:39) on the end markets. What you're seeing is through the second quarter. Last time you reported results, we had very strong residential, up 40%; commercial up mid-teens and [indiscernible] (02:50) were very strong too. Maybe just talk us through what you see in through the second quarter so far.

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

Yeah. So during our first quarter call, we raised our full year outlook for all of our segments except Fire & Security. We exited the quarter pretty strongly, especially March was strong. That momentum has continued across all our segments in the second quarter. In the second quarter, we expect our organic growth to be 20%, probably a little bit better than that. If I look at that within or by segments – within HVAC, continued strong resi growth, not the same growth rate we saw in Q1. Q1 was a little less than – it was about 40-plus percent. We expect it to be less this quarter, but we expect the rebound in light commercial. And that will I think be probably the bigger change within our HVAC segments. Light commercial has still been down. We expect it to rebound a strong sequential improvement.

Commercial HVAC you mentioned, we expect another quarter about mid-teens organic growth in that segment. It was primarily driven by China in Q1. We see opportunity for higher growth throughout the other areas of the world as well in commercial HVAC, and we expect that to last. So, strong momentum there.

Within Refrigeration, we do believe that will be the fastest growth segment in the quarter and this will be helped in the quarter by a pickup in North America truck and trailer rates. As I mentioned, I think at the end of the first

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quarter, North America truck and trailer was up a little less than 10%. We expect that to pick up significantly in Q2 which in turn should help our conversion and segment margin performance in that area.

Fire & Security will be much stronger we expect in Q2 than in Q1, obviously, easy comps particularly in Chubb. But that segment has been on an improving trend. March was really strong there. And there, again, we expect a good second quarter.

For the full year, we still expect the second half to be about flattish compared to the prior year and that's really all driven by the very strong resi growth we had last year. So, I'd summarize, Nigel, by saying the momentum has continued into the second quarter and we expect broad-based growth across our segments in Q2.

Nigel Coe
Analyst, Wolfe Research LLC

Q

So pretty much what – as you planned, it's not a whole lot has changed versus end of April, you come together there.

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

Pretty much.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Residential is obviously the big swing factor here. And I think you mentioned your sales in the channel, your mid-40s in 1Q, they sell through roughly 20%, 25%, if I remember. How are inventories right now? What's your perspective on inventory levels? Is that sell-in versus sell-out starting to normalize and equalize into the channel?

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

Yeah. So maybe a couple of comments here. One, we continue to see strong performance in resi. Having product availability and a good position in new construction is certainly helping us there as well as the dealer conversions we have done. In Q1, and we said this on the call, we believe that we may have seen some earlier than expected seasonal inventory build in the channel. Q1 inventory was up about 30% year-over-year. We expect movement in Q2 to drive field inventories up to being about 10%, 15% higher at the end of Q2 versus what it was in 2019.

And if you look at what the market has done from 2019 till now, we think that's pretty much aligned with the market. It's still early in the quarter. But I would say that April was a very strong month from a movement perspective and that gives us confidence at least for now that those inventory balances will be up in about that 10%, 15% percentage range versus 2019. It may vary a bit, but the movement we've seen in April certainly seems to support that.

Nigel Coe
Analyst, Wolfe Research LLC

Q

And you mentioned the product availability is a key factor. We know there's been one or two players that haven't had the same level of availability in the markets. And this obviously comes into the whole supply chain issue as well. So maybe just talk about supply chains and whether you're seeing some market share movements related to some supply chain pressures with some of your competitors.

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Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

Yeah. So, from a supply chain perspective and maybe not a surprise, but currently they're clearly tighter than usual. Actually, at the end of 2020, we deliberately increased some of our inventory levels as we prepared for rebound. And certainly, that seems to have helped us in the early part of this year. If I look at where the shortages are, it's, generally, it's components. That includes electric components as well. It's impacting us from a efficiency point of view. So it impacts us from a factory efficiency point of view. For example, think of shorter production runs. But at the end of the day, we continue to meet customer demand. [ph] It just – (08:07) we're incurring some higher costs of doing so including incremental logistics and freight charges, and those are embedded in our April guide for the year.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Yeah. Okay. Thanks, Patrick. [indiscernible] (08:18)...

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

And I would just call out our supply chain and business teams because they're doing tremendous work in addressing the challenges while meeting demand.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Yeah. I can imagine it's quite stressful right now. And you gave very specific guidance on price [indiscernible] (08:31) cost inflation in April, I think $70 million of incremental price matched by the inflation pressures. Maybe just talk about what you've done in terms of going out to the market with additional price increases and whether that's tracking to your plan.

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

Yeah. So, we're actually – and this is frankly a daily activity rather than a weekly or a monthly to see what's happening with input costs trying and be proactive about this. And throughout our businesses, we are proactively increasing prices. And so, we've already announced and implemented additional price increases in our Refrigeration segment. In our HVAC segment, Fire & Security is looking at that as well. And frankly, I would not be surprised that in the current environment, there would be additional price increases implemented throughout the fiscal year to protect us for this year but also for next year.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Is that different to what you said in April? I mean, are you seeing a bit more cost inflation versus back then to justify it more [indiscernible] (09:31)?

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

What I would say is that the – nothing has materially changed except that it's a day-to-day activity. And every day something new comes up where you need to address it either through cost or looking at pricing.

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Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. And then maybe a few more before we move on to some of the more longer-term strategic issues here. I mean, it feels like you're working better with Watsco. The relationship seems to be working really well at this point. Maybe just talk about what's changed for Carrier as an independent company versus Carrier as a UTS company in your relationship with Watsco.

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

So, I would say that the thing that has changed I think is that we have a better relationship with Watsco today than what we had before. And I think that Dave, our CEO, and the Watsco leadership team have had some open and frank discussions on how we can both do better to provide benefits for both companies. And I see the benefits of that and I think that an overall better relationship between the two companies and where both companies have been clear as to what we can do better, but also what we expect Watsco to do better. And that can be from product capabilities, product availability to how many feet we have on the ground. I think that has benefited both companies, and I think there is much more to be seen there.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. Great. And then maybe one more point on sort of the guidance framework. You talked about incremental margins improving from 1Q over the balance of the year, talked about 30% incremental margins in 2Q to 4Q, and that's kind of higher if we take out the buyer lost income. Are we still on track with that? And how do we think about 2Q specifically given that 2Q we've got, I assume, a big step-up in inflationary pressures and perhaps the price might not [indiscernible] (11:27)? Anything to think about 2Q specifically?

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

Yeah. So, maybe first for the full year, our April guys – April guide, I should say, continues to target 30% core incrementals for the full year 2021. On a reported basis, it's going to be closer to 25% core, as I say. We're operationally close to 30%. And that's really two main items there. One is we exclude FX and then of course the buyer income. That's the full year per the April guide. For Q2, and I think that's what you were referring to is...

Nigel Coe
Analyst, Wolfe Research LLC

Q

Yes.

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

...we expect that for Q2 it will be the most difficult quarter from a price cost point of view. And so, we've announced some additional price increases by the time those take full effect versus when the inflation hits. Q2 is probably the quarter where we have more of a gap while at the same time for the full year continuing to expect and target to be neutral for the year.

Nigel Coe
Analyst, Wolfe Research LLC

Q

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Right. All right. That's what I expect to see either way. Moving on to Healthy Buildings, IAQ and stimulus. Huge topics of interest for you and your competitors. I think you called out a pipeline of $500 million of kind of Healthy Building opportunities of which you've got $70 million in 1Q. The good news is that we're starting to kind of make progress with vaccines and the pandemic, et cetera. Are you still seeing a strong pipeline building in IAQ, Healthy Buildings? And how the order rates tracking versus that $70 million?

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

Yes. So the numbers you refer to obviously are accurate. I shared them on the call. This pipeline continues to grow. And I would say that we believe that not only Healthy Buildings is a secular trend that will benefit us for many years to come, but the whole sustainability is a big play as well. And so, whether it's Healthy Building, sustainability, huge opportunities for us.

And as we also mentioned on the call, and this is new to us in the last few months, we have a dedicated team now focused on this opportunity under a seasoned leader. And so it means more focus on this opportunity. And if you look at some of the capabilities we have launched whether it's for example, Abound. Abound is, for us, just another opportunity – an important opportunity to differentiate us and go after this multiyear opportunity.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Yeah. And I think you launched Abound in April, if I'm not mistaken.

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

That's correct. It's still the early days, launch customers very excited. We're working with them to expand our capabilities, of course. And it's – as we talk about investment dollars, it's clearly, it's one of the areas where we're putting some investments down because as I mentioned, this is an area where we see a long-term opportunity, whether it's healthy, whether it's sustainability. And we have an opportunity to differentiate there.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Yeah. Okay. Great. And then stimulus, we're seeing some pretty big numbers, not on the proposed stimulus package, but the – whatever it was the last big package that was announced coming with a name [ph] there now (14:41). But those are big [ph] dub (14:42) of money for education which is a big vertical for you and your competitors. We're entering the seasonally strong season for education upgrades. Are we seeing any momentum in those end markets – education markets right now?

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

Yeah. What I would say, Nigel, is this that what we hear from our people is that we've clearly seen an uptick in K-12 activity. And so, that is certainly something we've seen. I would also say that this is not only an opportunity just for our HVAC segment, but also for our Fire & Security segment. So, it's not just about IAQ, but also about sustainability and safety. And so, think about access. Think about alarms, evacuation. And so, that's where more than one segment comes into play.

And so, yes, you mentioned there is a lot of money, big sums being mentioned. We believe we're very well-positioned for this again, an opportunity K-12 that we think will be an opportunity for us for multiple years. And

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there's a lot of focus on it. We have targeted kit offerings, dedicated sales team. We provide webinars to the school districts doing direct outreach. And I would also say that an important role that we play is to also help the school districts to find the funds, obtain them and then how to best invest the funds because often some of the school districts may not know how to get to the funds and then where to take it from there. And so, we see an opportunity there to help school districts and that's exactly what we're doing.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Right. But you think it's probably too early for this year, this is more of a 2022 and beyond tailwind do you think?

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.
A

Well, if you think about – first of all, we're clearly seeing an uptick in K-12 activity. Some of these – and you know that's primarily in our North America applied in light commercial exposure and as well in Fire & Security, some of that have some lead times that are longer than just book and bill. And so, would I expect to see some of that later this fiscal year? Maybe. But certainly, over the next several years, that should be a benefit.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Yeah. Okay. I think the lights went out there. I'll try to get you more...

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.
A

Haven't moved enough.

Nigel Coe
Analyst, Wolfe Research LLC
Q

[indiscernible] (17:01)

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.
A

It was not related to your question.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Maybe, I'll – yeah. Clearly. I'll see if I...

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.
A

Yeah.

Nigel Coe
Analyst, Wolfe Research LLC
Q

...notice some more [indiscernible] (17:07) questions [ph] game before I would get (17:08) in there. You mentioned Fire & Security. And this is a good opportunity to talk about kind of what's changing in the Fire & Security opportunity sense post-COVID? We've got social distancing in the office, we've got [ph] computer (17:26)

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access, et cetera. I'm just wondering if there's kind of a better opportunity set for Fire & Security post-COVID than it was pre-COVID. Any thoughts there?

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.
A

Where we see a called a convergence or some synergies relates to some of our sensors that we sell within Fire & Security. And so, for example, we have smoke detectors, all the types of detectors within that segment. And there is an opportunity to link that to what we do within HVAC. And so think about it as there is no reason why some of these sensors could not be sensors for air quality or to measure presence in a room and depending on that presence in the room, what do you tell the HVAC system to do and create that loop. And so, I would say that clearly within parts of our Fire & Security segment, the whole COVID does actually highlighted the opportunity to drive some synergies between the segments that before may have been a little bit more questionable or I should say less clear. And I'd say that's part of our Fire & Security segment of course.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Okay. Yeah. Of course, there's other parts that might not be quite as strategic as well. There's been some press stories. I know you can't comment on it, but Chubb, we heard the UT ex-CEO, Greg Hayes, talking about Chubb very publicly before the spin. There's been some headlines there. I want to come in at this question a little bit sort of from a different angle. Given that your focus on improving the service and field operations within the HVAC businesses, might Chubb not be more kind of strategic to the whole kind of strategy of Carrier going forward?

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.
A

Yeah, that is a much bigger question that you asked there. And our view is at this point is that we are focused on improving the operating performance of Chubb, just as like we're focused on improving the operating performance of every part of our company. But at the same time, that's where the portfolio comes in is, we're taking an overall look at simplifying our company. We're taking a look at what are parts of our company that are less strategic where we have maybe less synergies with the rest of the company and where frankly we may not be the best owner. That's why we're looking at not only our JVs but also at the parts of our portfolio that we own 100%. And it's a dispassionate look. We're assessing the entire portfolio and that includes Chubb, includes every part of the business.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Right. You mentioned the JVs. And I forget how many JVs you have. I know it's north of 50 still.

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.
A

Actually, we are on our way to get to the low-30s by the end of this year.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Those are of the non – that's of the [indiscernible] (20:21).

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Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.
A

Of the minority JVs. Yeah.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Minority JVs.

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.
A

Thank you for clarifying that. Yeah.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Is this something that could be really material to cash flow and balance sheet? So are these very...

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.
A

I do not believe, Nigel, that what's in the pipeline for further, call it, pruning this year would have a material impact on either equity income or cash proceeds.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Right. Right.

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.
A

We don't have another dozen buyers out there...

Nigel Coe
Analyst, Wolfe Research LLC
Q

No. Some kind of [indiscernible] (20:50)...

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.
A

...like the divestiture last year. Yeah.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Did you have some very valuable large JVs, Toshiba...

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.
A

Yes.

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Nigel Coe
Analyst, Wolfe Research LLC

Q

...in China, obviously, the Watsco JV as well. At this point, it sounds like there's nothing to do on those structures at this point. It sounds like you focus more on the smaller, minority with acquisitions.

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

I think that's probably a fair statement. And first of all, JV is not a bad thing and minority JVs are not a bad thing. Actually, they help us significantly in parts of the world with presence that would be harder for us to do without them. But the ones that we are looking at, think of them as being the smaller ones rather than the larger ones, of course, that you just mentioned.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Right. Okay. Switching gears to Carrier 700. And maybe just talk about, Patrick, where – what we've achieved so far? What's to achieve within that program? And maybe just talk about how you see that improving margins over the next several years?

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

Yeah. So, think of Carrier 700, it's a three-year program started in 2020 to drive out costs that includes supply chain costs, factory costs, utilization of our field resources, and then of course, G&A as well. Last year, we delivered $250 million. We increased last year the full program target to $700 million. And this year, we're targeting $225 million for the full year. Of course, given the inflationary headwinds, it's become more challenging to get to the $225 million, but that's very much our focus. And if there are additional headwinds, then we'll look for other ways to get cost out. And of course, as we mentioned, we're always looking at pricing as well to offset the additional inflation headwinds. The two-year target remains $700 million, and so that is absolutely the target. And that means for next year, it means another $225 million of savings of Carrier 700.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. So the $225 million and you pull forward some investment spending from 2022 to 2021, I think we're now at $150 million on investment spending for this year. How much investment spending do you think we should factor in for the next year at this point?

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

At this point, we're dialing in about $50 million. And so that's kind of the program we said over three years we would do was about $300 million: $100 million in 2020, $150 million now in this year, another $50 million next year. And so, think of another $50 million next year. But I would also tell you that if we see opportunities to continue to invest with returns that we like and that the returns of which we like then we may consider to do more. But at this point, the $50 million is what we're thinking about for next year. And again, the investments are primarily selling expenses but also research and development that increasing – or enhancing our digital capabilities.

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Nigel Coe
Analyst, Wolfe Research LLC

Q

Yeah. And of course, you should invest to grow. That's the key thing. Your margins – Carrier margins, if we adjust for your equity income, if you look at your operating income [indiscernible] (24:12) your income, you're about 11.5% in 2020. EBITDA margin is about 13.5%, well below where sort of best-in-class HVAC is. Do you think that – is there any reason why Carrier can't be at those levels? I'm thinking here about portfolio mix Fire & Security, et cetera, et cetera. Can Carrier be a mid-teens OEM company?

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

The short answer is absolutely yes. And I would say that I see several drivers that we have levers in our control that we can use to achieve that. And I'll mention – I think there are like four or five of them. One, accelerating our organic growth across our portfolio that's why we're making some of the investments in sales, resources, and R&D to make that happen. Frankly, pricing is part of accelerating organic growth. Second, you've heard us talk about our focus on the aftermarket. Aftermarket digital increasing, recurring revenue, and cash flow streams, those tend to be margin accretive. Revenue across the lifecycle attaching services, having more sticky business, and frankly, the benefit of some of that including the aftermarket is it's not that like we are bumping up against our big OEM competitors. It tends to be smaller regional firms.

A third lever is that the entire cost efficiency is across the company. Whether it's Carrier 700 or just driving simplification throughout the company, tremendous amount of opportunity here. For example, we just started on our journey implementing shared services. Many companies have done that. They've started doing that 10 years ago, but we see a significant opportunity to simplify what we do and make it – basically make ourselves less complex and have more scalable infrastructure.

A fourth element I would mention with respect to margin and I think you touched on that [indiscernible] (26:08) is portfolio. As we review the portfolio, of course, we're taking a close look at growth profile, free cash flow profile, margin profile, ROIC profile, and frankly, we can add by subtract and reinvest in higher growth, faster-growing margin accretive businesses. That's absolutely something we're looking at.

And then, another element I would say and that probably goes beyond just the margins, but there are opportunities for improved balance sheet efficiency, lower PPE, less of a footprint. And frankly, I see a lot of opportunities in the working capital as well. So, in short, a little bit of a lengthy answer, but I see tremendous opportunities for margin expansion over the next several years in our business.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Patrick, thanks for that brief answer to that question. You talked about service attachment rates and I think the target is to increase the applied service attachment from 50,000 to 60,000; 10,000. Seems like a pretty ambitious target. Maybe just talk about where we are in that initiative and what that does to your service cost rates.

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

Yeah. So, first of all, it's still a significant minority of our assets that we have out in the market that are under contract with us. And so the 10,000 as we as a first step to increase our assets out there that we put under contract. We target ourselves to 10,000 more contracts this year, that's the path we're on. And frankly, it's another

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area where we're making some of the investments, people who know where those assets are or find those assets and then working with those customers to sell the value of having those assets under contract.

The economics are really attractive. If you think about the aftermarket tends to be more – or margin accretive compared to just the first equipment sale within HVAC. And so, there is a benefit there. There is a benefit of it being recurring revenue in nature as well. And if you look over the lifecycle of the product, the total aftermarket sales tend to be about 5x or more the value of the equipment − the initial equipment value. And so, this focus is another way that we say, you know what, there is opportunity for us to drive long-term growth, to drive margin expansion, growing the aftermarket is absolutely part of the focus on enhancing market – enhancing our margin, I should say. And again, this is something that will pay off over multiple years, but we're already seeing now the aftermarket business is growing double digits.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Right. Great. Thanks, Patrick. Right. We're running a little bit low in time here. So, I do want to squeeze in two quick ones here. One on free cash conversion. Is there a path to 100% or maybe even better free cash conversion over the medium term? And then we talked a lot about portfolio subtraction, what about portfolio addition? You've just done the Chigo acquisition. How focused are you and the organization on acquisitions?

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

Yeah. So, maybe first on free cash flow. The answer to your question is, yes, I do see a path towards 100% free cash flow conversion over time. I think it's well-known that we have two headwinds to get to our free cash flow conversion. The one is our JV – the dividends from our JV is lower than our equity income from JVs. The other one, is within Chubb, we have noncash pension income that's benefiting us. But I would say that even with that, I see opportunities to get us to a 100% or more free cash flow. Main driver clearly is improving working capital.

We're looking through working capital now in a structured way throughout our segments. And I have to tell you, I'm very bullish on the opportunity to address working capital and drive efficiencies there and therefore increase our free cash flow conversion.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Great. And acquisitions?

Patrick P. Goris
Chief Financial Officer & Senior Vice President, Carrier Global Corp.

A

The second part of your question was about acquisitions. Being in a much better financial position than we were post-spin, we really have the flexibility now to have a much more balanced capital deployment. And if I look at our priorities, it's organic and inorganic growth then it's a growing dividend. And then, of course, it includes a share repurchase as well, all within the context of a solid investment grade credit rating.

And so, on the acquisition side, we've made some changes. We actually hired a new lead – new corp dev leader, Jen Anderson. And there is a lot of focus on increasing our pipeline for acquisitions aligned with our strategic priorities being the leader in health, safe, and sustainable solutions, whether it's for the cold chain or for building. And so, a big focus there, and my expectation is that you'll see more there.

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But I would also say that think of it more as being bolt-on acquisitions than elephants. And think of the range of maybe [ph] $100 million (31:46) to maybe up to $1.5 billion. But given all the opportunity we have internally to improve our financial performance, I think bolt-ons is probably a smarter move now than going to bigger deals.

Nigel Coe

Analyst, Wolfe Research LLC

Yeah, I agree with that. Well, Patrick, we're slightly over time here so we'll draw a line there. But thank you so much for your time. Great discussion. Patrick, Sam, thank you very much.

Sam Pearlstein

Vice President-Investor Relations, Carrier Global Corp.

Great. Thank you.

Patrick P. Goris

Chief Financial Officer & Senior Vice President, Carrier Global Corp.

Nigel, thank you.

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