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Carrier Global Corp. (CARR)

Deutsche Bank 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

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Good afternoon, everyone, and thanks for tuning into Deutsche Bank's Industrials Conference. For those of you who don't know me, I'm Nicole DeBlase. I'm the Lead Analyst for both the Multi Industry and Machinery Sectors here at DB. I'm very pleased to introduce Carrier for the next presentation. Here we have Patrick Goris, CFO, and Sam Pearlstein, Head of Investor Relations.

The format of today's presentation is going to be fireside chat and for the audience, please feel free to enter any questions that you have in the chat window you'll see at just below our faces here. I'll be monitoring those throughout the discussion and will ask any questions anonymously on your behalf. And with that, we'll go ahead and kick it off.

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QUESTION AND ANSWER SECTION

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

So, Patrick, I know you're about to celebrate a one-year anniversary with Carrier. Maybe if you could open this up very broadly and reflect on the last year, what's been accomplished and maybe thoughts on key priorities for your second year?

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

A

Yeah. So that's right. Yesterday was my first year anniversary. The year went by really quickly and if I go back and I think about the reasons why I decided to join Carrier, one, I thought about an attractive industry with secular tailwinds. Two, it's not every day that you can join a company of this size and complexity that's a recent spinoff. And so in a way we call it a 100-year-old startup company and I recognize or I expected I should say that with quite a few spin offs there is tremendous value to be generated. And I'd have to say after one year that all of these things have played out and it's far from over. And so if I think about the last year, obviously we sold a stake in Bayer. We've done some portfolio work with Chubb, expect to close there later this calendar year, early January. But at the same time we're playing offense in terms of investments.

So, we see opportunities to gain share, opportunities to differentiate. So in playing offense on investments, we've also, as you heard us talk quite a bit, is I've put a lot of focus on the growth in aftermarket compared to we believe that compared to our competitors in this market we are trailing in terms of an aftermarket in the attachment to our portfolio, significant opportunity to us. We've done some work on the balance sheet. We're in a strong financial position now, no debt due till 2025. And as you probably also noticed, we have been playing offense now in capital deployment, so we're making acquisitions now. So far, they have been on the bolt-on size and I think they will predominantly continue to be of that size. But also you've seen us grow the dividend and in addition you've seen us make a significant repurchase authorization announcement.

And so I think a very exciting year, of course COVID creates some additional challenges, but also opportunities to us, but very exciting. And I have to say that with the more recent developments, indoor air quality, a higher focus on sustainability, our industry got that much more attractive in our opportunity to grow and win. So, very excited to be here and looking forward to many more.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Excellent. Great overview, Patrick. Just a little bit of a busy year for you. So, I wanted to start with talking about maybe some of the current dynamics, obviously a very dynamic environment. So it's been a few weeks since you reported 3Q results. With respect to supply chain, do you think you're seeing any signs of stabilization at this point or is it just as much of an issue as it was, is it getting worse? Is it getting better? We've heard some differing views from the companies at the conference so far.

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

A

Yeah. We would say, one, it remains – the issues remain very significant and challenging and I would not say that things are getting better. There are some areas where we have seen some, I call it stabilization, but then there

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are other areas, think of components, specifically electronic components and freight and logistics where I don't think we're seeing any stabilization yet. And so, some areas may not be getting worse. I wouldn't say they're getting better. There are some other areas, as I mentioned electronics and freight logistics, where I don't think we've seen stabilization yet.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Very clear. And as you've gone through this unprecedented environment, have there been any major learnings, especially as Carrier is this 100-year-old startup company with respect to what's the right manufacturing footprint? What does the supply chain look like for the long term?

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

A

I think the answer to that is yes. But I would also say that it is mainly accelerating changes that we were planning to make anyway. And so, we have a significant footprint. We have 50 or so manufacturing facilities around the world. We have a complex supply chain. Our overall goal has always been to simplify our footprint and drive efficiencies. And I think what we're doing now is, in many cases, we're just accelerating these. Just like in the current environment focusing on suppliers, getting into longer-term relationships, getting into the Carrier Alliance, really important in the current environment.

And so, I'd say yes we're learning things, but by and large accelerating what we were already planning to do from a footprint point of view, move to work across whether it's high cost, lower cost locations. In some cases, we knew we were single sourced. We're working to get dual sourcing. They've provided some comments on that on the earnings call. And then, clearly we also believe that there is an opportunity to do more automation within our facilities. And so, we were planning to look at all of these, we're looking at all of these, the sense of urgency has just picked up.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Got it. And maybe shifting to the other hot topic right now, price/cost, so I think price/cost was a drag on margins in 3Q. You talked about that on your call. Do you think that based on what we know today about how inflation kind of flows through as well as the pricing that's been put into place, will 3Q be kind of the pinnacle of the quarterly impact or do things get more challenging before they get better?

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

A

Yeah. I'll give a first disclaimer here. Our ability to forecast price/cost has not been perfect in the last 12 months, but our current expectation is that from a margin perspective, Q3 is the worst of the year. I think it was a little bit less than 1 point of negative impact on operating margin. Q4, you may recall we said that we expected to exit the year Q4 price/cost neutral. Of course it has a negative impact on margin given the math. I think that impact is a little less than 0.5 point headwind on margin in Q4. But our expectation is that Q3 was the worst from a margin headwind point of view.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

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Okay. Understood. And I guess when we look across your three businesses, from a pricing perspective, have there been areas of the portfolio that had grown more receptive to pricing than others or have customers kind of understood what's going on from an inflation perspective across the board?

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

Yeah. I'd see – maybe I'll walk through our different segments. When – I I'd say that residential HVAC is probably the area where we've done the best job in terms of passing on the input cost increases to customers and so that's – as you know, it's resi, it's in North America. And I believe that we share on the call that price realization there in Q3 and Q4, we expect it to be about 6% in each quarter.

Now that is a shorter cycle business. Some of our other businesses, for example commercial HVAC, for example transport refrigeration, commercial refrigeration, they are more backlog-intensive businesses. And so by default and also given the timeline between when we received the order and deliver to our customers, there is a delay as to when we see the price realization because in certain instances we had backlog locked in at certain prices. Input costs went up and so you get – for a while you get squeezed a little bit until you see the price realization. I'd say that across our businesses clearly we're pushing through pricing.

There are small pockets and frankly as I can think of one, where we have a little bit more challenge of pushing through price and that is, for example, a smaller business in fire and security where we're competing against a main competitor that's Asia-based which may be less price sensitive or margin sensitive, I should say, than we are. But by and large, I would not say that we see big differences in terms of receptivity. The timing is more I think of a differential rather than the other item that I was referring to.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. Perfect. That was really helpful. And how do we think about the level of stickiness to pricing on the other side once inflation finally starts to turn into, I don't know, deflation or just reduction in input cost?

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

Well, very clearly, it's our intention to capture pricing and retain that pricing. I would say that we've seen most of our competitors, or I would say all of our competitors raise prices as well, maybe excluding the one smaller one in Asia for the smaller part of our business. But so clearly we've seen discipline in the market and who knows what will happen when inflation subsides. But our view of course is clear that we want to continue to capture that price realization. That's very clear.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. Got it. And I mean you mentioned that competitors have been making similar moves with pricing, which makes sense. I think that's consistent with what we've heard too. Have there been, I mean if you think across all of your businesses, have there been any notable market share shifts over the past year or so or have things remained kind of steady?

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

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We don't believe that price increases have caused shifts in market share. Have we seen some shifts in market share? Yes. We believe that there are some pockets where we've gained some share, we've talked about resi HVAC where we believe if we look over several quarters, we think we've done quite well there. But we do not believe that pricing has been a major factor in market share shifts.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Okay, understood. So maybe moving on to like the longer term margin outlook and some of the dynamics that are going on there. I guess, the Carrier 700 plan, it's kind of hard to discuss that in its original form because of what we've seen with raw material inflation. But I guess when you think about the underlying pieces of the Carrier 700 plan, what's been executed so far and what remains to be seen over the next several years?

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

A

Yeah. And maybe as a – maybe the right context, when the company – when we spun off in 2020, we had a three-year cost reduction plan called Carrier 600. We over-delivered in 2020. So we increased the target from $600 million to $700 million. And it's really about getting costs out of our footprint, out of sourcing, call it materials. We still have many, many thousands of suppliers. We see an opportunity to consolidate some of our supplier base. There is logistics opportunities that we see there and of course there is an opportunity in G&A there as well. This year the Carrier 700 savings are less than what we expect because it's a net number given the headwinds of inflation. But there continues to be tremendous opportunity there. In the current environment of course the materials and components are somewhat more difficult, but I talked earlier about factory footprint, logistics and G&A clearly continues to be significant opportunities there. And with the sale of Chubb we'll reset the Carrier 700 because Carrier 700 had a Chubb element to it. Whatever we will call it, one thing will not change, which is our focus on getting productivity and getting cost out of the system and whether it is materials footprint, factory output, automation, logistics or G&A, we see opportunities in each one of these areas.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Okay. And what about the journey that you're on with respect to investing more in the business, that was also another important dynamic of the plan, I guess, once you spun out. Where are we with that? Is there a need for more incremental investment from here?

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

A

Yeah. And so, Nicole, what I think you recall is that we announced a three-year $300 million investment program at the time of the spinoff. Last year in 2020 we invested about $100 million. At the beginning of this year we said we would invest $150 million, one-five-zero, and that's where we expect to end this year. And so in the middle of all the price/cost focus and pressure this year, we've continued to invest. We continue to expect $150 million so that if you get $150 million that would say that next year there would be another $50 million of investments. I will share with you in February what we expect for next year. But I'll be clear, if we see opportunities for us to reinvest and to drive long-term profitable growth, we will continue to do so. And so that $300 million may not be the end but at the same time I would think about it then as what would be a more typical level of earnings conversion as we proceed after this year. And so we see tremendous opportunities. First question, I mentioned secular tailwinds, plenty of opportunities. The investments are to play offense. They're not to catch up compared to our competitors. And so in this type of environment, we'll continue to look for opportunities. And if they make sense, we'll make them.

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Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Okay. Great. And then maybe kind of wrapping up the margin discussion and just thinking about this from a very high level, I mean, if we go back a few years ago and there's not [ph] lot of (16:23) standalone history, but if we go back a few years ago, I think this was a 15% operating margin business not long ago. What are the aspirations for the future like? Could this be with digital, with attachment rates, all of these different items that you're doing to improve margins? Can it have a [ph] 20% (16:39) handle on operating margins over a very long period of time or are there headwinds that we should think about?

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

A

Yeah. So, I'll start with what our expectations are for this year. And this year, our latest guidance is that we expect operating margin to be in excess of 13.5%. We also shared that with the sale of Chubb we expect to be a higher growth company, a higher ROIC company, but also a company with higher operating margins. I believe I shared at the sale of Chubb, I should say, should benefit operating margins by a little bit or by about 0.5 point, maybe a little bit more. And so, clearly we see opportunity there.

In terms of looking beyond 2021 or 2022, we said at our Investor Day last February that we target 50 bps of margin expansion every year. This year, we'll do about 70 bps is our outlook, but we see – at mid-single digits of organic growth, we see continued margin expansion opportunities. And it's driven by multiple factors. One, I talked about portfolio and the impact of Chubb. You heard me talk about an opportunity to get cost out to simplify what we do. We talked about supply chain, the factory productivity, the G&A.

But then, we've also been talking about more digital-related revenues, more recurring revenues, more aftermarket revenues and our aftermarket opportunity, we have mentioned this publicly, is a multibillion dollar opportunity and it's accretive margins. And so, I do not see any reason why our operating margins cannot continue to improve beyond, of course, this year. And of course, the levels of organic growth will always have a significant impact on that, but there are some other levers we have to make that happen, including the aftermarket and the focus on productivity.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Very clear. And on the topic of aftermarket, I wanted to ask about that too. I guess what progress have you made since spinning on the attachment rates and what's been the key driver of the improvement up to this point?

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

A

Yeah. I think what may be helpful for you to know and if you don't know already is, is that Dave Gitlin, our CEO, comes from the aerospace business where aftermarket is where the money gets made. Actually, our aftermarket leader within the company comes from the aerospace business as well. And so, there was a clear recognition from Dave Gitlin and the management team at the time of the spin-off that there was a significant revenue and profit pool associated with our products that we were not getting.

And so, the playbook has been – so Ajay who runs our aftermarket initiative has the playbook, but it includes having dedicated personnel, finding the assets, where are they, what is the offering that we can provide the value proposition to customers? We've been hiring people. We have the playbook in place. And if I look across the

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different businesses there is a focus on driving higher aftermarket revenues and one that we've shared more publicly is the chillers that we have in commercial HVAC.

We've said that the number of chillers that we have is probably north of 300,000 globally. Only at the beginning of this year, there were about 50,000 of them under a type of service agreement. By the end of this year, we expect it to be 10,000 more. And so, there are similar metrics across all of our businesses. Think transport refrigeration. We have hundreds of thousands of units out there either on the road or on ships. Most of them are not under a type of a service agreement. There is an opportunity for us to connect them which is part of the playbook. You connect them so you can provide more value. But there is a tremendous focus on that. And actually at our Investor Day in February we intend to provide additional detail in terms of sizing of the aftermarket across our company, as well as what we're doing to go after that and how big of an opportunity it could be. So it's a – I call it a specific opportunity for us at Carrier because we believe that we have more to gain given that we're starting from behind.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. And we'll look forward to that.

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

A

And the good thing is we're not competing against our OEM competitors to go after this business.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Right. Okay. Okay. Got it. That's great. I want to shift to HVAC and I actually have a question here from the audience that I'm going to read to you to start the HVAC conversation. So you massively outgrew light commercial industry data in the third quarter. And this investor says [ph] carry out (00:22:10) mid-teens. The market growth is more like low single-digits. Can you continue this kind of outgrowth or does the gap narrow as competitor operations improve?

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

A

I'm always hesitant to talk about share gains after one quarter performance. That being said, we have a really attractive offering in light commercial. We've seen a strong performance there. It has continued in Q3. And what we're seeing there is some re-openings of retails and restaurants but this is also the area, light commercial, we think the warehousing vertical plays an important role as well as K-12 and K-12 given some of the government incentives that have come out and government funding, we've put a playbook in place to look at what are the biggest school districts, so where is the opportunity and helping school districts to, say, how can you find the funds? How can you apply the funds? And then of course, how can we Carrier help you improve the ventilation or the air quality in those schools. So, attractive offering, strong performance, our orders up, Q3 I think was up 40% year-over-year. At the same time our field inventories were still down year-over-year.

And so everything bodes well for continued growth in light commercial, and this is also an area where we've announced significant price increases of up to 12% I believe effective January 1. So it's an attractive business, attractive margins, and believe we're really well positioned to continue to do well.

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Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Thanks, Patrick. And I mean, we just talked about the light commercial side. On the applied side, the order rates have been really robust there as well. Have you guys continued to see order strength? I suspect so with all of these secular drivers that are currently in play.

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

A

We'd say yes. So we saw, as you mentioned, we saw a strong performance in commercial HVAC as well. Q3 orders were up in the teens year-over-year, yeah, Q3 orders were up in the teens year-over-year, backlogs went up. If I look at sales, sales were a little bit weaker, they were up mid-single digits. Aftermarkets up double digits, our ALC offering up in the high teens. So that's our BMS. Applied Equipment was actually down mid-single digits, although the orders were up in the mid-teens. And what we believe we've seen there, actually what we know we've seen there is we've had some output challenges in our Charlotte, North Carolina plant that impacted us in Q3. And so we expect that to resolve itself in the current quarter.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Okay, got it.

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

A

And again I'd say commercial HVAC given the focus on sustainability, the focus on indoor air quality, given some of the funding made available through government incentives or the infrastructure bill, again an area where we're optimistic as to our future prospects.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Of course, okay. And the strength that you've seen so far, has that been predominantly – I suspect the answer to this is yes. Has that been predominantly driven by retrofit? And how is the pipeline looking for more of the newbuild side of commercial?

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

A

You know what, I may have to ask Sam for some input there. I think it's mostly retrofit, but I think we've seen a bit of both.

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

A

We have and we've highlighted the ABI now nine consecutive months. That's where the backlog is up about 20% at the end of the third quarter. So the order activity has been good. I don't know that we have the breakdown exactly what's retrofit versus new.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah.

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

But generally the applied business has a heavier new SKU compared to residential and light commercial.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.
Q

Got it. Thanks, Sam.

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

Yeah. Of course. Yeah.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.
Q

Go ahead, Patrick.

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

No, that's good.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. And then the last topic here resi, so I think the big question that investors are asking about resi is can the market grow in 2022 despite very, very tough comps? So where does Carrier stand with respect to that?

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

Yeah, I'll probably disappoint you in terms – I'm not going to provide an outlook for 2022 in resi. But I will say that resi we've increased the outlook for resi HVAC every year – every quarter this year. Movement has remained strong. The order intake has remained strong. We talked about the yield on price realization in resi. Q3, Q4 we think will be about 6% each. Of course that will help us next year as well. There is – I'd say at this point there is nothing that I see at this point that says that there is significant weakness coming anytime soon. That being said, you know it's a short-cycle business, but all the signs remain really good on resi for now.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.
Q

Got it. And any thoughts at all, yeah, it's probably hard to size, but the potential impact of inventory build related to potential pre-buy ahead of the standard change in 2023?

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

That is not something that – well, if there is some and it would relate to the northern part of the US where it's based on date of manufacture versus date of installation, if we see that it would be in the second half of 2022. And I think it's too early to say whether we will see it and if so to what extent. I think it's pretty – I'm pretty sure that to-date we haven't seen any of that.

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Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Okay, got it. And on that hot topic of indoor air quality, this has clearly been helping orders. I guess when you think about the customer conversations [ph] on this theme (00:28:42), have they been intensifying and maybe shifting from just block and tackle, get people back into the office, into more of de-carbonization goals and more of long-term discussions around the future of the building?

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

A

Yeah, I think it's both. And of the two, IAQ versus – and sustainability, so, first of all, it's both IAQ and sustainability. And of the two, sustainability might be the bigger one. And so, clearly because many companies are making commitments in terms of de-carbonization becoming carbon neutral, everyone knows how important HVAC systems are in becoming carbon neutral. And so, we can help customers achieve that. We play a really important role. But it's not just HVAC. If you think about sustainability, think of our large transport refrigeration business, most transportation units on the road today, they're fueled by dedicated small diesel engines that cool the trucks through the trailers. We actually sell today 100% electric units. And so, Dave and I were in Europe just last week. We have a really attractive offering, fully electric cooling units for our customers in Europe for transportation. As you probably know, some cities in Europe will no longer accept diesel trucks or diesel engines in the [ph] parts (00:30:16). And that's where we help. And it's an area where we see tremendous opportunity in growth and so again an area where we can help our customers with de-carbonization.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Okay. Great. And I know we're running a little bit short on time here. I did want to talk a little bit about what's left of fire and security once the Chubb sale is finalized. So, how do we think about or how is Carrier thinking about the longer-term strategy for what's left within fire and security? And is this still kind of like a low to mid-single digit sort of growth business?

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

A

Yeah. So, once we sell Chubb, we expect the growth profile of fire and security to be higher than it has been historically. And when you say what's left, my first reaction was what's left includes some really attractive businesses at attractive margins. And those businesses tend to be number one or two in their specific markets with tremendous opportunities for growth, including outside of the US.

So, what does that mean for the overall segment? I mentioned already we expect a better growth profile besides the margin profile, with Chubb, about $2.2 billion of sales disappear with an operating margin that's close to 10%. What that implies though is that the balance of the segment is closer to the high teens or in the high teens. So, faster growth, better margins and also better free cash flow conversion than what it was with Chubb.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Excellent, all good news. And then I guess after the Chubb divestiture, are you kind of happy with the portfolio where it stands or do you think there's still some more consideration to do around what's core, what's non-core?

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Patrick P. Goris

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

A

Yeah. So first of all, we intend to be a net buyer, not a net seller. But we continue to look at what's in our portfolio and not just in fire and security, but also in HVAC and in refrigeration. Are there parts of the portfolio that we may not be the best owner of and is it strategically core to healthy, safe, sustainable intelligent buildings and cold chain? If it doesn't fit in with that, if it's not differentiated, if it's not a financially attractive business to be in and the element of recurring revenues plays into that, then we would consider than [ph] saying – determining well (00:32:53) we may not be the best owner of that business. So are we done with the assessment? No, we continue to look at that. But I want to make it clear that we intend to be a net buyer, not a net seller.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Got it. And last question before we run out of time here, you're going to be getting the Chubb proceeds pretty soon. How healthy would you say the M&A pipeline is right now? And let's say nothing attractive does come up for the next, I don't know, year or so. Would you consider some sort of a buyback to help offset the dilution from the Chubb sale?

Patrick P. Goris

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

A

Yeah, so what we have communicated is that we – with the proceeds besides the extra cash we have in – the cash we have in the balance sheet with the proceeds that are coming in we paid down $750 million in debt. So we expect to do that as soon as the transaction closes. We also announced the $1.75 billion share repurchase authorization.

We share with investors that the Chubb sale would lead to a dilution of about $0.24 of EPS, $0.18 of that is operational, $0.06 of that is non-cash pension income. And so the repurchase authorization, we expect to redeploy that over the next 12 months to 18 months. That will of course not offset the complete dilution. But that's where M&A comes into play. And so the M&A pipeline is active, it's growing. You heard us talk about and you heard us announce some acquisitions recently. I think the last quarter we announced three different acquisitions. So we're looking at acquisitions, continue to look at a growing pipeline and that may include acquisitions of a little bit larger in size rather than just the bolt-on ones that it could be up to $1 billion, $1.5 billion, maybe bigger. But the most important thing is is there a strategic fit and does it meet our financial criteria as well? And as to financial criteria you may recall that the main metric we look at is a free cash flow yield. And free cash flow is exceeding our WACC in a risk premium.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Excellent. Okay. Well, I think we'll go ahead and wrap it there. We're out of time. But Patrick, Sam, thank you so much for your participation. I really enjoyed our conversation today and I hope you guys have a great day.

Patrick P. Goris

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

Great, Nicole, thank you very much. Thank you for having us.

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Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Thanks. Talk soon.

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