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Carrier Global Corp. (CARR)

Wolfe Global Transportation & Industrials Conference

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CORPORATE PARTICIPANTS

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

Samuel Joel Pearlstein
Vice President-Investor Relations, Carrier Global Corp.

MANAGEMENT DISCUSSION SECTION

Unverified Participant

And very pleased to have CFO, Patrick Goris, and Head of Investor Relations, Sam Pearlstein with us. I don't think you've got opening remarks, Patrick, so...

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

No.

Unverified Participant

...why don't we just go into Q&A? So questions, we like questions that aren't asked by me. So feel free to ask questions. There'll be a mic coming around the room in about 10, 15 minutes. So get your questions ready. And if you are listening to the webcast, feel free to log a question or e-mail coeteam@wolferesearch.com, its coeteam@wolferesearch.com.

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QUESTION AND ANSWER SECTION

Q

So Patrick, what should we talk about? Should we get into guidance off the bat?

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

A

As you wish.

Q

Yeah.

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

A

Yeah. I'm glad to be here in person, so...

Q

Thank you. Thank you.

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

A

...thanks for having us.

Q

It's good to have you here. So maybe just to address 2Q, I mean, what are you seeing out there? Give us a quick State of the Union.

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

A

Yeah. So we don't have yet two full months behind us in the quarter, so it's a little bit early to provide some color on the quarter itself. But I think there are a couple of things that I can talk about. One, you may recall we were price cost neutral in Q1. That was better than we expected. Clearly our expectation is to be price cost neutral again, at worst in Q2. So that's important to us and we're really focused on making that happen.

The other thing is, as you may recall, that we called out some – about $100 million of sales headwind in Q2 associated with lockdowns in China, in Shanghai. And there you can see that our facilities are all back up and running and making their way back to 100% output. And so that's a big focus there. And so we're glad to see that

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we're – call it, back in business there and ramping up to that 100%. And of course, not just ourselves, but also our suppliers because we have quite a bit of local supply there.

And then maybe some other color about free cash flow. I mentioned on the Q1 call that our free cash flow was going to be very backend-loaded for this year. And maybe to be even more clear, our free cash flow for the year will happen in the second half of the year. And so we expect the monetization of some of the inventories to happen in the back half of the year. That will be a main driver of that. And then typically with the seasonality in our business, second half is always a lot stronger than the first half as well.

Q

Yeah. Not unusual. I mean, that's...

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

A

Not unusual. Yeah.

Q

... [indiscernible] (00:02:48). So just digging into, you said price cost neutral at worst.

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

A

Yeah.

Q

And it seemed that the operative work was at worst. And I think some folks we talked to – just trying to understand if you're price cost neutral in Q1, the more price coming into the quarter. Obviously, you've got some hedge impacts coming through from 1Q to 2Q? Why wouldn't price cost be better than neutral relative to 1Q?

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

A

Yeah. Clearly, that is what we are striving towards and trying to achieve in all our businesses are trying to achieve. But the short of this is that the headwinds on inflation are not gone yet. And so we see continued pressures on input costs, not just on components, but clearly also on the freight side. And so yes, price realization better than expected in Q1, but inflation was a little bit higher as well. The net was better than we expected, but the inflationary pressures are there and they're continuing to do so.

And so from a price realization point of view, our original guide for the year had $1 billion in price, $1 billion in material inflation where we stand today. First of all, with all the pricing that we've implemented to date, that $1 billion it's not yet realized because it's not in backlog but we don't have to announce additional price increases to get that $1 billion of price. But where we sit today, we do expect that those price and material inflation would be more than $1 billion for the year.

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Q

Okay. Both price and material inflation.

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

A

Yeah.

Q

And I think the news that there was no more price increases needed to get to that $1 billion, that seems to be different to the messaging earlier in the year. So have you got better realization...

[indiscernible] (00:04:36)

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

A

We did get some better realization in Q1. And I will also tell you that we've learned to be a lot more nimble on price increases now than when this all started about a year ago now. And some of our businesses are very closely watching the input cost and contemplating additional price increases.

Q

Yeah.

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

A

And so I think that's a muscle that we've trained over the last – over the last year. For the full year, we still expect price cost of course to be neutral at worst. And we're very focused on doing better than that.

Q

Okay. That's great to hear. And on the inflation side, we are seeing – I know that you don't map perfectly to spot copper or spot aluminum. But we have seen aluminum coming right off the peaks in March-April, copper's down, steel prices, who knows. But it seems that the direction is more down than up. Does that give us a little bit of optimism for the back half of this year?

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

A

Could that happen? Yes. At the same time, we're about 80% [ph] blocked (00:05:42).

Q

Yeah.

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

A

For those input costs for the year at this point, which is kind of typical given how we block some of our input cost. I would tell you though that at where we stand today, some of the electronic components in freight, that's where most of our, I'd say, inflationary headwinds are. If we get some tailwind from lower input cost on copper and aluminum, fine. But that is not what we're counting on at this point.

Q

Yeah. I'm glad you mentioned electronic components because that's been a real source of volatility for some companies that you might know quite well last quarter. I mean, how confident do you feel that you've got the commitments in place to support your FY 2022 plans at this point?

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

A

Well, as confident as we can be, but at the same time situation changes – the situation changes every day. I mean you think you have a commitment on certain type of components or electronic chips and then it turns out that the commitment isn't there or the timing of that commitment has changed. It's frankly one of the reasons why in several of our businesses, but particularly in Fire & Security where we have our controls business, where we have spent resources on redesigning some of our components, including redesigning components by using – by being able to use more than one chip for certain product.

And the whole thinking about that was to no longer depend on just one source, one type of the component for certain of our products. And so we think that will start providing us some relief in the second half of the year, actually I should say early in the second half of the year. And so it's one of the things that we've done besides working directly with the chip suppliers, of course, to try and address our electronic components. So it changes every week, but it's probably the biggest focus we have now from a supply chain point of view.

And the redesign of those components started several quarters ago. It takes a while. And then of course, we do expect to see some benefit from that in the back half of the year. You may recall that we mentioned that we could have sold several hundreds of millions of dollars more, whether it was in Q4 or in Q1, if it was not for the shortage of some of the components, including electronic components. And so that is a key area for us to focus on to try and get that backlog out.

Q

Okay. Yeah. I do want to touch on backlog in a second, but just want to go back to your comments on China. Good news we were ramping back up to full capacity there. So relative to the $100 million, so are we tracking quite well to that number?

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

A

I'd say roughly. It's not exact science, but I think that roughly that will be kind of the number for the quarter from a top line point of view.

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Q

Yeah. Yeah.

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

A

And again we're about halfway through the quarter. We're in the ramp up mode. It looks good for now, but at the same time it's not just about us, it's about all our suppliers as well.

Q

Right.

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

A

And so we're working through all of that. But I'd say that we're pleased where we are. And roughly $100 million I think is still probably a good number.

Q

Okay.

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

A

Which is embedded in our outlook, of course, for the year.

Q

And is that mainly an impact to the large commercial business?

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

A

Yeah, actually most of the impact we expect to be in commercial HVAC, where we have an important business in that part of the world. And so that will be mostly in HVAC. And I should say that for the full year, we don't expect it to impact us, we expect this to be offset in Q3 and in Q4.

Q

Okay.

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

A

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So we have not dialed in a – I call it a full year headwind. It's a Q2 headwind that we expect to make up in Q3, Q4 and where we stand today there is no reason for us to think differently than that.

Q

Okay. Great. Obviously, backlog stability, conversion of backlog in this kind of environment is front and center for all investors. Are you continuing to see the backlog holding up quite nicely or is there any...

[indiscernible] (00:09:57)

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

A

Our backlogs have been increasing sequentially and year-over-year overall as a company. And so that is not a concern for now. And if I look at commercial HVAC just because you brought it up, our orders in that business for the last five quarters have been up double digits every quarter, all of 2021, first quarter of 2022. And so it is really in commercial HVAC it's less of an order story. There is some volatility in the sales growth by quarter, which is driven by whether there are COVID restrictions, have we had some supply chain concerns or restrictions or impacts in some areas?

And I think that's what we'll see in Q2 commercial HVAC. And that's, of course, no different than what we said back in February. Given what's happening in China, commercial HVAC will show somewhat lower numbers which we expect to offset in the second half of the year.

Q

Okay. Great. Great. The US consumer, you touched that through your residential business.

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

A

Yeah.

Q

Obviously. It seems that there's weakness creeping into the DIY markets, we saw [indiscernible] (00:11:13-00:11:17) resi business. But any thoughts on kind of the consumer we see in real-time from your channel partners?

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

A

At this point, if I look back at Q1, our residential volume was up low single-digits, field inventories were up for splits and furnaces were up low single-digits. And so I'd say as of Q1, there was nothing there that we can point towards a significant change in where we are. Now higher interest rates, higher input costs generally that doesn't bode well, but that is not something that I would say that we've seen today. We are very focused on delivering everything that our distributors are ordering from us, that continues to be healthy.

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And then I think, of course, we're in the phase before the busy season where inventories are still being built. And so I think we'll know a lot more at the end of this quarter where we stand, given what movement will end up being for this quarter, and of course, the field inventory levels, and of course the whole 2023 SEER transition.

Q

Yeah. Mainly that's a good point to maybe talk about what the timing is on the launch of the new entry level products.

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

A

Yeah. Yes. So in terms of context, we think that this impacts about a little over half of the market for residential HVAC where the minimum SEER requirements are increasing in the US, and what's interesting this time is there is a difference between what's happening in North of the country and the South of the country. And so in the South the change the change in regulation is as of the date of installation, in the North it's the date of manufacture.

And so what the whole industry is now going through is what will be the net impact of in the South. Our partners will want to make sure they have enough inventory for the season, but then not too much inventory of the old equipment, otherwise they have excess equipment or something they can't sell. And so in the South part of the country, there may be some pre-buy of the new equipment. In the northern part of the country it's completely different. There you could argue there might be an incentive in buying more of the older or less efficient SEER. And then only switch next year to the more expensive new unit. It's unclear what the net impact of that will be.

Q

Yeah.

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

A

But the incentives or the behavior may be very different in northern versus the southern part of the country.

Q

Yeah.

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

A

So we're working very close with our partners on managing the transition. And so obviously we'll start – we started taking orders for the new units in the South. And I expect that we will be starting those shipments in the second half of the year in Q3 in the South. And then we'll see what the behavior will be for our partners in the northern part of the country.

Q

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I think you and Dave, and quite frankly a lot of your competitors don't think there's going to be a significant channel restock ahead of that event.

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

A

We don't think and we're not counting on it being a big impact this year. What we do know is for the new units; one, they will be higher priced than the existing ones. Of course, it's somewhat of a different technology, they're more expensive units. They're more efficient. And we expect the margin dollars per unit to be higher accordingly. At the same time, we expect the margin percent to be neutral at worst.

Q

Okay.

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

A

And so obviously that's something that we are managing very closely. And the key element there is the margin per unit – the dollar margin per unit being higher and the margin percent, we don't expect that to be diluted at all.

Q

Okay. We get asked the question a lot, what is the price differential between the entry level of 15-C units and...

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

A

Yeah.

Q

...14-C unit a day? We guess, and its normal to guess 5% to 10%. Is that the right range?

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

A

We have not yet completely finalized all our price points for new products, but I think something around 10%. I don't think that that is unreasonable.

Q

Okay.

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

A

That's knowing that we haven't finalized all of our pricing yet.

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Q

Okay, great. We're halfway through, believe or not. Any questions from the audience? There's a mic going around the room, so please raise your hands if you've got any questions. Right here.

Q

So not a ton of operating history as a standalone company, so just curious if you could talk about how Carrier performed in past recessions? And understanding that every recession is the same and why that might be different from both the top line and decremental margin perspective if we do see that in the coming year or so?

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

A

Yeah. So first of all if I look at where we are today, our focus as a company is still very much on growing the business. We see some secular tailwinds benefiting us across the portfolio. That includes the aftermarket initiatives that we talked about on Investor Day, which we think is real. We're seeing that big opportunity for us.

At the same time, we're not blind to what's happening to the broader market, and I talked earlier about what's happening with interest rates, inflation. And so, clearly we're going through some scenarios and seeing that could look like. And it will all depend on – if first of all, if there is a recession, how quickly will this impact the business and then how deep the recession will be and no one, of course, really knows even whether the recession is coming.

The way at a high level that I think you can think about it is our gross margins are a little less than 30%. And so assuming no change in mix across the company without much management action, that would be kind of the fall through. But then of course, we have levers that we can use to offset that. And if I look at the levers that we use, just if you go back during the COVID period, there is, of course, some additional cost reductions we can do that are permanent in nature. And depending of course, on how severe a potential downturn would be, we've shown that we can take – we've taken significant temporary cost reductions as well that we've been reinstated subsequently.

Just the temporary cost reductions we implemented were several hundred million dollars during COVID. And so I think that provides you some type of a framework. And of course, during that period, generally free cash flow is not an issue as working capital gets monetized. And so I'd say it's not our base scenario. The organization is focused on growth, on what we can control, whether it's the cost side, the productivity that we shared with investors, the aftermarket, and then all the secular tailwinds that are out there. At the same time, we are preparing just in case how some scenarios could look like and what actions we would take knowing that we have a playbook that we used not too long ago.

Q

Right. Any more questions? No, I think so. So there's a brown envelope sitting in a drawer somewhere that if the things do pull out [indiscernible] (00:18:51) you got plans in place to mitigate the margins?

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

A

I would say that we have a management team that in different industries has gone through recessions before, and generally there is a playbook out there that I've gone through several recessions myself that is generally not very different one recession from the other. I think the difference here in this case is of course, the inflation headwinds are significantly higher than most of us have seen in our career.

Q

Right.

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

A

And so there is a pricing element that's really important. And I'm very glad that so far price cost neutral earlier than we expected. And we absolutely want to keep it that way.

Q

Yeah. Well, I can say at this conference in my career, I have never seen inflation and I've been around for a long time, so it's been a while. I want to go back to margins, maybe just you're still relatively new to the industry and I've always felt it's unusual that an industry with very strong pricing power like HVAC, very service-centric, has quite low margins compared to other industrial companies. I mean, I'm just wondering what your perspective is on that? What is the potential to get better?

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

A

Yeah, I think that first of all I – in whatever industry, the margins are always too low, where if I look at it from a Carrier perspective, I think that besides what's happening in the market and our need to drive differentiation and as a result of differentiation drive up margins, there is a lot that we can do internally.

We are complex internally. Our internal structure is complex whether it's from our manufacturing footprint, our supply chain footprint, our G&A footprint. We've historically been a very decentralized organization. We're actually changing that at a rapid pace, implementing scalable organizations within the company. I think that is an opportunity. If I just look at [indiscernible] (00:20:57) our control, the cost side but then also the aftermarket which provides a richer revenue stream to drive up margins.

And so I don't see anything say fundamental in the industry that says we can't increase our margins from a pricing behavior point of view. We've seen the behavior of the players I think being very rational. We've been very vocal that any pricing that we've pushed through to the market, we have no intention of giving that up. We'll see what happens with some of our competitors in the space. But we are very much focused on internal cost reductions which will help margins, the aftermarket opportunity which is margin-rich revenue and driving differentiation through technology investments and digitization to further derive margin increases.

Q

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Very clear. So looking at your FY 2022 plan, Refrigeration is an area where there's a bit of work to do to get to your FY 2022 margin targets.

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

A

Yes.

Q

I think it's fair to say that based on 1Q. Maybe just to address that in terms of what you're seeing, I think you're a little bit behind the curve on price costs within Refrigeration. Maybe just talk about that?

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

A

Actually with – for Refrigeration price cost was negative in Q1 but better than we expected.

Q

Okay.

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

A

And so we have clearly seen a pickup in sequential price improvement in that segment. And actually we're pleased with where we were in Q1 from a price cost. Not that we were pleased it was still negative, but it was not as negative as what we expected. So in Refrigeration, we had these segments where price cost is trailing versus the others. We expect price cost to be close to neutral or about neutral in Q2 for Refrigeration. Refrigeration is also a segment where we've seen performance challenges in our commercial refrigeration business. There's a lot of focus there on improving operational performance and on taking cost out.

So, some of the restructuring charges that we are incurring are focused on that area to frankly get this business from a mid-single digit operating margin to something that is close to having a double-digit operating margin, and so that's a key focus for us.

In that segment, we also had some changes in overall management, right. So Tim White joined us less than a year ago. And so we're confident we are on the right track there. And we do expect sequential improvement starting this quarter in that segment. Some of it will be price cost driven. Some of it will be volume driven. This segment is one of the segments where we have a significant backlog of sales that we could ship, that we are frankly waiting for some electronic components.

Q

Okay.

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

A

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And so that is expected to help us in the second part of this quarter and going forward.

Q

Okay. And then Container came in a bit lighter. Again, I think, as expected. But is that more of a supply chain issue or was that just some weakening versus tough comps?

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

A

That was really a tough comp. I think, Sam, you may recall the number, but last year...

Samuel Joel Pearlstein
Vice President-Investor Relations, Carrier Global Corp.

A

It was up 40% last year in the first quarter.

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

A

...yeah. So nothing actually the – nothing wrong with Container. It's a really good business. We have a really strong market position. And now that we're talking about Container, it's one of the areas where our links, digital platforms – digital platform for the cold chain where we're really focused on that.

And so, if you think we have a huge installed base, whether it's truck and trailer units, whether it's containers across the world, most of these units are not yet connected. And so our intention is to connect all these units, get real-time connectivity, sharing of data. We can then apply analytics and provide value to customers. And the value would be how well is the Container unit operating itself so that the performance of the Container itself. Is there a risk of a shutdown or a failure? And so if we can do that, there is a value to the customer because they seek the contents of it, which are typically very expensive, whether it's food or medicine.

But the other value of the digital offering there is, what is the quality or the temperature condition of the goods that were moved? And we can do that. We can keep track of that for customers throughout their cold chain.

Q

Okay.

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

A

And so that's an area where we think we have a significant differentiation versus our competitors. And it's one example of where we have a really big installed base. We're trying to connect it and monetize it. And I – just one example in the Refrigeration side, but it's no different than the commercial HVAC side.

Q

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All right. All right. You've been public now for just over two years, you've been pretty active on the portfolio with Chubb as the big move there, but where do we stand now on the portfolio review? Any heavy lifting to be done here or are you pretty much set here?

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

A

Yeah, I would – we would not say that we're done. At the same time – and first of all, I think we are very pleased with what we've done to-date with the sale of [indiscernible] (00:26:33) a non-strategic equity stake, sale of Chubb at what we believe was a really good multiple, we freed up capital. We're in the process of planning for the acquisition of TCC, our Toshiba JV. We still expect that to happen by the end of Q3. And again, we buy something that's 100% within our core line of business, higher growth opportunity for lower multiple than what we sold Chubb for.

And so glad what we've done to-date, but I don't think it's all over. Throughout the three segments, we're looking to what we own. Are we the best owner? And if we're not the best owner, then how much focus do we want to place on improving the performance of the business? And then, of course, then the decision would be what parts do we think we're better off selling and having our focus elsewhere? So the chunks may not be as big as Chubb but I don't think we're ready to say that we're done.

Q

Okay. That's fair.

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

A

But we'll be patient, we'll do it in a controlled way and I think that we've shown that that's how we do that.

Q

Right.

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

A

With [indiscernible] (00:27:55) Chubb.

Q

Now TCC, I believe you locked – you hedged out the yen translation when you signed that deal. So you don't benefit from the yen.

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

A

Actually the transaction will be in US dollars.

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Q

Okay. US dollar transaction.

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

A

Yeah.

Q

Okay. Got it. Got it. Okay. And do these moves in the US dollar, do they have any transactional impacts on Carrier or was it just mainly translational?

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

A

Well. For the overall company, it's mainly yeah, it's mainly translation. So I think that's a fair way of saying it.

Q

Okay. Yeah. Okay. And then going back to the portfolio, all the moves obviously with Chubb, but also with some of the JV work you've done, are you confident that Carrier is now a 100% free cash flow conversion company going forward?

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

A

That is clearly our objective. And actually if I look at what we did last year, we were at 114% of net income free cash flow. So we have shown that we can do that. Clearly it's our intention to do 100% free cash flow every year.

Q

All right.

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

A

And will it be exactly 100% every year? No. But there is no fundamental reason why that would not be the case.

Q

Okay. I think the bulk of your JV income now is post the TCC transaction will be Watsco.

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

A

That will be one of the main contributors of the JV income. Correct.

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Q

Yeah. So now that TCC has been sort of resolved, are we now pretty much done with the JV work or is there still some...

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

A

There are still some smaller JV's. Actually with the Toshiba acquisition, it will reduce, it will be a net reduction of the number of JVs and there are still a few JVs here and there that we will likely wind down or sell to our partner. Some JVs make a lot of sense like one with Watsco clearly. But there are some others where we frankly don't get the return for the effort we put in. And every time you have a JV, there are control and compliance concerns, there is management investment in terms of board meetings. And it's a really good exercise to go through each one of these JV's and decide which one is really worth our effort or not, our management effort.

Q

...all right.

Samuel Joel Pearlstein
Vice President-Investor Relations, Carrier Global Corp.

A

And it makes sense to have skin in the game with Watsco. It makes sense to have that too.

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

A

We have a really good relationship with them. Dave has been very clear that early on in the relationship, we – there were some frank discussions as to what each party could do better for the greater good of both companies. I think that has happened. And if I look at our performance in residential HVAC over the last two years, I think it's a fair conclusion to say that we've done better than the market generally. And clearly a lot of that is driven what we have done as a company, but also our partner network and us having partners who can provide the availability to the markets throughout the country, I think that has been a main – one of the main reasons of us having had that performance.

Q

Okay. And then I think the final question around [indiscernible] (00:31:00). You've got a lot of [indiscernible] (00:31:02) to deploy in the next few years, which is good news. Stock price has come in a bit here.

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

A

Yes.

Q

Where does the pendulum swing here between buybacks versus M&A?

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

A

Yes.

Q

And maybe just give us a little bit of context on the M&A pipeline here?

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

A

Yes. So one, we still target $1.6 billion of share repurchases this year. We've done about $700 million in Q1. And so we're in the market every day. And so we expect to end the year at $1.6 billion. In terms of capital deployment, we've been very clear; additional debt pay down is not a priority for us. So it's all about either acquisitions or share repurchases. The dividend, we've been clear on that, we targeted a 30% payout starting in 2023. And so there is another decent increase, all else equal, that we would expect effective next year a dividend payment.

And so it's toggling between repurchase and inorganic. And we've been very clear that inorganic investments, including acquisitions have a priority but they need to be aligned with our strategy. We have our free cash flow yield, a financial metric that's really important to us. And if nothing is available or nothing of any size is available, then we may decide to do more share repurchase.

Q

Okay. Look you're number one, number two in pretty much every market that matters for you guys. I mean, is there any opportunity to do a larger deal? I'm talking here about maybe $3 billion to $5 billion.

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

A

Yeah, I think there are some. We're really not focused on a management team on big industry consolidation, given all the commercial opportunities we have, the internal opportunities we have that I laid out from a cost side or an aftermarket side, it is not a priority for us. But could we see acquisitions that are larger than TCC, TCC being $900 million? The answer to that is yes. Some of that could be in adjacencies. Some of that could be in areas like, for example, heat pumps. We have a very strong position in heat pumps in the US. Actually, we believe that for heat pumps in the resin market in the US, we're a market leader. It's a very strong offering there.

We have a really strong offering of heat pumps in the commercial HVAC space. For example, in Europe, we believe we have a leading position in commercial HVAC. The acquisition of Toshiba provides us some really attractive technology that we can use for heat pumps globally not just in commercial, but also in the residential space. But if we can complement that with some acquisitions to further strengthen our position, for example, in heat pumps, then yeah, then we would look at that.

Unverified Participant

Good. I think we're out of time. So, Patrick, thank you very much for the discussion.

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Patrick P. Goris

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

Thanks for having us. Thanks.

Samuel Joel Pearlstein

Vice President-Investor Relations, Carrier Global Corp.

Thank you.

Unverified Participant

Thanks, Sam.

Patrick P. Goris

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

Thank you. Enjoy the rest of the week.

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