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Carrier Global Corp. (CARR)

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MANAGEMENT DISCUSSION SECTION

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

All right. Good afternoon, everybody. Welcome back. We're going to keep things going here with Carrier joining me on stage. I have Dave Gitlin, Chairman and CEO, and Sam Pearlstein, Vice President of Investor Relations.

Guys, thanks for joining us. Dave, I know you have some opening comments, while you're getting settled there at the podium, I'm just going to remind everybody that for any questions about our research disclosures, go to the research disclosure website or reach out to your sales person.

With that Dave, feel free to lead us off on some opening remarks and we'll dive into some Q&A.

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.

Well, thank you, Josh. And it's great to be with all of you here in person. Thanks to you and the Morgan Stanley team. Three messages upfront, and then, we'll get into the Q&A. The first is, as you recall from our Investor Day earlier this year, we really focused on the fact that there's going to be key secular trends that drive an increased TAM opportunity, and our confidence in those trends has only increased.

You start with sustainability. You look at the European Union, Fit for 55, REPowerEU is aimed at doubling the adoption of heat pumps, and is looking to be adding 30 million heat pumps in the EU between now and 2030. And for us, because we're not a major boiler commercial provider, that is all upside.

In the United States, you know about the $370 billion Inflation Reduction Act stimulating heat pump and higher efficiency air conditioning systems for homes and buildings. We launched an EcoHome initiative. We've established our Tennessee facility as our heat pump center of excellence. And we're going to lean into that opportunity to not only drive increased margins and increased sales, but of course do right by the planet.

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K-12 orders. We've talked a lot about that in the United States. Orders were up 35% in the first half. Healthy Buildings, 2Q orders up 20% with a pipeline of $800 million. So, the secular trends that we talk about are driving orders and sales daily. Second, we continue to push at Carrier to shift from being an equipment provider to a solutions provider. And we are using digital and technology differentiation to provide customer-backed solutions.

So we start with our two digital platforms; Abound and Lynx. On Abound, we've made significant progress on the platform itself with the applications; we now cover 1 billion square feet. We're working with a major customer right now as they're encouraging employees to come back to the office. We're working on installing Abound in 100 of their office buildings.

We're thrilled to be partnering with Russell Wilson as we rollout Abound in a very global way, and as we really embed ourselves in our customers' building ecosystems to give them the solutions that they desire.

Lynx, in the cold chain, we're on track for 100,000 subscriptions this year. We're tracking to double-digit another year of double-digit aftermarket growth this year. We not only drive organic innovation 125 new product introductions this year, but we're also using Carrier Ventures to add probably about eight investments this year. We've recently announced three; companies like Butler that uses body heat and machine learning to detect occupancy that we will embed in Abound, it shows the highlight in the synergy between HVAC, digital, and security systems.

[indiscernible] (00:03:28) has a novel desiccant technology rather than exhausting heat from air conditioning systems that can capture and recycle that heat as part of the cooling cycle. [ph] Archaeologically (00:03:38) announced this morning 3D Spatial data that's part of our Abound offering.

And the third key message is that we feel good about our playbook in the face of broader economic uncertainties. So we don't need a new playbook. We're just going to double down on the playbook that we have. Recurring revenues, relentlessly taking cost out of the system, we'll reduce G&A by $100 million this year. Appropriately aggressive pricing, and we've shown our propensity to be able to do that.

We lean into secular trends, be it technology, digital differentiation, we've added sales and technicians, feet on the street. So, we have a geographic coverage so we can really focus on where the growth is. And also, we have seen a 20% increase in our backlog, and orders have been consistent with our expectations. So, I think our team has shown the ability to really perform despite whatever curveballs are shown our way.

So, with that, Josh, happy to get into the Q&A.

Joshua C. Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

I appreciate that, Dave.

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QUESTION AND ANSWER SECTION

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Q

So, it sounds like everything is, sort of, on plan. I mean, I guess maybe to start off, is there anything that's a bit of an outlier today? It seems like the industry is in a good spot, you guys are executing well against it. Anything that you would point out that has become more of a watch item as the macro has gotten a little bit more precarious?

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.

A

No. What I would tell you is there's really no new news today. Everything that we said on our 2Q call continues to track. Orders are something that we watch very closely, and they're consistent generally with what we said on our 2Q call. That more than half of our business have seen orders up double-digits. Commercial HVAC has had six quarters in a row of double-digit orders, that continues to go well. Fire & Security orders are strong.

Where we saw some weakness in orders are things like resi and transport. That's generally been consistent with what we had seen, and basically completely in line with expectations. Because we've been saying for a year straight that resi orders would be down. That is not a surprise, because we have usually four weeks of backlog, we have four months of backlog. So, that is not something that is in any way concerning to us.

What we watch very carefully in our resi business is movement, and inventory in the channel, and our expectation is that we end this year with inventory levels at the same levels they were last year, and we're trying to very carefully manage that.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Q

Got it. So over the last 90 days, I sort of wish I own the rights to the word heat pump because I feel like that's all I've been saying.

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yes.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Q

Maybe to kind of dig into a couple of the vectors there starting in Europe. So they're kind of necessarily going all in on heat pumps, you guys have a good position there. Can you talk about sort of what that opportunity looks like and what the bottlenecks to growth of trying to electrify the heat of the entire continent all at once?

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, that's a, it's just such a unique opportunity because you think about Europe getting 45% of its gas from Russia, you think about Fit for 55, where they said they were going to reduce greenhouse gas emissions by 55% between now and 2030, you can't get there without a significant shift away from fossil fuels to electrification. So

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heat pump is just a core of what we do. A third, about 30% of our commercial HVAC sales today in Europe are heat pumps. It's going to be 50% over the next five years or so. So we feel very confident in the continued growth.

And because we're not, as I mentioned before, because we're not a boiler provider, I mean, we have a small business that does very little boilers today, but no one would say that we're a material boiler provider as people shift from have – and they shift from having boilers and chillers to basically a combined heat pump, that's all upside for us. So we feel very, very confident. And then, by the way, with the acquisition of Toshiba, people think of it VRF. VRF is another way of saying heat pumps. That whole business is a heat pump business with great differentiated inverter technology that really plays well for that heat pump trend.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Q

Is there functional capacity, whether it's your own manufacturing capacity, component suppliers, installers that could throttle the pace of growth there because it seems like a pretty big runway, but it also is also it's a big effort.

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, look, I will tell you that I am not worried about the capacity, but I will tell you that supply chain continues to be a challenge. So that is something that I don't worry about the capacity in our four walls, but we continue to see surprises in the supply chain. It continues to go in the right direction, but we still have to manage overall supplier surprises and supplier capacity, and that is something that we watch, but I do think that we have the overall capacity to lean into the opportunity.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And then just turning it back to the US with IRA, I know the ink's not really dry yet. And there's still some state rulemaking that can kind of throw things around. But how should we think about that opportunity? I mean, it seems like the government really wants to subsidize the difference between AC, straight cooling, and a heat pump. And any way you slice it, we get either pretty close or more than that. Like how do you guys see that as a benefit? Because it seems like it could be double digits for the industry. I mean, you guys would know better than I would, but it's powerful.

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.

A

It could be quite significant. The issue that needs to play out between now and the end of this year, if the legislation gets finalized, is the incentive for heat pumps going to be in the midrange or the very high-end range of heat pumps? So if you think about entry level, you can call it a two-stage heat pump. And then our very high end inverter green speed technology. Right now, the way the legislation is written is the incentives are for that very high-end, which we, as an industry, our peers and all of us are pushing for the incentives to apply to that mid-tier two stage. If that happens, then you really close the gap between entry level and that second tier, which really provides a material benefit to the planet, to customer's energy usage and obviously that would be very, very significant for us.

Either way, it's good news. It's going to increase the adoption of heat pumps. People are going to mix up, which is good for us. If it goes to that two stage, it would be quite material.

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Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Q

If we kind of get the right outcomes there, there's still a contractor that kind of sits in the way and a homeowner who is probably slightly ignorant to how this goes. How does the education process work between yourselves, your channel partners like Watsco? Like how do you make sure that those guys are sworn to selling it effectively?

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, if you think about a month from now, we're going to have 8,000 dealers in Las Vegas, and that's going to be a major topic of discussion. I mean, we have a very, very deeply entrenched, loyal dealer base. And this is something that they know how to do very well. Educate the homeowner on what the trade is between cooling only moving to heat pump. If you maintain a furnace, you use that as backup only.

So, they are very adept at not only encouraging and educating the end consumer on the reasons to go to a heat pump, and to more energy efficient solutions. And the fact that your home energy bill, 50% of that is your air conditioning system.

So, they're best-in-class. It's one of the reasons that we have the higher share in the United States, is that our channel partners are phenomenal, and we're going to continue to work on the financing. We've said that as part of the Inflation Reduction Act, we're doing improved financing to continue to encourage folks to adopt heat pumps.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Q

So, the industry [indiscernible] (00:11:22) spending right now in terms of the incentives or the regulatory environment with IRA, and now like the SEER stuff. Is – does that add kind of an extra layer of complexity into picking which SKUs or which combinations to get in front of the consumer? It seems like there's a lot of discretion into how you assemble a system, like is that going to be a challenge trying to navigate that all at once?

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.

A

Honestly, I think it's an opportunity. I think that what's happening with regulation is, you're seeing regulation in the United States, in Europe, really globally, as we see that because HVAC has such a material impact on global greenhouse gas emissions, these regulations present an opportunity for our dealers to sit at kitchen tables with homeowners, and really educate them on the benefits and the payback associated with making these changes. And what we're trying to do is actually make the SKU complexity less to make those discussions easier.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And how should we think about that as we get closer to the SEER date? It seems like the industry is, kind of, settled on a 10% to 15%-type benefit. If I look back to the last time we did one of these, and yeah, it's different context, but it was a little smaller in terms of what everybody netted out. How do you, sort of, explain the difference between 10% to 15% versus, I don't know, 2% or 3%? And how do you see, kind of, the risk or opportunities to that?

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.

A

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Well, we're pricing it – I think – I could speak for us on the pricing side. The 10% to 15% is what we're targeting, it's going to apply to more than half of our units that are at that entry level, that minimum SEER range. And we think we priced according to – there is some cost increase, but there is also a lot of value-add to our end-consumer. So, we think that the pricing is appropriate and that we're confident it'll stick.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Q

And then, sort of, putting the volume equation on top of that, maybe the less predictable part of it. But how do you think of where we're at in the replacement cycle right now? We're pretty elevated versus history, but we've been elevated for a while, and it's not really clear why people being at home, working at home, like, drove a 20% increase in demand. So, something changed, but how do you think about what that path to normalization could look like? Or how you guys are contingency planning around that?

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, remember that for our resi business, which, by the way, is 20%, 25% of our business. So, I know it takes a lot of oxygen when we have discussions with investors, but the reality is that we have 75%, that is also is growing and is very exciting.

But on the resi piece, people are predicting – you have peers of yours that have been six years in a row predicting it being down, and a couple years ago was up 10%. Last year was up 20%. This year, it's – for us, it's going to be up about 15%, 20% in the first half; about 10% in the second. So, it'll be up about 15% for us this year.

Now, granted, a lot of it price because we've had to do about six price increases in about 18 months. So, we've had to be appropriately aggressive. But a lot of the factors that have driven some of the growth that we've seen, they still continue. People in the Northwest buying air conditioning when in the past 45% of people in Seattle have air conditioning. We see people, as you said, Josh, spending more time at home. We see the units running hotter and faster. So probably the average life has come down. Maybe it used to be 17.5 years, now it's closer to 15 years.

So, a lot of the underlying factors still exist. And then, you put on top of it the 10% to 15% increase for more than half of the product line. There's a lot to be encouraged about.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Q

Got it. In defense of my peers, I guess I'll say...

[indiscernible] (00:14:58).

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Q

So, switching over to the commercial HVAC side. You guys have had a lot of focus there about, broadening out the opportunity beyond equipment and probably the case study in going from equipment to solutions between service and some of the IoT stuff. How has that gone in terms of the kind of non-equipment piece? You talk about attach rates, but things like Abound which seem to be kind of meeting what the market wants right now. How would you sort of rate your success on that? Anything on market share or win rates that stand out to you would be helpful too.

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David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.

A

I would tell you, if you look back at the last, two to three years, I think it's one of the most profound changes that you've seen at Carrier, which is our aftermarket was growing at about 1% to 3%. And in the last few years we've been consistently growing at double-digits. And it doesn't just happen. It is a complete playbook. And I'm really, really proud of the team where it has to do with the kind of the deals we do with our suppliers, and how we make sure that appropriately so, we manage the parts that we sell as part of our system into the aftermarket, how we work with our channel partners to make sure that we're providing parts and services in an appropriate way.

So I can tell you that one of the biggest things that we've really done is lean into digital differentiation, whether it's Abound or number of connected devices, focus on attachment rate and conversion rate, the entire playbook has gotten a hold not only in the United States, but globally, in a really, really profound way. And it will help soften any kind of cycles that we see in some of our business as we drive to more digitally enabled recurring revenues Abound, Lynx are enormous enablers because what we're doing is if you picture a scale customer with thousands of buildings around the world, we can put Abound in their facilities. On a single pane of glass they can see, do I have aberrations where I have some parts of the world where they have increased greenhouse gas emissions and others, and then we can provide solutions not only for their reporting, but we can help them take actions with new, more energy efficient rooftop units, whatever it may be.

So the opportunity around using digital to embed ourselves in our customers' ecosystems to help them drive healthy and sustainable environment is very encouraging.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Q

How has the economic payback changed for them? I mean, we talked about this in an earlier fireside with one of your one of your peers. But like something seemed to happen in this industry, like five years or six years ago, where it went from being very much tied to equipment, a little bit more cyclical around non-resi to this, like, ESG kind of nirvana state. Like, did the technology get a lot better, or was it the customer just being more focused on it like...?

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.

A

I would tell you, it's really three things that have happened to drive an acute focus on modernizations and upgrades even before end of life of a chiller. Number one is energy prices that's really helped with the payback is as energy prices have gone up, increases – improves the payback. Number two is regulation. We talked about the regulations we're seeing, certainly in United States and Europe. And then the third is technology, as the controls technologies, and services technologies, as other technologies improved, we can help them drive much more energy efficiency savings. Even in advance of an entire chiller change, they can actually do with upgrades to VFDs or other control devices. So we've seen those three things come together.

And if you look at certain cities, if you – there's going to be great new building growth in places like Saudi Arabia. You look at Dubai, it's pretty built up. So that becomes more of a modernization focus. Some parts of the world, new building focus, and they complement each other very well.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Q

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If I can think about – and this is just pivoting over to the cost side of the equation, since you guys separated out from UTX, the sourcing program has been kind of a key feature of the cost line. Sourcing has gotten harder for everybody with supply chain. I mean, how has that sort of met or not met your expectations? And does anything about that plan change now that kind of having a more eastward supply chain is that much more difficult and expensive?

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.
A

Well, what I'll tell you is that the playbook around what we had characterized as Carrier 700 and driving really relentless cost out of the system, it works. And it's included in our supply chain, which is 85% of our COGS is stuff we buy. So have our people become more focused on placing tracing going after parts that are short, yes. That's just the reality in the current supply chain environment. But are we using Carrier Alliance to really drive costs out of the system? Absolutely. And we know how to do it because we have too many suppliers.

So as we do supplier consolidation, we will see material savings on the supply chain. Overall productivity this year will be a few hundred million as we've said. We know how to take G&A out in a sustained way through low-cost centers of excellence, driving lean in our factories. Will we move, as people you talked about suppliers in the east, do you see Chinese suppliers being more China for China to a large extent? Yes, I do see some of that. We will use more of a localization. Southeast Asia for Asia, China for China, Eastern Europe for Europe, Mexico and some parts of the United States for the United States. So I think we know the future. We just got to kind of, in a very methodical way, drive to that future state.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC
Q

And is overall productivity kind of a priority in that as well. I mean...

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.
A

Yes.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC
Q

...I think automation, it seems like it should be a more automated industry than maybe it is.

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.
A

There's no question. We will significantly increase – we've talked about increasing our automation hours from 3 million hours to 6 million hours. And keep in mind, we have about 30 million manufacturing hours. So that becomes a material percent of our overall manufacturing hours as a drive towards automation. And then just driving lean, we have Carrier excellence. It's literally taking minutes and seconds out of the operation in a very disciplined way. We have some sites that are best-in-class, some are behind others, and we need to get everyone up to that same level across our footprint.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC
Q

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Got it. Just kind of pivoting over to some of the regions. We talked a lot about this, the secular appeal, particularly in places like Europe. On the other hand, you have both Europe and China property markets that are a little heavier. How would you weigh kind of those opposing forces? It seems like, in your opening comments, like the secular is winning, but I don't want to put words in your mouth.

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.
A

In Europe? Yeah or either. But ...

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC
Q

[indiscernible] (00:21:45).

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.
A

Okay. Well, Europe. Europe's encouraging in the sense that, I mean, look at a very macro level for Europe people expect GDP, call it a little over 2.5% this year. It should decrease next year like 1.5% whatever the EU will be. But we watch it like a hawk and commercial HVAC orders, generally strong for the secular reasons that we've talked about Fire & Security orders, generally strong for the reasons we've talked about. Commercial refrigeration, we've been very focused on improving our margins there. So those orders have clearly been down generally as expected, probably part of it market driven, part of it self-induced because we're being more disciplined on pricing.

European truck trailer becomes a little bit similar to North American truck trailer, where we're more careful about order books. And so we sort of look beyond our year-over-year order rates because there's nuances to how we manage the order book last year versus this year. So nothing alarming in Europe right now. In fact, a lot of encouraging things given these secular trends. China is kind of a mixed bag because of all the shut downs we've seen, whether it's energy or some of the COVID related shutdowns. But look, China, long-term, we have high confidence in. Will that be mid to high single-digits over a period of time, we have confidence in China and we are 100% committed to China.

Could you see some softening and kind of aspects of the property market? For sure, but we've made a very conscious shift in China to the industrial piece, the industrial piece of that market with a lot of success.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC
Q

Got it. Shifting over to price cost, something I think the industry talks a lot about. I mean, clearly inflation in general is topical. But how should I think about sort of the pools of deflation that you guys might see over the next kind of 6 months to 12 months. The metals are down off their highs. But, as you said, you buy – you source a lot from other folks that maybe doesn't move in real time with steel. Like do you expect to be sort of net deflationary over the next kind of 6 months to 12 months because of those items that are down or those get absorbed by some other things.

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.
A

Well, if you look very near-term on things like copper, steel, aluminum, we do hedge. So, we have a hedging policy that has us fairly hedged for much of the rest of this year. It helps when they come down for some of the spot buys. But the real material benefit that we'll see is as we get into 2023, if those commodity rates stay at the

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levels that they're at, then, in a world where there's a lot of anxiety and pessimism right now, I think if people are looking for optimism would be that we've increased price significantly this year.

We came into the year expecting $1 billion of price increase, on our $20 billion base. That's 5% where we're going to end up with $1.5 billion. So that's about a 7.5% price realization. The team has been appropriate, but very, very aggressive as we should be, on pricing. Inflation, we thought would be $1 billion, it's probably going to be closer to like something like $1.4 billion. But as you think about it, if we can successfully hold the price that we've had, and we see some tailwind next year from some of the deflation that we've been seeing on some of these raw materials that would be a benefit for next year.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Q

Is – do you think you're at a point where you don't need a lot of incremental price from here? I know there's a lot of caveats in that. But based on what you're seeing today.

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, I would have told you a few weeks ago that we would probably have done about what we're going to do for the year. But it's something that we honestly have to be very agile and we watch by the day. Could we see a commercial HVAC increase in say, North America in the fourth quarter, perhaps. Will there parts of Fire & Security? It's a very broad portfolio. And we really look at elasticity. We look at, carefully at the different inflationary pressures we see in different parts of the world, depending on what part – parts of the bill of material that you're buying, and we may have to increase a little bit more price in certain parts of the portfolio.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Q

Are there areas where customer inventory of your products is high enough to where price gets a little tougher because they need to move product and buying up doesn't make a lot of sense?

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.

A

We have not seen that. I would say the one that we really watch – we watch all of it very carefully. But the one where we really measure very carefully, inventory in the channel is in our North American residential HVAC business. And again, we are very – we are laser focused on ending this year in balance to where we ended last year, because we don't want to start next year with excess inventory in the channel.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Q

And then, just on portfolio, I mean, you touched on it a few times. That you guys are very well rounded and have kind of the right exposures, are there gaps to fill in, technology, or region, or otherwise?

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. We continue to work very hard on building out the pipeline for M&A. I mean, we are – and it's kind of in the category of what a difference two years makes, where we had net $1 billion cash when we spun. Now, we're sitting on $3.5 billion of cash. We certainly have more cash on the balance sheet than we need to run the

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business. We're going to lean on the dividend. We're going to invest in organic growth as we have. We'll continue to do so. And we really would like to do the right kind of M&A, on the right terms, at the right time.

So, we look at it. We've laid out at our Investor Day our priorities. Sustainability was number one. Things like digitally-enabled recurring revenues is a major focus area. Where as an example, we're not a significant player in European heat pumps for residential, we're number one in commercial heat pumps. That tends to be dominated by multi-generation family-owned businesses. So that's an area that is obviously directly in our wheelhouse, and it would be an area that would be a great add to the portfolio. But it has to be the right company on the right terms, and, obviously, you run into actionability issues there.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Q

Got it. That's helpful. We have a few minutes left. If there are any questions in the room. Great. Maybe last one from me then, just as we're wrapping up here. If I had to think about, sort of, where – given that you guys have – you've laid out the plan, the plan is working. What are you really watching over this, kind of, three- to six-month period? You mentioned [indiscernible] (00:28:10) is, sort of, higher, especially in the investment community. What are you looking at more closely, to, sort of, either validate or, kind of, make you feel better about the state of the world? Given the complexity out there.

David L. Gitlin
Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, we, obviously, track orders very carefully. And as I said, there's – they have generally been consistent with what we had forecast. We continue to focus on supply chain excellence, because as we go into next year, it's, kind of, good news, bad news. The bad news is that we have actually hundreds of millions of overdue to our customers. Our backlog is up 20%, but we're very careful what we put in backlog – what we characterize as backlog versus not. And we're sitting on hundreds of millions of overdue, which is not likely to get cancelled.

So, it's bad that we're hurting our customers, but it is good in the current environment, that we have a significant amount of backlog. And as we improve the supply chain, as we recover on that overdue, that bodes well as we get into the latter part of this year into next year. We have to continue to out-innovate, we have to – when you see a once in a lifetime opportunity, and I can remember from prior lives, where you saw defense budgets going way up significantly, and you just had to, like, plow through that door and say, we have to be the first to market with innovative solutions that our customers need because the market's there. When you go from having no money available for K through 12 and they have $190 billion, which is now $140 billion that has to be spent, and orders up 35%, we got to be first to market with the most innovative solutions that those customers need.

And that market is there for the taking. The TAM is there, the TAM is there in Europe for heat pumps. The TAM is there for digital solutions and connected and intelligent solutions, sustainable, healthy solutions. So for me, it's all about keeping heads down, focused on our priorities and giving our customers what they want. And I could tell you, despite whatever happens with the broader economic climate, we should be very well positioned.

Joshua C. Pokrzywinski
Analyst, Morgan Stanley & Co. LLC

Great. I see we're out of time. Dave, Sam, we really appreciate your time. Great to have you here in person. Thanks for everybody in the room for joining us as well.

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Thank you.

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Thank you.

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