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Carrier Global Corp. (CARR)

Barclays Industrials Select Conference

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CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Julian Mitchell
Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Julian Mitchell
Analyst, Barclays Capital, Inc.

...here. We'll get going now with Carrier Global. It's my pleasure to introduce Dave Gitlin, Chairman and CEO, and also Samuel Pearlstein in Investor Relations. Dave will start off with a couple of prepared remarks and then we'll go into questions.

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

Well, Julian, thank you. Thank you so much for having us at your conference. As you know, we just released our fourth quarter results a couple of weeks ago. We just demonstrated again that we do what we say we're going to do and deliver on our commitments.

As we look ahead to 2023, I want to emphasize three themes. First is our confidence in continued and consistent and outsized growth, driven by a very purposeful shift to digitally-enabled lifecycle solutions and leaning in to key secular trends.

On the first, on the aftermarket side, we are well on our way to increasing our aftermarket sales from about $5 billion last year to more than $7 billion in 2026, with our aftermarket growth rates increasing from historical levels prior to our spin at 1% to 3% per year to consistent double-digit aftermarket growth, which we see continuing. And it's really enabled by our two key digital platforms, Abound for buildings, Lynx for cold chain. And what we're doing is providing our customers with sustainable and healthy outcomes throughout the lifecycle of our product and service offerings. And all of that results in higher growth, higher margin, more sticky recurring revenues.

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On the secular trend side, our ESG focus is paramount, as we continue to use our focus there to provide our customers with the ability to track and achieve their ESG objectives through differentiated technical and digital offerings. Heat pump orders continuing to grow rapidly, differentiated VRF capabilities following our Toshiba acquisition, more energy-efficient solutions across our HVACR portfolio, electrification for truck and trailer using our Abound and Lynx solutions to help our customers achieve their sustainability targets. And on healthy buildings, our pipeline, as we mentioned, is now at $1 billion and it continues to grow.

The second theme is around cost reduction. We spun. We talk Carrier 700. We now talk 2% to 3% productivity per year forever and that's really 5% productivity operationally. And this year, we anticipate another $300 million of productivity, supported, in addition, an incremental $200 million of price cost positive. And the team's driving, and I think that as we go through the year, we'll continue to drive, hopefully, upside to that. We're certainly pushing ourselves internally to that. That helps us invest back in the business and drive more than 50 bps of margin expansion a year.

And the third theme is that we have a strong balance sheet that enables us to play offense. Our prime focus for M&A remains on sustainability. We'll continue to work potential acquisitions to bring further focus and differentiation there. And the fact that our Toshiba integration is tracking well ahead of plan, it gives us further confidence in our integration abilities for potential incremental acquisitions.

And we'll say it again. We've said it multiple times. We will continue to take a very clinical look at our current portfolio for further optimization. We do like the fact that our portfolio gives us balance. So, one part of the portfolio is seeing some order headwind. We have other parts of the portfolio that can cover for it. But when we look at the fact that we're starting this year with our backlog 2x the level that it was in 2019, we like our portfolio, but I will tell you that we look under – we look at every aspect of it for further optimization and we'll continue to do that this year and beyond.

So, with that, Julian let's get into Q&A.

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QUESTION AND ANSWER SECTION

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Thanks very much, Dave. Maybe first off would be around – it seems sort of a uneven start to the year for various companies for various reasons. How are you seeing your orders playing out as you start the year? We were at the AHR Expo a couple of weeks ago [ph] in order to (00:04:13) focus there on this whole sort of resi market, what's going on with the inventories and so forth? [ph] So let me start that for you. (00:04:21)

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

A

Well, at a high level on the order side, I would tell you that January was sort of consistent with what we saw in 4Q, but February has been much stronger. So a few weeks doesn't make a trend.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

But I think there were some level of macro anxiety coming into 2023, where you had people talking about hurricanes on the horizon and there were some level of anxiousness. And what we've seen is a nice kind of settling over the last few weeks. So at a high level, orders are fundamentally where we thought they would be for our guide...

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

...not only for the full year, but what we talked about for 1Q. No real surprises. And again, we're starting to see over the last few weeks a bit of encouraging trends there and we'll see if they continue through the first quarter.

We do get, of course, the question about stocking levels in Resi. We had said that the inventory levels in the channel at the end of the year were a little bit higher than flat to last year, which is what – flat to the end of 2022, which is what we were targeting. But I will tell you that it occupies way much – way too much oxygen amongst questions in the investor base and I'll tell you why.

Number one, we love our Resi business, but it's 20%, 25% of the business. Number two, as we said, basically, despite potential volume headwinds this year, Resi is going to be flat. So we have great backlog in Commercial. Light Commercial up mid-teens. Fire & Security should do well. Truck/trailer, looking really good, North American truck/trailer.

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So all these positive things in the portfolio, on the Resi side, if you get a destocking level that takes you back to the 2019 levels, if we see destocking that takes us back to the 2019 levels, that would affect our operating profit by less than 1%. So it's something that, will there be a little bit of destocking? Perhaps. Will it materially impact the business? No.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

That's very good context. And I think one thing people wonder about on that Resi element is just if you get this sort of – and you had weak volume orders there for a year now, so it's not new. But to the extent people keep talking about it, maybe one aspect they may wonder, if it's different this year from last is on pricing. How do you feel about that pricing on Resi? How is that discipline among competitors today? And do you think that sort of discipline holds if you get – or as those weak orders translate into weaker revenue?

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

At a high level, we think it's a disciplined industry and we see that continuing. We looked at six price increases over the course of about 18 months. And we just announced for Resi, another 6% price increase a few weeks ago...

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Yeah.

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

...which, quite honestly, we weren't anticipating in December, but we came into the year thinking – looking at it and saying, some of the inflationary headwinds that we saw in 2022 are not completely behind us. So we said that we have no choice, but to do another price increase. We've seen others do the same, and I would anticipate that what is a fairly rational industry continues.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

And when you're thinking about the sort of overall cadence of volume growth, again, firm-wide now, not Resi, but overall Carrier volumes in the top line have been flattish, I guess, for two or three quarters with price being the revenue driver. How do you think about volumes going through this year, first half versus second half, if you like?

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

Well, we see volume growth in the second half. At a high level, we said that our revenue would be up low to mid-single digits.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Yeah.

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

And as you said, we're getting benefit from mix and price there. We did – a lot of the price was carryover. And just in January, we introduced new price increases, the 6% for Resi, 8% Light Commercial, 10% North American Commercial. So we will continue to be very agile on the pricing side. I mentioned on the cost side, we've given our guidance there, but I can assure you, internally, we're being very, very aggressive there. We're happy with the backlog. And we do think the second half of the year, you start to see container come back a bit. We said we fully expect container, which, again, is a relatively small part of the overall Carrier portfolio, but a little bit of headwind there. Commercial refrigeration headwind in the first half on the volume side, but we see second half volume positive for Carrier, helped by the recovery of some of those businesses.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

That's helpful. And in China, you've got a good sort of range of business, transport, Commercial HVAC, some F&S as well. How has that sort of start to the year playing out?

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

A bit of a mixed bag. I would say that January orders in China were kind of weak, but we've seen nice strength more recently. And now you have a little bit of confusion with the timing of the Chinese New Year.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Yeah.

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

So if you kind of look past some of the noise of week-over-week trends. At a high level, we are starting to see the first signs of positivity that we've seen in China for a while. Southeast Asia, by the way, has been very strong.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Yeah.

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

China, we've seen a few good weeks, not in every aspect of the portfolio, but at a high level, Commercial HVAC continues to be strong.

And I think for both Commercial HVAC and Fire & Security, I got to give the team a lot of credit because we made a very purposeful shift from the mix of, say, 70/30 property versus industrial to inverting that. So we're now much more heavily weighted to the industrial side, recognizing some of the weakness that we would see on the property side of the market, in particular, with some of the multifamily high building residential.

So the team has been very purposeful about that shift and we're starting to see some traction, and Toshiba is very well positioned over there. That brand and that channel is seeing very good orders growth on the TCC side.

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Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Perfect.

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

A

I'm sorry, Julian, but I'll say there's a lot of geopolitical clouds over the relationship with China. But if you look kind of underneath the covers in the trenches, there's huge opportunity for businesses to continue to grow in China. And we look at it and say this could be a year where I think we were balanced in our guide and in our internal assumptions, but I think there's a potential for China to surprise to the upside this year.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Great. And then maybe sort of looking more some of the structural drivers, if you like, for example, there's a refrigerant change coming up in HVAC domestically in a couple of years. How well positioned is Carrier for that change? Do you think there'll be much in the way of kind of a big spike in investment needed or demand pull-forward ahead of that? How do we see that playing out the next sort of two years?

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

A

I think we're extremely well-positioned. And our – two words we use a lot are humble and hungry. So I'm going to say something that's not terribly humble because the credit goes to the technical team, but I think we're the best positioned in the industry. What the team did for the 23 SEER change was to try to really lean in and make Max changes for differentiation. And we know that some of our peers try to make Min changes to satisfy the new SEER requirement. We really try to invest for differentiation, obviously, anticipating the refrigerant change for 25.

So we still have further changes to make to accommodate the A2O refrigerant with certain sensors and certain containment mechanisms if there were a potential leak. But I would say because we invested so much on the 23 SEER change, the 25 refrigerant changes is much more modest and we feel extremely well positioned. And a lot of the investments are not only on differentiation, but to take cost out of the system with a shift from copper to aluminum, microchannel heat exchangers.

So we like kind of the margin outlook and we think that we can really differentiate ourselves as we go into the 25. And the investment is very much factored into how we're thinking about investments over the next couple of years.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

And then, from sort of a broader policy standpoint, where are we in the stimulus tailwind you've got on the education front? Are we sort of over halfway through that? Perhaps now. How big has that tailwind been for you? And then looking ahead, the Inflation Reduction Act, the next sort of big one, perhaps, when do you start to think you might see some orders impact and how sort of meaningful could that be?

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

A

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Well, on the first one, on the education side, I would actually say that we're less than halfway through that because on the ESSER funding, there's $190 billion that's being allocated and there's $120 billion still yet to be allocated. And when you get to that ESSER III funding, a lot of that goes to the much more significant infrastructure type changes, which plays right towards HVAC upgrades, whether for healthier sustainability or energy efficiency reasons. K-12, up 35% orders last year for us. We have a dedicated team. We have a Pareto by city, who's spending what in the country.

The other piece kind of aside from that that has been very, very strong is upper education, higher education. So on commercial HVAC, we've seen great orders traction globally, but certainly in the United States universities and higher ed. So ESSER funding, K-12, an extremely positive vertical, very well positioned there.

On the IRA, I do think there will be some benefit as we go through 2023. It's probably a bit back-end loaded because it became effective on January 1 of this year. The IRS is now out for comment on exactly how that – $2,000 for heat pump, for example, how does that actually get administered and implemented. So there's probably a bit of time of educating homeowners through our dealer base and then having it implemented.

But having said that, the opportunity is quite significant. Maybe not overly material in 2023, but as you go forward, one of the big wins that the industry had was making sure that the heat pump incentive of $2,000 became applicable to the ENERGY STAR rating for most of the countries. So for you to upgrade from a base level heat pump to a two-stage heat pump, the incentive is there. We're going to see a nice mix up there.

By the way, the other thing is that it also applies on the Commercial side. The Inflation Reduction Act effectively doubled the incentives you get per square foot to $2.50 to $5. So you're going to see, hopefully, a nice traction on the Commercial side, driven by the IRA as well.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Great. And one sort of product class that maybe benefits from a lot of these types of measures is the heat pump. We hear a little different numbers, and companies, I think, for competitive reasons are a little bit cagey about giving too much away. But any details you could give on sort of Carrier's positioning, Resi and Commercial heat pump here versus Europe or the rest of the world and sort of what the Toshiba deal has brought you on that point?

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

A

Well, let me hit all three: Resi, Commercial and Toshiba.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

On the Resi side, the two – the number I'd give you is 35%. I think that 35% of our split sales are heat pump and we saw orders up 35% last year, and we're number one in the market. So we feel very good about our positioning and the growth rates we're seeing on Residential heat pumps in North America.

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Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

When you look at the Commercial side, we're number one in China and Europe. We feel very well positioned. We saw 30% growth rates for heat pumps in Europe last year on the Commercial side, and we see that continuing. I've been with customers that are fully decommissioning their boiler rooms in Europe and replacing those with one or multiple heat pumps.

The opportunity on the Commercial side in Europe and in China is very, very good and we're extremely well positioned with the right brands, the right channel, the right products. More work to do in North America, but we're continuing to invest in the heat pump portfolio and we'll hopefully see more traction for heat pumps on the Commercial side in North America, but it's very strong on the Light Commercial side.

And then, Toshiba has added phenomenal technology on the VRF side, which is a heat pump. So that really enables us to come more aggressively organically into the residential market for Europe because, obviously, that market's going to grow significantly. We're a small player in Resi in heating for Europe. We have our Riello business, which is well positioned in Italy and some other countries. We're going to invest and grow that. We can sell more of the Toshiba product line to the major OEMs in Europe and that's obviously an area because we are such a small player there for inorganic growth. So that's an area that we continue to look at for acquisitions.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

And in the sort of short-term North America market, there's often classically this transmission from resi to non-resi. There's a debate around, is it different now because of all the stimulus measures. You yourself sort of often bucket Resi and Light Commercial unitary, as one when you're discussing numbers. Have you seen – how do you think about that transmission of weakness to Light Commercial, anything showing up yet or it would be too early anyway based on historical lags?

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

A

It's hard to say specifically the answer to that, Julian.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

But what I will tell you is that the Light Commercial business itself in North America has been tremendous. And it's really a credit to the team because, number one, the team invested in a very highly differentiated product with an axial fan that's much – it's 40% more energy efficient than the unit that it replaced.

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So we're kind of picking up share of the old-fashioned way through differentiation and a solution that really works for our customer. We're looking at mid-teen growth this year. We have tremendous backlog. The biggest challenge we have in Light Commercial is just keeping up with the demand that we're seeing from our customers. So that's an area where people talk about overall macro softening volume. We are getting so many phone calls from our customers saying, we need more. We want more. We've made a very purposeful shift from your competitors to you. We need you to support some of our openings that we have coming up.

So our challenge as we go through 2023 in that business is just keeping up with demand and continuing to shift customers to us, which we've seen a lot of progress with.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

And then within your sort of HVAC segment, you have this new piece called Global Comfort Solutions. Toshiba is in that now. Maybe help us understand sort of what exactly is in that business? And you've talked about the exciting sort of revenue elements of Toshiba. How is that margin uplift going?

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

A

Well, that – in HVAC, we have three segments, right?

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

We have Residential Light Commercial in North America, we have Global Commercial and then we created this new business, as you said, Julian, GCS, Global Comfort Solutions. You could think about it as about a $3 billion business, about $2 billion of that, a little over $2 billion, is Toshiba. The rest is a combination of our Riello business based out of Italy and then we bought Giwee in China.

So it's actually one of our lower-margin businesses, but the good news is the potential for margin expansion in that business, it's not only significant, but it's very clear. I mean, if you look at all three, the margin expansion profile in Giwee, in Riello, and in Toshiba, it is there. It is detailed, safe, and the team are driving that. We know exactly what we need to go do to drive the margin expansion.

So I think when you look at the margin growth that we fully expect to see at Carrier over time, a nice tailwind we're going to have is the margin expansion in that GCS business.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Perfect. And as you look at that, the Resi business sort of coming off volume-wise, how – what kind of decremental margin or margin mix hit does that drive at Carrier?

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

A

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Well, we're still looking at incrementals in the mid-30% range.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

So, there's going to be parts of the portfolio that see some volume pressure. There's going to be some high-margin businesses like Commercial that are seeing volume tailwind and then this cost reduction opportunity. Remember, we're coming off a couple of years of significant inflation, $1.5 billion last year, $500 million or so the year before. There's $2 billion of inflation that's our God-given right to go back and get. We got to start performing in our factories. We've been very busy chasing parts. We've seen some inefficiency in the factory. Logistics has been a headwind. That's going to be a significant tailwind. We got to go very aggressively at our Tier 1 suppliers, and there's going to be a change in our Tier 1 supply chain. That should come as no surprise to anyone that we have suppliers that are either on this journey with us for the long term or not, and we are going to shift to suppliers that are prepared to support us from a cost perspective, a quality, delivery perspective that some cases, they're building facilities outside our four walls in places like Monterrey, Mexico, so we will have better redundancy in the supply chain, better flow through our factories. So I think the opportunity this year, going into next year on all things, productivity is significant.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

And on that front, maybe commercial refrigeration is something you've been talking about, productivity uplift there. Kind of where are we on that journey? And on the transport side, very volatile top line, how are you thinking about profits there?

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

A

Well, the profits on the transport side are good and getting better. I mean they've just been – our North American truck/trailer business is quite profitable and that continues to do very well.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

And by the way, NATT, our North American truck/trailer business, has backlogs that we haven't seen in years. We are very well booked and we continue to see extremely good order growth in our North American truck/trailer business. So that business, great backlog, great orders, great margins, a lot of good stuff happening.

Europe has very good backlog. We saw a bit of weakening of orders, but the backlog really positions us well, at least through the first half of this year, and we'll have to see how orders progress.

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Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

Commercial refrigeration margins has been a disappointment because I thought we were going to do better last year than we ended up doing on the margin. But this year, I think we took a lot of the hard actions last year that are going to position us. We had basically every country had its own infrastructure. We've now – we had to do a big restructuring action in Europe to consolidate it to a more regional structure. So we've done a big G&A reduction action that will help us this year. We're improving the margins on the services side. We're improving the margins on the upfront equipment side. We're doing less customization. So that's a business I can say with very high confidence, we'll see very, very strong margin growth this year.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

And Fire & Security, you sold a lot of it with Chubb just over a year ago. The Fire & Security products piece that's left and I suppose how much synergy is there with the rest of the Carrier portfolio? Kind of help us understand strategically what the plan is there?

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

A

Well, we – it's a great set of businesses, in and of themselves. If you were to go visit our Edwards business for commercial fire, LenelS2 for security, and within that, you have businesses like Supra and Onity, you have very high margin, high gross margin, highly differentiated businesses that have seen, in some cases, very strong growth. Our Kidde business is well positioned, more than 50% share.

So you have a collection of great businesses. The question that you asked, Julian, is how does it fit with the rest of the portfolio? We've said that we are a very focused climate systems and solutions business. And that is, we want to be world leader in the HVACR space to provide holistic climate systems and solutions offerings to our customers.

So there are some inherent revenue synergy opportunities between Fire & Security and the HVAC business. What we have to ask ourselves is do those revenue synergies offset the flip side of a more focused portfolio and would they be worth more to others and then we could monetize that and put it towards other things. That's a question that we've asked ourselves every day since spin. We'll ask ourselves throughout 2023 and we'll continue to assess that.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

And operationally, you feel the business is roughly where it need – there's not an urgent turnaround needed. It's more just sort of improving it.

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

A

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It's improving it. Look, it's a business that inherently should be a high-teen EBIT ROS business. Its gross margins are extremely high. We got a little bit surprised, not in the fourth quarter, but in December on the margin side there. And that was really for operational reasons. It had to do with a whole bunch of issues that kind of hit us in December. But it's a great leadership team. It's a great business. We've run into some operational issues. It's a business that relies of all of our portfolio, the most on chips, which has been very difficult. We've been paying a lot for spot buys. Logistics was challenging.

So we have a bunch of operational issues that kind of hit us a little bit last year. But when we look ahead this year, I think we guided conservatively on the margin side and I would fully expect to see nice, very strong margin accretion for that business. As we go through this year into next year, we've kind of handicapped it so we don't surprise ourselves or others this year, but that's a very, very good business that when it cleans up some of the operational issues, it should see nice margin expansion.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Great. And then lastly, before the audience response survey questions, leverage is moderate right now. A lot of buyback activity since the Chubb divestment. Most people in the room would imagine M&A starts to become more up or front of mind for you soon. Would you sort of agree with that? And then any sort of priority areas across the business on M&A?

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

A

Well, I would agree with that. If you think about it, we spun from UTC a few years ago with basically $10 billion of net debt, $1 billion of cash and $11 billion of debt. And today, our net debt level is half that. We're at about $5 billion. And we're sitting on $3.5 billion of cash. And I do think what we did over the last couple of years from a portfolio perspective, we're – I wouldn't say the more obvious things, but they were tremendous and selling Chubb, buying Toshiba, some of the other smaller acquisitions like Giwee and some of the others have been great. Now we're entering, as we go into 2023, with an opportunity for further portfolio optimization.

I assure you that we are looking at current parts of our portfolio for divestiture. So we will continue to assess that and we will make those determinations as we go forward. On the other side, we absolutely are working hard on the M&A side. And we want to just stay very rigorous to our strategic and our financial criteria. We're very clear on our financial criteria and we will stay in the fairway on that, but we have the capacity to do bigger M&A now with the kind of balance sheet that we built. We said that – I just mentioned that residential heating is a gap we have in our portfolio. So that's interesting. We like controls. We like all things sustainability. You know how these things work. You can work on things that happen, don't happen. You need a lot of stars to align for the right deal to materialize. But what I can assure our investors is that we are working it and we will be very, very disciplined as we go through that.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Perfect. And then with that, let's switch, please, to the audience response survey. So the first question just around sort of current ownership of Carrier.

So generally not yet. The next question around general sort of bias towards the stock right now.

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Fairly positive. Thirdly is around earnings growth sort of through cycle. And here, the peer set is US industrials or US multi-industry, if you like.

So slightly above. Fourth is around capital deployment. The question we were just discussing.

So M&A on the smaller side, most popular. Next I think is on to valuation. So what sort of through-cycle PE should carry a trade at?

So high teens is where people shake out.

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

Does that mean that 70% of the people in the room should buy the stock? Yeah.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

That's fair. The penultimate question is most significant sort of share price headwind. Why is the target multiple, 17 times and not 21 times, for example?

So organic growth by a distance the biggest question people have. And then lastly, I think is on ESG, a new question this year.

And just for context, generally question – or answer, sorry, number one is a quarter of the responses, so 60% is clearly above that.

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

Yeah.

Julian Mitchell
Analyst, Barclays Capital, Inc.

So with that, thanks very much.

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

Thank you, Julian. Appreciate it.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Thank you very much, Dave. Thank you.

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