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Carrier Global Corp. (CARR)

Goldman Sachs Industrials and Materials Conference

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CORPORATE PARTICIPANTS

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

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Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Yeah. It's been great. Hey, good morning, man. I think, we're about to get started.

Unverified Participant

Okay.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

So, all right. Hi, everybody. Hopefully, everybody's well-fed. Excited to have our post-lunch conversation with Carrier. Obviously, a lot of news with Carrier recently. We are excited to have the Chairman and CEO, Dave Gitlin, as well as VP of Investor Relations, Sam Pearlstein, here with us.

Guys, thanks for coming.

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

Thank you, Joe.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

I know you have some prepared remarks today, so why don't you get after it?

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

Okay. Well, Joe, thanks so much for having us back to the Goldman conference.

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Our key theme at Carrier is performing while transforming. In terms of transformation, we will create tremendous value as we become the industry's leading climate and energy solutions provider. Viessmann is the best company in the highest growth market in our industry, and together we will become the global climate champion with integrated solar PV, battery, heat pump and home energy and grid management solutions.

We will also be exiting our Fire & Security and stationary Refrigeration businesses as we become a pure play, simpler, focused, higher-growth, higher-margin business. So, while we transform, I can assure our customers and investors that we will not lose focus as a company. In fact, we are doubling-down on it. Double-digit aftermarket growth, 1Q is up high teens, strong growth in commercial and light commercial HVAC, Fire & Security and global truck/trailer. EPS in 1Q was higher than we expected, giving us confidence in the high-end of our full-year guidance range. Productivity of $300 million for the year plus $200 million of price cost positive, both of which are tracking extremely well. Free cash flow, better than we expected in 1Q, sets us well up for $1.9 billion for the full-year equal to net income.

So, Joe, exciting times at Carrier. And together with Viessmann, we will be global leaders in the energy transition to provide our customers, our employees, investors and importantly our planet for generations to come enormous value.

So, Joe, with that, we'll get into the Q&A.

QUESTION AND ANSWER SECTION

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. No, Dave, appreciate that. And look, let's just start with Viessmann.

Yeah.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Why was Viessmann the right asset for you? And then, also when you think about kind of like your confidence in the deal economics that you're underwriting, talked about double-digit growth and double-digit EBITDA over the next decade, what gives you confidence that that's actually going to materialize?

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

A

Well, let me start with the market in Europe. I will tell you, it is by far a once-in-a-generation opportunity with what's the transition that's happening in Europe, because rarely will you see a situation where you have fundamentally a replacement business. 80%, 90% of the residential heating business in Europe is replacement. And then, you have regulation that's essentially forcing a transition from traditional gas boilers and oil boilers to heat pumps. And when you make that transition from fossil fuel to electric heat pumps, you're mixing up 3x to 4x. So, it de facto, it has to grow and it has to grow in kind of that double-digit range almost by definition. And then, you go in that market and you say, look, who's – who are the key players in there?

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And we mentioned last time, Joe, that we met with essentially every single player in the European market. You look at who's got the best geographic presence, you come back to Viessmann. Really strong in Germany which, is of course, the most attractive market, but they're very well-positioned in Poland, Italy, France. Then, you look at who has the best channel, I don't think anyone can debate that Viessmann has by far the best channel access in all of Europe. 75,000 installer direct relationship, that is inherently a moat. So, you talk about who could be potential entrants into that market, Viessmann has a very attractive moat because of their tremendous installer relationships. They have a premium brand. They're called the Mercedes of the industry because they get paid a premium because they have such a respected brand not only in Germany but throughout Europe.

And then, there's the technology, not only the technology for the heat pump technology and things like Viessmann Invisible, their digital solutions, their subscription-based revenue, but you also look at the fact that they have integrated solutions. Solar PV, battery, heat pumps, all intertwined not only in terms of how they mechanically connect but they have a One Base digital solution that provides effectively an Apple-type ecosystem that really connects their installers and the homeowners back to Viessmann.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

That's super helpful. I guess, as you think about their leading position, how do you kind of think about their share in the market today? And how close or how formidable are their competitors?

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

A

They are the number one premium brand. They're the number one share in Germany. Number one premium share throughout Europe. Their overall share is extremely attractive. It's just, I think just south – if you look across Europe, just a little bit less than 20% overall. So, they have great share and I do think they have very differentiated offering. So, when we were kind of making the rounds, meeting with various folks, one of the things that is really attractive is that the only impediment to growth that you could see in the foreseeable future is the number of qualified installers. They train the installers themselves. They have academies. They have a bus. They have a whole methodology for training installers that is very differentiating because they have an approach where they have a fully certified installer working side-by-side with a new installer that really gives them a competitive market advantage.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Well, that's helpful. So, you talked about the opportunity in the air-to-water pump market, right, but there's other pieces of the portfolio that they have as well. Talk about those other pieces and whether there are some pieces that maybe you're really excited about, or maybe some other pieces that maybe necessarily won't be part of the portfolio over a long term?

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

A

Well, the other piece, as you think about the traditional gas boilers, those are probably going to decline over time in the mid-single-digit range. But you have heat pumps growing in the 20-plus percent range and their margins are very similar between boilers and heat pumps. So, you will inherently naturally see a slow decline of boilers over time, which is totally fine. They actually have phenomenal technology on the boilers side with hydrogen and rich boilers, but we would expect a decline there way more than offset when you're looking at 20% increases. I mean, you think about Europe selling 1 million heat pumps a year today, going to 10 million a year by 2030.

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Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Got you. And then, you clearly – it sounds like there are potential revenue synergies across your portfolio. Maybe talk about what the opportunity is outside of Europe? I know that the real focus right now has been Europe, but what's the opportunity for this business outside Europe?

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

A

Well, if I may, just one thing within Europe is that one of the most natural revenue synergies is they have this phenomenal channel, most installers there, it's just like the United States. There's an 80% brand and maybe a 20%. Viessmann is only Viessmann. It's the only brand that they use. But what we could naturally do is introduce either Toshiba or Carrier into their channel as the secondary brand for many of their installers. Outside of Europe, we have long wanted to get into that full energy management solution for the home. That interconnectivity between solar PV, battery and heat pumps, but also that relation with the grid and entire energy management solution. So, we think about taking their portfolio of offerings to places like the United States, Asia, other parts of the world, that is one of the most exciting things. They also have great digital capabilities. Their One Base technology is some of the best in the world. They're smart thermostats are highly differentiated. So, as we look to introduce things like sanitary hot water or some of their complete integrated solutions outside of Europe, I think it's very compelling.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

So, it's interesting. Clearly agree with you. Like if you've got a well-entrenched installer network, that can certainly be a competitive moat for you. I'm curious, are there -it's still early stages, but are there some learnings from the way they go-to-market with their installer base that you're already thinking about with your own footprint here in the US?

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

A

Well, the markets are different. The wholesalers in Europe are agnostic. So, they will carry many different brands, and then you essentially have the pull from the installer community. In the United States, our distributors which are analogous to the wholesalers over in Europe are single brand. So, our distribution network is exclusive to Carrier, Bryant, Payne, our brands. So, it is a slightly different dynamic and it's one that really works. I mean, we have obviously very strong share in the United States. The share has been increasing. Our margins are very attractive and the relation between us and our distributors fundamentally works.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

So, you mentioned this part of this, like where this is one step of the transformation. The other step is taking that Fire & Security, exiting that piece of the business, as well as Commercial Refrigeration. I'm curious, what's the interest been like so far? I know that you have an ambition for that business to be an attractive asset for somebody. What are you hearing so far? I know it's early days.

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

A

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A lot of inbounds. It wouldn't surprise you to know that, on both the strategic and the PE side, these are incredibly attractive assets. And frankly, we love them. We hate the idea of parting with them. It's just the right thing to do for the portfolio and for us as a company. But on both the fire and the security side, we've gotten – I think pretty much every player has made, has approached us so far. We've said we'll need a bit of time before we kind of formally launch the process. But the interest from both the strategics and the sponsors is incredibly compelling.

And part of it is, if you look at the underlying assets in there, in the security portfolio, you have things like LenelS2 which is extremely well-positioned especially in the United States, very high margin business, is very distinguished from some of its competitors. And then, you have things like – you have the super business, which is very high market share. You have parts of our fire portfolio like Edwards, Kidde, extremely well-positioned franchises that are high margin, high gross margin, potential to grow significantly. So, they're attractive to a lot of potential buyers.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

When you think about the entire portfolio, based on what you're hearing and what you – how you expect that business to grow over time, do you think that the entire portfolio is going to go together? Do you think it's going to be sold off in parts or spun off in parts? How are you thinking about that dynamic today?

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

A

Well, just to be clear on one thing, Commercial Refrigeration, that stationary piece will be sold separately. So, that is its own workstream that will be a divestiture and that will be sold, I think, quicker most likely than the Fire & Security piece. Within Fire & Security, it's really TBD. There's scenarios where it gets sold entirely together. There's a scenario where you sell it in pieces, Security goes one way. And then, even within Fire, you could imagine a scenario where industrial, residential, some of the commercial pieces go in different direction. And you can imagine where all or some of that even gets spun. So, we're going through that analysis. We have three priorities for the Fire & Security sales. One is it will be a clean exit. Two is that we will maximize value. And three is that speed matters, but it's going to go in that order. Those are our orders of priorities.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Under what parameters would you would you really just say, okay, let's spin the business?

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

A

We'll have to look at what maximizes long-term shareholder value.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Great. And then, are there any dyssynergies that we should be aware of at this point from exiting either of the two large businesses that you've just described?

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

A

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No, it's really at the margin. We've been working on a strategy to really leverage being in the building as a whole, looking at that connectivity between Security and HVAC, between Security & Fire, between Fire and HVAC. And the truth is, technically and intellectually, there are pockets of synergies. We can put an IAQ sensor in a fire detector or a smoke detector. At the end of the day, quite honestly, it's at the margin.

What we actually are going to do on the other side is you think about our future portfolio, kind of we're not thinking of it as HVAC-R. It's kind of 85% will be what's today's HVAC business, 15% the Refrigeration business. We're thinking about it as this intelligent climate and energy solution, so we won't define ourselves as HVAC-R because some people say, well, you may get now the trading multiple of one of your peers that's a pure-play HVAC-R. We think we're very differentiated than that type of portfolio because we now have solar. We now have – we'll now have battery. We have a much more holistic offering. So, we think that when we look at the opportunity, it's to really shrink down a lot of the corporate cost significantly. So, whatever the corporate costs are that are associated with the portfolio we have today, we're going to really address that with a fair amount of vigor and then become a much more streamlined, focused portfolio

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Sounds good. But when we met in February, I know that – I think I caught you on the back of a big day. You're meeting all your division heads. You guys talking about cost reduction in a significant way. Specifically, I remember you mentioning Fire & Security and Commercial Refrigeration as a focus. Does the exit change anything from a kind of margin enhancement perspective, at least in the near to medium term? And talk to us a little bit about how the productivity initiatives are going?

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

A

They're going great. I mean, honestly, the productivity is just in our DNA as a company, and it always has been. And I think what we've done is really brought not only more focus to it, I think we've brought more structure to it. So, for example, we have every single one of our productivity initiatives in one common digital tool across all of Carrier. And we can, at any point, go in there and search it by any single metric that we're driving, whether it's G&A, it's footprint, it's productivity in the factories, it's supply chain, it's indirect supply chain. We can sort it by region, by business across the globe. And we get a weekly report on how everything's progressing and it's even raw materials.

So, I will tell you that we have a new operations leader, Adrian Button, who's joined us. He's brought great focus to it. And him working together with the businesses, there's just an engine there that drives it. And it's also aggressive on the G&A side. I'll give you an example. Commercial Refrigeration, the business that we'll be divesting in Europe, has done a very nice job of shrinking down the number of individual country leaders they have, going to a more regional approach, driving increased margins through just tenacious and very thoughtful aggressive cost reduction, and it's across the board.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

So, just to be clear, some of the initiatives you had in place for both Fire & Security and Commercial Refrigeration are continuing to go [indiscernible] (00:15:43).

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

A

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Oh, for sure, 100%. It's the right thing for both of those businesses. It's the right thing for Carrier long-term. That again, that's just how we run the business. We said that we'd get $300 million of productivity this year. It wouldn't surprise you to know that we are tasking ourselves with a higher number than that internally and we're pushing that extremely aggressively. So, those businesses stay the course and, across Carrier, continue to drive it.

And I think that now that some of those supply chain issues have subsided a bit, we can get back to running the business the way we know how, because there was a stretch where we were truly chasing parts to keep the lines moving, whether it was chips or other electronic components, motors, whatever it was. Now that that has the number of surprises and the number of issues have reduced, we're getting back into tech time, driving literally seconds and minutes out of the operation, getting back into true productivity, and now looking at a completely different approach with our supply chain. We have too many suppliers. We have too many suppliers that are not necessarily on this journey with us. And we've said that we're going to partner with fewer suppliers. We'll still have – we want to shrink down the single points of failure that we have globally. We will have more of a regional approach. But there's an opportunity to consolidate suppliers with low-cost suppliers that are on the long-term journey with us.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC
Q

So, this past quarter, one of the big themes that we saw was that you started to see some of this easing in supply chain across broader sectors of our industrial coverage. And a lot of companies ended up putting up pretty nice revenue growth this quarter. As you kind of think about your own supply chain, it seems like it's been a little bit more gradual. Like how – what are you starting to see as much easing across your supply chain? Are you starting to feel with less of the pinch points? Or just give us some perspective on what's been happening over the last [indiscernible] (00:17:32)

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

Yeah. I would say that we're on par if not better than our peers in terms of the supply chain management. I don't think their situations were being outgrown or issues driven by lingering supply chain issues. It's not that it's behind us. We still will have issues with, like I mentioned, chips or other suppliers. But I will tell you that we actually feel good about the fact that we can now start to shrink down some of our lead times and get orders within more traditional-type periods of time as we continue to drive the improvements there.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC
Q

And so, maybe getting into the businesses themselves, right?

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

Yeah.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC
Q

So, April finished out from an order perspective, 1Q is pretty positive rates, right? I think you guys put up 5% quarter growth in the first quarter. Just give us a flavor for how resi trended versus light commercial. And it seemed like there was an order inflection in that combined business. But how did those businesses do in 1Q?

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

A

Well, light commercial has been and just continues to be extremely strong. I mean, you're talking about order sales north of 30%. So, there's not a lot to be critical of right now in the light commercial business. Between the margins, the growth, the orders growth, the backlog, the positioning, the share gains, it's just been extremely positive and it's been done the right way, too. It's with innovation. It's with innovating new rooftop units that are 40% more efficient than the units that they replaced, having nice customer intimacy. So, light commercial, extremely positive. And many of the end verticals there continue to be strong.

The residential side, I think the one thing that we're going to watch is movement. Yes, orders, the orders, we had a tough compare to the first quarter of last year. I think more than some of our peers, because the first quarter of 2022 was so strong, the compares get easier each quarter as the year goes along. So, that will be – the year-over-year will actually improve quarter-to-quarter each year as this – each quarter as the year progresses. And the thing that we'll be watching is we're right in between seasons right now. What we need to see is strong increase in movement. I think we're still calibrated on the year which is resi about flattish. Volume down high-single-digits, offset by mix and price. We'll watch that movement piece. But right now, we feel good about where we stand.

And I'm really pleased with how the team did on the transition to the [ph] 2023 zero units (00:19:56). That has gone extremely well and it also positions us very well for the 2025 refrigerant change because we obviously, we did the design for the [ph] 2023 zero (00:20:07) change in anticipation of the 2025 refrigerant change. So, we have much fewer changes, much less risk as we go into the redesign for the refrigerant change.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Okay. I'll open up to questions from the audience in a second. But just a follow-up there on those inventories. So, wait for the summer season to come through. We'll see where inventory levels are at the end of 2Q. Maybe there's some destock beyond that. But we don't – at this point, we're still watching it, don't really know at this point.

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

A

I think that's right, Joe. I think we ended 1Q with inventories generally at a resi level, in balance to where we ended 1Q a year before which is positive. Now, within that, it was a bit elevated for splits and furnaces, a bit lower in things like pan coil. So, overall, it was kind of flattish. What we have to do – and furnace has been a little bit weaker, not only because of the transition to heat pumps overall but because it was a very mild winter here. Like in Europe, it was mild here in the United States. But overall, it's kind of it's generally in check with where we thought it was going to be. But it's the number one, two and three metric we're going to watch internally over these next two months is movement. If movement strong. We're not as worried about orders. We're not as worried about the inventory levels which there's a direct correlation. Movements good, resi will be fine.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

That's great. I'll open up to the audience. Any questions? Or I'm happy to keep going. Got a shy audience. Okay...

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

A

Yeah.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

...let's keep going. So, let's talk about margin for a second, right? So, I just think segment margins were down about 150 basis points in the first quarter. Just maybe just talk some of the pressures that potentially abate as the year progresses? And what's going to get the segment margins to turn positive as we progress through the year?

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

A

Well, if you look at the last two years, our margins are up 150 – 140, 150 basis points over the last couple years. So, our algorithm was that we will grow margins 50 bps a year and we exceeded that over the last two years. This year, our margins would be up more than 50 basis points if it weren't for the TCC integration. So, mathematically, that constrains it a bit. But the HVAC margins are growing extremely well even with resi, we said that resi would be flattish this year. And then, if you look at 1Q, a lot of it was frankly just timing with two big factors, productivity and mix. We had a bit of a hangover 1Q last year versus this year. Steel was very low last year, for example. This year was a bit higher. That's going to get better as the year goes along. We had mix because you had a tougher compare with resi, which is a higher margin business. But we feel good about the margin expansion as the year goes along.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Okay, great. And then, could we talk about pricing?

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

A

Yeah.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Another theme that that's clearly played out throughout the quarter was the price costs expanded for a lot of companies. Just how do you think that that relationship is going to look for you going forward? How much pricing is baked into your guidance for the year? Are you still able to price in this kind of market? All those things.

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

A

We banked $500 million of price into the year and we feel good about it. We said that price cost would be positive by a couple hundred million. We've already announced – we announced in the first quarter, [ph] 6%, 8%, 10% (00:23:21). It was resi, [ph] 6% (00:23:23); light commercial, [ph] 8% (00:23:24), commercial applied, [ph] 10% (00:23:27). Other parts of our business have announced similar type increases and we'll just continue to monitor. One thing we've proven over the last couple years is we can be agile with pricing. And I'll tell you that even though it was nice to see some of the CPI numbers this morning, inflation is not over. So, we still have to monitor some of the input side and we still have to be agile when it comes to pricing.

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Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Great. And so, can you maybe just talk about service attachment rates? I know this has been a key initiative for you. How far along have you come on in the applied market? What's left to go? And then, just talk about the margin profile of that going forward?

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

A

Well, margins are always going to be higher with our aftermarket than the OEM side of the business. So, it's nice to see that mixing up. We said that we would grow – we said we grow aftermarket high-single-digit to low-double-digits every year. Truthfully, we've actually even with our board, we've said that we need to internally task ourselves significantly higher than that because it's such a fundamental part of our business model of how we want to run the business. So, we task ourselves to be double-digit forever. And I have confidence that we can do that. And part of the formula is increasing the amount of coverage for chillers, for example, 10,000 additional units under coverage per year. We've been doing it every year since we spun. We'll continue to do that for the foreseeable future because there's 330,000 chillers out there. I think we only have something like 80,000 under some type of long-term service agreement.

So, we feel very good about not only that, but the entire playbook. We talked about digitally-enabled aftermarket revenues. We now have Abound which is, we believe, highly differentiated. We're now talking with major scale customers. So, as they think about it, it's one of the exciting things about Viessmann. We meet with our customers that say, we have long-term ESG commitments. We don't know specifically how we're going to get there year-over-year. We talk to them, especially those with a global footprint. We will install Abound in your entire ecosystem. We're doing it within our own ecosystem, within Carrier. You can, on a single pane of glass, track all of your carbon emissions by factory, by facility across the world, and you could see anomalies. Why are my factories in this part of the world having higher carbon emissions than those? And then, what we can do is use AI to create algorithms where you can take immediate actions.

So, for example, with the Home Depot in North America, we manage all of the HVAC controls out of India, and we manage those control system using AI and we guarantee them certain savings each year. That's not only driving energy efficiency for and savings for them as a company each year with guaranteed savings, but we're also driving lower carbon emissions. So, we feel really good about attaching our ecosystem to our customers' ecosystems to help them drive savings but also help them hit their ESG commitments.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

So, you're the second HVAC company today to say that they're going to grow their aftermarket double-digits going forward. From where we sit, kind of incredible to believe.

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

A

Right.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

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This is a business that used to grow low-single-digits, and now there's this tremendous opportunity that everybody's very bullish about. I guess, how do you get everybody comfortable with that low-double-digit number into perpetuity? And how is that actually going to work?

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

Well, for us, it's focus. And as you said, Joe, we were traditionally growing our aftermarket 1% to 3% per year. We've implemented an entire playbook around aftermarket. That's not a guesswork. It's a proven playbook that we know for a fact works. And you have to implement every aspect of the playbook, how we negotiate contracts with our suppliers, how we negotiate contracts with our customers, how we think about our business model, how we think about tiered offerings so we have a base and enhanced and an elite offering. How we think about digital connectivity to our customers. The entire playbook, how we even think about what labels go on some of the parts that we buy from our supply chain. How we think about digital tools. So, in our resi business, we launched the Breeze platform that enables customers like our national accounts to order parts directly through us and that's fulfilled through our channels. So, there is an entire aftermarket playbook.

We brought in, I think, was the single best thought leader in aerospace in driving aftermarket. We brought him in a few years back. He's partnered with our businesses. He knows the drill and it's working.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC
Q

And just to be clear, your aftermarket was up high-teens in 1Q?

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

Yes.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC
Q

Yeah. Great. Can we shift over to just K-12?

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

Yeah.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC
Q

That's been an end market that has been – it was great end market for you last year. I think orders grew something like 35%. You talked about your pipeline up 40% this past quarter. How far along are we? it was three stimulus packages. How far along are we in the spending? And also, in terms of getting the schools to realize the value proposition and to spend that money on HVAC?

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

Well, if you look at the [ph] 3SR (00:28:48) funding, collectively, it equals about $190 million. I think they've allocated...

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Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Billion.

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

A

Yeah. $190 billion, excuse me. And I think they've allocated less than $100 billion, something like $98 billion. So, there's a long, long way to go. And when you get into [indiscernible] (00:29:05), that's when you go into the more significant infrastructure-type spending. And you've got to think about K-12 in the United States, that's has been starved of funding for decades. You read stories about teachers buying school supplies for the kids. So, they finally have well overdue funding levels, and it is going to things that are going to really create and enhance student experience for the long-term but also energy efficiency, because we know that healthy is a big deal. And we know that we've proven through test results that kids that have better healthy indoor environments tests 50% better which is amazing to think about. By the way, from a societal perspective, you can imagine which schools have that worse IAQ, it's often in the inner city. So, they're already automatically, with elevated CO2 levels, worse ventilation, at a disadvantage. So, as schools finally start to spend on healthy indoor environments, it's not just about avoiding the spread of illnesses like COVID, it's also about providing better IAQ for the student experience, and it's also about energy efficiency and carbon emissions.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Makes a lot of sense. I'll turn it back to the audience again if there's any questions. If not, I'll just keep going. We have one up here in the front.

Q

Sorry. Going back to the Viessmann acquisition in Germany, just to try to understand because, in Europe, there is this problem in terms of the installer. So, the installer are not tied to the company. They can they can explore whatever other brand that are sold in Europe. That's correct?

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

A

That is correct. Viessmann has its own solar offering. So, in their portfolio, they have a solar offering that can be sold independent of battery, that can be sold independent of heat pumps. Their heat pumps can interface with someone else's solar offering. But the competitive advantage they have is, if they sell them as a package, whether they install them all at the same time or over time, a homeowner buys a heat pump from Viessmann now and a solar three years from now, it's already both from a digital perspective but also an interconnectivity predesigned so those are easily interoperable, but Viessmann's heat pumps can interact with other solar offerings.

Q

But in terms of the installer, they're not just tied to Viessmann, because I thought that one of the competitive advantage to buy a company in Europe was to have installer tied to your brand because that's the real bottleneck.

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

A

Yeah, the...

Q

So, the growth is there, but nobody is getting the growth because you cannot find any installer.

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

A

That – no, it is correct that the solar installers are not exclusive to the Viessmann brand. So – but by the way, the heat pump installers are not exclusive. They will usually be 80% Viessmann and 20% some other brand. But it is a fact that the way that Viessmann has established their channel, not only in Germany but in many countries throughout Europe, they do have this direct intimacy with the installer base, which not only provides their ability to install which is to train them but it also provides some competitive advantages how they interface with their installers digitally as well.

Q

Okay. And last one. So, the new Carrier, you're going to be much more exposed to Europe, the residential. Is there a possibility to move the portfolio more towards commercial, even with the Viessmann product, or it's a product that is only for residential?

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

A

Well, Viessmann has – there are probably about 90% residential, but they also have a light commercial business and a small, I think a very nascent but small commercial business. But in Europe, we're number one in commercial heat pumps so we have a very strong position. And you think about the strategy behind this, and I think this was one of the compelling things for Max and Martin and the family and why they would do the deal is that climate change is not – doesn't respect country boundaries. It's a global phenomenon. So, if you really want to make an impact on the world for future generations, the combination between Carrier and Viessmann is unlike any combination in the world, because as you look at our market positions in Europe on the commercial side, but we're looking at now opportunities in Saudi Arabia. India is going to be fast-growing. Obviously, we're extremely well-positioned number one, light commercial residential. In the United States, very well-positioned on the commercial side. Great presence in China, especially now we've added the Toshiba brand throughout Asia. So, you look at our ability to have an impact globally, commercial, light commercial, residential. And now, we're adding the one gap that we had which was residential heating in Europe, which is not only the one gap that we had but it is the most attractive market in the world.

I mentioned to Joe right upfront, not only do you have all the regulations at a Europe-wide level, 54%, 55% reduction in greenhouse gas emissions by 2030. But 17 countries have either announced or implemented bans on fossil fuel boilers. So, it de facto is going to drive tremendous growth not only in Germany but across Europe. So, now you look at our ability to combine solar, battery and heat pumps and more importantly or equally importantly is the digital solution and the grid interface that's going to be unlike any portfolio in the world.

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Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Dave, we're coming up on it. So, I'm going to leave you with the final word. Anything you want to leave us with before we wrap up, please?

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

A

Well, look, I think this is some of the most exciting time in our company's more than 100-year-old history. I look at the opportunity with Viessmann, and as we become a pure-play focused company, I think our ability to have an impact on our customers and our employees and the planet, that's also going to be phenomenal for our shareholders. But I think the impact that we can have right now with Viessmann, once-in-a-generation opportunity. And in the meantime, I can tell you that our 55,000 people – heads down – executing every day.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Congrats.

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

Thank you.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Great to see you.

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

Thanks, Joe. Thanks for having us.

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