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Carrier Global Corp. (CARR)

Baird Global Industrial Conference

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MANAGEMENT DISCUSSION SECTION

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

...everybody, I'm Tim Wojs. I cover building products here at Baird. And we're absolutely delighted to have Carrier Global join us again at our Global Industrial Conference this year. Carrier is a leading manufacturer of residential and commercial HVAC. They've got a Transport and a Commercial Refrigeration business, and then they've got a Fire & Security business. And I'm sure everybody is aware, there's kind of a lot of changes kind of going on with the portfolio at the moment, and we'll dive into that pretty shortly here.

On stage with me, we have Chairman and CEO, Dave Gitlin and then in the audience down here, we have [ph] Chris and Gary (00:00:36) from IR. And so we're just going to do Q&A.

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QUESTION AND ANSWER SECTION

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

If anybody has any questions, you can raise your hand. I'll start. You can also e-mail session4@rwbaird.com. But Dave, thank you for being with us. Pleasure to have you. Maybe just to start big picture, and you've made a lot of changes to the portfolio. You're acquiring Viessmann. You're also announcing kind of your intent to divest Fire & Security and Commercial Refrigeration things. So maybe if we could just kind of start. Give us a high-level perspective, why are you making these changes and then also, obviously, there's going to be some noise, but what Carrier actually looks like over the next 12 to 18 months once it's all finished?

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

A

Well, first, Tim, thank you for having us. And if you kind of look back at where we were when we spun and became a public company in April of 2020, we said very clearly that we would become a more focused, simpler company, higher growth, higher margin. And you look back, we sold our Chubb Field Fire & Security business, 240 branches, there were some complexity, and we said that we wanted to focus on some of the higher growth parts of the HVAC business, starting with VRF.

So we bought Giwee in China. We purchased Toshiba in Japan, which both bring phenomenal growth prospects and also technology. And then we stepped back after then said that as part of our mission to become a more focused and simpler organization focused on higher growth, higher margin, we wanted to focus around our North Star of becoming the global leader in intelligent climate and energy solutions. And each one of those words mean something intelligent. We want to focus on everything in our portfolio being connected, connectable. Climate, all things sustainability, and energy solutions is a potential new exciting vector for us.

So as part of that, we said that the highest growth part of the HVAC market globally is European residential in Europe and there is no company better position than Viessmann. So we were very fortunate to be able to come to an agreement with Max to combine, and we'll close on that deal the first week of January. And we could not be more excited about that combination. And then we said as part of that, when we look at our North Star, we concluded that our Fire & Security business and our Stationary Refrigeration business did not perfectly align with that North Star and we wanted to simplify and focus the portfolio. So after all is said and done, once we exit those businesses combined with Viessmann, you look at where we were when we spun about a-quarter of our portfolio was just in heat pumps, including VRF and aftermarket combined.

You look at where we are once we sell those businesses and combine with Viessmann, that 25% is now 50%. Just aftermarket, about a-quarter heat pumps about if you include VRF and you add-in the Viessmann business, that heat pump VRF business about a-quarter. Then on top of that 50%, you add electrification like the move to electric reefers.

So we'll look at our portfolio being tied to sustainability, tied to all things intelligence and smart products, higher growth, higher margin business.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

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Okay. Very good. You mentioned Viessmann, maybe just to start there. Could you review maybe the process that you went through and you performed internally to kind of get to the fact. The idea that European heat pumps is where you want to be. And as you looked at the players in that market, why Viessmann was the one that was most attractive?

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

A

Well, we are incredibly well positioned on heat pumps on the commercial side. Our third quarter commercial heat pumps was up 70%, 7-0. So we said, look, we are very well positioned in Europe. We've been gaining share, very well positioned on the heat pump side on the commercial side in Europe, but we didn't – we were not a real player on the residential side. And look, in our [ph] strat review (00:04:26) with our board, we showed them a chart of within the HVAC industry, the highest growth markets in the world, and it comes down to residential heating in Europe because of the transition, not only from boilers to heat pumps, but because of everyone aligning with this move to renewables and electrification in residential heating in Europe. So it's clearly the most attractive market for HVAC in the world globally.

So we started meeting with literally every single player in Europe. I think that I met, had dinner with or some engagement with every major player in that space, and they're often family-owned or foundation-owned and the reality is that Max and I together had their shared vision of becoming the global climate champion. And everyone got to hear from Max during the webcast that we had at our headquarters at the end of September, he's very mission-oriented, he's very focused on opportunist for our people, very focused on opportunities for the planet and for our combined customers.

And we came with the premise that one-plus-one would be greater than four and the amount of impact we could have globally would be unprecedented. So we can't wait to close. We're closing the first week of January. The teams have been doing a phenomenal job with the integration planning and the opportunity ahead of us is very exciting.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Okay. That's great. On the integration prep, I guess what have you set up internally at Carrier just to make sure you're able to kind of hit the ground running on those synergies. You've talked about, I think, EUR 200 million within the first three years. What are some of the key buckets that you're looking at? And I don't know if you can kind of compare and contrast between Toshiba because it sounds like from a synergy perspective at Toshiba, I mean, you guys hit the ground running and you've done a lot better there. So I guess just what are you doing internally kind of prep for that that synergy capture?

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

A

Well, it's very critical. We hit the ground running on day one. If you look at Toshiba, we talked about $100 million of synergies, and it's going to be far north of that. And if you look at Viessmann, we've said $200 million of synergies, almost all on the cost side and almost all on supply chain and sourcing side. That is not something that keeps us up at night. We will exceed that number. We will do well as we did with Toshiba. We know how to do it. We have clean rooms focused on where we can hit the ground running on the supply chain side, not only where we buy from supplier A, they buy from supplier B, one of us might get a bit better pricing, also buy-to-buy type activity and also some engineered items where we can look at taking cost out of the product through sort of value engineering.

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And then there's some level of in-sourcing where they may buy from someone and we may have the product within Giwee or within Toshiba. So cost synergy side, team has targets. They know exactly how to do it.

I think the real exciting piece is on the revenue synergy side. So internally, we've given our teams very aggressive targets. We give them into the P&L. So our leader for North America will have a revenue synergy target. And a lot of the hidden benefit that when you combine with a world-class company with Viessmann, when I was in Indianapolis yesterday, there were some technology we want to introduce into North America, we can leverage not only the Viessmann engineering or even Toshiba or Giwee engineering to bring some of the exciting technology they have in air-to-water, and some of the inverter and compressor technology that exists in our portfolio to places like North America or vice versa.

We look at the channel complementarity, so we can look at inserting the Carrier brand into their channel, which is a phenomenal channel in Europe. So we will hit the ground running.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. And maybe on the channel, I think Viessmann is different in the sense that it goes more to the end contractor, the end dealer as opposed to a third-party distributor that then distributes it. So I know there's been a lot of noise in Europe around inventory. How much of that applies to Viessmann, do you think? I know you can't see the business because you don't own it yet, but I mean how would you kind of compare and contrast some people that are public that are talking about inventory destocking with what's Viessmann seeing?

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

A

Well, I'm glad you asked that, Tim, because what happens is many of our investors are very familiar with, say, the North American dynamics. So one of our peers may announce something and they can kind of calibrate what that means for us. What happens in Europe is because a lot of our investors haven't followed it as closely, a Daikin or an eBay or someone announces something and immediately, there's an impact on us. And they may be exposed to entirely different countries.

So Italy, we all know Italy was phenomenal because they had 110% subsidies. Last year, they went to 90% subsidies. The mechanism for enforcing it completely changed. So will Italy see year-over-year perturbations on the adoption of heat pumps, yes. And we have exposure in Italy through Carrier and Viessmann does as well, but not nearly as much as perhaps others. So first, you have to look at which countries you're exposed to, about half of Viessmann's business is Germany and Germany is phenomenally well positioned. Only 3% of homes in Germany or something like that have air-to-water heat pumps.

So the potential for long-term growth, the transition from boilers to heat pumps, 100% will happen in Germany. What's happening in Germany now is there's a debate going on real-time about subsidies. They will increase as a percentage from something like 40% to 70%, but until that's laying flat, that will affect orders in the short term, but that will become effective in January.

So in Germany, 100% of new home construction going to heat pumps. That's in the legislation. Germany has about 40 million homes. Germany's target for new home construction has been around 400,000 a year. It's been less than that. New home construction in Germany this year is down around 20%, but just like the United States that – as that – as rates start to come down, you'll start to see that recover over time. The transition in Germany will 100% happen to heat pumps. Viessmann goes direct. So there hasn't been that level of destocking that

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maybe some of its peers have where there is excess inventory perhaps in the channel with your wholesalers, Viessmann goes direct to around 80,000 installers. So they don't have that same level of that destocking that some of its peers have.

So look, we feel incredibly confident in our business case with Viessmann. You heard it from Max directly at the end of September, there's no company better positioned to leverage this long-term trend towards heat pumps and renewables in Europe.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. And then just with Germany, could you just – I know there's been some pieces of legislation that have gone through the legislature. Can you just kind of talk specifically about what exactly that is?

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

A

Yeah. Effectively, what's happened in Germany is that there's an unambiguous trend towards heat pumps. So what the legislation has sort of said is that new home construction has to go to some form of non-fossil fuel. So that will go to heat pumps. What they added was some language around over time districts coming up with a potential plan around district heating. So some of the municipalities and some of the more higher-dense populations. There will be an alternative for some level of district heating. That's good for Viessmann, that's good for Carrier. We would be able to do the district heating on the legacy, on the Carrier side, Viessmann would provide product these transfer units that would be in a multifamily, say, apartment complex, which is not a big piece of Viessmann's business today.

So if some municipalities go to district heating, in 2026, in 2028, that's all fine for Viessmann. That would be all upside and good for Carrier. But what's going to ultimately happen is as the subsidy levels get laid flat here over these next few days, you're seeing more percentage of subsidies, and you will see this continuous trend towards heat pumps.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Very good. So we talked a lot about Viessmann.

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

A

Yes.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Maybe we can talk about the other side of this. So you're selling industrial – are you looking to sell industrial fire? Are you looking to sell security? How do you feel about those processes in terms of what you can maybe get for those assets?

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

A

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We feel great. I mean, we feel very, very encouraged, and not surprisingly so. So security and our stationary refrigeration business have been in the market for some time. We're back and forth with potential buyers for those businesses, and we're very pleased. And we still have work to do, but those processes are progressing extremely well. And it's not surprising given the franchises that are so unique with those assets. It's a once-in-a-lifetime opportunity for some buyers to buy these assets and the interest level reflects, I think, the exciting opportunities with those businesses. Industrial fire was about a month behind those processes, and that too is progressing extremely well. And then we come down to commercial and residential fire.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. And you've talked about that maybe being a spin or a split. I mean, could you sell it? I mean, what – is there something prohibiting that or... ?

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

A

No. I mean we've said that we would consider anything. And there are people that have expressed interest in either buying the residential fire piece or buying the commercial fire piece or buying both. And we would absolutely consider that. We've been very consistent that we want to maximize value for those assets. And there is a lot of interest in those. So we've talked about the public market exit. We will entertain suitors that come in for us businesses, obviously, at the right terms and at the right value levels, but we would absolutely consider that.

But I'll tell you the 80-20 of where our team's focus right now is the right – the here and now is on the security. As those enter into like the seventh innings here, security, commercial refrigeration, industrial, maybe in like the sixth inning, those are progressing well. We have to see those through while we start putting more meat on the bone on residential and commercial fire.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. That's great. And then you don't need to sell these businesses per se to – you obviously have leverage with Viessmann. But is it your intent that with the proceeds, you would pay down the leverage faster?

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

A

Yes. I mean, we would do that. We said that we would pay down debt. We'll get our leverage ratio to about 2x by the end of 2025. And it also enables us to accelerate a buyback, which we said that we would do at least $2.6 billion, which is what we'll be issuing as part of the Viessmann acquisition. So we do – we obviously are putting the team through a lot moving with pace. I think that our bankers would have said that we're trying to do what normally might have taken a couple of years, we're trying to do in well less than a year.

But our teams have stepped up and done a phenomenal job, and we're progressing extremely well. So it's all about maximizing value. Pace does matter, not only because it enables us to pay down some debt earlier and accelerate the buyback, but it also helps the team kind of focus on where we need to focus for the future of the business as well.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Before I move on, any questions on the portfolio from the audience? All right.

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

A

Shocking.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

No questions.

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

A

No questions.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

So maybe just let's move to the core business.

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

A

Yeah.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

And do you think – I know you haven't really given any guidance for next year or anything that I know. It's going to be a little complicated with businesses coming in and out and how you'll kind of give guidance. But when you look at possible swing factors, positive and negative, kind of going into next year. What would you kind of highlight for investors as those key swing factors?

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

A

Well, Tim, to your point, we'll give formal guidance with our – when we announce our 4Q earnings. But I would say at a high level, if you look at our HVAC business, the commercial side has got enormous backlog. Our backlog is up 40% on a two-year stack. We're well booked through probably the first half of next year on the commercial applied side.

So we're sitting on strong backlog and there's still demand as you see in places like Europe. You see many buildings decommissioning boiler rooms and transitioning to heat pumps, which is all upside for us. So we see very strong commercial applied right now, and we see that continuing into 2024.

Residential feels kind of bottoming out. We've talked about volume being down. I'm talking about US being down 15% this year or so in the mid-teens. And what you'll have next year as you start this transition to R-454B and the A2L refrigerant side. And you start to see kind of new home construction, which is down kind of in that mid-teens.

This year, we've had customers talk about growth for new home construction, some of the homebuilders, but some of the industry metrics are around flattish, but at least that's not the headwind that it was this year. So between – we'll look at volume, but between price and mix, we start to see growth next year for resi. We get a lot of questions about light commercial. Interestingly, and partly because light commercial will be up about 30% for

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us this year. So you obviously get into some tough compares, but the reality is light commercial is a little higher than 5% of our portfolio.

So we don't see a big downturn in light commercial at all next year. We still have elevated lead times for light commercial. So we have – we're positioned well going into next year. Clearly, you do have tough compares, but we'll keep an eye on light commercial, but we are going to get price and mix as you start to introduce, maybe there's a little bit of prebuy on the R-410A at the end of next year because that's date of manufacture.

Our Toshiba, Giwee business, that part of our global – that businesses that we bought should see, of course, growth next year. And then Viessmann, we feel very strong about the Viessmann growth for next year, which we will close on that business in the first week of January, so we have a full year of Viessmann, which we're encouraged about.

You look at the [ph] REF (00:18:49) side, you're coming off a very tough year in container, so that you see a return to, I think, strong growth in the container business. North American truck trailer, [ph] ACT (00:18:58) is – the forecasts are down, but we will look to offset that with price, and we have links our digital platform. We start to see mix benefits with the move to electrification. European truck trailer has been surprisingly strong. So we'll have to watch that. And Fire & Security, that entire portfolio is positioned for good growth next year.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.
Q

Yeah. So on the revenue side, basically, anything but everything, but light commercial, maybe has a tough comp, but I mean, it sounds like [indiscernible] (00:19:30) should be pretty good. It sounds like resi should see a little improvement. Container gets better, truck trailer should be okay. So it sounds like pretty decent kind of overall ...

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

I think so.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.
Q

... look into next year. Okay.

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

Yeah. We believe that for sure.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.
Q

And then on the margin side, continued kind of price mix, productivity kind of dropping to the bottom line like you'd normally see.

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

For sure. I mean, we – look, if you look at 2021 and 2022, we had about $2 billion of price and $2 billion of inflation. So we said in 2023. Let's get like back to basics, all right? We had announced Carrier 700 when we

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spun. And then we said, look, we are going to get 2% to 3% productivity forever. So you call it about $14 billion of cost of goods sold, you're looking at $300 million to $400 million type of annual cost productivity. And we're going to get that this year.

We set a few hundred million of productivity this year, and it will be at least that next year. So we've said 50 bps of margin expansion a year, we should see that next year. And we're going to continue to drive productivity.

And I think one of the really encouraging things is we've had an enormous back to basics. I will tell you, 2021-2022 a lot of our supply chain folks were just chasing parts to keep factories moving. We have one tool with one set of facts that the entire world looks at daily, weekly. I look at it every week, you can sort it any which way; factory productivity, supply chain, G&A. We look at it in detail every week. So we're kind of driving and we're going into next year with much more assured productivity than we came into this year. So we've really built the pipeline of projects for productivity.

Price/cost, we said this year would be positive by $300 million. It will be a little bit north of that. And you look at our margin expansion in the third quarter of this year, record margins in our HVAC business, record margins in our Fire & Security business, our gross margins were up something like 400 basis points in the third quarter. So look, we're going to drive the heck out of growth and topline growth because we've said that our algorithm 6% to 8% leaning towards the high end of that over any period time, but in the meantime, we've said 50 bps a year price/cost because we're in an industry that should not give price back. So continue to raise prices while we go very aggressively after productivity and inflation recapture, so we should see that margin expansion continue.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Great. Maybe just on the residential business in the US. I mean, the EPA kind of through the industry, I think, a little bit of a curveball with kind of going from a manufactured-by-date to an install date and then also kind of leaving this kind of, I don't know, if you want to call it side door on R-410A or something like that? I mean how do you kind of envision – how was the transition kind of set up for you guys two months ago? And how is it kind of transition going to potentially change as you go into next year?

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

A

Well, I spent all day yesterday in Indianapolis with our team, going through the details of this. I think the good news is we're going into it not with the attitude of how do we effectively manage the transition to the A2L refrigerant. We're going in, how do we win? How do we do it more effectively than anyone else in the industry. And I think one of the ways we do that is redesigning for differentiation and also being ready earlier. So that was always our mantra, and now it's just kind of on steroids because as they looked at system being date-of-install, that really – unless that changes, and there is a move afoot with the industry to try to get the EPA to clarify that it would be date-of-manufacture with a one-year window to install.

So we'll see what happens there. But assuming that doesn't change, we'll be ready with the date-of-install, and we're working that with our channel, and we're working that internally. And then the other – I mean, you described it as a loophole. I think that whether it's the DOE or the EPA, we think it's very important for one of those two to clarify that you cannot change the outdoor unit only to R-410A. We think that it was an unintended piece of legislation that should get clarified that not only you do replace the indoor unit with R-454B, but you replace the outdoor unit as well. So we are hoping for a clarification. If that doesn't change, we feel calibrated on how to manage the transition.

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Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Sounds good. And then I mean, from a pricing perspective, I think you've been on record kind of talking about, I think that the system costs are going to go up about 15% to 20%, just higher cost of refrigerant, higher cost of things like sensors and stuff like that, that you need with it. How confident are you that you can see that kind of price mix benefit that's kind of commensurate with the cost benefits? We've gotten some questions from investors just that's a lot of price.

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

A

Yeah.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

So just the confidence level in terms of being able to realize that.

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

A

Well, look, I will tell you that on the cost side, we will be incredibly tenacious on every single penny and dollar that goes into the cost. So we will grind through the cost side, whether it's the refrigerant itself and obviously, there will be a difference in the refrigerant price in the United States versus Mexico. We do a lot of our manufacturing down in Monterrey. And we're also – we are very – we have a team that's very good add value engineering to take every ounce of cost out of the system.

You add a little bit of cost through the controls and through the sensors that can detect the potential leak and have controls to shut it down, but we also will see some cost benefits. So we will go very, very aggressively after the cost side. There will be a price increase. We've talked about 15% to 20%. A part of that is because of the costs associated with this transition. And a part of that is next year and the year afterwards, we would continue with our normal price increases. So that 15% to 20% is a combination of the increase associated with R-454B and our two annual increases that we would expect. And we would be announcing price increases at some point for both resi and light commercial in due course.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Sounds good. Any questions from the audience? Maybe just on the commercial HVAC business. You talked about having a pretty good backlog there, both in light commercial and applied. How do you kind of compare and contrast? There's obviously a lot of big negative headlines around commercial construction and those types of things. But then on the flip side, you have, let's say, longer lead times, but you also have a lot of the mega trends electrification, mega projects, those types of things. So how do you kind of approach the commercial HVAC business and kind of balance that cyclical fear with some of the secular growth opportunities.

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

A

Well, I think there's a couple of things that make our industry very, very attractive. One is what I mentioned before, which is keep an increased price while you go aggressively after cost. Another is that we have so many verticals we play in that as long as we're agile with our product design and with our salespeople, we can kind of – the

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expression I've used is when you fish you go where the fish are, when you're looking for growth, you go where the growth is. So commercial construction in the United States, a bit slow. It's less than 10% of our commercial HVAC business.

So we can transition very hard to data centers to new industrial construction, which we're seeing a bit with the CHIPS Act. We can go after hospitality when that is strong or some parts of light commercial have been particularly strong in some of the lower-end restaurant area and some of the lower-end retail or higher education or K-through-12. So there's always some level of growth. In China, multifamily has been weak. So we transitioned to some areas where EV construction very strong. So we've shown that agility to grow.

So the industry is well positioned for growth if you can focus on the right verticals. And then within it, we have spent a lot of resources on differentiation. Our R&D, when we spun – before we spun in 2019 was something like $400 million. This year will be something like $615 million. So we innovated a completely new mag bearing applied design that has advantages for low load efficiency levels that we believe is very differentiated than our peers. We've designed instead of cooling only in Europe, we have high and very high temperature cooling designs and heating designs that can use free cooling to cool a data center in a much more efficient way. So we picked up a lot of share in places like Europe because of innovation.

We've done it with light commercial. Everyone knows we picked up a lot of share in the light commercial. But while we've been aggressive on the pricing side because we have a design that's 40% more efficient than the unit replaced. So we've invested a lot in our sales force, in our technicians and in technology differentiation.

Timothy Ronald Wojs
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Great. And then maybe on the aftermarket, that's been a big focus for you. I think it's about a $5 billion business or so today. You're targeting that to get to kind of $7 billion, I think, by 2026. What's really driving that, I'd say, probably 10% type growth in the aftermarket.

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

A

Yeah. And this year we'll end certainly north of $5 billion. It's come a long way from where it was when we spun. And what we've said externally is grow high single-digits to low double-digits. Internally, we say double-digit forever. And that's the expectation.

And this morning, I was out at our Chicago branch office before here, and we have an entire playbook that we're using where we look at our attachment rates when a chiller comes off warranty, our expectation is that we get a long-term agreement, and we provide our sales people with tools and visibility to make sure that we target that. So we've talked about, our attachment rate was something like 20%, this year will be close to 50%. We said 10,000-a-year-chillers under some form of long-term agreement. That means 80,000 chillers under an LTA. We're going to do that again this year, another 10,000.

We've talked about connected devices. So we've come a long way in the aftermarket. It's a major theme for many of our key investors, which like that as we sort of dampen the cycles that [ph] we (00:29:55) legacy might have had in the business, as we go to more aftermarket and recurring revenues, that gives us more confidence around sustained growth.

I'll tell you, we went through a couple of years where the only questions we got were around residential. And we said – the question was can this business grow if resi is down? This year, resi volume, down 15%, we're going to

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grow mid-single digits. We said that our portfolio enables us to grow through various cycles. Now resi comes back. Parts of refrigeration were down a bit, container will come back next year. So growth through the cycles, more recurring revenues, more aftermarket, which is higher margin, a huge part of our value proposition.

Timothy Ronald Wojs

Analyst, Robert W. Baird & Co., Inc.

Great. Well, we're about out of time. So please join me in thanking Carrier and Dave for being here with us today.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thank you, Tim.

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