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Carrier Global Corp. (CARR)

Barclays Industrial Select Conference

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OTHER PARTICIPANTS

Julian Mitchell
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MANAGEMENT DISCUSSION SECTION

Julian Mitchell
Analyst, Barclays Capital, Inc.

Great. Well, thanks, everyone, for being here. It's my pleasure to have up next, Carrier Global, David Gitlin, Chairman and CEO; and Patrick Goris, CFO. So, thanks very much to both of you for being here. I think we'll head straight into questions.

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QUESTION AND ANSWER SECTION

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

I think, first off, maybe start with Viessmann, as that closed relatively recently, a very large transaction. Maybe help us understand sort of how did that business kind of close out the year? How has it started the current year? And you've given some sort of revenue growth outlook for it for the year ahead. Any main assumptions?

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

A

Sure. Well, first, Julian, thanks to you, thanks to Barclays for having us back. Look, we could not be more excited about this Viessmann combination. We never bought it because of what we thought was going to happen either in December or January. We looked at it and said, there is an unambiguous transition in the European market to heat pumps. That premise will 100% continue. So, you look at what the EU is saying, 55% reduction in greenhouse gas emissions by 2030, 90% by 2040. And they specifically call out heat pumps because there's no way to get to those targets without a transition.

So, the underlying premise of that transition remains 100% intact. What happened towards the end of last year is that as some of the legislation in places like Germany was being debated, it did have a dulling effect on new orders. But when we constructed the plan for this year, we were very purposeful about looking in a very sober way around what would the heat pump market do in each country? We did a country-by-country assessment. We then looked at first, share gains; second, boiler sales, which we assume share gains. We assume that boilers will be a little bit higher than what we initially had anticipated.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

Aftermarket, which is a little over 10% of the business, will be up double digits. We'll get a couple percent of price. Some of which is carryover. We have high confidence around working with our installer channel partners that we will get that price piece, we'll get double-digit battery. We looked at PV and then we did a country-by-country assessment. Mid-single digit growth for us on the top line in Germany, double-digit in France and in Poland. Poland is going to have some pent-up demand because of the change of administration is going to drive more sales this year. And Italy, we think, will be down.

So, we feel very good about the mid-single digit numbers. It does require double-digit growth in the back half because we said the first quarter for us could be flat, could be down a little bit. We'll see what happens. But remember, their heating season starts, it's kind of the opposite of our – in the United States, in North America, air conditioning system, we're starting to build now in anticipation of the summer months. They are going to be focused on subsidy applications, which can start in Germany at the end of this month. So, there would be no real subsidy applications in January, February. They were high in December. We've seen increased activity on the Web pages, which is pre-order activity. We do need to see subsidy applications pick up a lot as we get into March, April. That will feed demand that gets into the critical months of September, October.

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So, we feel very calibrated on the plan. And if you look at January, you would not be surprised to see that the Heat Pump Association could say that in Germany, heat pump volume growth was down and it could be down significantly. I will tell you that Viessmann sales for us in January were flat. So, what happens is either a competitor or an industry association says a number, and we get a whole bunch of inbound questions around what does this mean for Viessmann [ph] and the thing (00:04:13).

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

The Viessmann EBITDA for this year will be higher than we had in our base plan. Sales will be a little bit lower, but we feel calibrated on where we are and we are going to pull forward cost synergies.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

And when you think about the sort of price discipline in the market as the volume comes under pressure in certain products, in certain countries and so forth, how does the overall sort of pricing environment at Viessmann Climate look for the year ahead?

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

A

Well, remember that we compete on a country-by-country basis. The competitors in each country will vary.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

And we also compete in the very premium end of the market. So, when you get to a specific country and to specific competitors, we believe that we will be rational and we believe that any rational player will be rational.

So, we also have a very unique channel because we can go to the direct installers. We are not looking, as maybe some of our peers are, is the amount of inventory that may be held by a wholesaler, 1 of 10 brands and they have to start calibrating, how do they drive sales with a destocking issue? We feel very calibrated on the inventory that our installers have and the pricing approach that we have for this year.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Perfect. And on the point on sort of the boiler mix versus the heat pump mix. How does that play into the EBITDA and the sort of profit margin profile of Viessmann?

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

Well, the margins are very comparable boilers and heat pumps, and they're both high margin.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Yeah.

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

Obviously we sell heat pumps for something like 3x the price of a boiler. So, it'll effect the top line.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Yeah.

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

And – but apples-to-apples, the margin percentage is the same. But if it affects the top line, it'll affect the overall a bit.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Oh, go ahead, Patrick. Do you want to say something?

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

No, that's right.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

And when you look at the route to market, I think is something different at Viessmann Climate versus many of its peers in Europe. A lot of the peers, I think, have suffered much more from the sort of wholesale destock. I guess, a couple of questions. One is how do you feel about the inventory levels in the channels for Viessmann products today? And then also when you look at the industry levels, because I guess they have some effect if competitors are just trying to dump product. How do you feel about sort of the industry inventory levels?

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

I think for Viessmann and I would say now for our resi business, say in the United States, it's kind of back to normal. We went through a phase coming out of COVID, coming into the supply chain challenges that we all had elevated backlogs. Now, we're back to kind of business as usual. We feel very good about the inventory levels in the installer channels. So, I think what some of the Viessmann peers will go through with the destocking, those that have inventory in the wholesalers, they see some of what we saw last year for resi business in the United States. We suffered from some of that.

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And the question I think that folks have for, say, our US resi business is did we take our medicine last year? We believe we did. We – if you look at the number of splits sold in the United States, it used to hover in the mid 6.5 million range. We got as high as a little bit back in 2022 or so, just north of 8 million. Last year was back to that 6.5 million. So, now we're kind of growing off what would have been traditional levels. And there may be some players in Europe that have to go through some of that, which we went through last year, where our volumes in the United States were down in the high teens last year. They were down in the high-20s in the fourth quarter.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

Yeah, some of that was very purposeful. Our number one objective for US resi in the fourth quarter was end with inventory levels down in the mid-teens, we ended down 16%, year over year. If we look at where we are today, it's actually a little bit even lower than that.

So, we feel very good. I know one of our peers said yesterday destocking could go into the second quarter. We happen to not see that. We may – they may be right. We might be wrong. But we think that destocking is kind of largely behind us over either now or over the next month or so. So, now we're kind of both Viessmann and us, it's sort of back to that same phenomenon and is back to basics. What's – we feel calibrated on residential new construction. We feel calibrated on what we're going to see with some people moving homes and some of that add-on replacement business. And now we're back to true orders driving true growth without having an unusually high backlog.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

When we look at that, to your point, it's maybe more now about final demand, health of the consumer, consumer confidence, those types of things, not so much inventory adjustment. How are you kind of assessing that in the US? Like, do you feel that the final demand is more sluggish for resi HVAC than one year ago or pretty similar? And then, I guess, in Europe, it's hard to pull apart from the subsidies moving around, but any thoughts around that final demand piece in some of Viessmann's biggest countries?

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

A

Well, I start with the premise both in the US and in Europe, it's fundamentally a replacement business.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

So in both locations, you're dealing with an 80% replacement business. So, the unit sales in August, you're going to replace it in the United States, in December in Europe, you're going to replace your heating system. Now, if you

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look at the new construction peace in United States, it is good to see that for single family, there does seem to be some more recent pent-up demand there.

We believe in the United States, there's 4 million too few homes in United States. So, you are going to see some increase over time on residential new construction. We have it kind of flattish this year. There's more pressure on the multifamily side. Mortgage rates, as they go from kind of 8% to below 7%, we do think there's going to be pent-up demand for people moving home, which drives air conditioning and heating sales as part of the new inspection of the new home. And then there's going to be pent-up demand for replacements because remember, our volume was down in the high teens last year. So, we do think for a bunch of factors, there's going to be some increased demand.

Now, we're very sober about the fact that there's big populations in the United States, in Europe with slowing economies and inflation that still hasn't completely gone away, that are under pressure. But we do – we haven't seen a huge mix down. We haven't seen people replacing parts rather than the entire system. And then we'll have to see about the new refrigerant as that starts to come in this year, the new units into next year that provide some lift as well.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Perfect. And on that point on the refrigerants, do you feel that most of what the industry needed or wanted to hear from the EPA has happened now? Is – are there still some gating factors holding distributors back from stocking activity? Any thoughts on that and next steps on the EPA front?

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

Well, the big one was this one year window we got and that was important and that was helpful. And we were glad to see that clarification. There's one more clarification that we are strongly as an industry encouraging the EPA, DOE to make. And that is that prevents kind of an unintended loophole that you can replace the outdoor unit only with a 410A unit. I don't think that was ever intended, and we're optimistic that that will get resolved. But that is important that that get resolved.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Perfect. And I think one thing we didn't touch on just finishing off the Viessmann discussion was the potential for revenue synergies, timing, scale, what types of products do you think that synergy could be most powerful?

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

We're optimistic there. I would tell you, I think that we put in our model virtually zero. But I think the reality could end up being hundreds of millions. And I usually think about it in three categories. The first and the sort of soonest is the sort of multi-brand, multi-channel, us pushing air conditioning sales in Europe, which will increase, and Julian you know, very small percentage, less than 20% of Europeans have air conditioning.

So, we see that as a growing market and we could push the Carrier brand air conditioning or Toshiba or both through their channel. And then, of course, the heating as a secondary brand, probably Toshiba through the wholesale market and then Carrier through the Viessmann channel that we see as a really good opportunity.

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And we see opportunity for Viessmann growth here in the United States. It's a phenomenal brand. We see the growth there in Asia. There's another category around just base innovation. Viessmann has great technology. For example, they're One Base system, which allows for real time problem resolution remotely. You can almost think of them as like a Tesla. So, real-time software upgrades, real-time interaction with the end units, they do a better job of that than we do. And we see can we expand some of our remote prognostics, diagnostics, upgrading capabilities through a one base type application.

And then the third is sort of system type integration, like HEMS, the home energy management systems, they're the only ones in the world that do it very well between PV, battery, heat pump and the digital overlay. Is that an opportunity for us in the United States and elsewhere? Yes. And then you look at district heating, which is going to become bigger in places like Germany. We can do the chillers, of course the water-cooled chillers. And they can do the apartment transfer unit. So, we think there's a nice synergy there.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Perfect. And then on the sort of capacity expansions by competitors in heat pumps, that's been something that people have talked about for sort of two years now. Are you seeing the industry, I would imagine, yes, like slowed down that capacity so you don't get this huge imbalance of supply, demand in the medium term? Any thoughts on your own capacity expansion plans in Europe inclusive of Viessmann?

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

A

Yeah, I think with capacity, you don't shut it off like overnight. So, I think if you have a facility that's halfway constructed, you're going to see it through. We have that with Viessmann. Viessmann is building what I think will be the most state-of-the-art heat pump facility in the world, bar none in Poland.

I had – Patrick and I had an opportunity to visit it and it's going to be tremendously automated. It's going to be complete state of the art from an inventory management movement perspective. It's going to be truly benchmark. And we're going to see that through. It'll be done here sometime this summer. But I do think everyone's going to be very sober about how much capacity is needed in the system and making sure that they throttle back anything that would indicate some kind of overcapacity.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Great. And then looking at your Commercial HVAC business for a second, I think data center and education verticals have been very strong the last two or three years, probably continues. Any sense of kind of scale of how much of your Commercial HVAC business is exposed to those two verticals?

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

A

Double digits. We've said that data centers is low-double digits. And by the way, we're kind of in the first or second inning on data centers. And you know that as we go to GenAI, those chips produce 7x the heat that a traditional chip would produce. So, the criticality of heat dissipation and new technologies to facilitate that data center growth is right in our wheelhouse. We're working on some very unique technologies. We already have some. We're working on some news. I know you asked one of our peers about liquid cooling. We do that as well.

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So, we're working on some very interesting technologies. Data centers been strong. And it's kind of going to remain strong as far as the eye can see, of course. And higher ed, K through 12, there's still about, I think something like 63 billion of ESSER funding to be spent on K through 12 and it needs to be allocated here in the coming months. So, we think that continues. Healthcare continues to be strong. We'll watch commercial real estate. It's been weak, probably continues to be weak for a bit. But overall, orders have been great and our sales output have been great for commercial HVAC. We were up north of 20%, I think in North America in the fourth quarter. Our orders in January were strong in the United States and Europe, so we already had a strong backlog for commercial HVAC coming into the year. And the order rate has continued at high levels.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Perfect. And you got that push underway on the aftermarket front in Commercial HVAC. Maybe just kind of any update on that and the confidence in that aftermarket sort of growth continuing?

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

Go ahead, Patrick.

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

Oh. Aftermarket continues to be strong, frankly, across the company, not just in Commercial HVAC. We actually don't talk a lot about aftermarket in our Transport Refrigeration business. You may be aware we have about 1.8 million cooling units in the market today. We have about 100,000 now sea containers attached with aftermarket contracts, paid subscriptions, where we can monitor the performance of these units remotely. Again, helping our customers reduce downtime, reduce their energy costs and providing better visibility to either the operators or the end customers.

So, overall, aftermarket remains a key focus. I would say the number one commercial focus across the company, across all of our businesses. And the acquisition or the combination with Viessmann won't change that. Yes, we will call it divest or exit some of the aftermarket business, but Viessmann today, its aftermarket sales represent about 13% – 12%, 13% or so of the total.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Yeah.

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

Again, we expect to see that grow at attractive rates and so our overall objective of aftermarket revenue growth, the recurring revenue nature of it, the asset light, the margin accretion of it all remains really valid. And as I said, it's commercial priority number one across all of our businesses.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

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And when you look just sort of how overall sort of first quarter is playing out, it sounds like you mentioned Viessmann holding up orders in Commercial HVAC in the US and Europe growing strongly. Any other sort of things we should bear in mind for how current demand is trending? US resi HVAC, for example, or transport?

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

A

A lot of Q1 is above March.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

And so, I know there was some – maybe some anxiety what Viessmann sales would do. As Dave mentioned, Viessmann sales were flat in January, basically what we expected. But what's really going to determine the outlook for the quarter is March. And that where we stand at this point, there is no reason to change anything what we said on the earnings call back in early February.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Perfect. And operating margins, how should we think about with the new portfolio operating leverage or annual operating margin expansion entitlement for Carrier?

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

A

The value creation framework we laid out at our Investor Day in early 2022 was 6% to 8% organic growth. Operating margin expansion of 50 bps or more every year. And if you go back, just for example, what we did last year, our core incrementals, our core earnings conversion and by that I exclude the impact of acquisitions, divestitures and currency, our core incrementals were 40%.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

Our guide for this year, and our margins expanded by about 80 bps, excluding the consolidation impact of our Toshiba Carrier JV. If I look at our guide for this year, core earnings conversion into our guide of over 30% and again we are projecting 50 to 100 bps of margin expansion, with a faster growing portfolio post the transformation, with continued opportunity to drive either cost synergies within Viessmann Climate Solutions or just running a simpler company, we certainly would not expect anything less than that type of a margin expansion every year going forward.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

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Great. And on the divestments front, sort of what are the thoughts around that and some of the considerations around what exactly – how will you decide what should be done with common Resi Fire and when do you sort of aim to have a decision or announcement on that path?

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

Yeah. So, if you look at the four divestitures or the exits we have in flight, we have announced two, we're quite pleased with the expected net proceeds.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Yeah.

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

And so, our key focus is ensuring we close these as soon as we can, and of course, working with our partners and ensuring that that happens. That takes us then to the third exit. That's Industrial Fire. There, we expect to be in a position to announce a definitive agreement around the end of this quarter, so the March quarter. And then that leaves to Residential and Commercial Fire. And then, given our key focus on ensuring that the first two we exit these as soon as we can and then, of course, Industrial. Industrial and – I should say, Residential and Commercial Fire, we still expect to exit that this calendar year, either through a public market exit or through a sale.

And if I look at all the exits, it really puts us in a position that by the end of the year and we don't need the exit of Residential and Commercial Fire for that, we expect to be back to about 2x net leverage. That's one year earlier than what we expected back in April of last year. And it also basically is a strong hint towards our intention to resume share repurchases. And of course, the objective there is to repurchase as soon as possible. The equivalent shares issued to the Viessmann family, which is about $58 million, all of which, of course, within a strong credit rating and we continue to target [indiscernible] (00:23:10).

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Fantastic. And on the sort of cash generation profile of Carrier, once the transformation of the portfolio is complete, how should we think about free cash flow margin rate or conversion rate?

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

Yeah. I know you like to look at free cash flow as a percent of sales. I happen to think it's a really good metric. And we have consistently increased our free cash flow as a percent of net sales over the last few years, even though our free cash flow has had some unique headwinds with respect to larger than usual restructuring charges, as we did last year in cash restructuring costs. But also last year, we had over $200 million of M&A related fees given all the exits that are happening.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Yeah.

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

So, free cash flow this year, the headline will be impacted because we have some large gains on some of the exits already announced. We will pay taxes associated with those large gains. If you disregard some of the free cash flow impact related to the large gains in the taxes thereon or some of the additional M&A related fees, we expect free cash flow to be up another 10% this year and we would expect to be at or above free cash flow at 100% of what we call reported net income that takes into account restructuring charges.

So, there, I think with the exits, a little bit of noise, but underlying continued improvement. Double digits now, free cash flow at percent of net sales, even though there are some headwinds there, as I just mentioned.

And we've seen a change in behavior there within our company because we have changed our incentive compensation plans just last year, a third on organic sales, a third on adjusted operating profit, and a third on free cash flow. And [ph] everyone is more than ever (00:25:11) a big incentive on ensuring that working capital continues to improve, which it does. And then going forward, of course, it will be continued to – a very high focus on free cash flow.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Great. And [ph] when we saw (00:25:28) clearly but sort of on this KFI process and that clean up there.

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

Yeah, that's basically no surprises that we are understanding is that KFI is in the process of selling itself and then there will be an auction for those – for that in mid-March.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Yeah.

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

We have been in mediation proceedings with the creditors and that's progressing well. And we can either come to a resolution with the creditors that would be then approved by a bankruptcy judge or we can go through the proceedings and win in the proceedings. So, we can come to a resolution or we have high confidence in our position and go through that, and we'll see, which makes more sense for us. But that's all I would say. Hats off to all the folks that have been working that clearly on the KFI side, both on the Carrier side, that's progressing well.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Great. And longer-term growth profile, in aggregate, you have that 6% to 8% target. I guess the sort of confidence around that. Now, we've seen maybe price tailwinds shrink a little bit versus a couple of years ago, but your own portfolio has changed a lot. So, what should investors expect, I guess, on that through cycle growth? And also capital deployment, it's very different sort of year to year. Last year, a lot of cash out for M&A – or January of this year, sorry, early next year, probably a lot of cash out for buybacks. Any way to think about, I don't know, through cycle capital deployment.

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

A

Maybe I'll take the growth and you take the capital deployment.

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

A

Yeah.

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

A

It's just, look, Julian, we feel good about the growth algorithm that we have. Our whole goal is to start with – we're going to be an HVACR pure play. And we also think of ourselves as the leader in intelligent climate [ph] NRC (00:27:37) solutions. So, it's HVACR, but it's this whole climate solutions provider. Our goal is to be the market leaders in the highest-growth markets, knowing that right now, Commercial HVAC is particularly strong and we're benefiting from that. And we have peers that have that as a higher percentage of their portfolio, so they benefit from that.

We like balance. We like the fact that we are now the market leaders in what we think over the next 10 years will be the highest growth consistent market in HVACR globally. We'll be the residential heating market in Europe, and now, we're market leaders.

Will there be a bumpy quarter here and there as things reset? For sure. Will there be hyper growth over the coming decade and then beyond? Yes. So, we like the fact that we have Toshiba better positioning us in Asia. We have Viessmann better positioning us in Europe. We like our commercial HVAC position. So, we look at being – and we like the fact that we just announced the deal two days ago in Saudi Arabia, where they're going to spend $5 billion on infrastructure spend between now and 2030. And we are – we try to make ourselves synonymous with market leadership when you think about HVAC, and that's to the Saudis for their HVAC partner decided to partner with through a lot as the subsidiary of [indiscernible] (00:28:55). So, we like how positioned we are globally and we feel that as market leaders, we feel good about that 6% to 8%. And then, do you want to take market – capital...

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

A

Capital deployment, short term, very clear. Debt pay-down followed by share repurchases, the equivalent 58 million shares or so. Longer term, our priorities remain unchanged. Organic growth, inorganic growth and there, we focus on a free cash flow yield as a primary metric, then a growing and sustainable dividend. And we continue to target there about a 30% payout and then followed by share repurchases. And given the free cash flow generation profile that we have, I think this leaves a tremendous amount of firepower for either acquisitions or share repurchases. At this point, we don't see the sizes of the Viessmann type acquisitions. That's not our focus now, our focus is debt pay down in purchasing shares and then we'll go from there.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Great. Any last comments from Dave or Patrick?

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

A

No, I just – Julian. First, thanks to you again. And we're excited. We often say that we paint on a very blank canvas because we all know that sustainability is a megatrend. HVAC has to have a critical seat at the table. And as market leaders, we feel so poised to ride this wave for the coming decade. So, we love the position that we have. And while we're transforming, I think our investors should be incredibly confident that we will be heads down and continue to execute.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Great. And we'll just finish off quickly with the audience response to survey questions. So, please grab those gray boxes. First question, sort of ownership levels of the stock today. So, a mix of overweight and nothing. Number two is sort of general disposition towards Carrier right now. It's generally positive. Third question is around, we had a number three around sort of EPS growth. And again, this would be versus multi industry peers. So, very broad group.

So, generally above peers. The fourth question. Yeah, this one is less sort of relevant for now, but excess cash uses.

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

A

I have a guess. Yeah.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Okay. So debt reduction. Next question is around valuation. So, what PE on year one should carry a trade at? So, generally sort of 20-ish times. And then the last question is around what's the main sort of gating factor? Why doesn't someone own more of Carrier right now? So, core growth.

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

A

Interesting.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Big question. Fantastic. Well, thank you, Dave and Patrick.

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

Thank you, Julian. Appreciate it.

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