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Carrier Global Corp. (CARR)

Wolfe Research Global Transportation & Industrials Conference

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CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

Nigel Coe
Analyst, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Nigel Coe
Analyst, Wolfe Research LLC

Well, good afternoon. Thanks for joining us at the 17th Annual Wolfe Transports & Industrials Conference. We're going to continue with Carrier Corporation, and very pleased to welcome Dave Gitlin, Chairman and CEO of Carrier; and Patrick Goris, Chief Financial Officer to the stage. So Dave, again, thanks for being here. And let me hand over to you for any opening remarks.

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

Well, appreciate that, Nigel. Thanks to you. Thanks to Wolfe for having us back. We could not be more excited about the journey that we're on as the global leader of an intelligent climate and energy solutions. And those three words, intelligence, all things AI, data centers, connected devices, we see tremendous opportunity from all things intelligence.

Climate, at our core, is the sustainability climate – a sustainability company. And then when we think about energy, that's a little bit the new frontier for us as we think about grid resilience. And as part of that, we're ecstatic about welcoming Viessmann to the family earlier this year. We'll talk about the market, I'm sure, but gaining share, growing the business – we're actually gaining share in every single market, taking cost out. The team is performing very well in what is a challenging market.

And then all of our divestitures are progressing to plan. We're close on closing on Access Solutions, followed by Industrial Fire, followed by Commercial Refrigeration. And now we're in the market with our Residential and Commercial Fire. The NDAs are signed, the SIMs are out. We're starting – we're going to start management presentation soon. And we're hoping to close on that by the end of this year.

So, when we get into 2025, we will have – our portfolio change is behind us and we're poised for a very strong execution through the rest of this year and into next. We've been clear on capital allocation priorities. With debt,

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paying down debt, starting a buyback later this year. And we feel balanced on where we are on this year. The team performed very well on the first quarter and that's continued here 2Q.Q&A

QUESTION AND ANSWER SECTION

Nigel Coe
Analyst, Wolfe Research LLC

Q

That's great. Thanks, Dave. I'm going to touch on pretty much everything you just mentioned in a bit more detail. Just on Commercial business Fire, you mentioned NDA has been signed, so books are out there. Obviously the initial plan was for that to be a capital markets transaction, I think in some form. Were you surprised by the level of interest in that asset?

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

A

I'm not surprised, but I'm encouraged.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Yeah.

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

A

The – there's a lot of interest, and probably most likely a sponsor, that if you think about the portfolio we're selling, these are once-in-a-lifetime franchises to get. Edwards, our Commercial Fire business here in the United States, high margin, very well-positioned. Kidde is very well-positioned, kind of a duopoly and very well, very good market share and very good technology we have in the Kidde business here primarily in North America. And then GST, the fire business that we have in China is incredibly well positioned over there. And then great businesses off in Europe.

So, I know there's a lot of interest, and rightfully so. These are once-in-a-lifetime assets to get with a great team.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Yeah.

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

A

And Patrick mentioned on the earnings call that the EBITDA has been north of $250 million. So we feel we're encouraged by the interest and optimistic about the price.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Great. And just in context, that was $200 million last year, $250 million-plus this year.

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

Yeah. Close to $300 million now, actually.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Close to $300 million?

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

Yeah.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Keeps on going higher, Patrick. Is it going to be $400 million by the time we get this done? Yeah? That's great. So, well, good luck with that process.

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

Thank you.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Spinning back to 1Q. We had a lot of moving pieces across the portfolio. Continue strength in large commercial. You mentioned data center tailwinds and other tailwinds there. I think residential performed better than plan. And then we had some headwinds in some of the transport businesses. Maybe just bring us up to speed in terms of what you're seeing right now through the second quarter?

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

Yeah. I would say if we think about the year more broadly, there's probably two big areas that are better than we had planned. There's a couple of areas that are a little bit softer than we planned and probably two that are right in the fairway. So, what's stronger will be global applied. It's not only data centers, but we have strong backlog. The aftermarket related to the applied business is performing well. We see strength in North America, which has been very strong. Europe has been continued to be strong and Asia has been strong.

So the global applied business will be better than we plan this year with certainly upside there. Light commercial, we keep thinking that we're coming off three strong years that there's going to be some level of softening, but we haven't seen it. So first quarter was much better than we had thought it was going to be. We were up over 20% in the first quarter and we had planned the year down mid-single digits. And you know, from our perspective, there's clearly upside to that.

The two areas that – the two markets that are a little bit weaker than we had planned would be residential in Europe and residential in China. And I will tell you that both teams are gaining share, taking the right kind of cost out to reflect some of the market conditions they face, but we think the top line in both of those areas will be a little

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bit lighter than we had put in our original plan. But the stuff that's good will be at least enough in our minds to offset the stuff that's a little bit weaker than we planned.

And then US resi is about where we thought, high single digits for the year and roughly land about where we thought.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. So it sounds like it could be a mid-single-digit plus as opposed to mid-single digit minus for the full year for core growth, that is?

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

A

I wouldn't say that. I think we're kind of in the zone right now on the top line, yeah.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Yeah. So overall bounciness. Okay.

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

A

Yeah.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Are there any signs of softening in large commercial appliance when you look across the spectrum of end markets? Anything in the front log or?

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

A

No. Europe and US are particularly strong. The issue with China is it's overall strong, but we're seeing a very significant shift of mix almost overnight. The high level mix we've had over the last few years in China was a shift from residential to industrial and infrastructure. Now we have a much more specific look at it and the things that are particularly strong this year, data center, semiconductor, and healthcare, those are three verticals. But last year it was kind of all about renewable.

So, China's a very shifting market. But one thing I'm really proud of our leaders there, Seth and Titus and the team, is that we've shown an ability to flex very – and be very agile to shift to the areas of strength. So I think they'll be fine. What we – we're pushing that team is to use the applied business to offset some of the weakness that we're seeing on the residential side in China.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. And then you mentioned light commercial down mid-single digits. Looks like it's too low.

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

A

Yes.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Is it significantly better such that we can actually see some growth in this business this year?

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

A

We could. We could. We'll have to see how we close out the first half. But the backlog continues to be strong. Orders are strong. It's actually, if you look at how you want to run a business, there's not a lot to complain about right now with light commercial. We've gained a lot of share. We've probably been the price leader. We've had technology differentiation with the main axial fan that's had been 40% more energy efficient than the unit – that it replaced. We're driving more efficiency in the same volume so we can fit into multiple chasses. So we're, you know, large accounts.

So the team is performing very well. And I think that there's clearly upside. Could there be a positive sign for this year? Yes.

Nigel Coe
Analyst, Wolfe Research LLC

Q

So what came in better for that business? Did you misjudge the economy, the non-resi cycle? I mean, what more came in better? Do you like retaining share or gaining share?

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

A

Well, we are gaining share. We've continued to gain share. We gained in the first quarter over the last 12 month lag. And I do think that coming off three really strong years, I think there's a natural skittishness on comparers and it's just the strength, where we've seen strength that's continued.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Yeah. Okay. Just – maybe just double clicking on US resi, I think down 3% in the first quarter. I think you were expecting that to be down high singles initially. So that came in a lot better. Still a pathway to high singles for the full year. Has the mix between volumes and price mix changed? I think it's roughly a third, a third, a third contribution from each of those buckets. Has that changed at all?

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

A

I think it's in the zone of how we kind of think about it. You know, the transition of 454B, I think we had originally said it would be about 20% this year. It'll be a little bit less of the mix. But we said 10 – 15% to 20% over two years between price and mix for the 454B. And you know, we're excited about that for next year as well. We shipped our first unit March, April. We wanted to get way out in front really for risk mitigation purposes.

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Nigel Coe
Analyst, Wolfe Research LLC

Q

Yeah.

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

A

And so that team is performing extremely well. We saw, as we think of – I think about the first six weeks of this quarter, it's gotten kind of progressively better every couple of weeks. So, movement was better in the last two weeks of April than it was in the first two weeks. And it was better in the first two weeks of May than it was the last two weeks of April. So, I think the quarter is kind of progressing generally consistent with what we would have thought.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. So no weather impacts to worry about.

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

A

We haven't seen anything. No, no major swings. Like always, like a lot of our businesses, you rely June as the most important month of the quarter. So you can never be sure. But we look at inventory levels, movement, they're all about where we thought and you know we have reason with some of the order rates and inventory levels and recent movement that we're positioned for a good June.

Nigel Coe
Analyst, Wolfe Research LLC

Q

What are you hearing from the channel on the 454B products? I mean, now that they've seen it, they're touching it, they're installing it, do they want more of it? Or is it a case of, okay, you know, this is more about next year. We still want to have [indiscernible] (00:10:17)?

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

A

I think that it's really a story about 4Q into next year. I don't – I think people are just – I think we've gotten out in front on not only shipping units but we have a complete training protocol that we've done with our distributors and our dealers. We've made sure that the channel is ready to not only have the right maintenance practices, but transportation practices for the 454B.

So, I think there's probably some level of dealer anxiety because it's new, but overall, the feedback we get, because usually our dealers will carry Carrier as a primary brand, someone as secondary. The feedback we've gotten is certainly amongst best-in-class in terms of getting way out in front of risk mitigation and getting the channel ready for this.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. So we – I think we're transitioning in the market from destocking to maybe neutralizing to maybe some inventory build ahead of the deadline on 31 December. Do you think – I think you're on record Dave, saying this probably not going to be a significant pre-buy in the fourth quarter. Has that changed at all?

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

A

No, I think that's about right. I think there will be some. But I don't think it'll be too big. I think originally we were thinking, again, about 20% of the volume this year, it's probably going to be less, 10% to 15%, will be for 454B this year. And that's mostly in the fourth quarter. So a bit of pre-buy, but not too much, especially because they clarified it's the date of manufacturer versus date of install.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay, great. So let's talk about data center. I think you mentioned data center is about low double digit proportion of your large commercial pipe business today but going to 20% soon. And I think is the word you used. Maybe just give us some color in terms of how Carrier plays. Because I think there's a bit of confusion about where the HVAC guys play, how liquid cooling sort of influences the market for you guys. And maybe just talk about some of the projects you've seen out there?

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

A

I'll take a couple more and then I'm going to direct all these to Patrick. Data centers is a tremendously exciting and unique opportunity. You know, if you think about us often winning 3 to 5 chillers at a time, we're winning in 100 range. So it's just a very unique opportunity. We feel incredibly well positioned in every facet to win, whether it's technology, ability to support in services agreements for the long term. The issue that we are working incredibly aggressively on is capacity.

We have our facility that's doing a great job in North Carolina, here in the United States, about 70% of the data centers will be in the Americas. So we're maxing out in both test lab and capacity in our US operations. We're investing to build out the water-cooled chiller capability down in Mexico. We have tremendous operations in Monterrey, and we'll be investing to expand there as well. And then we're importing as well. And we have great facility in France to support Europe.

So we are looking to max out the capacity at every single air-cooled and water-cooled chiller facility that we have globally to support the globe, to support this unique opportunity.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. Patrick, do you have anything to add there? Anything to add?

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

A

One element we can talk about is we've been doing data centers for a very long period of time. And so, every country where we do business in commercial HVAC where they have data centers, we have customers in the data centers, whether it's Japan, China, Europe or in the US. And so our core business will continue to do really well and grow faster than we think it has done.

And then there is the additional opportunity, which is whether it's liquid cooling or different types of cooling, that we are looking into it as well, which would be additional growth we can capture. And that is for us, those are investments in technology, organic, inorganic and partnerships. And so we're looking at all of that to capture the opportunity there.

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Nigel Coe
Analyst, Wolfe Research LLC

Q

And then when you – Dave, when you said hundreds of chillers for a single order, we're talking here about, you know, a large 300 megawatts, let's say data center. That's the content you provide or are we're talking here about sort of frame agreements with some...

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

A

It's more frame agreements, but even a standalone data center will be – it can be 10x the number of chillers we might see in a traditional [indiscernible] (00:14:46).

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. That's extraordinary. One of the standout features of last quarter was the strength in the HVAC margins.

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

A

Yeah.

Nigel Coe
Analyst, Wolfe Research LLC

Q

And especially when you factor in the dilution from Viessmann in the first quarter. I think if we look at it organically, I think your margins are up 350 basis points or thereabouts.

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

A

Yeah.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Maybe just talk about some of the drivers of that performance. I think your full year guide embeds something a lot weaker through the balance of the year, so maybe just talk about that.

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

A

Yeah. And so the biggest drivers by far were price and productivity. And to understand the expansion we saw in the first quarter, it's helpful to look at the prior year. In the first quarter of last year, you may recall our productivity was the lightest it was in Q1. And we said, don't worry, we know productivity will pick up as the year progresses. In Q1, we still had some contracts in place. Hedges, for example, that meant that the material savings were not as big in Q1 last year as they were in subsequent quarters.

So what has happened in Q1 of this year is a couple of things. One is the comp I referred to. The second item is our incoming productivity pipeline for this year has been much stronger than it was in prior years. So we have a new operations leader within the company. He has added category managers. We have a productivity pipeline that is much more I'd say, much more robust than it was just a year or two or ago. And so it's a combination of

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continued good price, very strong productivity year-over-year. And of course, the benefit of having a very strong, dedicated ops team that drives productivity.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay.

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

A

The margin expansion in future quarters will be there, but it won't be there at the same extent because for the overall company we're targeting about 100 bps of margin expansion. We saw about 280 bps in Q1. So there will be some, but obviously not to the same extent.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay.

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

A

But the – I think the important takeaway from this is that there continues to be significant opportunity for cost out and productivity at Carrier. And I think we have a much more robust organization and processes to drive that going forward. So that well is not going to dry up anytime soon.

Nigel Coe
Analyst, Wolfe Research LLC

Q

But with the, you know, with the continued productivity pipeline that you just mentioned, Viessmann margins improving through the year.

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

A

Yeah.

Nigel Coe
Analyst, Wolfe Research LLC

Q

It seems that there might be a hint of conservatism in your margin outlook. Is that fair?

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

A

I'm not sure I would go there. At this point, our job is to deliver at least the 100 bps margin expansion that we've committed to in our current guide, which is well better than the over 50 bps that we normally target. And obviously, our objective is to do better than that. But with four months behind us, we're not ready yet to change our outlook besides what we already did after the first quarter call.

Nigel Coe
Analyst, Wolfe Research LLC

Q

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Okay. And one more by the [ph] chair (00:17:42) here. So I think you mentioned – Dave, I think you mentioned that half of the productivity savings is material productivity. Is that primarily the impact of the hedges and the material costs? Or are there other things going on?

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

A

No, that is an element of it, but it's not the biggest part of it.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay.

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

A

So there is a – so it's not just a call it gravity of what the materials are doing or commodities are doing. As I mentioned, we have entire teams who are much more robust than before, who are focused on driving these costs out.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay.

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

A

Same thing for our footprint, same thing for logistics. So, yes, it is more than just as we call gravity of commodity price.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. And then, of course, copper is defying gravity with its – the spot prices are moving higher. You obviously you hedged. So I wouldn't think it's going to be impact for this year but what are you seeing in terms of that sort of hedge roll on copper right now?

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

A

Yes. So think about the current quarter, we tend to be almost 100% hedged and then it's 75% for the next, 50% for the next, 25% and so on. So if copper stays where it is, there could be some level of risk to the plan. But it's measured in the a couple of tens of millions rather than bigger numbers and gives us plenty of time. The hedges, in essence, give us time to react and do other things.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Sure.

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

Including pricing and then of course, there is the entire opportunity of copper to aluminum conversion that we're in the middle of as well.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Okay. That's still ongoing. That's been for a long time.

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

That's absolutely – we expect to see some benefit this year. But the biggest benefit there, of course, there are still some technology items we're working through. But the biggest benefit there for sure, we will not see this year.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Okay, great. I'm going to come back to the audience in about 2 minutes or so for questions. So please, if you have any questions, please get those ready. Dave, I want to transition to Europe and to Viessmann. Maybe just talk more broadly about the Carrier portfolio in Europe. Obviously, we've seen a lot of weakness in Europe. Are there any signs of recovery or stabilization you've seen out there?

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

When we look at Europe overall, the applied business is doing extremely well.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Yeah.

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

Then, I would say I was pleasantly surprised by the strength in sales and orders that we've seen on the applied side. When we look at Refrigeration, it's probably a tale of two cities. There's a bit of pressure on the Commercial Refrigeration side, but we – the European truck trailer business has performed far better than some the order rates that we've seen in North American truck trailer. So that's been encouraging.

I think the number-one thing we obviously focus on is order rates, you know, related to the VCS business and how when we see the stabilization play out in the European residential light commercial business and then when we start to see that recovery fully kick in.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Before we get on to VCS, I'm going to say I've been shocked by the strength and the resilience in the European applied business for yourself and Trane as well. So what is your perspective on what's going on in Europe? It just seems so disconnected from the macro.

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

A

Well, I think it's something that's a little bit unique about the applied business in general, is that what's good is great and what's bad is bad. So, data centers in Europe have continued to be very strong. We talk a lot about data centers in North America, but the team there has really leaned into the opportunity on data centers. There has been some strength in hospitality, some strength in healthcare.

So, I think one thing that we've worked on very hard as a team is agility. So, how we incentivize folks, how we move them, even within certain geographic regions, within a country, within China or within Europe, there are certain countries and certain cities within those, even within commercial real estate. Commercial real estate is weak overall. But for the A listings, that tends to be very strong.

So typically there's pockets of strength if you're very agile to focus on them. And the European team has done a good job of that.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Yeah, great. Any questions from the audience? If so, raise your hands. I don't see any, my eyesight is not great, but no. Okay, we'll carry on.

Maybe VCS. Maybe just bring us up to speed on, obviously, I think it was down, you know, down 12% 13% or thereabouts in the first quarter. What are you seeing in your order rates? Are we still on track for mid-teens in the first half with a recovery in second half?

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

A

Yeah, I think that – what I would say at overall high level, we feel really good about the cost synergies. We've said $200 million in year three, $75 million in year one and the team is performing very well. They're also, I think given that the market's softer than we had planned, Thomas Heim and the team are being very clear eyed and taking appropriate cost out of the system to reflect some of the overall market conditions. And we're obviously not pleased that the market softer than we had planned coming into the year.

But what we are pleased is that we're taking cost actions and we're taking fixed price out that once the market does recover, it will help the conversion as that does recover. And we feel really good about revenue synergies. When you lift up a rock, you see more multi-brand, multi-channel, the technology sharing. We had a whole technology review last week at Allendorf. So, the ability to make both companies better, we feel very encouraged by.

You know, what we said was that the year would be flat to down mid-single digits. We said that 2Q would be similar to 1Q. That does rely on strengthening in June. So a bit early to say. And we also said that the second half would see a 20% improvement over the first half, which is sort of typical of – the typical seasonality you'd see in that business.

So, we haven't seen anything that would cause us to change that. But clearly we're relying on a strong June and a strong second half. So as we continue to watch some of the underlying metrics like subsidy applications and the overall key indicators, we're being very clear eyed on cost and we're pressuring other parts of our system to continue to overdrive.

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Nigel Coe
Analyst, Wolfe Research LLC

Q

So there was a delay in the new subsidy system in Germany, I think the website went live in March, if I'm not mistaken.

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

A

Yes.

Nigel Coe
Analyst, Wolfe Research LLC

Q

It's not the most easy to use portal. I've not – I haven't used it, but that's what I hear.

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

A

Yes.

Nigel Coe
Analyst, Wolfe Research LLC

Q

I mean, have you seen a nice recovery in those applications coming through since that went live?

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

A

You know, I think part of the reality of what's happening in Germany is that the subsidies get paid out starting in October. And you have about a six week – six to eight week lead time. So it's sort of too early to say that we hit that inflection point of subsidy applications, because if you back out – back from October, you'd really expect to see the inflection point hit kind of June, July-ish as you start getting ready not only for the subsidies to be paid, but the heating season.

So, we will continue to watch that inflection point. We think it sort of happens towards the end of this quarter into early the following quarter to set up that 20% increase we expect in the second half of the year.

Nigel Coe
Analyst, Wolfe Research LLC

Q

And in terms of just framing that second half, would 3Q to 4Q be relatively linear or would 4Q be heavier than 3Q?

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

A

Oh, revenue-wise, I think pretty similar for VCS in Europe.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Yeah.

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

Year-over-year, very different because Q4 was weak last year.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Right. But dollar wise...

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

Dollar, absolute similar.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Yeah, very similar. And again, theorizing here. If there is a little bit of, I don't know, down five, six, seven or whatever, would that – do you think there's enough cost opportunity to preserve the EBITDA forecast for the year?

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

Within a few points. Yes.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Yeah. Okay, good. Because I think there's a – there's assumption that's impossible to cut costs, so reserve costs in Europe. I'd be curious, you know, where you're seeing the opportunity to overdrive on costs this year.

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

Well, if you look at supply chain, for example. I think there's a lot of best practices that Viessmann has that we are, we Carrier are learning a tremendous amount from. I do think when it comes to things like supply chain, that is something that we have put together a formula around that we're shoulder to shoulder with the VCS team driving supply chain savings.

There's always savings around things like G&A, logistics cost. Some of how we think about some of the raw material buy, factory efficiencies. So I think that there's a lot of opportunity on the cost side and I think the VCS team is being very clear eyed about the criticality of addressing some of the need to take cost out of the system.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Okay.

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

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Also, the – in terms of context, we before acquiring Viessmann, we had a Residential & Light Commercial business in Europe.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Yeah.

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

A

Give or take €1 billion in sale. Basically, we put that organization underneath Viessmann now. It's managed by the Viessmann management team. But basically it also means there is duplication of a lot of different functions, a lot of overhead. And so there is a tremendous opportunity there to go after cost as well, besides logistics and besides purchasing materials.

Nigel Coe
Analyst, Wolfe Research LLC

Q

So to be clear, the entire residential and commercial organization for Carrier in Europe is now under the VCS.

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

A

Correct.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. Okay. Yeah. And maybe sounds – every time I hear you sound more bullish on the revenue opportunity for synergies between the two channels. I mean, any early successes you've seen that we can highlight?

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

A

Yeah, I think some of the lowest hanging fruit is taking their channel and starting to put our brands into their channel. So we have Italian brands like [indiscernible] (00:27:21) we've – we're putting those into – in some respects into their channel. In some cases, we're bringing the Carrier brand. We're thinking about Toshiba Carrier for air conditioning. That has not been a big part of the Viessmann business. There is some white labeling that Viessmann is done, but there's an enormous opportunity around really introducing air conditioning into the European market in a much more aggressive way.

So, not only heat pumps but also air conditioning. And same in the United States. The Viessmann brand primarily boilers here in North America. But we see there's a new heat pump that's been air to water heat pump that could be applicable for New England and other parts. So some of the lower hanging fruit is the multi-brand, multi-channel. And then you start getting into integrated solutions, which I think will be much more transformational but take a little bit longer.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Okay. So in the last 2 minutes of the conversation, I want to go back to the commercial and residential fire divestment. I think you've committed to using the proceeds for buybacks. That's still the case?

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

Yeah.

Nigel Coe
Analyst, Wolfe Research LLC
Q

100% of those proceeds. And you hope to have that by end of this year, close?

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

Yeah.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Okay. Good.

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

Yeah. And so that in terms of buyback, so what we committed to is the $58 million equivalent shares issued for the Viessmann acquisition, you want to repurchase them as quickly as possible available for us to fund that is free cash flow this year, free cash flow next year, of course, plus the net proceeds of that last exit.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Right. And are there any – I mean, this the KFI kind of process, does that have to be signed, sealed and delivered by the court to get this done? Or is that independent of this [indiscernible] (00:29:05)?

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

No, that's independent.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Okay. Good. Excellent. And then I think about 2025. There's a fair amount of confusion about the underlying base of earnings for this year. And I think the $260 million doesn't quite cover it because it doesn't have the deployment from some of the asset proceeds. So...

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

It doesn't have the benefit of the proceeds from residential and commercial fire.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Okay.

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

And there is a couple of pennies there of interest savings on the exit of, I think, industrial fire.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Yeah.

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

But the whole – the reason we put this together, there are so many moving pieces in and out, just to give an idea as to what the underlying earnings are of the core business that we're retaining. And so, basically we're sending the message is, $260 million is what we think the core is for this year. Our value creation framework says we want to grow adjusted EPS double digits every year.

Nigel Coe
Analyst, Wolfe Research LLC
Q

Yeah.

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

We'd be therefore disappointed if it doesn't happen like that next year. Plus there is the benefit of the proceeds of the last exit, plus the free cash flow that we all intend to use towards share repurchases. And so we think that is a meaningful adjusted EPS growth opportunity for next year.

Nigel Coe
Analyst, Wolfe Research LLC
Q

A lot of moving pieces. It would be quite to have a nice simpler story, simpler bridge [indiscernible] (00:30:20)

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

Tell me about it, yeah.

Nigel Coe
Analyst, Wolfe Research LLC
Q

I'm sure you looking for that as well. We're at time, but one more question. It's been quite a long time since the last Investor Day. I think it was 2022, if I'm not mistaken. Lot's changed since then. Any plans for an update?

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

Yeah, we'll do one early next year. Is that fair to say?

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

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That's fair to say. Basically, what we've what we've said is in the middle of all these exits and the integration, probably not the best time to do another Investor Day. But once those pieces are settled, that's absolutely the opportunity. And early next year sounds about right, and typically we get a lot of visitors in Florida at the time of the year too.

Nigel Coe

Analyst, Wolfe Research LLC

Well just make sure – that's what I was going to say. Make sure it's West Palm Beach not New York.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yes, done. Absolutely.

Nigel Coe

Analyst, Wolfe Research LLC

Okay. Well, thanks guys. Appreciate the conversation. Thanks, Dave. Thanks, Patrick.

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