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Carrier Global Corp. (CARR)

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Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

All right. Welcome to our second session today. We're really excited to have Dave Gitlin from Carrier here, Chairman and CEO. We also have Mike Rednor, who runs IR.

I know that, Dave, you wanted to open up with some comments. So, floor is yours.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thank you, Joe. Good to see you again, Joe, and thanks to Goldman Sachs for hosting us.

Carrier has made great progress over the last five years since our spin. We've made significant portfolio changes that have led us to where we are today: a focused and balanced world-class climate and energy solutions company. We're balanced geographically with 50% in the Americas. We're balanced by verticals with data centers being a great source of growth, but we are not overly reliant on it. We have a great aftermarket business that has been and we expect will continue to grow double-digits per year.

And as we look ahead into 2026, we expect that the 40% of our portfolio that has been growing double digits, aftermarket and Commercial HVAC, will continue to grow at that pace. And the shorter cycle businesses, specifically our Residential and Light Commercial businesses, along with Truck/Trailer, are poised for recovery. We worked hard to create this differentiated portfolio, and we are well-positioned to yield the benefits of it.

Now, before the Q&A, Joe, I want to remind our investors of our four consistent themes.

First, we continue to control the controllables, taking out overhead costs, driving double-digit aftermarket growth, investing in innovative offerings to take share, and introduce differentiated system offerings.

Second, our Commercial HVAC business is night and day versus five years ago. We have significantly increased our margins, improved water-cooled chillers share in the Americas from 10% to nearly 40% and are well-positioned for continued outsized share gains with our newly introduced maglev bearing air-cooled chiller offering.

Third, we have great margins with our market-leading short cycle businesses where we are well-positioned to capture the inevitable upcycle.

And fourth, capital allocation. We will complete our \$3 billion buyback this year, and we'll continue to repurchase shares through 2026 while we invest in organic and inorganic growth.

Now, as we look ahead to 2026 and beyond, we are laser-focused on delivering outsized results. We are confident that our portfolio is uniquely positioned for strong profitable growth for many years to come.

With that, Joe, let's get into the Q&A.

QUESTION AND ANSWER SECTION

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Thanks. Thanks so much, Dave. So, why don't we touch on what everybody wants to hear about, which is CSA Resi? So, want to give us an update on 4Q 2025 and how that's trending?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Sure. When we did our earnings call at the end of October, our assumption was that movement would be down about 30% in October and about 25% in November and December. The movement was about what we thought in October, and it's been a little bit lighter in November. So instead of being down about 25%, it was down a little bit closer to 35%. So, call it, like, 33% or so in that range. And we expect that it'll continue to be soft in December.

Our North Star as a company right now with respect to Resi is to start – to end this year with field inventory levels down 30% year-over-year. We have a very specific number in our heads of where we want field inventory numbers to be. We not only have it at an absolute number, we have it by distributor, we have it by SKU. And that is guiding our decision-making here in the last month of the year.

So, if movement is a little bit lighter, you either ship more into the channel or you show restraint and you don't ship. We are not going to be driven by what orders does in the fourth quarter. We're going to be driven by what movement does. So, if movement is a little bit lighter, our fourth quarter, we would choose to have 4Q come in a little bit lighter to make sure that we protect that field inventory level.

So, it puts a little bit of pressure in Resi, and, of course, Resi is good margin for us. So, we'll – we had said 4Q, \$2.65 so would have come in a little bit lower than that, maybe \$0.05 or so. Yes. But we would choose to have that field inventory level be at the right number starting next year than try to ship a little bit more here at the end of this year.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

And as field inventory is down 30%, are you tracking towards getting that target?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. For sure. I mean, we're actually – as we sit here today, we're relatively close to that number today. So, I mean, quite honestly, we could ship more in December. And in some pockets, there's some areas where distributors would frankly even want a little bit more. We don't think it's the right thing to do, given where we see the absolute numbers. And we will end at that absolute number.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Okay. So, what does this all mean for next year, for CSA Resi specifically?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, let me kind of get into how we think about next year, if it's okay, Joe, and then specifically on CSA Resi.

When I think about next year, 40% of our portfolio has been growing double-digits and really should continue to grow double-digits. That's the combination of our aftermarket business and our Commercial HVAC business. The Commercial HVAC business, and we can get more into this, has just done incredibly well, and I couldn't be more proud of the team, especially in the Americas. You will not be surprised to see good orders in the fourth quarter.

We've been winning. We've been winning more than our fair share on data centers. We've introduced a lot of new products. I mentioned we've gained a lot of share in water-cooled chillers because when we stood on the stage of the New York Stock Exchange five years ago, we said we were going to invest in Commercial HVAC, invest in capacity, invest in the product portfolio. We were going to win, and we've done all that. We've done it on water-cooled with the maglev bearing, now we're doing on air-cooled. And we have major customers in our factories today as we speak doing FOK witnessing of our 2-megawatt maglev air-cooled chiller that's going to do incredibly well in the marketplace. So, we've been winning.

We said that we would start with enough backlog to see good growth for data centers next year. And we're going to do that, and we're going to end with \$900 million of data center backlog for 2026 to have the \$1 billion this year go up. So, we feel good about double-digit growth for 40% of the portfolio.

Then you take 10% of the portfolio, we'll probably be down a little bit. And that's the container business because they're up 40%, 50% this year and it's just not sustainable. So, we've killed it in the container business this year. We've gained a lot of share. We've seen great growth with our customers. We've introduced a bunch of new stuff that's gone very well and new efficient container unit, highly efficient unit. We've introduced Lynx. So, we've done really well. But between the container business and resi in China, which has been soft and there's no reason to think it gets a lot better next year. It's a very small part of the business, but it's there. So, we think that between container and resi in China, those probably are a little bit of headwind on the growth side.

So, that's now 50%. 40%, good. 10%, not so good. Then 50% is these high-margin short cycle businesses, and that's Resi in the America – RLC in the Americas, it's RLC in Europe, and it's the Global Truck/Trailer business. And as we sit here today, we – our kind of going assumption, and we're not giving guidance, we won't do that till our February call, but just assume flattish. And that would get you to, like, 3%. Like, 4% at double digits, 10% down a little bit, the rest flattish.

With respect to Resi, it's just too early to say. We know that on flat volume, we would get a bit of upside because of the absence of destocking that disproportionately hits us on the downside. We disproportionately benefit when there's the lack of it. So, that could give us kind of in the MSD benefit range on flat volume.

But what I will say is, the things we do know is that the second half of this year, to state the obvious, has been a lot softer than we thought. I don't think there's any reason to believe that when we wake up on January 1, all of a sudden, everything gets good. And we know that in the first half of the year that we do have tough comps. So, we're going to have to see how things play out in Resi. I think you have these countervailing forces. And, Joe, I apologize this answer is so long. Are you...

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

This is exactly what I wanted to hear. So, keep going.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Okay. You're still there?

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Yeah. I'm here. I'm here. I've got plenty of follow-ups. So, keep going.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Okay. So, let me give you kind of the – at the 30,000 feet, the good news on Resi. It's kind of what we got into in a conference a few weeks ago, which is that we are below the mean and there will be a reversion to the mean. We got into this math that said, on average in CSA Resi, you should see 9 million units a year. We were a little bit higher than that for four or five years at 9.7 million or so. This year, 7.5 million. Truthfully, it probably comes in lower than that. So, will there be this reversion to the mean? Yes. Exactly when you start that, no one exactly knows.

The other good news is that, if you look at any kind of data, you would say it's pretty much a replacement business, and it's pretty much a 15-year replacement business. And when you go back to what started to happen in 2010 is you started to see a certain recovery.

So, if you fast-forward to 2025, that recovery in shipments would start to manifest itself in replacement starting in 2025. So, we know that we have peers and frankly suppliers that are out there projecting that that increase, if you fast-forward from 2010 to 2025, you're kind of poised for a bit of a recovery on the replacement side.

And then I think you also have this other factor where we just had a refrigerant change. And when you go back in time in history where you've had a refrigerant change, you have had – some of the dealers have a bias for replacing components versus entire systems because they're not as trained and familiar with the new refrigerant. And that history would show that as we train more of our dealers to get more comfortable with R-454B, you start to see more of a full replace over some repairing of components.

So – and the other good news is that we're probably at a point, no one fully knows, that you would start to see rates start to come down. We like that 30-year to start with a five. We would start to see some level over time of a slight recovery on new home construction. There's a lot of pent-up demand for existing home sales because that's been very soft. If you are not moving homes – if you're planning to move homes but you're waiting for rates to come down, you're not going to replace your HVAC system a year before you sell your house. So – and it hurts you on both ends because when you buy the new house, you often get the inspector to say you should negotiate a replacement of the HVAC system.

So, as rates come down and you start to see more new home construction, more sale of existing homes, you start to see more dealers trained on the new refrigerant, you start to see that 15-year replacement cycle kick in, and you get that reversion to the mean. There is a lot of reason to believe.

The countervailing force, I would say, is the strength of the consumer. There's still anxiety about there – out there. And it's not clear exactly how that will manifest itself as we go into 2026. It's just the true unknown. So, I think as we start to think about giving guidance, I think you'll see us err on the side of conservatism because there is a true unknown. And we have seen that unit weakness in the second half, and we know we have tough comps in the first half. So, on flat volume, CSA for us Resi grows MSD. Could we end up saying that volume will be down and we end up flat? We might say something like that.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Super helpful. The follow – the big follow up there is, and I know that this – it's tough to say where we sit today, but I do appreciate all that comment – all the commentary. The cadence, this first half versus second half dynamic, it was messy this year, not just for you, but for anybody selling into the space.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

How are you thinking about the cadence based on, I know you didn't give guidance, but the parameters that you just laid out.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, if you think about 2025, first quarter, up 20%; second quarter, up 10%. So, we are anticipating a late start to the year. So, I think as people think about 1Q, we just, as a company de facto, will be – we're going to see more of our EPS as we get into the second part of the second quarter, into the third quarter, or into 4Q. So, we know that 1Q for us will be on the lighter end, and we will kind of guide that accordingly.

I think the thing for us, we've learned a lot of things this year. We've done a lot with our forecasting model. We have actually – one of the hyperscalers has dedicated a team of AI data scientists to help us with our forecasting tool because it's not just looking at their traditional parameters, they've brought in some other parameters that are interestingly correlative that we hadn't traditionally looked at, kind of – we're looking at, is there a correlation between Zillow activity and what we might see?

So, we are looking at our forecasting tools. And I think the big thing for us as a company, when you get beyond discussions in a room like this with investors in terms of actually running the business is, how do we give ourselves as much agility as we possibly can have? Because we just don't know yet. We don't – we know it's going to turn, we don't know when. But we want to be ready to go when that happens. So, we don't want to continue – we don't want absorption issues. We don't want to have too much fixed costs. We don't want to – and the nice thing about this business is – versus others is because of some of the seasonality to it, you have more temporary labor than you normally would have in another industry.

So, we have the ability to flex a little bit, increase temp labor, decrease it in the factories. But we need to dual source as many of our suppliers as possible. We need enough flexibility. We need to work 3PL and other type things. So, when it does turn, we can support that. We don't want to be left behind. We do not want to be left behind when it turns, but we also don't want to be out over our skis if it stays a little bit on the soft side. So, factory agility is key for us.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

So, I know you've looked at the data over a long period of time, right? I know it's hard to fully frame this. But if you were thinking about a kind of worst-case scenario, given what Resi volumes have done in 2025, how are you thinking about a potential, like, worst-case scenario? And what we're trying to really understand is, like, where could we bottom?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. I – it's really hard to answer that, Joe, because if you would ask me that six months ago, I can tell you I would have failed that test miserably. I – because never did we think the second half volume would be down 40%. We did not see that.

So, that's really the question, Joe, is that – and it makes it hard to give guidance. It makes it hard to even – as we start to frame this for you and our investors sitting here in December, that's purposely why we're not going to get into this until February because we need to see how the year plays out. We know that what was soft in 3Q has continued to be soft.

And what it's forcing us to do is think differently about, we want to continue to gain share. We want to continue to support our customers. So, 50% of all purchases are financed. And there's usually this – you either – we – through our channel, there's some kind of rebate system we do. If you buy our high-end Infinity system, you might get some level of rebate negotiated over the kitchen table. Or you might get some level of financing. And we work through Wells Fargo – sorry to mention a different bank, but whatever. We work through some other bank. And we – with financing – and by the way, they need to step up because we would – we got to work with a bank that gives us the best financing. So, you can get your colleagues to...

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

I don't know. Is [ph] Chris (00:17:28) in the room?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

[ph] We might say (00:17:29).

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

So – but in any case, we work financing through the channel, and it's now at a point where it's like 50% financed. So, we have to get a little bit more creative with our end consumers on how we make sure that that purchase goes. well.

Not an answer to your question on worst-case scenario, but could volume be down next year? For sure. It could, for sure, be down. Exactly how much, it's too early to say.

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

That's fair. So, like, you gave us some good pieces of the framework for 2026, gave a little bit of an update on 4Q, and maybe trending a little bit worse exiting the year. Any other pieces that you want to highlight for the 2026 EPS framework?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

I think those are the big ones. I mean, we've talked about \$0.20 of tailwind from the combination of tax buyback and fixed cost takeout. So, that feels good. All of that, that feels pretty solid. We kind of mentioned how we think about growth.

I will say that the other piece will be productivity. So, growth, conversion. The fixed cost takeout, we are being aggressive. I will tell you, it's never fun, but the team stepped up. We mentioned that half of that is in Europe, which is obviously always – it's complicated globally, complicated in Europe. But the European team has really stepped up to do what is necessary there.

And then I think it's all things productivity, which is a combination of supply chain, logistics, and factory productivity. This year, factory productivity got very difficult in the second half because of the absorption issues that we suddenly saw with our Resi business. So, what we have to do – that – there's probably a tiny bit of hangover on that as we get into 1Q because we've made that decision to keep producing. But the truth is, it's a little bit. If you look at our absolute inventory numbers on the balance sheet, it's a little bit at the margin. So, that doesn't keep us up at night, the absorption stuff in 1Q with Resi.

I think the big thing is working with Mike Duijser and our operations team to drive much more continued discipline with our supply chain and in our factories to drive a really strong number there. So, I think that on EPS, we'll see what happens with growth, but we're going to drive really hard. We said a minimum of \$100 million of fixed cost takeout. We're driving hard to make that as aggressive as we can be, be very aggressive on productivity, and then drive all things growth, and we'll see what happens with the shorter cycle businesses.

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

So, this is as full of a room as we've had over the last two days, and I'm going to open it up to questions in a second.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Are you saying that like a good thing or a bad thing?

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

That's a good thing.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. Yeah. Yeah. Okay.

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

People were interested.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. Yeah.

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

They want to see you Dave.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah.

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

So – but let's talk about pricing for a second because there's a lot of conversation about that. And ultimately, clearly, with the transition that occurred this year, there's a big price mix-up in the business. How are you thinking about the pricing dynamics...

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Pricing in Resi?

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

I mean, whole portfolio...

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Okay.

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

...but we can talk about Resi as well. How are you thinking about the pricing dynamics as you head into 2026?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

On the pricing side, we've been getting very good price, and I think we will get price again next year, but not as much as we've gotten in the past. I think that's the short version.

If you look at Resi here in the Americas, we went through a stretch of a couple years where we had multiple price increases that effectively stuck. And when you look at our elasticity curves, we will not continue to get that same level of pricing. So, if we announced high single-digit price increase, we'd get mid single-digit. What we're expecting for Resi here in the Americas, we'll announce up to 5%. We'll say something like that here in the coming weeks. And then we would expect to yield low single digits. I don't think it'll be 3%, and I don't think it'll be zero. I think it'll be somewhere between that.

But, look, we have a disciplined market. We are the clear market leaders. And if you kind of look at a buying decision for a homeowner, to buy a \$10,000 unit, if we move price on the product, forget the cost of the insulation, our products are relatively small percent. We move price a couple points, it's not going to swing the buying behavior of the ultimate customer.

So, where you get into pricing discussions is when you have people that are doing unnatural acts out in the industry that drive a behavior that takes hold, that drives pricing down for the entire industry, and we believe as market leaders that we – it's important for us to retain pricing discipline, and you should expect that out of us as we go into next year.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Yeah. So, just a quick follow-on to that. There's some concern that the pricing for these units have gone up so much over the last decade. And clearly this past year because of the refrigerant change that it's pricing out the middle-income consumer and ultimately leading to additional repairs and/or potentially not using ducted units going forward. How do you respond to that?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Look, I think the pricing of the product itself is still less – well less than 50% of the total cost. So, our job is to work with our distribution dealer channel to take all cost out of the system to make the cost to the end consumer as low as possible. So, I do not think that – has there probably been more repair over replace over the last year? Yes. Is part of it maybe some anxiety in the economy? Perhaps yes. And then is part of it this refrigerant change thing? I think the answer to that is yes.

I do not think that is a sustained trend that pricing has gotten so out of whack that you're going to see everyone limping along with a component change versus a full replace. I think people want state-of-the-art systems. You have a new refrigerant. You're going to get to a point where the cost of the old refrigerant is so much that limping along with replacing a component versus the entire system is dis-economic. So, I do not think that that is a fundamental issue.

I do think that for your typical homeowner, it is very expensive. And we're working a lot of – as I mentioned, we have to work with the most thoughtful and creative solutions for the end homeowner to create pull through different mechanisms like financing.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Okay. As promised, going to the audience. Any questions from the audience? We have a shy group of people here. So, let's continue.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Let's talk about CSA margins for next year. So, clearly, I mean, the disruption in Resi has caused pretty significant decrements in the business. How do you think about the recovery path on margins for the – for all of CSA?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Rednor, you want that?

Michael S. Rednor

Vice President-Investor Relations, Carrier Global Corp.

A

Sure. So, the way I would think about it, Joe, is obviously this year in 2025, first half margins looked phenomenal. We had a lot of absorption coming through the factories. Resi business was doing great. Second half, we had the opposite.

So, as you think about heading into 2026, it's hard to use 2025 as the baseline. The better place [ph] to look would be (00:25:08) a much more normalized year would be more like 2024. So, that's one way to look at how the margin should be. We are managing that, especially through Q1 very, very closely. We know it's going to be a challenging quarter from a volume perspective on the Resi side. So, we want to manage that really, really closely. But as we go through into the core cooling season in the middle of the year, hopefully we start to see that step up.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Great. So, we've been talking about Resi for the vast majority of this conversation. Let's switch the gears over to the Commercial side of the business and data center business.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

So, look, really good performance so far this year. You have to be excited about the progress the team is making there. Talk to us about your kind of visibility going forward in the pipeline. How are you guys winning relative to other OEMs?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

I'll tell you, the pipeline is great. Our amount of deal activity right now is good. Liquid cooling, we've won our first orders on the CDU side, which was very, very encouraging because we're putting a lot of effort onto this quantum leap offering, which is, I think, where ultimately the game will be won, which is, do you have system-level optimization for the customer by integrating the traditional cooling loop, which will always be there? I don't think you will see chillers go away.

From a max efficiency perspective, you do need chillers to complement. And I think that you're going to see more liquid cooling just because of the amount of heat generation from the not only the number of GPUs, but the density in the racks will require increased amounts of liquid cooling. So, we've developed our own CDU. It's about 1.5 megawatts. We're going to now have one about twice the size, and then we'll have one ultimately that's 5.

So, we have a lot of CDU organic activity in development. On the liquid cooling side, we're working directly with NVIDIA. We're working with Dell. We're working with the chip manufacturers on a lot of certification activity. And on both the liquid cooling side and the traditional cooling side, we – our relationship with the hyperscalers has come along so well. Our very first hyperscaler win gave us – we've continued to win with them, and they gave us our biggest order ever earlier this quarter. And we've been meeting with two of the other three big other hyperscalers. And the relationship and the amount of activity is just very, very encouraging at all levels.

We're winning in part because of the investments in the product portfolio. We're winning because they see that as a systems integrator that there could be a relationship where we start to co-design with them solutions integrating that liquid cooling loop and traditional loop for maximum efficiency, but also water utilization. And we're winning because we have capacity. We've significantly increased our capacity here in the Americas. It's up significantly 3 to 4x over the – just the last few years.

We actually are probably one of the few guys that still have a fair amount of capacity to take on a lot of new orders for 2026. So, even though we're booking orders into 2028, we could take orders now for 1Q because we've been building even a little bit at risk for the 80% of the chiller that might be somewhat common, giving ourselves flexibility on that last 20% that's bespoke.

So, Joe, I can't tell you how proud I am. We have a dedicated team focused on data centers. Steve Ribaudo running the Americas working with Gaurang and Christian Senu running our data center activity. They're out there in the field every day supporting our customers winning, well-positioned for 25% growth next year on data centers. Internally, we would be pushing for more than that. But you know we went from \$500 million last year to \$1 billion this year with \$900 million in backlog for 2026. We'd be upset if the number wasn't \$1 billion to \$1.25 billion next year, but internally we'll keep pushing on that.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

That's great. And just to be clear, largest order ever was the fourth quarter?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah.

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Okay.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. It's in October.

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Okay. Great. I'm sure you saw Modine's announcement, the TurboChill DC Chiller...

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. [indiscernible] (00:29:16).

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

...that's supposed to disrupt potentially the CDU. Any thoughts on that technology, especially now that you said you just won your first CDU order? Just any thoughts around that technology [indiscernible] (00:29:29)...

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Oh, it's interesting. We've done it ourselves, that stainless steel. I think that we've done a variation of that ourselves, and it's very – it's certainly very interesting. I think that the technology in this space is changing so fast. It's actually one reason why we want to place organic bets that we have very high confidence in. Like, we know for the foreseeable future that there's demand for CDUs. CDU is effectively a mini chiller. It's right in our wheelhouse.

A

Our engineers – I mean, from the time that we had the concept of making this 1.3-megawatt CDU to the time that we started producing and selling it was record time, because we know how to do it. We know the technology. We know how to pump liquid to a certain location on demand. So, the team has done a great job.

I saw the competitor announcement. And anyone that's innovating in this area, hats off to them, because it's interesting. Again, we've done a variation of it. And you have that, you have the combination of what we're working is this quantum leap, which is using the CDU to integrate the direct-to-chip cooling and the traditional cooling, and then you have immersion cooling. And within each of those spaces, and then you have some in-row heat exchanger activity.

Within each of those areas, you have product development. So, within direct-to-chip, you have single-phase and two-phase, water versus some form of refrigerant. And that's why what we've – the [ph] tack (00:30:54) we've taken is organic development in high-confidence areas like our own CDUs increasing the range and then placing

some strategic VC-type bets. So, we have an investment in [ph] SCL (00:31:05). We have an investment in ZutaCore. First is single-phase, second is two-phase. And then we'll continue to kind of look out there. But we want to be – have a lot of bets out there because the technology is changing.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Okay. Makes sense. Can we talk about Europe...

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Please.

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

...and talk heat pumps. So, clearly, it's been a tale of two stories here for 2025. We've seen heat pump – the heat pump market accelerated significantly while the furnace market cratered. How is that business trending? And how are you thinking about that business for next year?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. Look, when all is said and done on 2025, we said that RLC in Europe would be flat and it will be down a little bit. So, I was – obviously, we love to surprise to the upside. I think what you have, the dynamic there is very similar to the dynamic here in the Americas, which is you went through a period of overage. We use Germany as the microcosm, which is 2022 and 2023 or about 1 million units. On average over any period of time, it's 800,000. So, we had to take a little bit of medicine. You went through – last year was about 700,000. This year, might be a little bit shy of 600,000. So, will there be a reversion to the mean? For sure. And just like the Americas, we don't know exactly when.

A

In the background, the benefits that we thought we would [ph] get from mix (00:32:25), they are 100% happening. So, as you see boilers decline and as you see heat pumps increase, you do mix up 3 to 4x. The data tells you that 100%. We do need to see some level of stability on some of the legislation. We'll see what happens with subsidies in places like Germany. But I will tell you that the company has had a philosophy that we never want to be in this kind of room talking about subsidies. We don't control it. We don't want investors having to assess subsidy confidence. So, we have put a lot into product development. If you look at our R&D spend, it's a little bit disproportionate in Europe. And one of the big products that we've been working on is a new product launch that will make us independent of subsidies.

So, you're going to hear more about that, Joe, from us in Europe as we get into 2026. But the team – I'll tell you, the Viessmann team is winning best-in-class products in 2025 for products that we introduced in 2021. You won't find a technically more advanced team in terms of acoustics, energy efficiency, aesthetics, installation time. And we continue to add to that portfolio. So, could subsidies change a little bit here and there? For sure. Are we taking the right actions to make ourselves independent of subsidies? Yes.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

So, the content is coming through as expected. The margin of profile of the business hasn't improved all that much. So, how are you – how are we going to get to potentially structurally higher margins in that business over time?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

I think it's a combination of fixed cost takeout and the volume, and then, of course, all things productivity. But we said that we would be in the mid-teens. I think if you look – and we showed this to our board yesterday. I think if you look at – start thinking about 2026 and where you would expect to see the biggest amount of margin expansion, it's in CSE. And the number, the target we're setting for our team there is – internally is a bit aggressive. But when you go through the waterfall of exactly how you get to a mid teen-type margin level, there's a very clear road map to get there over time. We'll have to see where next year exactly ends up. But, ultimately, it's high teens. In the shorter term, it's mid-teens. And next year, I think when we sit together next year, you're going to say, you said you'd see huge margin expansion in Europe. Hats off to you. You guys did it.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

I'm going to hold you to that.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Hold me to that.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Okay.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

We're going to be bumping up on time. Any final comments, Dave?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

No. I think you saw, Joe, that I bought shares last week. Carrier is buying shares. I personally bought shares last week. I believe in what we're doing. We'll learn a lot from this year. We've never missed before this year. We never plan to miss again. But it's – any time that you have the slightest of setbacks, it's an opportunity to look in the mirror and get better. We've made a lot of changes internally. And I can tell you that we are super excited. I have never had more confidence than I have in Carrier going into 2026.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Great to hear. Good to see you both. Thanks for coming.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thank you.

Michael S. Rednor

Vice President-Investor Relations, Carrier Global Corp.

Thank you, Joe.

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