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Carrier Global Corp. (CARR)

Investor Day

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MANAGEMENT DISCUSSION SECTION

Michael S. Rednor

Head-Investor Relations, Carrier Global Corp.

Great. Good morning and welcome to Carrier's 2025 Investor Day. I'm Mike Rednor, Head of Investor Relations.

Before we begin, a few reminders. The presentation is being live streamed and recorded for replay. During the session, we'll reference certain non-GAAP financial measures, which are detailed and reconciled in the appendix of the webcast. The presentation contains forward-looking statements, which are subject to risks and uncertainties, including those outlined in our Form 10-K and quarterly reports on Form 10-Q. These could cause actual results to differ materially. And please silence your phones. Speaker bios are included in the presentation materials available on our website at ir.carrier.com.

With that, let me quickly outline today's agenda. I'm joined by several members of Carrier's executive team. We'll start with Dave Gitlin, Chairman and CEO who will discuss our strategic priorities. Next, you'll hear from our four Presidents: Gaurang, Thomas, Michael and Ed, who will cover their respective segments and strategies for driving accelerated growth and margin expansion. Lastly, Patrick Goris, Chief Financial Officer, will present a financial overview.

We'll hold off questions until the end and bring the presenters back for Q&A. For those in the room, we also have other Carrier executives and finance leaders present. So, please feel free to introduce yourself during the breaks.

And, with that, I'd like to welcome Dave Gitlin.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Well, thank you, Mike, and good morning, everyone. Thank you for joining us here in-person and remotely. We certainly appreciate your confidence and your interest in us. So, you'll hear from Patrick, Gaurang, Michael, Thomas and Ed this morning, superb leaders working as one team. And we speak on behalf of 50,000 tremendously talented and dedicated team members who we appreciate and value so much, which is why we start with a reminder of who we are at our core as a company.

We believe strongly that talent, culture and purpose matter, that they sustain and differentiate companies. Our purpose: Enhancing the lives we live and the world we share. What we do matters. We greatly impact lives and businesses all over the world, and we preserve the planet for generations to come. Our vision: To be the global leader in intelligent climate and energy solutions. It's clear, it's unwavering, and it impacts everything from our strategic priorities to our portfolio, to our capital allocation decisions.

And at our foundation: The Carrier Way. We use it in sentences. We call each other out. Did you exhibit the leadership attributes of The Carrier Way today? And every word in it matters: Winning, teams, innovation, speed, respect, integrity, results, customer. And that customer obsession, it unifies us and it differentiates us. Carrier Excellence is deeply embedded in the DNA, and you see it in our productivity results and you see it in our NPS scores. And over time, those companies with the best culture and the best teams win, and we are confident that we have both.

We established many of the foundational elements that you see here during what I call the first of our three phases since our spin. That first phase, our goal was to preserve our century old legacy that has given us such phenomenal brands and technology and channels and market positions, but we wanted to take advantage of the unique opportunities presented by the spin to create the energy of a startup, and that's why we often use this phrase, a 100-year-old startup.

We put in place a new leadership team, a new culture, a new operating system, customer-focused, removal of bureaucracy and complexity, a focus on aftermarket opportunities, winning and putting in place a performance culture, a new Carrier. Think about the value of focus and accountability.

At United Technologies, the leader of our Americas Commercial HVAC business, was five layers down from the CEO. Today, at Carrier, it is one [ph] removed from me (00:04:54). Steve Ribaudo reports to Gaurang who reports to me. Every product launch, every win matters.

With our foundation from Phase 1 in place, we then stepped back and we defined our vision and that put in motion a significant portfolio transformation. The combination with the world-class Viessmann Climate Solutions will unleash differentiation and tremendous value creation for years to come. And then our divestitures. We announced our five divestitures. We completed all of them by the end of last year and yielded more than $10 billion in gross proceeds.

So, where are we now? Phase 3, a phase of focus, customers, growth, execution. This journey over the past five years has yielded great results. Sales, 30% higher. Profit, over 80% higher. Margins this year will be about 400 basis points higher than back the year we spun.

Some of you may recall back in 2020, our leverage ratio was close to 4x. Now, we're about 2x with plenty of firepower to create outsized shareholder value. When you look at us now, we have what I believe is the perfect mix of both focus and balance.

Focus. We are a pure-play climate solutions company. Our HVAC business this year will be more than twice what it was the year we spun back in 2020. Then, we were a little under $10 billion. This year, we'll be a little bit north of $20 billion for our HVAC business alone, and it's gone from about 50% of our portfolio to now 85%.

But we're also balanced. 50% of our sales are in the United States, which we like. The other 50% is balanced with Europe, Asia and the Middle East, all of which present great growth opportunities for us. So, we're proud of the Carrier that we've become, but even more energized by the opportunities ahead.

We're about $23 billion in sales. We've come a long way on margins, especially in our Commercial HVAC business, but tremendous runway ahead. We have an important and growing aftermarket business and we are very purposeful on where we compete and where we compete, we are market leaders.

You see here that we are the only player in our industry that is in a top three position across all key market segments. Some of our peers prefer greater exposure to a single region or vertical. We like to be exposed to high-growth, high-margin regions and verticals without being overexposed to any one of them, recognizing that geographies and verticals of strength can change over time. So, we like our hand, and it's why we feel we're positioned for accelerated growth.

When you look at our value-creation framework from our Investor Day back in 2022, we did what we said we were going to do, in many cases far better; great margin expansion, strong free cash flow, mid-teen EPS growth, portfolio optimization, increasing our dividend to a 30% payout ratio, share buybacks. We will continue to execute the playbook that has worked so well. The opportunity ahead for us is accelerating growth, which is the theme for today's investor conference. We are confident that we have made all the changes needed to consistently grow 6% to 8% over the medium-term, and that is what we will go deep on this morning.

What you see here will be consistent across all of the presenters, which is our growth formula. It starts with products. Getting outsized growth by having the most differentiated products, brands, and channels. Aftermarket, double-digit forever. Our new hires are told that on day one. And the new frontier for us, differentiated systems, all fueled by being in the right growth markets globally.

Our 6% to 8% growth formula is about a third, a third, a third. A third from the market. Benefiting from secular tailwinds and by being in the right geographies and the right verticals, we will see 2 to 3 points from market growth. A third from aftermarket. You think about it as about 25% of our business growing double-digits, that gives you about 2.5 points of growth. And a third from the combination of products and our new system offerings.

So, starting with the market. With Viessmann in and Fire & Security out, we are now 100% tied to enduring secular tailwinds. You see four of them here. First, there continues to be significant increases in demand for air-conditioning globally. The planet is not getting any cooler. And remember, of the 3.5 billion people in the world that live in the hottest parts of the planet, only 10% of them have air-conditioning. And more frequent swings in extreme temperature patterns presents more opportunities for both cooling and heating. Second, massive shifts in our industry to electric solutions. And we typically mix up when we shift from electrics to electric solutions from fossil fuel. Third, the pressure that our industry and other industries will continue to put on the grid, especially during peak hours. And remember, given that HVAC constitutes more than 50% of a home energy consumption during peak, we are uniquely positioned to be part of this solution. And last, the tremendous increase in demand for transport refrigeration, especially in countries like China and India.

In terms of share gains, it starts with having the right product and differentiated product portfolio. I attribute our differentiated product portfolio to three primary factors: Investments, scale and portfolio. And by portfolio, I mean leveraging the best of the best technologies from this portfolio that we've put together.

Investments. We have increased our R&D by 50% since our spin, and those investments have paid off. Many of you will recall, we stood on this stage February 10th of 2020 and we said, look, we love our differentiation in our RLC product portfolio. We have some gaps in Commercial HVAC. We invested to fill those gaps. First, we filled them and then we surpassed. And that's why you've seen a big uptick in our win rate and our margin expansion in Commercial HVAC.

Scale. We have over 5,000 engineers with deep domain expertise globally, deployed close to our customers and to our operations. And last, our portfolio. Markus Klausner, who is the Head of Engineering for Viessmann Climate Solutions, he works with Tim White in engineering and he leads our Global Centers of Excellence for Engineering. We used to be quite decentralized and sub-optimized, and that resulted in many bespoke designs for controls and compressors and fans and heat exchangers and so on. What we've done is created dedicated Centers of Excellence globally to leverage the expertise for our product designs.

Dramatic reduction, and you'll hear this from the team, dramatic reduction in SKUs from everything from controls to embedded software to compressor design. And that commonality, it not only drives a reduction in R&D because we can better leverage our spend, and obviously there's many benefits with our supply chain, but it also ensures that we have the best of the best, the lowest cost, the highest performance, the most differentiated solutions.

Our engineers are like kids in candy store. Think of the portfolio that they can draw from. Toshiba's leading rotary compressor and inverter technology. Viessmann, best-in-class, efficiency, acoustics, aesthetics, battery design, digital interfaces, Carrier's legacy of heat exchangers, compressors, fan, application engineering. It takes a lot to win in our industry. It starts with having the most differentiated products and I am so proud of our engineering team that we do have those differentiated products.

But in our industry, it takes more. It takes channel and brands. We have been very purposeful and strategic in which brands we use, in which countries, in which hierarchy using which channel. So, take Europe, for example. We ship Toshiba through a distribution channel and we ship both Viessmann and Carrier through Viessmann's world-class direct-to-installer channel. In Asia, in the retail market, we cross-sell Viessmann, Toshiba and Carrier. In the United States, we are now pulling Viessmann through the Carrier distribution channel. We use channels and brands not only as moats, but also to play offense. So that's the first category, products, and why we have confidence in share gain.

The next growth vector is aftermarket. We say double-digit forever, because we have so much runway ahead. Overall, today, we capture only about 25% of our own aftermarket. That's 75%. It's all opportunity. Just look at our installed base, 45 million residential units, 3.5 million light commercial units, 1.8 million transport refrigeration units. Thanks to Ajay Agrawal and the businesses, we know that the how, the playbook, it works. We are on track for our fifth consecutive year of double-digit aftermarket growth, and we are only just getting started.

Parts. Having the right relationships with our suppliers and our distributors and giving the customers the parts that they need when they need them. Our parts capture rate has gone from 20% when we spun and we're on our way to 65%.

Service coverage. We've had great progress on attachment rates and total coverage with huge runway ahead, and a much more targeted approach to modernizations and upgrades. More than half of our 400,000 chillers will be in the sweet spot of their aging for upgrades by 2029.

And of course, all things digital. As of the end of last year, we had 3.5 million connected devices, which is up from 1 million when we spun. Chillers, when we spun, we had 2,000 connected chillers. As of the end of last year, we had 50,000. We know that connectivity drives customer outcomes and more recurring revenues for us.

Remote diagnostics, to avoid truck roads and where you have a truck road, the technician shows up with the right parts that they need. Remote prognostics, to improve reliability and avoid unexpected failures. Ecosystem offerings, to provide our customers with differentiated outcomes. Aftermarket, we've come a really long way and we know that we're still in the early innings.

So that's products, that's aftermarket, and now on to systems, which is a natural next step for us. If you think about us, we've always emphasized products, then we added aftermarket, which increased our TAM. We will never stop doing those. We will always sell products and we will always sell aftermarket. But systems for us is truly a new frontier.

So, what is the system? You could think about it as a holistic, fully-integrated, interoperable offering. So, instead of selling a single condensing unit for a homeowner, a system includes a complete integrated home energy management solution, often referred to as HEMS. It's a one-stop shop for everything from solar PV to batteries to heat pumps to water heaters to digital connectivity with the grid and so on.

So, why systems? First is the benefit to our customers, including cost, better performance, better efficiency. And for us, it's a higher share of wallet, more recurring revenues, better customer retention and differentiation.

If you think about us, we are uniquely positioned to drive system solutions. We have the channels. Channels matter a lot. We have access to the customer through our installers directly to the homeowner at a kitchen table. We have access to mechanical contractors. We have access to consulting engineers. We have access directly to hyperscalers. That access gives us the opportunity to leverage that access to not only sell a single product but to sell a more integrated, complete system offering.

The key for us is that we customize the system offering by region, by vertical. Our HEMS offering, for example, in Europe, is very different than our HEMS offering in the United States. In Europe, our HEMS offering is very comprehensive. It includes solar PV, it includes the entire suite of heat pumps, batteries and so on. And everything is integrated, other than the solar PV, which of course is on the roof, everything else is integrated inside the home.

In the United States, our connected heat pump and battery is integrated outside the home. I see, Thomas, who you will hear from in a minute, taking the European HEMS offering through Systems Profi to a whole new level.

And remember, in Europe, when we switched from a boiler-only to a complete HEMS offering, we mix up from 8 to 1. Here in the United States, Gaurang is partnering with Hakan Yilmaz who leads our internal startup that we call Carrier Energy to drive HEMS offerings here in the US. The interest from our utility partners and even from partners such as Google, where we've established a partnership that we announced a few weeks ago, has been tremendous.

Similarly for data centers. We are so excited by the recent launch of what we call QuantumLeap. QuantumLeap is our one-stop shop offering for data centers' thermal management, traditional cooling, liquid cooling, our BMS, our building management solution through our ALC business, and our server management offering through nLIGHT.

We tell our customers, you worry about running the data center, let us worry about optimize cooling them. And we are uniquely positioned here. Look, there are some out there that do traditional cooling. There's others that do liquid cooling. There's others that do BMS. We do all of it. And when we can integrate all of that through state-of-the-art modeling and integrate the control functions for all of those today bespoke systems, we can provide enormous differentiation for our customers.

When they're integrated, we can improve energy efficiency by 20%. And then last, Ed, will discuss our really exciting end-to-end system solutions for our Transportation business. Each Segment President will double-click on their approach to winning in products, aftermarket and systems. And you see here that our growth is balanced across all of the segments. So, we are incredibly energized by our growth roadmap.

A brief word on margin expansion on the next slide. The short version and you'll hear more from Patrick and the presenters is that we are tenacious and we are disciplined on cost reduction and that will never change. 2 to 3 points of annual gross productivity we target more internally. And thanks to Adrian Button and the businesses, we have been driving much more in recent years and we will never stop being laser-focused on cost.

We know that the formula works and it starts with having Carrier Excellence and continuous improvement, not as a side activity, but deeply embedded in the DNA of the business, how we run the business every day. To drive the growth that we discussed and the productivity that we've consistently driven and that we know we're going to continue to drive, we leverage digital solutions.

Bobby George and the team have been using digital as a differentiator. A few years ago – forget our Investor Day 2020, I'm talking about our Investor Day 2022. We were just then starting to launch digital ecosystems. Brand new Abound didn't have it, our solution for buildings. We now have Abound and we have more than 1.2 billion square feet under LTAs.

We didn't have links for the cold chain. We now have links for our transport business with close to 200,000 subscriptions. We now have one base with Viessmann, which Thomas will discuss. It's our digital platform of record with our customers throughout Europe.

I'll give you an example. When a few of us were – a number of us were at the ISH Show in Frankfurt, we were talking to our installers about now introducing Carrier-branded heat pumps through the Viessmann channel. Tremendous excitement. What did they say? You got to get it into ViGuide. ViGuide is our digital system that we use with installers. ViCare is the digital system we use with homeowners. It's our digital record that we use with our customers. It's how we communicate. It's how we create outsized value.

Gaurang in the United States with the team is working on a very similar solution for our residential market here in the US, and it's great to see the teams benchmarking and comparing notes on the best of the best digital interface with our channel partners and our homeowners. And what Bobby has also done is establish AI Centers of Excellence with very specific use cases, working with the business to drive AI as a differentiator. And you'll hear some of the examples from the business leaders today.

So, look, that's growth, that's productivity, and now a word on capital allocation. The short version is the priorities remain the same. In order; organic growth, inorganic growth, a healthy and growing dividend, share repo. And as Patrick will discuss in more detail, over the medium-term, we will have $10 billion of excess capital to deploy for further value creation.

And last, a word on how we're thinking about M&A. We will continue to do selective M&A that are always going to be tied to our strategic priorities, but you could think of it more as bolt-on. And as one of you here in the audience termed it programmatic M&A rather than elephant hunting.

Our M&A will tie to the three strategic priorities that we've just outlined here. So, differentiation in products such as purchasing critical technologies or building our out CHVAC or our ALC branch networks. Enhanced aftermarket opportunities such as service businesses, and expanding our system offerings such as aspects of liquid cooling for data centers. Overall, we are very pleased with our portfolio and we are, therefore, prioritizing organic growth and we will always complement that with targeted acquisitions.

So, you see here our key takeaways. This is a new Carrier, a great team, a performance culture, a tremendous portfolio, a clear growth strategy and a road map and a proven track record of margin expansion and cash conversion. Accelerating growth, that is the theme you will hear from everyone today. We have put everything in place to ensure that we accelerate growth.

I truly believe that the 100 years prior to our spin and the five years since our spin have positioned us for this moment. We have accomplished so much as a team, but we will always remain humble and hungry and do everything we can to continue to drive Carrier to new heights, all while enhancing the lives we live and the world we share.

And, with that, I will turn it over to my friend and colleague, Gaurang.

[Video Presentation] (00:27:10-00:27:25)

Gaurang Pandya

President-Climate Solutions Americas, Carrier Global Corp.

Good morning. It's fantastic to be here with all of you. I'm Gaurang. I lead our Climate Solutions Americas business. Been with the company just above 26 years now. I guess I aged myself over there. But moving on, today and the future journey for Carrier is about accelerating growth. It's about building for the future. And I'm going to talk to you about how we're going to contribute to that and how Climate Solutions Americas is right at the center of that growth journey.

To give you a bit of the overview of the company to start off with, we exited last year at about $10.5 billion up in the Americas. We have leading operating margins at about 22% across the board and we lead across the industries that we play in. To put that in context, we're in one in every three home or one in every three building across the continent. We have a massive installed base, the largest in across the industry and are continuing to build on that as we go forward. If you think about a mix of our business, we've got a really balanced portfolio. Just above half of our business is focused on residential end-markets and just under half of the business is focused on commercial end-markets. Solid balance and we continue to grow both.

We've grown double-digits in our aftermarket portfolio for the last four years consecutively and since spin. While we have grown a double-digit rates, there's clearly opportunity to continue to increase that mix over the medium-term and in the future. Bottom-line, we have a fantastic business with a lot of momentum behind us.

So, to talk about the momentum and spend little time on the journey since spin, we've delivered significant growth and margin expansion across our portfolio. Each one of our segments has delivered growth and margin expansion. We've invested in our business in R&D, digital technologies, operations capacity and our front-end footprint in sales and service folks on the ground. That has allowed us to expand share across our portfolio over the last few years and since spin. We've also won through two significant regulatory transitions and continue to see growth on the back of that. We transformed our aftermarket business and delivered playbooks across the country, across our branches on the back of digital investments and digital offerings that have allowed us to grow at double-digit rates since spin.

And in Commercial HVAC, we've grown our business at double-digit rates for the last four years consecutively, expanded margins on the back of new product introductions, innovation, and expanding capacity. To put all that together, if you look at the last few years, we've grown at high-single digit growth rates across the Americas and since spin. We expect to continue to deliver that level of growth and more in the coming years.

If you look at the opportunities behind us and the tailwinds that Dave talked about, those all play in our favor as we continue to build out this business for the future. I'm going to spend time on each one of these across our business segments and our sub-business segments.

If you think about where the growth's coming from, it is going to be differentiated across our sub-business segments, but the blended rate will be in the mid to high-single digit rates over the medium-term. We continue to be the leaders in global, intelligent and climate solution providers across the world. And if you look at our playbooks, the theme that you will see across the board is about product innovation leading from the front, digital innovation and digital playbooks unlocking value to deliver aftermarket growth for the future and investing in solutions that will help us continue to differentiate in the marketplace.

To go into each one of the segments now and to start off with the Residential business, we are the number one player in the continent today, by far. We've expanded share since spin by about 3 points or 300 basis points and continue to do so going forward.

The way we differentiate is really everything that you see on the slide. We have the largest and most exclusive channel across the board. We have above 3,000 distribution pickup points across North America and the largest channel and distributors and dealers above a few hundred thousand that serve our customers every day in the marketplace.

We win on the back of our channel and are the envy of our competitors. This channel also carries about 0.5 million to 1 million units of inventory at any point of time between season or outside season. No one else can duplicate that.

And our independent channel also helps us deliver the best working capital performance across our businesses and our cash management is best-in-class. That, coupled with our multi-brand, multi-tier proven strategy that we've delivered over many years, which allows us to play into every end-market in the residential space. Whether it's multi-family homes, single-family homes, condos, the builder market or the large replacement market that we have, we win every sub-segment.

That, along with our product innovation, our continued platforming efforts, we've been able to win and provide our channel and the end-markets with the most competitive offerings out there. As Dave mentioned, we've got a global engineering organization, which continues to platform the systems to be able to provide the most competitive and the best technology across our portfolio. And we keep winning in this space.

If we think about our path forward and the opportunity in front of us for Residential, we expect the markets to continue to grow at low-single digit rates over the years to come. We have tailwind in the core markets, which continue to be GDP-plus. We've got a significantly large installed base at 30 million units and growing. That will continue to help us unlock value in the years to come. We've got great innovation and our products and technologies, I'll talk about that as well, that has helped us win over the last few years, and it's going to continue to help us win in the coming years.

The area that we are doubling down on is our digital ecosystem. When you think about our entire value chain, we are focused on adding value to our distributors and unlocking value in terms of how they manage inventory, how they are holding what we need in stock closest to the customers when they need it, supporting our dealers and our contractors on prognostics and diagnostics to add value and increase our experience to the end-customers, and to our homeowners through our digital solutions which help them reduce energy or the energy bills and participate in programs like VPP or the Virtual Power Plant programs, which also helps the homeowner reduce their energy consumption.

To give you a couple of examples, we have now above 0.5 million systems that are connected, where we've got real-time AI learning generated information and data coming into our systems that we are providing back into the field to our dealers to be able to help our customers every day. We are sometimes problem-solving customers' issues before they even know it. We have above 40,000 technicians on the ground that are using our technician apps. And just in the last few weeks, we've launched GenAI capabilities that are helping them diagnose systems and troubleshoot in the field seamlessly. That's just an example of the ecosystem that we're building out that's going to continue to grow over the time to come.

Besides that, we've also invested and are continuing to look at new addressable markets. We are expanding our HEMS solution, which is the Home Energy Management Solutions and our hydronics offerings in the US through our existing channel. And we expect a lift from that as well in the coming years. We expect mid- to high-single digit growth in the Residential business based of a lot of the initiatives, investments we're making in this space.

To spend a minute on Carrier Energy and our Home Energy Management Solutions that we are building out. Hakan and team have done a fantastic job of actually innovating over here, which is taking us to the next level and providing a solution to the customers and our ecosystem that no one else has. There's a continuous gap emerging in demand versus supply in the energy markets as some of you may have read. By 2030, that's expected to be about 200 gigawatts of an overall demand gap.

About 100 gigawatts of that, or half of that is expected to be closed by either energy efficiencies or capacity upgrades coming into the system. But we expect about 100 gigawatts of a gap still to remain. HVAC systems in homes consume about 40% of energy in the building. And we, with our large installed base of 30 million-plus units are in a unique position to be able to solve some of that gap. And frankly, we're looking to do as much as we can there.

Our solution on the back of Viessmann Climate Solutions technologies that we're bringing to the US and leveraging our – we are developing a battery-integrated system which helps take power of our systems off the grid at peak load requirements and be able to help the grid from an overall performance perspective. When you look at about 1 million units or 1 million homes that adopt this technology over the medium-term, that could reduce the gap by about 2.5 gigawatts of power and release that for other usage.

We are in a unique position to be able to grow this business and are really excited about the opportunity in front of us. We see accelerated profitable growth through on the back of this, recurring revenues and better customer stickiness and differentiation across our portfolio. With the utilities, as Dave mentioned, we've seen significant excitement around the opportunity and we're partnering with the biggest utilities across the country every day to be able to offer programs together in the market. We partner with Google and Google AI to unlock value from an AI perspective and really use their AI platforms to manage demand and manage the demand response programs across our systems, which then in turn allows Google to use that energy freed up to invest in data centers or building out their cloud capabilities and capacity.

And we are obviously going to add value to customers with significant reduction in the energy bills and systems with the differentiation in the technology that we are delivering here on the back of inverter-based systems. With modest adoption assumptions, we expect medium-term annual revenues to be above $0.5 billion, which would give us a lift, as I mentioned in the last page, about a point or two in revenues over the period. We are super-excited about this offering. We are launching pilots through the end of this year. We're going to be capitalizing and industrializing the programs into next year. And the next 12 to 24 months, we expect to scale the overall solution.

Moving on to Light Commercial. Our Light Commercial business is a gem. It is the number one business. Again, we have the number one leadership position in this business as well. We have continued to grow share since we spun. And as we discussed in the Res side of the house, our exclusive channel and the multi-brand approach is consistent over here as well. We continue to win across those two.

But where I want to spend time on today is really our vertical market innovation and solutions. I'm not sure everybody knows. But if you think about the built environment in the US, 90% of the buildings were built prior to the year 2000, as some of your around Y2K prior to that happening. That creates an opportunity and a challenge. What we've been able to do as a team is really create magic across the engineering organization and driving innovation. If you look at our systems and you look at the energy upgrades that we have delivered, which is about 50% in energy performance, new refrigerants, multiple regulation changes that have happened over the years. We have been able to keep a footprint off our units the same since 1989. That is true innovation. And let me tell you how that actually helps.

When you think about the replacement market when being installed prior to 2000 and you go out there and you start thinking about replacing a unit, and by the way, 70% to 80% of our market is the replacement market. [indiscernible] (00:41:13) systems allow us to go and change a unit out seamlessly at the best cost and best competitive edge to our competitors. Doesn't matter whether you've installed a system in 1995, 2005 or 2015. And with a large exclusive dealer channel and independent channel who are carrying these systems closest to where the customers need them for the replacement emergency market, we win every day, because they don't have to worry about what the size of the unit it or what unit they're changing out from, which year, which installed base. They just pluck our units in and they're ready to go and we do it in the most competitive way for our customers and end-users. Fantastic business and super – great opportunities for us in this one as well.

As we think about the opportunity in front of us, we have seen significant growth in this business over the last few years. We have doubled our business since spin. So, we are seeing a bit of a correction this year, but we expect this business to continue to grow in the mid-single digit rates in the years to come. We're going to continue to leverage our large installed base, our innovation to win in this space as well.

The one area that we are doubling down over here and we're seeing significant traction is really on our systems solutions. We've got – and Dave mentioned this earlier, we've got now about 1.2 billion square feet connected out there. As we talk about large customers, like national accounts, large retail format stores across the country, we are providing them a unique solution, supporting them on operational efficiency and energy efficiency across the board. The one – off the 1.2 billion square feet connected, about half of that is in this space, in rooftops and our Light Commercial solutions across the board. So, about 700 million square feet that we have connected and are managing from a solution standpoint for our customers remotely.

Just in the last couple of years, we've saved our customers above 1 billion kilowatt hours in energy across the solutions that we are providing them. Truly unique and we're going to continue to build in this momentum as well going forward.

Shifting forward to our commercial organization and our commercial opportunity across commercial HVAC. I said commercial a few many times, right? Thinking about where we've come from a journey perspective, we've actually built this business and we have a solid strategy in place. As I mentioned, we've delivered four years of consecutive double-digit growth on sales and orders across this business, and that's happened on the back of a solid strategy. We are focused on vertical market offerings that are allowing us to increase our installed base in this space. We are leveraging that to unlock the flywheel on aftermarket where we've transformed our business, invested in digital, and delivered double-digit growth rate since spin. And we continue to differentiate on the back of controls and our BMS systems where we are now in the top three players in North America as well. Truly differentiated offerings are helping us outperform the markets and outgrow the markets in the Commercial HVAC space.

If I talk about the outlook for the Commercial HVAC business, we see a more buoyant market in this space in the years to come with mid-single digit growth rates from a market standpoint, on the tailwinds on data centers, mega projects, reshoring of activity, and the continued opportunity to upgrade and retrofit systems which just make economic sense. You save energy and it's in a very short period – a payback period from a commercial standpoint. We are continuing to innovate on our products and technologies and invest in double-digit growth for –

deliver a double-digit growth in the aftermarket business as well. The key area for us over here is continue to focus on vertical market solutions. So, let me delve into that.

We created a new team as we spun, which we called Global Enterprise Solutions and is focused on key vertical markets. We focus that team on where we see the most opportunities and the fastest growth rates, and that's helped us unlock significant value in this space. We work hand-in-hand with our customers to create bespoke solutions for them, to solve their goals, and have been achieving that across the board. That allows us to not only increase our installed base, but also capture aftermarket revenues, and double-down on the lifecycle opportunity over there.

This team brings our entire portfolio together to our customer. It doesn't matter it's light commercial product, commercial products, services, controls to provide an integrated solution that delivers the best outcomes. And let me talk to you about the playbook and how we are delivering on that from a data center perspective over the last few years.

All of us know there's been extreme growth in the data center space the last few years, and we've been right in the center of winning on the back of the strategy and playbook. We're meeting the moment on this journey. We've invested in a team that's focused on creating solutions with the largest hyperscalers, with the largest customers out there. And we've been able to show differentiation on the back of the innovation that we're doing from an engineering perspective, which is helping us win.

We've invested in new technologies like liquid cooling and launching our own CDUs. We are also focused and partnered to – on newer technologies, whether it's single phase, dual phase, liquid cooling that are going to help us continue to see where the future is coming and go, where the puck is going, not stay where the puck is today.

And then on capacity, in record time, we've managed to scale our engineering resources and scale and operations capability in terms of building out units to be able to capture the demand that's out there. I'm super-proud of our engineering and operations team and what they've been able to achieve to help us win.

We launched in a very short order our QuantumLeap solution for data centers, which integrates the entire system from legacy chill water system integrated with a liquid cooling system wrapped around with controls to be able to deliver the best PUE to our end-customers, which is a performance effective utilization for our customers, which is really important for data center providers.

This strategy has helped us deliver 3x the orders in 2024 is going to help us deliver 2x or 100% growth in our data center revenues this year. And in the medium-term, we expect to continue to outperform the market and double our share in the data center space as well. Bottom-line, we've got playbooks in place to attack the fastest-growing markets and we will continue to be agile to look at where they are and grow on the back of them.

If we talk about the opportunity, it has to come with aftermarket and digitally-enabled aftermarket and double-digit growth in this space. We've talked about that a multiple times. But what we haven't talked about is how we've actually done this. We talked about the transformation that we've delivered, but we've been investing significantly in digital acceleration across the portfolio. You can see the acceleration since spin and we now have significant amount of assets connected that is bringing back data and unlocking value in terms of lead generation, not only for ourselves but our distribution partners, and driving operational improvements, as example, I just gave you the light commercial space.

On the controls side, we're differentiating on providing energy solutions. We've doubled our controls business since spin as well and see continued runway to increase our footprint and our revenues in that space.

When you look at the metrics in aftermarket, while we've seen tremendous success over the last few years, you can see we still have room to grow and continue to grow our business as well on the back of the opportunity in front of us. Bottom-line, we are confident we have opportunities on the back of the installed base that we are growing, to continue to grow the aftermarket business at double-digit rates as well.

Shifting from revenue and talking about our margins. We have industry-leading margins in the Americas today, but we believe we still have opportunity to continue to expand margins in the years to come. Dave talked about the Carrier Excellence playbook and us deploying that across the board systematically, which we continue to do, and it continues to help us lead from that standpoint. But I want to take a couple of examples. We talked about platforming earlier. Through the two regulatory upgrades that we just have gone through over the last two, three years, we've reduced our SKU count by 50%. That's a few thousand SKUs reduction, which helps us unlock value from a supply chain perspective, from a manufacturing standpoint, reduce complexity on inventory across the system and really drive true productivity in the organization. A lot of the data and the connected aspects that we just talked about all comes into an AI-driven command center, which is helping us increase our lead generation by 3x and for our connected technicians, improving productivity by about 25% on connected systems versus on non-connected systems. We're going to continue expand there as well.

With the innovation and growth that we want to continue drive in Light Commercial and Residential, we expect to continue mix up, which helps us as well. And then, in the Commercial HVAC business, we have more than doubled our profitability since spin in that business, but we've also been investing in the business heavily for continued growth and our performance. Leveraging scale on that business will allow us to unlock more value and conversion in the years to come. Bottom-line, we do have a path to continue to expand margins moving forward.

To wrap it all up, I want to leave with a few things. One, we are the number one player in Residential and Light Commercial across the country. We are investing in the business through innovation, digitally-enabled ecosystems and increasing our addressable markets. We're going to continue to grow and outperform the market in this space.

On Commercial and Light Commercial, we are focused on the fastest-growing verticals and are seeing exceptional results on the back of that. Those two things allow us to continue to increase our installed base where we are already the leaders in the market in North America and unlock the lifecycle opportunity or the flywheel of aftermarket and double-digit growth forever.

We are going to continue to deliver on these strategies and are confident on the fact that we will deliver mid- to high-single digit growth on top-line and expand margins in the medium-term. We have a fantastic business and exceptional team, and are going to continue to deliver with precision over the years to come.

Thank you. And I will hand it over to Mike.

Michael S. Rednor

Head-Investor Relations, Carrier Global Corp.

Great. Thank you, Gaurang. We're going to take a short break. So, for those in the room, feel free to meet with our other Carrier executives and finance leadership team. We'll be back in about 15 minutes.

Thomas Heim

President-Climate Solutions Europe, Carrier Global Corp.

Good morning, everyone. I'm Thomas Heim and I'm the President and Chief Growth Acceleration Officer for the segment Climate Solutions Europe. I have been in our industry for roughly eight years and I joined Carrier together with the acquisition of Viessmann Climate Solutions where I was the CEO.

When we look at some of the key highlights that Carrier achieved since its spin in Europe, one that certainly stands out is the combination of Carrier with Viessmann Climate Solutions. And back then, between signing and closing – actually, many people came to me and asked me, Thomas, can that work? Combining a back then 107-year-old German family-owned business with the stock-listed American company. And I can tell you, after having been for 17 months on that tremendous journey, this does not only work, it truly excites. It actually excites because we have created the leading European HVAC portfolio provider that serves as a true one-stop shop for our customer, providing the most complete and differentiated HVAC offering. So, true once-in-a-lifetime opportunity.

And actually, there are obviously more achievements [indiscernible] (00:54:36) would like to refer to. Both of our businesses RLC and Commercial HVAC grew market share last year in key segments and key markets, and both of the businesses grew their aftermarket business double-digit. By implementing our Residential HEMS platform, throughout Europe, we are now really ready to scale and take it to the next level. We are furthermore well on track to overachieve our cost and revenue synergy targets. And with the very recent combination of our Commercial HVAC business in Europe with our RLC business, we have laid the foundation for consistent growth and margin expansion.

If you now look at the profile of our business, we account for roughly $5 billion of revenue and an adjusted operating margin of 9.4%. And I can assure you, we're well aware that this obviously leaves room for improvement. And I can assure you that if implemented the playbook that will allow us to take the adjusted operating profit during the years to come to mid-teens levels. What we like about our business is we cover everything from residential to largest commercial applications and we also like that we already do have a relevant aftermarket share. We have the privilege to work with iconic brands in the European market, Carrier being the leading brand in the Commercial segment. And the addition of Viessmann, Carrier and Toshiba being a strong top two player in the RLC space.

Now, building on this strong base, we have elaborated a growth algorithm which will allow us to accelerate organic growth in the years to come. And some of you may remember that Dave and Patrick demonstrated to you slightly different looking growth algorithm. In the past, that exclusively referred back to the RLC part of our business, which we have now combined with Commercial, yet I tell you that the ingredients basically are all fully reflected. That's firstly the market bucket which we expect in Europe in the years to come to show low-single digit growth. We have the buckets of product and mix, which will strongest contribute to our growth in the years going forward. And furthermore, aftermarket and also systems. Counting all together, we are confident that we will be capable to achieve a high-single digit to double-digit growth throughout the years to come.

Now, let me give you some color on key secular trends in Europe, which will actually influence market development and eventually benefit our business. You certainly have heard that the European Union is continued committed to achieving climate neutrality by 2050, some large countries like Germany even earlier. And knowing that the European Union hardly has any own fossil energy resources, this objective is not only an altruistic one in order to fight climate change, it's actually a mandatory prerequisite for Europe to increase its energy independence and improve its global competitiveness.

Now, knowing that 40% of the energy consumption is accounted for by the building sector and that one-third of all greenhouse gas emissions is being cost of the building sector. It's also clear that Europe will only achieve its targets of increased energy independence and competitiveness by reducing substantially the fossil fuels and gases that they burn in the building sector.

So, decarbonization of the building sector is key and the heat pump technology is key to drive this. Now, we as Carrier, being a leader in that segment in the European space, will benefit overproportionally from that development. This obviously also reflects in how we see the two key market segments develop. In Europe, we expect the heat pump segment to robustly grow mid-teens throughout the years to come. Whereas on the other hand side, we expect the boiler market to decrease mid-single digit during the years to come.

Now, knowing that the heat pump is roughly 4x the value of a boiler, this in a combination will provide some value growth in the marketplace. Now, if you look at how the ambition of high-single digits to double-digit growth is being spread out across our two businesses, we see that for both Residential and Commercial, we have this high-single digit, double-digit growth expectations.

The strategic priorities which will drive growth are to big extend similar between the two segments, for example, the topic of system selling solutions, selling driving aftermarket revenue growth, and also fully materializing the revenue synergies. However, when we talk about the segments where we are going to drive this growth, we do see differences.

For the Residential, like Commercial, this will be a lot about heat pumps and systems where we expect a mid-teens growth, whereas for Commercial, we have clearly identified the most relevant growth verticals being data centers where we expect to see a growth of above 20% in buildings and industry which will also contribute to the growth. Now, what we explicitly like and love about the four segments is that our aftermarket playbook will allow us to drive a 5x to 10x multiple in revenue throughout 20 years' lifetime compared to one-off sale of a boiler.

Now, we've been talking a lot about what we strategically plan and aim at and where we are going to grow. Let me now talk about the three growth buckets that I've been referring to earlier, starting out with the product and portfolio. The true magic that sets us actually apart in Europe from all of the other players in the marketplace is differentiation. Differentiation in what really matters to users and installers, and we exactly know that, because we have been around for 108 years in that marketplace. If we look, for example, at heat pumps, we exactly know that the European user wants low-noise, high-efficiency and attractively looking products or a fantastic design, right? And that's exactly what we are doubling down on. When we look at installation, we know that users in Europe, they want a quick, hassle-free, reliable installation, and that's exactly what we are training our installers to. If we look at the digital ecosystems, here users expect that digital ecosystems to deliver savings and autonomy. And this is exactly what we are doing building on our user ecosystem, ViCare, which delivers our Home Energy Management System to users and which allow users actually with a full-fledged Viessmann system to save up to $3,000 a year.

And lastly, brands. Heat pumps in our perception develop to become the status symbol of the 21st century, right? You have to put right in front of a house all of your neighbors and so they drive by. And then, what you expect is that this is a beautifully-looking thing with a desirable brand on it. And that's exactly what we're providing to the marketplace, right?

With Viessmann, we have the most premium brand in the entire marketplace, thus catering to this need as well. A further important element to drive growth in portfolio and product is growth synergies. Here, we're committed to deliver by 2026 roughly $200 million of global growth synergies. The key to get there is firstly our multi-brand/multichannel strategy.

One good example for that one is as we speak, we're launching the residential cooling devices under the Carrier brand into the Viessmann channel in Europe that will deliver growth and nice synergies. A further example that is being illustrated at the very bottom of the page is take one product. Here, a Viessmann mono-propane-based heat pump differentiated meaningfully in design, color, HMI and app, and that allows us to use the same differentiated product now, on the one hand side, with Toshiba pushing it into a channel where we were not present before with monobloc heat pumps or in the case of Carrier, using it in order to increase the penetration in our existing channel. So that contributes beautiful growth synergies.

A further fantastic playground for creating revenue synergies is actually the commercial field, right, by bringing together our offering from Carrier commercial with the Viessmann commercial offering in the European marketplace, we are capable to conduct beautiful commercial projects, and I've brought two nice examples with me to share with you today in the stadium of the recently crowned new champions of German soccer, Bayern Munich. We are present with both of the brands and we have now started to drive together with the Allianz Arena, the decarbonization of the building by starting to replace the previous Viessmann gas boilers through heat pumps, and by the way, adding also a solar panel installation.

Another nice example is about the German village Bracht that we deliver solar plant. We deliver Carrier Aquaforce heat pumps and steer the whole setup through Viessmann control system. And with this, we enable in 2025, this village Bracht become the first climate neutral village in Germany.

Changing from product portfolio now into aftermarket, as well Dave as Gaurang already have presented the ingredients of our aftermarket playbook. So, let me deep-dive here exclusively into the aspect of connectivity and digitalization.

With the growing number of connected devices, we are actually able to access the performance IoT data of each of those devices. And we use our GenAI algorithm to permanently inspect the performance of those devices and whenever we detect an anomaly in the performance of the product, we immediately inform the installer to which the product is being assigned, and he can take immediate action in order to troubleshoot and fix the issue. In many cases, actually, he does so remotely.

And that leads to a 50% reduced on-site repair visits compared to previous cancellation and, thus, to tremendously improved productivity. So, in a nutshell, I can only say we love aftermarket because it's nicely growing, it's nicely profitable. It's a key touchpoint to deliver customer satisfaction and it's a beautiful playground to apply our GenAI algorithms and improve productivity.

The third bucket that drives our growth I would like to refer to is systems. If we talk in Europe about the Viessmann system, what truly differentiates us is actually the underlying software platform. Viessmann One Base. With Viessmann One Base, we integrate everything, starting from the electronics and embedded software in the device through cloud and cloud architecture, up to the apps and the digital ecosystems on which we deliver the value creation and the services to our users on the one hand side and our installation partners on the other hand side.

Our products, the heat pump, PV, the battery, the wallbox and so on, they are all seamlessly integrated through the Viessmann One Base and optimized through the Home Energy Management System, which we run on One

Base. And then again, by that, we are capable to deliver what the user actually is looking for, savings and autonomy from the grid.

Now, it's also obvious that an installer, that used to install for decades, mainly wall-hung gas boilers will not necessarily overnight become a natural born building electrification installer. We are aware of that. And for that reason, we use a further differentiating aspect of our business model in Europe, which is the strong academy and training setup that we're having. We're actually training per year 70,000 installers in an either face-to-face setup throughout our branches and our academy all through online education seminars.

And with this, we enable our installation partners to become incapable to install heat pumps and step-by-step also systems. Yet in order to massively roll out the systems, we need to speed up the number of system capable installation partners, and we're doing so by having introduced a new concept of Viessmann system partners which we call the Viessmann System Profi, which Dave related to early on as well. And by doing so, we actually create a cluster that is particularly capable to drive the building electrification in the marketplace.

Now, the beautiful thing about that type of cluster is that on the one hand side, those guys deliver true customer satisfaction to the users and to us they deliver more than 5x the average revenue compared to traditional normal installer. Thus, by doubling the number of profile to system installers, we will be capable to add some $500 million of revenue in the years to come.

Now, pulling all of that together in the development of our margin expansion and we can clearly see there are three core buckets which will drive this continuous margin expansion. On the one hand side, the bucket which is very much influenced by the additional volume we drive through our growth algorithm, plus the continuous productivity improvements minus obviously the investments that are necessary in our business. On the other hand side, we do have a divestment that we're planning for and this year from a, yeah, Carrier legacy business in Europe yellow, which will allow us to improve our operating margins by 50 bps to 100 bps. And then, there is obviously the bucket of cost synergies.

And here, I can tell you through the combination of our Commercial HVAC business in Europe with RLC and mainly Viessmann being the core of it, we will be able to unlock these synergies even quicker because there are so many examples for it. Like, when looking, for example, at our geographic coverage with sales branches and offices, we will be able to put our teams together in shared locations, and thus, reduce significantly the number of offices that we're having and the costs for third-party contracts. We will be able to look at our logistic and warehouse structure, combine that and create synergies, and we will be able to apply the proven successful playbook of Carrier Alliance to focus the key suppliers to both of our businesses, and basically, reduce costs by doing so and grow business together with them. All of that will add up to in the mid-term to an adjusted operating profit level that reaches the mid-teens at least.

To close it off, we couldn't be prouder and more excited of having created in Europe the leading climate solutions portfolio provider. We have identified a clear growth algorithm, which will allow us with all of our business that we're now having in Europe as a one-stop shop to accelerate growth substantially, knowing exactly the different factors from which our RLC business on the one hand side will benefit being mainly heat pumps, systems; and on the other hand side, commercial business focusing on determined growth verticals. And this, together with our continued discipline on costs and the expectation of cost synergies, will allow us to drive sustainable and continued adjusted operating margin expansion.

Let me close with – clearly stating Carrier's European team, including myself, we couldn't be more excited of having this once-in-a-lifetime opportunity ahead of us, which we will drive towards accelerated growth and continuous margin expansion with lots of determination and a tremendous amount of confidence and pride. Having said that, let us move geographically, at least from an European perspective, East towards Asia, Africa and Middle East.

And, with that, I would like to ask my dear colleague, Michael, here up on stage. Thank you very much.

[Video Presentation] (01:14:15-01:14:29)

Michael Lotfy Gierges

President-Climate Solutions Asia Pacific, Middle East & Africa, Carrier Global Corp.

Hello and good morning, everybody. So exciting to be here. Actually, today is, I think my 50th day with this great company and I couldn't be happier or prouder to be here at this time right now. Not only I spent most of my career helping building great teams that build great, innovative products, that provide great customer value, but the fact that I'm at Carrier within this particular region, Asia, Middle East and Africa, with the tremendous growth opportunities that we see in the region, is such an exciting time to continue the accelerated growth journey that the company started already.

Our region is an extremely rich region. Not only that we have 6.4 billion of the global population, but we also consume close to 60% of the world energy. What that means that we have a tremendous opportunity ahead of us for growth in this very dynamic and opportunity rich region. We have major megatrends that cuts across the region that represent significant tailwinds that we're perfectly poised to capture.

Things like urbanization happening across the region in all the mega and metropolitan cities. Things like ambitious decarbonization and efficiency targets announced by all the major governments across the region. And we're perfectly positioned with more than 13,000 very talented women and men in our region that help serve our customers every day, and more than 1,000 service engineers across the region. With 13 factories, we have an incredible service level to serve our customers in the different geographies with our strong positions.

Not only that, we're $3.5 billion of revenues already today, but we have a tremendous growth opportunity in our region ahead of us. We're perfectly balanced between our position and exposure to the Commercial segment and the Residential, Light Commercial, with not only strong brands like Viessmann, Carrier, Toshiba and Automated Logic, but we also have leadership position in our commercial markets. We use those multi-brands to serve our customers in multiple channels with the right product at the right price point with the right solutions. And we continue to expand on that with our engineering capabilities that we offer our customers. For example, in China, where we have a total end-to-end lifecycle management and engineer to order capabilities that we continue to expand on it, utilizing more than 2,100 R&D very talented engineers in our region, the tailor make solutions and products to our customers that help solve customer problems, which is what we're all about.

Before I look at into the future and how we're going to accelerate growth in Asia, Middle East and Africa, let's take a moment to reflect at the fantastic work that the Carrier, Toshiba, Viessmann and Automated Logic team did in our region. Not only we seamlessly integrated great acquisitions like Giwee, like Toshiba and Viessmann, we've actually managed to deliver on all our promises. Not only that, for example, Toshiba, we announced that we will have $100 million of synergies by 2027. I'm actually happy to report and very proud of our very talented team. We've achieved those $100 million last year, which gives us a runway to do 3x and 4x those synergies as we move into the medium-term. We did not only transform Japan from a negative single-digit margin to a double-digit margin, we continuously grow that business in the mid-single-digit over the past years. We delivered a very, very strong performance when it comes to our aftermarket growth strategy with double-digit growth in the last three years. And how we did that? We built a very strong service organization with dedicated and standardized playbooks that help serve our customers with lifecycle management solutions.

We continued our – to expand on our margin expansion journey across the region via a state-of-the-art of productivity solutions and our great team, and thanks to our – all our operations team and agent that has been partnering together with the – in our factories in the region to drive this operational excellence across the factories. And we continue to deliver not only high quality products that serve the customers, but we also have provided cutting edge innovations that have been award winning, things like [indiscernible] (01:19:02) that have been award winning in the industry.

Now, let's look at how we are going to drive this growth in the region. Our region continues to be very dynamic with very rich – opportunity-rich economies and some challenging economies. We want to continue to leverage our growth opportunities in the region by focusing on the megatrends and the segments that are growing across the region. We want to capitalize on things like urbanization, sustainability, digitization and air quality. We want to continue to differentiate on cutting-edge product innovations on things like the triple rotary compressor that we have from Toshiba, our inverter technology, low global warming potential refrigerant and much more.

We want to continue to also offer and utilize our multi-brand strategy to offer products that are targeted for the right customer segment. Just last week, we announced a very innovative new product under the Toshiba brand, Toshiba [indiscernible] (01:20:04) that is targeting the younger generation with fully digital and connected multi-home – multi-zone strategy app. We want to continue to scale up on our systems growth strategy. System represents a major pillar for our drive moving forward, things like high efficiency chillers, and of course, data centers with QuantumLeap, we want to expand the offering across the region.

And we think with that that will give us a runway to deliver a solid mid-single-digit – mid-to high-single-digit growth. Our region, as I said, is perfectly balanced between Commercial and Residential, Light Commercial. We are very focused on our deployed playbook and where do we capture growth opportunities in our region and focus on those growth drivers to drive growth. Things like data centers like Dave and Gaurang spoke about with our QuantumLeap offering, we continue to deploy that playbook across the region, whether it's a hyperscaler or in the colos. And we have a tremendous track record and very strong market leadership positions in strong markets like China, where we think the data center market will more than triple in the coming years.

Let us take a – let's take a vertical that we want – I want to focus with you [ph] on it (01:21:19) today. Very exciting segment is infrastructure in our region, with our region having markets like Australia winning the Summer Olympics in 2032 or the Kingdom of Saudi Arabia announcing major investments in airports and infrastructure projects across the road or even India investing in bullet trains and airports. We're tremendously positioned to capture all those growth opportunities via more than 5,000 application engineers, R&D engineers and sales engineers in the region, we're able to tailor make solutions to capture all those growth drivers. We have also – have tremendous and strong track record in managing complex projects and providing end-to-end services to our customers.

For example, the Hong Kong Airport Authority has been using Carrier for over a decade and we have not only managed to help them optimize and manage the entire airport, but provide consistent and reliable service with that. With those two key pillars of growth, we think – we truly believe that we have the right key drivers to capture the growth opportunities when it comes to infrastructures. In the building segment, we're also biased for growth. Let's take Singapore, for example, and now think that 80% of the building will have to obtain the Green Mark certificate for energy efficiency in the coming years. Not only that we have the right product and with the right efficiency and the reliability to offer that, we have a strong building management system with AI capabilities, our

Abound that provides the customers with key insight to optimize energy efficiency, focus on energy reliability and reliability of the asset, and give them key insights into things like predictive maintenance, anticipating a problem before it even happen. And not only that, it also buoys Carrier to be part of a wider solution in the ecosystem that because we – buildings represent 37% of the global greenhouse gas emissions and consumes more than 50% to 60% of the global energy. So Carrier is perfectly positioned to play a bigger role in the ecosystem, provide key insights with power utilities around the world. We can provide them with understanding how do we – when do we need energy? How much do we need energy and become part of a greater solutions for the economies and the communities that we operate in.

Let's shift gears a bit for the other part of our segment that is equally exciting, Residential, Light Commercial. The market in China on the residential space has been quite dynamic, but we had a very clear strategy in how do we pivot and how do we focus and capture growth opportunities and continue leadership position with our share. We want to continue expand on our multi-site, multi-brand, multi-tier product innovations there, and we want to continue to expand with our channel to focus on providing cutting-edge solutions there.

On the Light Commercial part, we're very proud of our VRF technology, not only that it's cutting-edge innovation. Over the past years, we did not only minimize the footprint of our VRF solution, but while minimizing the footprint of the VRF solutions, making it more modular, so giving more flexibility to our customers, we also expanded its efficiency capabilities. So in a short – in a smaller footprint, you get higher efficiency and modularity. And not only that, we've delivered VRF our Infinity platform, which provides a full remote monitoring control predictive maintenance. So, you have a truly state-of-the-art solution. And with that, we think we also there have the right to win, things like in the Residential – sorry, in the healthcare segment, which post-COVID has become a main growth driver in our region, we can truly have a complete end-to-end solution for all those segments in our region.

Now, we talked about the two key components in our region. Let's see how they will yield in the different zones in our region. Our region is consistent of very dynamic markets from North Asia, which is China, Hong Kong and Macau, all the way to India and the Middle East where we believe that they will deliver for us a double-digit growth and they have been consistently delivering that over the past years to markets like Japan and Southeast Asia.

Let's double click on those markets. But first, I want you to understand that in our team, our very talented team, we truly believe that we continue to beat the market every day. This is our aim via serving our customers not just with innovation, but with the highest service levels. We have markets like in Southeast Asia where we've been consistently delivering double-digit growth, India for the past years and same in Australia.

Let's take a zoom in, in North Asia. North Asia is China, Hong Kong, Taiwan and Macau, where our business consists of three main key verticals, Residential, Commercial and Aftermarket. On the Residential, we continue to expand our footprint coverage. We continue to [ph] expand and maintain (01:26:28) on the omnichannel and the e-commerce channel and we continue to innovate, like I mentioned, with the Toshiba [indiscernible] (01:26:34) brand to offer the customers with the right products at the right price point, but not only that, but help our customers and consumers benefit from the subsidies on energy efficiency.

Similar piece on the Commercial. We're very clear on where are the market going and what are the growth opportunities that we have, things like data centers, semiconductor manufacturing, with China now being the leading manufacturer for electrical vehicles and batteries in the world. We are perfectly positioned to capture this and we've been a market leader, for example, on segments like the AI in China.

Not only that, China announced that they will reach peak emissions by 2030 and complete carbon neutrality by 2060, which means for us that there is that major growth opportunity for us when it comes to modernization, capturing all those opportunities to modernize the existing installed base in the market today. Our strategy is very clear, focus on where the market is growing and capture with the – in where we have the right to win and the right to play in those growth opportunities.

In Aftermarket, for example, to give you a bit of facts about our position in China. We have more than 100,000 units already today. Of which, 50% will reach mid-lifecycle to completely age by 2029, which means 50% of modernization revenue will just come from our installed base, let alone our competitor installed base, which our team service today. We also offer our customers with key differentiated service and aftermarket solution with our capabilities in AI with Abound. Our command centers across China offer the customers not just with insight on the energy performance and the health of the assets, but help them optimize the energy consumption, reliability and efficiency of those assets as we move.

Equally exciting two markets is India and Saudi Arabia. Markets are very close to my heart where I spend significant amount of my career in that region. India is going into once in a generation, once in a lifetime hyper-growth cycle with significant announcement in infrastructure, like I mentioned earlier. But not only that, there is a rapid urbanization happening across India. With extremely low HVAC penetration, less than 10% today, we have an incredible tailwind to win, and our growth formula in India is very simple, we've already been growing double-digit for the past years. We want to continue that via localizing more, we already have strong presence manufacturing in India. We want to localize more products in India so we're closer to the market and benefit from local incentives. We want to cover the market more and we want to offer more services across Tier 1, 2, 3 and 4 cities across India for the different customer segments.

Equally exciting is the Kingdom of Saudi Arabia, not only with the 2030 vision, they announcing a major diversification of their economy, but they have very interesting segments that are growing because of their climate nature. For example, district cooling, where Carrier has the best product on the market to capture those growth wins. Actually, I just came back from a visit to the Kingdom and we've won a significant project that I will share with you later on and when we are allowed to share the name of the project. Not only that, but we also have been present in Saudi Arabia for over 100 years with the right products and the right relationship with the local market, customers, contractors, APC and dealers. And there, our growth formula is also focused on localizing more, working closers with the market, expanding our service coverage and our market coverage to tailor and capture the tailwinds that exist in the market today.

What comes across all those segments and all the verticals in our region is our strong belief and drive for double-digit growth forever in aftermarket and services. Not only we've been consistently doing that for the past three years, we want to capture more services as we move on, on parts, on service coverage, on modernization and upgrades and enable all that via our scalable digital AI solutions that we offer across the region.

We want to go and – just on the parts capture, we want to go from 25% to 50%. On service coverage, we want to go from 45% to 65% as we move forward. Tremendous growth opportunities ahead of us in the region as we move on. Not only that, via more assets connected, more data, which by the way we want to 3x in the short-term our connected assets in the region. This positions Carrier to be a truly partner of choice for our customers because we can provide valuable insights to increase reliability, energy efficiency and complete well-being and end-to-end lifecycle management for the assets.

What a better example to share with you than a great success story that we've managed to drive with one of our customers in Singapore. That does not only allow Carrier to expand its share of wallet from 1x to 10x, which is the typical service agreement that we will have just on the parts replacement. But because we become a solution provider, it allow us to go to 10x. This hospital in Singapore, we provide them truly with an end-to-end Carrier aftermarket service agreement that did not allow them only to save more than 6 million kilowatt hours, that yield more than 2,500 of CO_2 tons avoided annually, but puts back into their pockets $1.6 million of cost every year. This is truly a win-win situation when we increase our share of wallet from 1x to 10x and put money back and provide valuable services to our customers that enable them to achieve their goals. This is the true essence of customer intimacy and centricity.

Another great example on solution selling and offering our customers with truly a system selling. As you heard from my colleagues talking about QuantumLeap and data centers, equally exciting solution that we have is our high performance chiller plant solutions. This is one of our customers that is the leading manufacturer for PCB in the world where we really, truly provided end-to-end solution. We work with this customer from the inception space via our consultancy arm in China and developed a true tailor-made engineer-to-order solution for them that did not only provide 40% more efficiency, but helped them to save 3,500 tons of CO_2 a year, providing significant savings and enable not just energy efficiency and carbon emissions avoidance, but we improve the reliability, as you all know, in PCB or semiconductor manufacturing reliability, one minute of downtime is catastrophe [ph] over them (01:33:47). So we provided the reliability, energy efficiency, while all the while saving the money and CO_2 emissions to reach their goals as a manufacturer.

Now we want to continue to drive this growth remembering our Carrier Excellence. We have been tried and true with consistent performance in our productivity and margin expansion. Only – we're very proud that just last year, this region delivered more than 100 bps of margin expansion, but we will continue to provide 50 bps of margin annually as we move forward, via deploying the Carrier Excellence playbook on supply chain, optimizing our factories and our footprint, automating more with – using AI capabilities on the overheads, and of course, focusing on expanding more our mix between aftermarket services and our digital capabilities and solutions to our customers.

To summarize, we want to continue to deliver cutting-edge innovations. We want to focus on capturing the major tailwinds that happening in our region, in the segments where we have the right to play and the right to win. We want to continue to double-digit growth forever in aftermarket and services, and we want to do all that while expanding our margin. Couldn't be more excited to be part of this great high-performing team, this fantastic company. And I look forward to answer any of your questions as we move along the day.

And now, I'll have the pleasure to give the mic to my colleague, Ed, to present for us our Transportation Solutions. Thank you.

[Video Presentation] (01:35:22-01:35:37)

Edward Dryden

President-Climate Solutions Transportation, Carrier Global Corp.

Hi. Hi. I'm Ed Dryden. Let me introduce you to Climate Solutions Transportation. And yes, I'm aware if you abbreviate it, it's CST, which is also a time zone, but we're always on time and we're right in the middle of it, so it feels appropriate. I joined Carrier in 2024. I think I joined at just the right time. As you think about the transportation market and industry is really exciting. We're seeing things such as sustainability and digital transformation really changing how the business will work. And that really then gives us an opportunity to accelerate growth, which is what you've heard about today.

Okay. So to talk a bit about the business. During 2024, we divested our stationery business. That's allowed us to become a much more streamlined focused business, really focusing on that transportation portfolio. We have a healthy balance between truck and trailer, sensors and container. We also have a really nice mix of OE and aftermarket. In 2024, we had revenues of $2.7 billion. We've just short of 17% return on sales.

Now, we do have the broadest portfolio of our peers and we have market-leading positions in all of our products. We aren't just going to talk about the growth opportunities and the new things, I want to just [indiscernible] (01:37:04) where we're coming from. So from the fantastic work of the team and the organization in transportation, we have market-leading positions in electrification, particularly in truck and trailer. We have the largest installed base of TRUs and reefers of more than 1.8 million. Equally, we have the largest installed base of temperature monitoring sensors from our Sensitech business. We've also developed the most comprehensive suite of software solutions in Lynx, which is our platform, which I'll expand on.

So, let me get to the growth formula. And I'm going to start with the punch line. We're going to move from what was a 1% growth to mid- to high-single digits in the medium-term. How do we do that? Firstly, the market that represents low-single digits. We broadly grow in line with GDP. I'll expand a little bit more on that in a minute. Then moving to products, we will make gains in products through efficiency and differentiation. We will continue to drive double-digit aftermarket growth, particularly with focus on lifecycle solutions. And then, lastly, systems, which for me is the really exciting bit. This is where the accelerated growth can really come from. We've laid good groundwork over the last couple of years, establishing connectivity on our products and then developing the solutions and software, which allows us to use that software – that information.

So let me show you the businesses as you would know them. So truck trailer, container, sensors. You can see how the drivers affect that growth. Now, I don't want to focus on these businesses separately. What I want to talk to you about is another significant change that I brought to transportation. Rather than think of these as five separate businesses, we're treating them more as one global business now. That allows us to drive common global solutions and synergies. So, as you think about the growth vectors you've heard from Dave, product bringing efficiency and electrification on global platforms that applies to all of our areas.

Think about aftermarket, taking advantage of the largest installed base, again as a common [ph] threat (01:39:19). But lastly, the digital one is even more powerful. You think about operating freight, the transportation chain and actually that connectivity, all our products and solutions is really where the power comes from.

So let me start with the first vector of market. So as I said, we see a low-single digit as an aggregate number. We'll see that in container in Europe truck/trailer. Of course, within the years, we see some fluctuations. And ATT, the North America truck/trailer is slightly different. We are coming off the back of a three-year freight recession. And there is pent-up demand as people have held back in terms of upgrading their equipment. We expect that to drive accelerated growth in this medium-term.

Now for Asia truck/trailer, there's a change in living standard expectation and an adoption of cold chain. That's driving double digit in the past and will continue into the future. Now, one of the market, which isn't shown on here, but I do want to talk to you about it is our sensors with Sensitech. Now, I consider that to be an absolute gem of a product and a market to operate in. We've seen double digits and we will continue to do so. But we should think of that sensor market really as the glue that brings all the other transportation markets together and really enables the systems that I'll talk to you about.

Okay. Next, I will step to products. Now I am going to talk to you about what we're changing and what we're going to do. But first, I want to start with what we've already done. So in the container market for the marine applications, our customers were very clear. We need more sustainability and more efficiency. We want you to operate at less than 2 kilowatts per hour. In 2024, we released the OptimaLINE. This is based on a variable speed architecture. It has advanced functions like controlled atmosphere. Also is future proofed for refrigerant regulation. This allows us to deliver to our customers' efficiency gains and it supports a lower total cost of ownership. We've actually got a 15% advantage over any of our peers on the energy that's utilized. That enables the sustainability ask of a 40% reduction in CO2. We've seen really great adoption on this product. We currently carry more than a three-month backlog and we're excited to see where we can go with this product.

Okay. So what are we going to do different? You heard Dave talk about pulling the thread across the organization, taking advantage of common modules. Take a step back and think about the products that we do in transportation, but what we also do in HVAC. They're fundamentally based on the same architecture. It's a controlled evaporation cycle. Now, when you think about that, the parts are common. Now, we've allowed them to not be in the past, but that's now changing. So, for example, a controller – this isn't a dream. This is happening. In HVAC, we're developing a common controller to be used across all of the HVAC products. That will also apply to all of transportation. It's not just controller. This applies as Dave said to compressors, software, [ph] VFTs (01:42:36).

Now, if you pull on that and apply it to the actual global products, I think something that surprised me when coming in and taking over was the fact that we – through regulation, have ended up with very much regionalized products. Now, I came from airplanes. They're the same wherever you go. Same with iPhones, et cetera. Same with cars. Now, we're applying this mindset now to the products we develop. How do you get 90% – 95% the same and then tweak for the regulation in the region? That allows us to take advantage of speed, reliability and scale.

Now, to pull on that and show you how it applies to electrification. What you can see in this graphic. It's on a trailer, but it could be on a truck. It could be on a container. What you see is the system. So, in the top left in blue, that's the evaporation cycle, the reefer. Now, this is where the change comes. This is the unique piece. We introduced a power management module. We recently acquired a company called AddVolt, and they're experts in this field. And just for clarity, yes, it's in transportation, but this will apply equally in a HEMS solution that you see in HVAC. What this allows us to do is then treat all of the power sources as plug and play like Lego. So, whether you want an engine or you want an electrification for a battery, you can get to that.

So, I'll give you an example. If you're in Spain growing oranges, and you need to deliver these into the Netherlands who've recently released regulation and said no diesel engine within the city, you've got a long journey, which you probably wouldn't make on electric. So, you have to run on diesel. When you arrive to the city, you need to [ph] get to (01:44:26) a move to electric. Once you leave the city, of course, you probably want to go back to diesel engine.

So, for the solutions we've got here, you're allowed to have that permutation, you can have that optionality. And this is what's truly unique. No one else is doing this today. Depending on your fleet, you need to interchange these parts, and we will enable that. Of course, that drives for us a mix-up benefit in terms of the revenues and the margins and also creates that customer stickiness.

Okay. So, I'll now move to the aftermarket. You've heard all of my colleagues talk about double-digit aftermarket growth forever. And as Dave says, anyone who even comes to an interview hears this, it's part of what we do. There is a proven playbook. But I think what's also important, the playbook aligns to what our customers need. So, our customers want the parts when they want them. They want that service coverage. They want that assurance of performance. They want to be able to pull mods and upgrades [ph] through (01:45:25), which I'll expand on.

And then, also the digital offering, that visibility. So the parts capture. We're capturing at 65% today. So, we have an opportunity for improvement, and we believe we can do that through the access to the parts. So by introducing Amazon type e-commerce platforms and actually expanding our catalog, so you got two-tiered parts will increase that capture rate.

Secondly to the service coverage. This is BluEdge. This is people buying a maintenance contract with their product much as you may do with a car. At the minute, our coverage is only a 25%. That's super exciting. There's another 75% to go to. Now, when we sell a new product today, more than 60% of people are signing up. So we are making great progress. But I say, as we have 1.8 million, we're only 25% on them. So there's a great opportunity to go and capture that.

Mods and upgrades. So, I've talked about product improvements, efficiency, connectivity, reliability. Imagine, you buy a new iPhone. And after a year, you can't download any of the new functionality. You can't access the new iOS. That would be super frustrating. Well, that's potentially where we could be, if we don't focus and drive that opportunity back into our fleet. So those 1.8 million products are right there can be improved, take advantage of the benefits we bring.

Lastly, the digital offerings. So this is Lynx. What this is about is connecting devices so that you can get an insight to them. And in the last couple of years, we've made great progress. More than – almost 200,000 now signed up and connected. Truth is, if you buy one of our new trucks or trailers today, it comes ready. Lynx is on it as you take it off the out of the factory. We've also focused on the solutions in terms of the software that we bring with that and this really starts to get us into systems. So where this is super exciting here, I want to take you to what I think is probably the most exciting an outlook.

Now it's in the title. All the data, one place, end-to-end visibility. So this is a really complex diagram. [ph] And as I briefed to my (01:47:43) colleagues, they were like, that's too complex. The reason I want to show is that's what our customers deal with today. So this market is worth, we estimate at least $8 billion, maybe even more. And what it's showing is when you're delivering from one end to another, you can access data but it comes from so many sources. So, think of like growing bananas in South America and then wanting to deliver them to somebody's table in Paris, you will go through many different transportation steps and distribution centers. All of the data comes from different people.

Now, we play a part in this today. We offer some great Lynx solutions. Lynx Fleet, predictive maintenance on your truck. We also offer Lynx Logix, which helps you risk reduce the routes you reduce. And finally, Lynx FacTOR. If you're in life sciences, you've got to meet very stringent safety regulation. Now, first step for us is to bring all of our Lynx solutions together. So, at least between Lynx and the Sensitech platforms, you've got one spot. For the customers, really want is a simplified end-to-end solution, one single pane of glass. So, by working with our peers and our customers, we will bring that consolidation together, which will ultimately drive an improvement for the customer. But it drives recurring revenues for ourselves.

Okay. I've talked a lot about growth, and growth is very exciting, but of course, it has to come with margin expansion. Now, our margin expansion is somewhat linked to our growth. So, I talked about common products, that Lego approach. Well, as you think about pulling that down, you now have less part numbers that you need to buy, so you can develop strategic commodities, and you can take advantage of those economies of scale. Then, you think about I said run one business, not five. It becomes quite simple in terms of driving an optimization of our footprint, consolidating our ERP systems, and ultimately, reducing our structural overheads.

And then, finally mix-up benefits. We are growing our aftermarket faster than the rest of the business. We will be growing the electrification in the systems which have those mix-up advantages of higher margins. So, it's just math. We ultimately end up with an aggregate at higher margin. All of these actions together, I have absolute confidence will drive greater than a 50 bps improvement of margin expansion.

So, key takeaways. For differentiated products, global platforming and sustainability. Taking advantage of the largest installed base, which is an accelerator for both sales and margin. And jumping on the back of secular moves towards digitization, more systems, connected data, analysis, insights and control. All of this is underpinned by driving cost excellence to expand margins. So, in conclusion, from improved products, services for our customers, we will drive outsized revenue growth and margin expansion.

With that, I will hand over to Patrick.

Patrick P. Goris

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

Good morning, everyone. Can you hear me okay? Okay. My name is Patrick, obviously, and I will provide a brief financial update. You may recognize this slide. This is the value creation framework from our 2022 Investor Day. And it started with 6% to 8% organic growth, margin expansion, a lower effective tax rate, followed by strong free cash flow generation, all leading to double-digit adjusted EPS growth. As Dave mentioned earlier, we delivered on our commitment. We achieved mid-teens adjusted EPS growth. And during this period, our TSR was over 60% compared to about 40% of the S&P 500. Yet, we have an opportunity to do better and accelerate our rates of organic growth. Our value creation framework works and so there really no real reasons to make meaningful changes and that's why our 2025 version looks very similar.

In essence, we're going to continue what we do well, margin expansion, strong free cash flow. Strong core earnings conversion of about 30%. And in addition, accelerate organic growth. There are two changes versus our prior value creation framework. First one, a lower effective tax rate, we now expect that to be 21% going forward. And two, we now target continued mid-teens adjusted EPS growth.

Over the next few slides, I'm going to walk you through each element of the value creation framework and we're starting with the top line. All of the prior presenters shared with you how we plan to accelerate our organic growth rates. You see here an overview of the priorities and the key investments for each one of the four segments. And in essence, it is share gains in products, continued double-digit growth in aftermarket and our system sales, all that leading to 6% to 8% organic growth over the medium-term. About a third of the 6% to 8% coming from market growth, another third coming from double-digit aftermarket growth, and the balance coming from share gains in products and our systems sales.

Those – the higher organic growth will be funded through investments. And not surprisingly, the investments will start with R&D. We expect to continue to spend R&D at about – rate of about 3% of our sales. More sales and field technicians across all of our segments and particularly in our Residential and Light Commercial businesses in Europe and the Americas, increasing the number of and the capabilities of our installers. Underlying all of this is also continued investments in our digital capabilities, particularly with respect to our aftermarket initiative as well as our systems.

Let me talk a little bit about aftermarket. We like aftermarket and we like it a lot. Higher growth, accretive margins. It's been a really important contributor to our past financial performance and it will continue to be so going forward. We are the OEM. We should know better than anyone else how the equipment operates. Our aftermarket initiative includes asset light business models and in addition to that, high and – or rich, I should say, in recurring revenue and cash flow streams. Dave mentioned this earlier, but we estimate that today, we still only cover or monetize 25% of the aftermarket revenue associated with our installed base. Therefore, we think that aftermarket will be a long-term source of accelerated organic – or accelerated organic growth for our company.

Let's move on to productivity and margin expansion. Left side of the slide, you'll see that our cost base, excluding R&D and selling expenses is about $16.5 billion. Of the $16.5 billion, think about $10 billion being direct materials and then $2 billion each indirect, factory, and logistics and warehousing. We will continue to target 2% to 3% annual productivity, gross productivity across each of these cost buckets. That productivity will enable us to fund investments, fund incremental benefits, but also continue to expand our operating margins. Within the $16.5 billion, direct materials will continue to be the largest source of productivity. And our Carrier Alliance program will be critical to this. Through Carrier Alliance, we get into long-term relationships and agreements with our top vendors. We get better terms. We get commitments on year-over-year cost reductions. We enable those partners to grow their business as we grow and also provide them access to our tail spend.

This strong productivity will continue to enable us to drive those margins up, as you've seen on the right side of the slide. Now, productivity goes way beyond direct materials. And you'll see two additional examples on the slide. On the left side, you see production time per unit. You see that we target a significant reduction in production time per unit over the medium-term. This will impact labor costs, which tend to be about 10%, maybe a little bit more of our product cost, which also in turn will, of course, impact our asset utilization and delay some capital expenditures.

Another example on the right side is warehousing and logistics, about $2 billion of annual spend. Historically, each site within Carrier was able to select its own vendor, its own transportation lanes, and its own transportation modes. That is shifting. We now have centralized and consolidated suppliers in this space. We now optimize transportation lanes and transportation modes from a company perspective, and all of that is supported by a much more robust SIOP program that we are managing centrally throughout the company. Big opportunity. And as you see here, we expect to reduce that spend by 20% over the medium-term.

One more, platforming. You heard that word a few times earlier today. Historically, there was no platforming across Carrier. That has led to duplicative investments in R&D. It has also led to lost opportunity in terms of material productivity and R&D productivity. And of course, it has also led to higher working capital requirements. We're still in the early stages, but you just see four examples of where we're platforming today. Each one of these is – will provide significant hard and soft savings besides benefits to our customers. So, all the examples I just provided is just to show you that our productivity well is not empty. There is a lot more opportunity to go that we can benefit from and continue to expand our margins.

Moving on to an adjusted effective tax rate. At the time of our spin, our tax rate was 26%. In 2022, at the Investor Day, I mentioned that we were planning to bring that rate down from 23% to 22%, which we did. We now see a path to bring it down even further. We received a grant of about $1 billion associated with the setup of a center for innovative technologies. As we expand the scope and increase the number of activities within that center, we will start to monetize this tax incentive. This means that we expect now an ongoing ETR of 21% starting in 2026.

Moving on to elements of free cash flow and starting with working capital. As you can see on the left side of the slide, our working capital performance is pretty good, less than 10% of sales. But we have plenty of opportunity ahead of us. First of all, payables. If you look at our days payables, we're not yet top quartile. Through the Carrier Alliance program, we will continue to increase the terms and improve the terms with our vendors. You also heard me talk about SIOP. You also heard me talk about platforming, and you heard me talk about warehousing and logistics. All of these initiatives will improve and enable us to reduce our inventory days.

Lastly, I mentioned that we like aftermarket and we like it a lot. And one of the reasons we like it is actually, it can help us with working capital, because some of those business models or new business models actually enable us to get paid before we provide the service. So good performance in working capital, still significant opportunity ahead of us. And in general, we target to offset the impact of business growth with improved working capital performance.

Moving on to capital expenditures. It has been at about 2% of sales. We expect it to continue to be in that range. In terms of priorities for CapEx, it's pretty simple. What are the highest return projects? And for us, that's organic growth. You see by far the biggest element of capital expenditures. In addition to organic growth, we will use CapEx to fund productivity projects, the platforming I mentioned and enhancing our digital capabilities that support aftermarket and our systems. We also spent capital on our ERP systems. Some of you may recall, but at the time of our spin, we had more than 120 different ERP systems within the company. We have been reducing them every quarter. Today, we have about 60 left. We will continue to reduce that number over the next several years.

What are we going to do with the free cash flow we generate? I think it's fair to say that further debt paydown is not a priority. As you can see at our maturity stack, it's very well spread out, no maturities till 2027. Plenty of flexibility, and we really like our average coupon. In addition, we're pleased with our current credit ratings, and we recently got two upgrades. We will continue to target about 2x net leverage. So, no debt paydown, but we do expect to generate a lot of capital.

How are we going to deploy that capital? Over the medium-term, we expect to generate about $15 billion of capital that we can deploy. The dividend, assume a continuously growing dividend at about a 30% payout will account for about $5 billion of debt. That leaves $10 billion for acquisitions and share repurchases. If we keep our net leverage ratio where it is today, that $10 billion grows to $14 billion. So we have plenty of firepower for value add capital deployment over the medium-term.

Talking about capital deployment. Dave shared with you our priorities for acquisitions that you see here on the left side. Our focus is currently on smaller bolt-on acquisitions. Think of $1 billion or below, yet we have the capacity, of course, to do more than that. The financial criteria that you see on the right are consistent, and it's the same that we've shared with you before. The primary metric being a free cash flow yield.

Moving on to portfolio management. You can imagine that the team has been pretty busy the last few years in terms of portfolio management. And in essence, one way of looking at this is we've acquired $6 billion of sales and we exited $6 billion of sales, while at the same time, we have significantly improved the financial performance and grown our core climate solutions businesses.

And the outcome of this is a portfolio that is simple, more balanced, much more exposed to secular tailwinds and with a higher growth profile. On the right side of the slide, you can see that we recently initiated the exit process for our Riello business. It's about a $500 million business in Europe, mostly in Europe, single-digit operating margins. It will further focus our portfolio, streamline our portfolio, and it will improve our margins in the European region as well.

So key takeaways of this morning's presentations. We really like the portfolio that we have today. Simple, balanced, higher growth profile. We want to continue doing what we do well, expand our margins, strong free cash flow, mid-teens adjusted EPS growth with a top line that growing a little bit faster, 6% to 8% over the medium-term. We will continue our strong track record of operating margin expansion and that strong cash flow will generate a lot of capital for us to deploy. And over the medium-term, we think we have $10 billion or more to deploy that capital to further value-add opportunities.

So with that, I'm going to turn it over to Mike.

Michael S. Rednor
Head-Investor Relations, Carrier Global Corp.

Thanks, Patrick. We're going to take a short break. And when we come back, we'll do some Q&A. Thank you.

QUESTION AND ANSWER SECTION

Michael S. Rednor
Head-Investor Relations, Carrier Global Corp.

A

Great. We're going to start Q&A. Just ask, when we call on you, please say your name and your firm, and we have a couple of mic runners, so wait for the mic. So, Jeff, maybe we'll start here.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

Good morning. Jeff Sprague from Vertical Research. Thank you for the pitch. Just coming away from this and from my vantage point, it seems like the execution on the systems side is especially incremental and especially important relative to the growth in addition to building on the aftermarket. But Dave or maybe whoever from the team, just talk a little bit about how much of your business goes direct into the channel? You've got some two-step relationships, especially in resi HVAC. So, how do you kind of cut through some of that maybe potential channel conflict to execute on the strategy? Maybe I'll leave that as a – just a broad question to start.

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

A

Yeah. Gaurang, why don't you start in US and either Michael or Thomas jump in.

Gaurang Pandya
President-Climate Solutions Americas, Carrier Global Corp.

A

Yeah.

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

A

And you as well, Ed. We don't want four answers. Just a couple of you. Go ahead.

Gaurang Pandya
President-Climate Solutions Americas, Carrier Global Corp.

A

Happy to. So, in North America, for our Residential and Light Commercial business, we do have a two-step distribution model. So we do go through distributors and then our channel partners, and we believe that's the biggest strength. And frankly, it is an envy of our competitors. We are investing in the digital side to be able to increase our penetration through the entire chain and add value at every prong, as I mentioned in the pitch earlier.

So we are seeing opportunities over there. We don't see any conflicts to anything we are doing, and frankly, are working hand-in-hand with our channel partners on that execution.

On the Commercial HVAC side, if you look at the entire business, we had about – and I'm looking at applied services and controls. We are about 70% direct-to-market, maybe about 30% through distribution. And over there, we own our own branches for services, we own our branches for controls. We go to market directly and are able to provide all our solutions and upgrades from an overall perspective.

On applied, it's more of a balance, so that 50/50 specifically in applied. But over there, when we talk about distribution, while it is two step, we do not compete with that distribution channel on the services side. So we do not have a conflict there and we see – continue to see opportunities to work together to grow the business.

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

Thomas, maybe a word on HEMS in Europe and how you're working with the installers there on [ph] Systems Profi (02:07:47)?

Thomas Heim
President-Climate Solutions Europe, Carrier Global Corp.
A

Absolutely. In the case of implementing a full building electrification system, obviously the capabilities that you need require from hydronic through an electricity-based capabilities, and then also solitaire type of works, mounting the PV. And what we facilitate to our installer prognosis on the one hand side, the ecosystem which on the one hand side allows them to still control and monitor and preventively maintain so to say the installed devices whereas on the other hand side for the users we deliver in our ViCare ecosystem. The possibility to monitor and optimize the energy consumption, building on our Home Energy Management system.

Now, bringing all of that together, what we basically do with our direct-to-market model because 80% of our revenue goes directly to the installer channel. It's basically focused them on what they are strong on and what they actually like to do and we support them if everything else. I give you an example, mounting PV panels on roofs is not the typically preferred task that installers would conduct or carry out in Europe. And for that reason, we offer, for example, PV installation-as-a-service to our installers in order to take away that type of work or administrative stuff. If you want to register your PV and batteries set up with a utility that is not of administrative stuff, we have a tool that we call [ph] Admin Profi (02:09:16) where we take away that work from our installers. So, it's a tremendously collaborative approach where we focus each of in both parties on what they're really strong on.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC
Q

And maybe just a quick follow-up, just the HEMS opportunity in the US. How mature is this relative to kind of getting tied up with utilities is inside of their larger demand response sort of installs and to what degree are they started to actually count this as capacity in their capacity plans?

Gaurang Pandya
President-Climate Solutions Americas, Carrier Global Corp.
A

So, we've already integrated from a VPP perspective on the virtual power plant side where we have our systems [indiscernible] (02:09:53) thermostats and are already participating with the utilities on that front. When you think about the entire HEMS solution, we are well underway in terms of actually partnering with them and setting up our go-to-market strategies. And as we launch the product in the end of the year, you'll see start – some of that starting come out.

Michael S. Rednor
Head-Investor Relations, Carrier Global Corp.

A

Nigel?

Nigel Coe
Analyst, Wolfe Research LLC

Q

Thanks. Nigel Coe from Wolfe Research. By the way, thanks to the battery. It's been a real blessing today. So, just wanted to dig into the service growth strategy. Double-digit growth forever I think is the exact word you used. Maybe just what I understand what kinds of investments you're making to drive higher service attachment rates? Maybe talk about why the Americas is lagging behind other regions. But more importantly, the parts penetration seem very low, 25% or so. I would have thought that have been much, much higher. So, just maybe just want to understand where the value trend today resides for parts and how you take that value.

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

A

I'd say, Nigel, one of the reasons we're at 25% is I think aftermarket was a bit of an afterthought for us as a company. When we stood on the stage five years ago and we said we were going to really double down on our efforts around aftermarket, there was a bit of an initial thought that with your aerospace background, that might be something that's less applicable here.

The system within Carrier has completely embraced it. So, if you look at our attachment rates, we just got to 60%. When we launched we were in the low 30s. So now, it's much more of a way of life. We sell a chiller. We expect right after that warranty period, get a long-term agreement. It's almost a 100% for our more complex chillers or maybe some of the less complex chillers, it's not as 100%. But it's now becoming embedded in the DNA of the business.

If you think about the components that go into one of our units, it used to have all of the nameplates of our suppliers. Now, when you look at it, we put Carrier labels. So when a part is replaced, the immediate instinct is to call Carrier for the replacement. So the entire playbook that Ajay Agrawal, who is right here and this team has been driving, is just driving parts replacement, service attachment rates, total coverage, the mods and upgrades, the digital – just driving it into the framework of the business. And we say double-digit forever because of that 75%. So I think the Americas has come a long way. I think that they've actually I think growing, it's fair to say, consistently growing CHVAC aftermarket in the double-digit range for five years straight. And I think that's very similar across the other two regions.

Nigel Coe
Analyst, Wolfe Research LLC

Q

Great. Thanks, Dave. And then a quick question on the European margins. It sounds like you get maybe 50 basis points, 100 basis points from divestments and then 100 basis points a year roughly from operations. Just if you do manage to achieve high singles, low doubles organic, the incremental margins obviously quite low there. Just wondering what's the upside potential might be to Europe or maybe some of the investments you've put in against that?

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

A

Yeah, maybe start with Patrick and then you, Thomas.

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

A

Yeah. Given where we start, Nigel, in – at about 9%, a commitment to get to mid-teens in next three or so years we think is appropriate. I think Thomas already spoke about to mid-teens and beyond. But clearly, I think there is an opportunity to better than that. We first want to get to the mid-teens, given where we are today at 9.4%, that already would be a big improvement. And as I said on the last earnings call, we want to do it over the next two, three years.

Thomas Heim
President-Climate Solutions Europe, Carrier Global Corp.

A

Yeah. And probably building on that, it's also obvious we are where we are at the very moment, also after a year 2024 volume has dropped substantially. When we look historically at our operating profits in Europe, they actually used to be higher. Now, what is very positive and what will support us to drive operating margin expansion in the futures that we have very solid growth margins that we can build on. And we have been actually quick and determined to also reduce cost last year and we will start this year fully benefiting from the cost take out of last year.

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

A

Yeah. The thing I'd add, Nigel, is just the commercial HVAC margins in Europe have come a really long way, up to 3x from where they were just a handful of years ago. And Viessmann Climate Solutions have some of the highest gross margins in the business. We just got killed with some of the absorption of the volume declines over the last couple of years. Once that volume comes back and we get that absorption, we feel really good about that mid-teen number.

Michael S. Rednor
Head-Investor Relations, Carrier Global Corp.

A

Julian?

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Thanks. Julian Mitchell from Barclays. Maybe a first question around the organic growth assumption companywide, the sort of split of price versus volume kind of therein and how you're seeing pricing play out this year. And I guess tied to that, particularly for Thomas and Michael, just how do you think about competition in your regions? People were very worried about heat pump capacity additions two years ago, then they worried about the inverse of it last year. And then in your region, Michael, there's a lot of question marks around, say, the India and Chinese markets and competition there.

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

A

I'll probably start...

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

Yeah, go ahead, please.

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

I'll probably start. Our original guide [ph] Julian, at about a point of price (02:15:25) for this year with the updated guide that has probably doubled, so close to 2 points. And then, you can think within the 6% to 8% normalized pricing about a point a year.

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

Competition in Europe, Thomas, and then, Michael.

Thomas Heim
President-Climate Solutions Europe, Carrier Global Corp.
A

Yeah. I would say if you look at pricing in Europe in our business model, we always have to look at the fact that basically our product and contribution to, it accounts for one-third of the eventual build that a user pays. For that reason, with our direct access to our installers, we work closely on, so to say, making the whole installation process more efficient and thus trying to make obviously the entire build for a user that a user has to pay more attractive in close collaboration with our installer chart.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

And you're getting 1 to 2 points this year of price?

Thomas Heim
President-Climate Solutions Europe, Carrier Global Corp.
A

That is what we are aiming at. Yeah.

Michael Lotfy Gierges
President-Climate Solutions Asia Pacific, Middle East & Africa, Carrier Global Corp.
A

And for us, if you look at the region, the way we're trying to differentiate in terms of really taking the customer centricity and intimacy to a whole new level, our key differentiator is that we work very closely with our customer to understand their customer challenges, their goals, and how do we achieve them. For example, in China, where we have engineering consultancy arm, where we really work very close with our customers to understand – to help them understand their asset performance and how to achieve their goals. Similar, I gave two examples on Singapore and China, but we do that across the region. For example, when you think about projects like district cooling, which we can help the customer significantly reduce the energy consumption in those projects by over 25%, that's a key differentiating drive. If I look at our commercial HVAC business, for example, in China would actually over achieving some of our competitors already today by really deploying our excellence and playbook with Carrier Excellence, focusing on the segments where we have the right to play and the right to win and just double down on that.

Julian Mitchell
Analyst, Barclays Capital, Inc.
Q

Great. And then just a quick follow-up on the point on systems. Not so much in transport or residential but really interested in the sort of commercial HVAC. You had that slide 12 that had a good breakdown of your product breadth versus peers. Just wondered, and again in commercial HVAC, what do you think is different about the offering? Is it that you have still a strong applied and unitary business or some of your peers don't have both? Is it the sensors or controls offering? Maybe talk about that on the systems in Non-Res, please.

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

Yeah. Perhaps I'll start and anyone can jump in. I think, Julian, let me just take QuantumLeap with data centers, for example. It's not just having a bundled offering. It's not just having traditional cooling, liquid cooling, and not everyone that does traditional cooling is doing liquid cooling. We've launched our own CDU. It's actually I think quite differentiated, but then we also have the BMS business and we have this Nlyte business from the UK that we bought.

I think the key for differentiation is the modeling capability and the integration of the control systems. So, if you picture heat being generated by a server rack, you'll have the choice of either a traditional cooling or direct liquid cooling, and you want a common control system see which is more optimal. Do I idle some of the chillers or do I provide direct liquid cooling?

So, you need the modeling capability. That's why we're actually hiring a lot more systems engineers, in some cases, some that actually come from the data center side of things, not just traditional HVAC systems engineering that can do that modeling and really optimize at a system level. Did anyone want to add to that?

Gaurang Pandya
President-Climate Solutions Americas, Carrier Global Corp.
A

No. I think you covered it.

Michael Lotfy Gierges
President-Climate Solutions Asia Pacific, Middle East & Africa, Carrier Global Corp.
A

You covered it.

Michael S. Rednor
Head-Investor Relations, Carrier Global Corp.
A

Andy?

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.
Q

Good morning, guys. Andy Kaplowitz with Citigroup. Margin expansion, you obviously got 100 basis points over three years. You're guiding to greater than 50 basis points. I know you want to be conservative, but at the same time, you've got higher growth. You're still doing a lot with the portfolio. So, should I emphasize the greater a little bit more or how do I think about the sort of puts and takes as we think about it?

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

We'd like to do 50% or 50 bps or more each year. One of the items you may have seen is, is that in our medium-term projection now, we expect the growth to be much more balanced than what it has been in the last two, three years. The last two, three years, frankly, the Americas has grown significantly. And it is the highest-margin region. You've heard now each one of the four Segment Presidents talk about accelerated growth in their region. And so, the incrementals are not exactly the same across each of the regions. But clearly, we'd like to hold to our commitments, 50 bps or more. And if we can do 100 bps at 6% to 8%, would happily do so.

Andrew Kaplowitz Q
Analyst, Citigroup Global Markets, Inc.

And then maybe I could just ask you about current quarter. Anything going on to talk about in terms of channel inventory still early in the selling season? Obviously, the tariff picture has changed a little bit, too. So, how are you thinking about that $300 million? Anything to talk about sort of there?

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

Yeah. There is nothing really new since the last earnings call. No. Including the $300 million.

Andrew Kaplowitz Q
Analyst, Citigroup Global Markets, Inc.

Sounds good.

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

Yeah.

Michael S. Rednor A
Head-Investor Relations, Carrier Global Corp.

Noah then Joe.

Noah Kaye Q
Analyst, Oppenheimer & Co., Inc.

Thanks, all. Noah Kaye from Oppenheimer. Thank you for the presentations. And it's really interesting, maybe exceptional to be hearing from four different segment heads, three of whom joined the company in the last 18 months, I think. And obviously, Thomas, you came through Viessmann. But just thinking back to what Dave was talking about at the beginning around The Carrier Way and the Carrier culture. I really like to hear from each of you kind of how you've approached and how you've integrated into some of both the strategy and operations planning to drive the outlook that you're presenting here today for your different segments vis-à-vis how you individually informed us with your own background, particularly around organic growth versus what you kind of picked up by being part of the company? It's a broad question, right? Can you help us understand how you're getting [indiscernible] (02:21:50)

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

We'll try to limit it to short for each, but we'll hit the four of you, and start with you, Thomas.

Thomas Heim
President-Climate Solutions Europe, Carrier Global Corp.

A

So, if I understand the question correctly, you're also referring to how we kind of approached it culturally, integrating the different backgrounds that we're having. I can tell you, and here to give a compliment to Dave and also to Maximilian Viessmann, who kind of are the inventors of that magic combination of Carrier and Viessmann. They, right from the beginning, focused a lot on purpose and culture and value. And we have detected right from the beginning that the values and the purpose of our companies are very similar.

So we, in the communication with our teams, stressed and focused that every day a lots of Carrier way has been a continuous theme in discussing with our teams with respect to how do we behave, how do we develop, how do we develop talent and how do we provide career path in the bigger context of the combined companies that we have created. So, for us honestly speaking, this has been a tremendous driver. And if I look at some of the aspects, like for example, Play to Win, we love that. That tremendously resonates with us and I think that is also now deeply embedded in the accelerated growth strategy that we're driving.

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

A

Ed?

Edward Dryden
President-Climate Solutions Transportation, Carrier Global Corp.

A

Yeah. So, I guess, I somewhat have an advantage of my previous bosses, some point was Dave. So, what we do and how we do it is a common theme and actually one of the attractions to come into Carrier. I guess, to me, one of the opportunities, more so and a challenge was the need for change. The industry is changing around us. So, using everything that the Carrier ways of – but really focusing on the employees and helping them grow with that change. And really putting at the center of the change, customer centricity. This is about the customer, I must have said customers 10 times during my presentation. So, really getting that alignment between what's good for the customer is also good for the company.

Gaurang Pandya
President-Climate Solutions Americas, Carrier Global Corp.

A

Yeah. A slightly different view from me. I guess, I've been with the company more than 26 years. So, what I can tell you is since spin, we've unleashed so much value across the organization, because we're able to manage our own destiny, reinvest in the business, like we've never done before and that's what really helping us unlock the value in some of the results that you're seeing today. I led our Commercial HVAC business prior to me taking on this role a couple of years back globally. And we've delivered significant growth in that business based on the investments we've been able to make and the returns that we're able to drive. So, just super-excited about continuing to drive the momentum from that standpoint.

I'll let Michael.

Michael Lotfy Gierges
President-Climate Solutions Asia Pacific, Middle East & Africa, Carrier Global Corp.

A

For me, it was a perfect match of values. Like I stated earlier, I love – my passion is to build great teams that build cutting-edge products, that provide great customer values. And it's actually been a long journey for me to come and join Carrier. I've been meeting and talking with Dave and Nadia for over 14 months before making the decision, because it was a ginormous decision for me to come and join this. But I can tell you it's been a brief, because it's not only it's an A-Team that is focusing on the hunger of driving results and growth. You're also working with a great class talent, whether from operations I see here, our colleagues, Adrian and Ajay to everybody, I look around in the company, not just in the ELT team, but all the way to N-4 and N-5 in the company. There is obsession with customer, obsession with growing share and winning. The winning culture that Dave always allude to. And this is just – it's a hunger across all the value streams of the company. And then the simplicity of the way we look at things. And I love that because, it takes – it's always how easy you can look at thing and how you can simplify it to make it resonate not just with your teams but with the customers and across the value chain.

And the way we look at things in Carrier it's very simple. We want to provide solutions that help solve customer problems that continue – multiply our access and share of wallet in the channel and in the market and win. And that's what we do day-in and day-out. I've been in the company for 50, 60 days. And that's all what we do. That's all what we talk about. It's embedded in the DNA of the company. And I just love that.

Michael S. Rednor
Head-Investor Relations, Carrier Global Corp.
A

Joe.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC
Q

Thanks, guys. Good morning. Appreciate all the details. So, let me just first focus on organic growth. When you see the breakdown, you're basically assuming some kind of market share gain in each one of the businesses. And you have some formidable competitors on the OEM side. Just maybe talk about like who are you going to be potentially gaining share from? And then also how the medium-term growth rate is tied to the incentive structure for each of the Presidents?

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

Well, maybe I'll take that one, Joe. I would say that we wouldn't mention a specific competitor by name. But if you look at what happened in Europe for the last year, we come together with Viessmann and the sales were not nearly what we forecast they were going to be.

If you look at every single country that really moves the needle, Thomas and team and the RLC side gained share in basically every single country. And they did it by, even though we took a whole boatload of cost out, we had to take – Thomas under his leadership, took some very difficult head count decisions last year. But we still invested in our salesforce, we still invested in our channel, we invested in R&D, we invested in growth. We took share in basically every single country.

And you can apply that everywhere. We stood on this stage for CHVAC. When we talked about CHVAC back in February of 2020, we said that we would grow 50 bps a year. What ended up happening is as we looked around, we said, look, we got to invest in the portfolio, we got to invest in products. And we actually said, first, let's get the margins up 2x to 3x, which we did. Let's make sure we actually are driving differentiation and not gaining share by price.

So, we did that. We probably took two years or so to really invest in the portfolio, get margins 2x to 3x versus what they were. And we've been gaining share. And I think our peers would tell you that we've been gaining share in almost every region around the world on the Commercial HVAC side certainly over this last couple of years.

So, we think the formula works. I know it's been gaining share on the transport side and the various verticals. There's probably one that we might have lost that we just gained back last year. So, I think it's just around the formula. It's leveraging our brands, channels and products. What was the second part of your question?

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Incentive structure on organic growth.

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

A

You know, when we spun from UTC, our IC was really based on earnings and cash flow. And one of the most important decisions we did is we added sales. So, we're now a third, a third, a third. A third sales, a third earnings, and a third cash flow. And that was a very purposeful decision. People in my past used to say sales are what they are. You go the way of the market. We don't believe that.

So, actually, if you look at the IC, we push very, very hard on the sales and that's how all of these folks are incentivized. On the LTIP side, it's all 100% tied to shareholder value. If you look at it, where half of our LTIP is just tied to EPS and EPS and then total shareholder return. And the other is stock appreciation, right? So, we go the way of our shareholders.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

So that's a good segue way into my second question. So, we're looking at potentially mid-teens earnings growth going forward. If for some reason the organic growth profile turns out to be a little bit slower as it was 2022 to 2024, perhaps, Patrick, you can discuss like the margin levers that you have. I know you talked a little bit about platforming to try to make sure that we can meet that 15% type target.

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

A

Sure. And clearly, we'd like to achieve the mid-teens adjusted EPS growth through the 6% to 8% organic growth. We've shown the last two, three years that we can get to about 100 bps of margin expansion at lower growth. And it just means we'll drive a lot of productivity. We may reinvest in the company, but maybe not to the same extent, although the last few years, each year we invested way over $100 million back into the company. And so, we would – that's the flywheel that we want to continue to feed, which is reinvesting in the company to accelerate growth. And so, one lever would be is to maybe not invest as much, but I think what we've seen the last few years, attractive margin expansion at 4% organic growth CAGR, well investing over $100 million in the business every year and it's working.

Michael S. Rednor
Head-Investor Relations, Carrier Global Corp.

A

All right. Nicole then Brett.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. The outlook for European residential heat pumps growing mid-teens over the medium-term, I know that's a market that's been heavily influenced by subsidy action in the past. What is the base case view from you guys about subsidies? And I guess can you talk about if there's major bifurcation by country in that mid-teens outlook?

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

A

You got...

Thomas Heim
President-Climate Solutions Europe, Carrier Global Corp.

A

Yeah, absolutely. And I mean, generally speaking, subsidies is nothing kind of new in the industry. If you look back in Europe and many countries that has been permanently used in order to stimulate users to invest, obviously in the heating infrastructure of their buildings. For that reason, it's not an extraordinary situation that we're currently looking at.

What is probably more important is the fact that heat pumps, if you move out any subsidies, are the kind of heating and cooling, by the way, device for the future for Europe. The European framework at the very moment is doing everything to make the usage of heat pump and the drive of building electrification more attractive, right?

If you look, for example, at the most recent announcement of the German government, they want to take the electricity price down by €0.05. Currently, we would have that at an average of €0.30, taking down €0.05. That is a lot. So, the delta, which actually drives the attractiveness of the operational costs for a heat pump compared to a boiler is reducing constantly. Right?

With that, we would come to a gap of €0.025 roughly. And if you look at the other hand side that Europe simply cannot afford for energy independence and competitiveness, reasons to continue to burn fossil fuels and oil and gases in the building sector. We also understand that they will shape a framework, which is already in place, European Emission Trading System 2, in order to constantly reduce the available CO_2 certificates and thereby drive the cost of fossil fuels and gasses.

And in that combination, heat pump is already to big extent and will even more be in the future the heating device of natural choice to almost everyone.

Nicole DeBlase
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Thank you. And then, if I could ask a very short-term question. So, I know tariffs are still a moving target. You guys aren't adjusting the guidance today. How are you approaching price with respect to tariffs? Like is this a toggle would you give pricing or remove pricing that you put into the market if we kind of stay at this lower China tariff, right? Thank you.

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

A

Yeah. Look, we have a three-prong strategy with tariffs. And I have to tell you a lot of the folks in this room with their teams have been working in virtually a daily cadence around making sure that we're very agile to deal with some of the fluidity of the situation. The three-prong strategy is Adrian and team working with our supply chain and within our factories to make sure that we all kind of participate in dealing with the tariffs.

The second is we take general costs out of the system, which was kind of what we do anyway to always try to reduce G&A and always try to optimize our overall cost structure. And we further do that. And then, we look at what's left over and we do have to deal with price. The way we look at 2025 is that what was left over after those first two actions was about $300 million, which is about 1% of our sales, a little over that. And then, we are raising price by that amount.

Michael S. Rednor
Head-Investor Relations, Carrier Global Corp.

A

Brett?

Brett Linzey
Analyst, Mizuho Securities USA LLC

Q

Yeah. Thanks. Brett Linzey, Mizuho. First question on the European division. You discussed the doubling of the Viessmann system installers. I think it was 75,000 at the time of the deal; 80,000 now. Talk about the phasing of that as you ramp towards the $500 million. And is there a cost to achieve? What does that conversion process look like?

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

A

Thomas and – please take that Thomas. And Thomas and the team have done a very good job being very clear to educate me that it's not the sheer number of installers. We don't have a target to go from 80,000 to 100,000. It's more on the quality of the installers and the specific, because you may have one installer with one person and what we care more about is the relationship and the pure number of actually installation partners, but Thomas why don't you take that?

Thomas Heim
President-Climate Solutions Europe, Carrier Global Corp.

A

And that's a very important point, because when we were taking about doubling and the number is specifically the number of system installation capable installer. So, to say the spearhead segment of our installers that require obviously a specific support training enablement, but we are set up to provide it, because we do have the training facilities, the training capabilities be it [indiscernible] (02:35:59) be it online to convey those contents. And I tell you, our trainings that we now constantly offer for our systems specialist installers, they are continuously booked out. Yes, this is a certain investment that we have to take into the business in form of training and education. But we have always been doing that. It's just now re-pivoting and focusing specifically on driving that part of the segment.

And by doing so, and that is actually the interesting thing. And we never must forget that we will deliver maximum customer satisfaction to user because a – electrification system is a bit of a complex installation. So, you need to do it right and to get it right in order to have a satisfied user. And those guys are capable to provide that. And then obviously on the other hand side, the average revenue that we do with that type of installer profile is more than 5x the normal average of the 75,000 to 80,000 that you were just referring to. And that is the beauty which then brings the additional accelerated growth.

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

A

Yeah. Brett, if you look at 80,000 installers, the true certified systems installers is in like 5% range. So that's the opportunity is to really grow that true systems capable installers.

Brett Linzey
Analyst, Mizuho Securities USA LLC

Q

Got it. Makes sense. Thanks. And then you talked about the capturing the 25% of the aftermarket currently today. Some of the KPIs, long-term agreements, the attachment rates, it's more on the prospective new units. How are you addressing the existing installed base and going after that? Are there tools in place? What is the targeted approach you're taking there?

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

A

Well, that's the [ph] miles (02:37:41) and upgrades piece. Anyone want to – go ahead. Yeah.

Edward Dryden
President-Climate Solutions Transportation, Carrier Global Corp.

A

I'd like to talk to that. Firstly, one of the benefits of having links and connectivity is having a visibility where the product is. So, actually, being able to get to it and understand who's using it, where they're using it to go back and offer that second life is obviously a big part of that. And also, I think expanding the tiering of parts. What I mean by that is you may be running a 10-year-old, 15-year-old reefer. You don't necessarily want a brand-new OE part. And where we were losing some of that capture with the lack of tiering, we're now offering that. So, it enables us to pick up a lot more of the product capture.

Michael S. Rednor
Head-Investor Relations, Carrier Global Corp.

A

Go ahead, Toby.

Toby Okwara
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Toby Okwara, Morgan Stanley. Follow-up on the growth and install in the installers. Is there a – how did the margin profile for the install business compare to the rest of Carrier and how would the growth of the systems installers compare to like, I guess, the broader portfolio?

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

A

Toby, that is the margins of selling a system versus selling. Is that what was...

Toby Okwara
Analyst, Morgan Stanley & Co. LLC

Q

For the installs, that revenue uplift from the growing system installers?

Thomas Heim
President-Climate Solutions Europe, Carrier Global Corp.

A

Yeah. I mean this has – that's the beautiful thing about it, many different facets. Because if the system [indiscernible] (02:39:11) what we do have assured is connected devices, connected systems which we can fully monitor. So, on the one-hand side, you have a one-off, which is the initial product and system sale. And here, we have components in the system like PV and battery, which probably have a bit below average margins.

But if you look then at the service agreements that we normally sell alongside the system, if we look at lifetime value services that we offer in addition to the initial half-year sale accompanying, so to say, the user and the installed system throughout the entire life cycle, that obviously adds again on top margin. So, for that reason, I would say it's roughly similar across margin profile than the remaining part of the business.

Toby Okwara
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. And then kind of a follow-up there. That was a nice segue in. Looking at the growth in aftermarket, how does the balance between parts versus services shift over the next coming years? And is there a certain preference between those two?

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

A

You want to talk about that.

Gaurang Pandya
President-Climate Solutions Americas, Carrier Global Corp.

A

Yeah. Could you just repeat?

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

A

What's the mix between parts and service over the next few years?

Toby Okwara
Analyst, Morgan Stanley & Co. LLC

Q

And how might those shift? And is there a certain preference between those two?

Gaurang Pandya
President-Climate Solutions Americas, Carrier Global Corp.

A

Yeah. No, there's definitely no preference between the two. We expect to grow both at double-digit rates across the board. What's happening obviously is with the penetration on parts that we talked about going from 25% up, that helps drive the growth on the part side. And then, our programs in our playbook that continue to expand our attachment rates and our capture rates drive the service portion of the growth. So, we don't see a differentiation between those two, but continue to grow with them at double-digit rates.

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

A

Yeah. And what I'd add, the way we think about it is, I mean, clearly you typically get higher margins with parts than you do for charging for labor or service. The key is that what Ajay and the team have introduced is these tiered agreements, kind of think of it a base offering, kind of an elite enhanced offering and then the really high-end offering. And what we want to do is move our customers to the very all-inclusive, high-end offering. That's where not only the best margins come from, but that's when you have digital, you have connectivity, you have stickiness, that helps you even with new wins. So, we're trying to like think of parts and service as a way of the past and go towards fully integrated aftermarket solutions as the way of the future.

Toby Okwara
Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

Michael S. Rednor
Head-Investor Relations, Carrier Global Corp.

A

Thank you. Any additional questions?

Michael S. Rednor
Head-Investor Relations, Carrier Global Corp.

Maybe I'll – Dave I'll hand it over to you for some closing remarks.

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

Well, look, first, I want to thank my colleagues. I think as you said, Noah, it's really amazing that we have leaders that are in some cases relatively new to Carrier, but it's amazing how quickly they picked up on the business. Their teams have gravitated and galvanized around them. And what you don't see behind the scenes is how closely this group works, but also other of our leadership team members that are here working as one team because it really is mission-driven. It's a group of people that put mission over self, come together. And I do think we've accomplished a lot over the past handful of years. But I will tell you for me a lot of that's – it's just in the rearview mirror. We can learn from it, learn from our many mistakes.

But the question that we all ask ourselves is where is Carrier going? And I think the reason a lot of the folks have joined is because they see there's something special in front of us. They see that this moment that we're in, we're in a unique opportunity as an industry and I think is kind of oftentimes where the voice of the industry to take this entire company to a whole new level.

So, I want to thank my colleagues. I want to thank our 50,000 people who just show up every day passionate about the journey that we're on, and thank you – obviously, thank our customers. And for our investors, we appreciate your confidence in us. So, my thanks to everyone that's put so much work in today. We're very excited about the future that's ahead of us. So, thank you all very much.