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Carrier Global Corp. (CARR)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Carrier's Third Quarter 2025 Earnings Conference Call. I would like to introduce your host for today's conference, Michael Rednor, Vice President of Investor Relations. Please go ahead.

Michael S. Rednor

Vice President-Investor Relations, Carrier Global Corp.

Good morning and welcome to Carrier's third quarter 2025 earnings conference call. On the call with me today are David Gitlin, Chairman and Chief Executive Officer; and Patrick Goris, Chief Financial Officer.

Except where otherwise noted, the company will speak to results from continuing operations, excluding restructuring costs and certain significant non-recurring items. A reconciliation of these and other non-GAAP financial measures can be found in the appendix of the webcast. We also remind listeners that the presentation contains forward-looking statements, which are subject to risks and uncertainties.

Carrier's SEC filings, including our Form 10-K and quarterly reports on Form 10-Q, provide details on important factors that could cause actual results to differ materially.

With that, I'd like to turn the call over to Dave.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thanks Mike and good morning, everyone. Q3 was generally in line with what we shared in mid-September. At the Laguna Investor Conference, we indicated that North American Resi softness would create about a \$500 million sales challenge and a \$0.20 to \$0.25 adjusted EPS headwind in the quarter. The actual impact was consistent with that.

Partially offsetting this was better-than-expected performance in Commercial HVAC in the Americas, which was up 30% in the quarter, continued aftermarket traction, cost containment, and a discrete tax benefit.

We also drove continued double-digit sales growth across multiple parts of our business, including CSE residential heat pumps, container, and our businesses in India and the Middle East.

In addition to driving strong growth across many parts of our portfolio, we are taking aggressive cost actions to reduce overhead, including the elimination of about 3,000 indirect positions, which is on top of footprint and direct labor actions required to right-size for demand in our factories. Given confidence in our strategy and our track record of execution, our board approved a new \$5 billion share repurchase authorization.

Turning to slide 4. We are laser-focused on our strategic priorities and continue to gain traction on our key initiatives. Our three vectors of growth; products, aftermarket, and systems are all progressing very well. With respect to our first vector, which focuses on gaining share through differentiated products, brands, and channels, we booked our largest order ever earlier this month, securing another major win with a key hyperscaler.

We also converted a top U.S. homebuilder to Carrier, further enhancing our leading position in the new home construction sector. In Europe, we were again recognized for our market-leading Viessmann heat pump products.

In addition, our newly introduced Toshiba VRF product line and energy-efficient container units are both contributing to share gains in their respective markets. On aftermarket, we delivered 12% growth in the quarter and remain on track for our fifth consecutive year of double-digit growth.

Connectivity and digital differentiation remain foundational. Connected chillers were up 30% in the quarter and last week, we had a major multiyear software win in the Middle East with Abound, our digital platform for buildings. Paid subscriptions for Lynx, our digital platform for transportation, were up 40% in the quarter to about 210,000.

Last on systems. Field trials for our Carrier Energy HEMS offering in North America are progressing well and we remain on track for market introduction mid next year. We also continue to make significant progress on our QuantumLeap integrated system offering for data centers with customer discussions advancing well. In our CSE RLC business in Germany, we continue to qualify additional systems [ph] Prophy (00:04:11) installers. Certified installers realized growth of 15% to 20% in the quarter, far above the average installer.

Turning to CSA Resi on slide 5. Though we are, of course, not pleased with the unexpected decline this year, this is a best-in-class business. We hold the number one market position and our share continues to grow. Our products and brands are second to none. Our extensive distribution and dealer partnerships help provide competitive differentiation. All of this results in great margins and cash flow in this business.

We are working with our channel partners to collectively take all of our medicine this year. We are, therefore, being very purposeful about rightsizing field inventory levels as we head into 2026. At the end of Q3, field inventories were down 12% compared to last year. As of today, field inventory levels are down another 10 points since the beginning of the month and are down about 20% versus last year. By year-end, we expect inventory levels in the field to be down 30% versus last year, the lowest level since 2018. We will continue to play offense and given continued investments and our aggressive cost takeout, we expect to realize outsized returns as this business recovers.

Turning to CSE's RLC business on slide 6. The good news is that electrification across Europe is accelerating, and we are realizing the mix-up benefit from heat pump adoption. Our residential heat pump sales in Europe were up about 15% in the quarter with heat pump sales in Germany up about 45%. We expect this trend to continue. For example, we have seen heat pump subsidy applications in Germany increase and expect them to double versus last year to 300,000.

Nevertheless, in the category of controlling and the controllables, we run the business to be successful independent of subsidies. This is why we have been focused on significantly reducing product and installation costs for our heat pumps to incentivize the continued transition to electrification independent of government subsidies.

More broadly, we continue to see a desire across European countries to become less reliant on gas and key leading indicators of continued heat pump adoption remain positive. Just last week, the EU gave another vote of confidence for ETS2 to become effective on January 1, 2027 which as a reminder, is the system for increased pricing on carbon in heating and transport, supporting the continued transition to electrification. However, for the past couple of years, the strength that we have seen in heat pump unit growth has been more than offset by overall market unit declines driven by boilers.

With heating units in markets such as Germany at 15-year lows, these markets are poised for recovery. Importantly, we continue to make key investments in market differentiation and expansion while taking significant cost out, positioning us well for 2026 and beyond.

Turning to slide 7, our Commercial HVAC business in CSA has had best-in-class performance over the past five years. At the time of our spin, this was the one area within our portfolio where we were underinvested. We said we would invest, gain share and increase margins, and we have. Our investments in technology, know-how, capacity and talent are paying off.

Not only has the total business more than doubled in five years, but also our applied business, aftermarket and controls have all doubled during this period. We have also significantly improved our margins. Given our strong backlog, we expect this performance to continue.

We see data centers as an opportunity to further accelerate our share gains, as you see on slide 8. Data centers remain a top priority for us, and our traction has been excellent, especially on orders in the past few months.

We remain on track to double our sales from \$500 million last year to \$1 billion this year. We expect to see continued growth in this vertical next year given that we project our backlog entering 2026 for 2026 to be up about 20% year-over-year.

Relationships with all the hyperscalers and our colo customers are very strong. Our win rate and size of wins have continued to increase. For example, in addition to multi-hundred million dollar wins with hyperscalers, we recently secured a win with a colo customer in the Americas exceeding \$100 million. Our overall backlog has increased quite a bit over the past few months and now extends into 2028.

Before I turn it over to Patrick, some high-level perspectives on slide 9. We are very well positioned to create outsized value for our customers and our shareholders. Through a purposeful transformation, we created a focused yet balanced portfolio with leading positions in targeted geographies and verticals. We like that we are not overly exposed to any one geography or vertical, and in fact, have balanced exposure to the right geographies and verticals.

As we look ahead, we expect the parts of our portfolio that have been strong to remain strong, particularly Commercial HVAC and our aftermarket business, which together constitute just under 45% of our sales.

And we expect that those parts that faced near-term headwinds, particularly RLC in the Americas and Europe and Global Truck/Trailer to be positioned for a return to growth. And when they do, we stand to have outsized benefit given our market-leading positions and the aggressive cost actions that we're taking this year.

In terms of controlling the controllables as we always do, you know our formula from our Investor Day, share gains through differentiation, sustained double-digit aftermarket growth, and investing in systems to drive unique value for our customers and TAM expansion. You can always count on us to drive cost out of the system in a programmatic and aggressive manner, and we will be disciplined with capital allocation with a near-term focus on share buyback.

With that, I will turn it over to Patrick. Patrick?

.....

Patrick P. Goris

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

Thank you, Dave, and good morning, everyone. Please turn to slide 10. For the quarter, reported sales were \$5.6 billion, adjusted operating profit was \$823 million and adjusted EPS was \$0.67. The year-over-year decline in these financial metrics largely relates to much lower volumes in our CSA Residential business. The results are largely in line with what we outlined in September with the exception that we saw a \$0.07 benefit from a lower tax rate, about \$0.05 of which timing between Q3 and Q4.

Total company organic growth was down 4%. The 2024 exit of Commercial Refrigeration was also a 4% headwind, partially offset by 1% tailwind from currency. Adjusted operating profit was down 21%, primarily due to lower volume in our CSA Resi business.

Tariffs were net neutral in the quarter. Adjusted EPS was down 13%. We included the year-over-year adjusted EPS bridge in the appendix on slide 19. Free cash flow of about \$225 million reflects lower operating profit as well as higher working capital levels given the sudden reduction in sales.

Moving on to the segments, starting on slide 11. Organic sales in the CSA segment declined 8%. Commercial delivered another exceptional quarter with sales up 30%. Residential and Light Commercial sales came in right about where we expected per our September update. Resi sales were down 30%, driven by a roughly 40% decline in volume, offset by double-digit regulatory mixup and pricing. Light Commercial sales declined 4%.

Aftermarket sales across the segment increased mid-teens with particular strength in controls. Segment operating margin was 19.7%, down 560 basis points, reflecting the impact of much lower Resi volume.

Moving to the CSE segment on slide 12. Residential and Light Commercial sales were down low single digits, continued heating market unit declines in region. As Dave mentioned, heat pump sales growth across Europe remains strong. Commercial declined mid-single digits, reflecting some large project timing that we expect to partially recover in Q4.

Segment operating margin declined 110 basis points, driven by lower organic sales and mix, partially offset by productivity, including cost synergies. We are accelerating additional reductions in head count and other cost actions in this segment.

Turning to the CSAME segment on slide 13. Organic sales declined 2%. Continued double-digit growth in India and the Middle East was more than offset by ongoing weakness in Resi and Light Commercial in China. Within China, our Resi and Light Commercial business was down mid-teens, partially offset by Commercial, which was up mid-single digits. Segment operating margin of 11.6% was primarily driven by strong productivity gains, offset by lower volume.

Finally, moving to CST on slide 14. Organic sales were up 6%, led by continued very strong growth in container, partially offset by mid-single-digit decline in Global Truck and Trailer. North America Truck and Trailer was flat. Segment operating margin of 15.4% expanded by 80 basis points year-over-year, primarily driven by the 2024 exit of Commercial Refrigeration.

Turning to slide 15. Total company organic orders were down high single digits for the quarter. Excluding CSA Resi orders, which were impacted last year's elevated preordering related to the refrigerant transition, total company orders were up low single digits. CSA Residential orders were down about 40% compared to orders up

30% last year. As expected, Commercial orders in CSA have been and will continue to be lumpy given large data center wins.

In CSA, Residential and Light Commercial orders grew low single digits and are up mid-single digits year-to-date. We expect Commercial orders in CSE to pick up in the coming quarters given a strong pipeline, including data center projects in this region.

Orders in CSAME were flat with strong growth outside of China. CST orders were exceptionally strong, led by container up about 100% and Global Truck and Trailer, which was up about 25%.

Shifting to guidance and moving to slide 16. The updated guidance primarily reflects market weakness in our Residential and Light Commercial businesses in the Americas and Europe. We now anticipate CSA Resi to be down high single digits versus our prior outlook of up mid-single digits. In Europe, we now anticipate our RLC business to be down mid-single digits versus the prior outlook of about flat.

Partially offsetting these headwinds, the Americas Commercial business is expected to grow over 25% this year, an outstanding performance. Overall, we now expect about \$22 billion in sales for 2025. About \$700 million of the reduction versus our prior guide relates to CSA Resi.

Moving to profit and cash guide on slide 17. We are revising our full year adjusted operating margin guidance. Our updated margin expectation for CS Americas and CS Europe reflect volume declines in the RLC businesses in both segments. In addition, we are adjusting our margin outlook for transportation, given stronger expected container sales and lower NATT sales.

We are adding to the cost reduction actions we initiated earlier this year to rightsize the business and now expect carryover savings in 2026 to amount to over \$100 million. The net full year tariff impact in our current guide remains zero in terms of operating profit. We expect full year adjusted EPS of about \$2.65, including a lower adjusted effective tax rate closer to 21% and expect free cash flow of about \$2 billion, reflecting lower earnings and higher anticipated cash restructuring costs of about \$150 million.

Finally, we continue to expect about \$3 billion of share repurchases this year. Additional full year guide items are in the appendix on slide 21. With respect to Q4, we expect CSA Resi sales down approximately 30% and volumes down about 40% and continued significant headwinds from under-absorption as the channel continues to destock.

Before moving to Q&A, let me make a few comments on how to frame 2026. First, we expect to end 2025 with CSA Resi destocking behind us. Obviously, we expect a difficult compare in the first half of 2026 in CSA Resi, which will have an impact on total company performance, particularly in the first quarter.

Second, we are executing on significant cost actions, which we have spoken about previously. This should amount to roughly \$0.10 carryover adjusted EPS tailwind next year. Third, we expect about 100 basis point ongoing benefit from a lower tax rate.

In total, we therefore expect about \$0.20 of adjusted EPS tailwind in 2026 from the combination of carryover restructuring benefits, tax and share repo. It is too early to comment on the levels of 2026 organic growth, but it's fair to say that we target about 30% conversion. For planning purposes, given heightened levels of uncertainty, we are running the business assuming low single-digit organic growth in 2026. In addition, the net carryover impact of pricing and tariffs is expected to remain dollar-neutral based on tariffs and pricing in place today.

With that, I would like to ask the operator to open the line for Q&A.

QUESTION AND ANSWER SECTION

Operator: Now opening the floor for question-and-answer session. [Operator Instructions] Your first question comes from the line of Jeffrey Sprague of Vertical Research Partners. Your line is now open.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Hey. Thank you. Good morning, everyone. Hey, just obviously, a couple of questions around Resi. Just first of all, Dave or Patrick, looking at your consolidated inventories, they're up sequentially in the quarter, typically down. Clearly, you've pointed to more work to do to clear the channel. But can you unpack that for us, the volume decline that you're expecting in Resi plus what other moving pieces might be going on in inventory? And maybe as part of that, obviously, getting the channel where you want it to be depends not only on your actions on production, but really how sell-through is progressing. So maybe just a little bit of color on what you think kind of sell-through or movement might be [indiscernible] (00:20:51).

Patrick P. Goris

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

A

Sounds good, Jeff and good morning. I'll take the first part of the question. So far, on a consolidated level, our inventories are up about \$500 million. Of that, about \$400 million is in our CSA Resi segment. And of the \$400 million increase in our CSA segment, the Resi element is about \$350 million of that increase. And basically, it's a reflection of two things. One, a sudden decline in Residential volume. And so it takes some time for our supply chain to adjust to that.

The second element is we have purposefully increased inventories a little bit this year related to our components replacement business to ensure that we can satisfy demand over there. We do expect this inventory to start reducing. Actually, it started reducing already. And the inventory levels will come down by the end of the year. They probably won't come down exactly to where we would like them to be. And a reason for that is we're really balancing within our factories, the levels of ongoing production with taking out a lot of labor that we just have them to rehire the first quarter of the year. And so there's a little bit of a balance there between operating profit and free cash flow and ensuring that we can meet demand – expect the demand in the first quarter of the year. So you can expect that increase to start coming down by the end of calendar year.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

And Jeff, it's Dave. In terms of field inventory levels, we are going to great lengths with our distribution partners to try to start next year with a clean slate, take all of our medicine this year. I mentioned that our expectation is that field inventory levels ending this year will be down 30% year-over-year. In terms of your question on movement, movement was down about 30%, it looks like in October, and we expect movement to be down in the mid-20s for November and December.

Now remember, movement was very strong in 4Q last year. It was up about 30%. And then it started to get weaker as we got into Q1 of this year. So movement starting Q1 of this year was negative. So, we'll start to see some easier comps on movement. So when you end this year at inventory levels at 2018 levels, we feel like that's

the right number. We don't feel like that destocking will be a further headwind as we get into next year, and then we'll have to see what movement does as we get into Q1.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

And maybe just a follow-up. There's like 27 other questions, but I'll just ask one and pass [indiscernible] (00:23:39) Patrick, in your answer, you mentioned kind of repair. Where do you guys stand on what's going on in the repair-versus-replace dynamic and just sort of the health of the consumer and kind of managing through price and the question of price elasticity?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. As you know, Jeff, we get this a lot, and there's really no exact way to measure that. Our parts are up quite a bit, but we've been very purposeful about increasing our share of wallet on part sales. So we would expect that to be up given the initiatives we're driving. When we talk to our distribution partners, they do not see an outsized growth on discrete part sales, compressors or other key components where that would be indicative of a repair-versus-replace.

Having said that, it's hard not to imagine that there is more consumers opting for repair over replace, and we're hearing some sporadic pickup of that in certain locations. So I would have to believe it's happening in the system, although it's really hard to dimensionalize just how much.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Right. Thank you. I'll leave it there.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Thanks, Jeff.

Operator: [audio gap] (00:24:50) question comes from the line of Scott Davis of Melius. Your line is now open.

Scott Reed Davis

Analyst, Melius Research LLC

Q

Hey, good morning, guys.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Hey, Scott.

Patrick P. Goris

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

A

Good morning.

Scott Reed Davis

Analyst, Melius Research LLC

Q

Just to follow-up a little bit on Jeff's question. Has the inventory destock and kind of the reset, does that impact your ability to get the price that you wanted to get for 2026 when you think about – you're still working off a little bit of a higher cost base overall. So does that change the price dynamic at all?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

We'll have to see, Jeff, as we think about 2026 pricing – I mean, Scott, when we think about 2026 pricing, we'll announce a mid-single-digit price increase here for next year. We'll probably announce that in the next couple of weeks. And we would expect to yield in the low single-digit range. When you think about this year, we've said that the combination of mix and price have both been around in that 10% range. That will continue here for 4Q.

We'll get a little bit less of the mix benefit in Q4 here because we started shipping some of the R-454B in the fourth quarter of last year. But in terms of price, I think this year has been probably closer to mid-single digits and next year is probably closer to low-single digits.

Scott Reed Davis

Analyst, Melius Research LLC

Q

Okay. That makes sense. And then if you don't mind, David, just giving us a little bit of detail on the restructuring. Are you talking about – or you didn't say restructuring, you said cost containment. But is there structural cost out versus kind of just – kind of the usual cut in discretionary spend? Is there actual structural cost out that we can count on lingering not just into 2026, but going forward?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

100%. I mean that's the entire purpose is to take out structural costs. This is not – we're not just trying to squeeze short-term costs. We're focused on indirect head count. We're looking at about 3,000 heads. And then the whole goal is to make sure that we are very disciplined about not adding those heads back in. And it's not just giving out targets and having people take the heads out. We're trying to do things like using Patrick's CBS organization to do things differently in terms of how we deal with collections or payables or do things much more efficiently. Bobby and our IT department using AI in groups like our legal department or elsewhere to make us more efficient in how we do things in the back office. So we're trying to do things a lot smarter, a lot more efficiently. We have 20,000 Copilot licenses that are starting to cascade across Carrier. So the answer is 100% focused on structural cost takeout that comes out and stays out.

Scott Reed Davis

Analyst, Melius Research LLC

Q

Okay. Thank you. David, Patrick and Mike. Good luck [indiscernible] (00:27:52) rest of the year.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Thank you.

Patrick P. Goris

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

A

Thank you.

Operator: Your next question comes from the line of Julian Mitchell of Barclays. Your line is now open.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Hi. Good morning. So just running off the initial thoughts or comments on next year, Patrick, I suppose one could surmise you get to something like a \$2.90s of EPS or something maybe high single-digit EPS growth and mid-single-digit profit growth based off the low single-digit sales and 30% incremental placeholders.

Within that framework, just trying to understand maybe a little bit deeper how you're thinking about CSA Resi in terms of the outlook as you think about sell-out or movement dynamics and the recoupling of sort of sell-in versus that. Maybe flesh that out a little bit, please, as you think beyond December.

Patrick P. Goris

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

Sounds good, Julian. So first of all, in my comments, what I was saying was that we expect to see a \$0.20 adjusted EPS benefit just from the restructuring benefits, from tax and share repurchases. That is without any organic growth. And we said for internal planning purposes, just as to how we run the business that we're assuming low single digits of organic growth.

If you look across our portfolio today, and Dave mentioned this, a little over 40% of our sales has been growing double digits and would expect that to continue next year. That's our aftermarket business and our global Commercial HVAC business. That would get you to about 4% organic growth next year if that continues with the rest of the company flat.

And so, the question really is what happens with the balance of the company and a big part of that is CSA Resi. At this point and still very early, our estimate is it may be flat to slightly up from a volume perspective. And in Europe, as Dave mentioned, it has been quite weak for a long period of time. Our largest market, Germany, the market there is at 15-year lows. We see a hard time that getting worse. And so we think flat might be a safe assumption, maybe it gets better.

Julian Mitchell

Analyst, Barclays Capital, Inc.

That's very helpful. Thank you. And then just maybe my quick follow-up would be looking at the CSA Commercial HVAC businesses in terms of Light Commercial as well as the larger applied business. How are you seeing the non – the demand in the non-data center verticals there? I understand orders are lumpy. I think they were down in CSA Commercial in the third quarter, but a big data center Q4 order. But if we think about the non-data center demand in CSA, Light and applied, how is that looking?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yes, Julian, if you look at the Commercial HVAC business, non-data centers were up and from a sales perspective, in the low teens. So the data center business in our Commercial HVAC business was up about 250%, non-data centers up in the low teens. So total was up 30%. So our applied business in Commercial HVAC in the Americas was up 60%. Non-data centers, it continues to be a bit of a mixed bag. We're doing very, very well in things like the mega projects, healthcare, even more so in Commercial than Light Commercial.

But surprisingly, commercial real estate was even up again this quarter over last quarter. We don't see it as a trend. [ph] ABI (00:31:52) is quite low. But for whatever reason, we've seen growth in commercial real estate two quarters in a row. Higher ed and K-12 are weak, both for Commercial HVAC and Light Commercial.

Patrick P. Goris

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

A

Actually, I believe Julian – I believe that in Q3, within CSA Americas for Commercial, the non-data center orders were actually up year-over-year. It's the data centers that were down given the lumpiness.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Perfect. Thank you.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Thank you.

Operator: Your next question comes from line of Steve Tusa of JPMorgan. Your line is now open.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Hey. Good morning, guys. Thanks, as always for the details.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. Hey, Steve.

Patrick P. Goris

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

A

Good morning.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Just on this Resi, so you said you're getting mid-single-digit price this year. I guess when you think about the low-double-digit or whatever it was for the price/mix, I guess, how much was mix and how much was price? I know there's like in the beginning, you were getting a bit more price than mix. But how does that break out in Resi for the third quarter?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. For 3Q, it would have been [ph] 3 and 8 (00:33:03).

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Okay. Got it. That's super helpful. And then when you guys talk about the 30%, I guess, back to Julian's question, I think that includes services. So I guess the applied business, if non-data center was – or data center was up 250% and your applied was up 60%, that still implies that kind of the – just getting more specific, the applied CSA was up? Or was the applied – you said it was a mixed bag. Was that actually up, the applied CSA equipment?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

I'm sorry. I was just saying the mixed bag was around which verticals were strong and which wasn't. When we look at total CHVAC in the Americas was up 30%. The applied business, the equipment was up 60%, aftermarket was up mid-teens and the controls business was up a little over 20%.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Okay. So that still implies the non-DC applied equipment was still up in the quarter?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yes, up in the low-teens.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Okay. Great. That's super helpful. Thanks a lot.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Thank you, Steve.

Patrick P. Goris

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

A

Thank you.

Operator: Your next question comes from the line of Nigel Coe of Wolfe. Your line is now open.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Thanks. Good morning. Just a quick one on the data center backlog, Dave. I think you've mentioned you needed to kind of build that backlog to kind of grow in 2026. I just want to make sure that \$0.9 billion of backlog you're expecting at the end of this year is kind of where you expect to be for 2026, and therefore, we should see nice growth next year. And can you just confirm that we're still on track for about \$1.1 billion of revenues this year?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah, I would say \$1 billion for this year, Nigel, in revenue and...

Patrick P. Goris

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

It always was \$1 billion.

A

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Always \$1 billion. So, it was \$1 billion, still is \$1 billion. And I will tell you, in terms of – we just discussed data center orders in 3Q, and we also mentioned that we've gotten really strong orders here in October. So, I've been very pleased. We wanted to go into next year with a backlog that was higher than the backlog, of course, that we had coming into this year.

A

This year, we came in with around \$700 million in backlog for the year. Obviously, the total backlog is much higher. I'm talking about backlog just for deliveries in following year. So, we came in with \$700 million for this year, and we'll do about \$1 billion. We wanted to end close to \$900 million, so we could drive nice growth for next year. And we're on track to end with backlog in that \$900 million range. We're a little bit north of \$700 million today. We got some – a lot of very strong irons in the fire. And there's just a lot of exciting activity. Frankly, I just got back late last night from Tokyo. So, we were over there. We've been working with our Japanese host. We've been working with the administration, had a number of meetings yesterday with Secretary Lutnick.

So, we signed this morning, we had one of my colleagues, [ph] Michael Gerges (00:36:08) was over there signing an MOU. There's going to be investments here in the Americas for infrastructure and data centers. So, we're continuing to push every angle with hyperscalers, colos and some of the unique opportunities that are out there, and we feel very well positioned for continued growth in this space as we go into next year.

Nigel Coe

Analyst, Wolfe Research LLC

Okay. You sound surprisingly fresh considering you just got back from Japan. But in terms of the movement numbers you just threw out, incredibly weak. So, I understand channel inventory is expected to be down to 2019 levels by the year-end. But I'm just wondering with end demand this week, is that enough channel burn? Are you confident that we are going to move into 2026 on a clean slate?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

I am, about as confident as we can be with kind of the soft movement market that we've been over these last few months and continue to be in. So, we've tried to plan 4Q in a way to avoid surprises like we had in 3Q. So 4Q and 3Q, we've assumed are effectively the same with total sales down about 30%, movement down – I mean, volume down about 40%. And we've tried to handicap movement continuing to be weak throughout the rest of the year. So – and that is even with a price increase that will become effective in January.

A

So, we're working very hard with our distribution partners. So, when we wake up in January, we're not talking about further de-stocking. Obviously, we are going to see – we can't have movement stay at these levels forever. We will have a little bit of year-over-year compare issues as we get into 1Q and that lightens, of course, as we go into 2Q and through the year. But even with a bit of a rebound on movement, we think we'll be very, very right-sized on field inventory levels starting in January.

Nigel Coe

Analyst, Wolfe Research LLC

Okay. I'll leave it there. Thank you.

Q

Operator: [audio gap] (00:38:10) question comes from the line of Joe Ritchie of Goldman Sachs. Your line is now open.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Hey, good morning, guys.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Hey, Joe.

A

Patrick P. Goris

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

Morning.

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

So look, I really appreciate all the color you've given already on 2026. I'm trying to really understand like the interplay between your own inventories, organic growth and margins in the early part of the year because typically, you guys build inventory from the fourth quarter to the first quarter. Are we to assume that does not happen in 2026? And then how do we kind of think about like the decremental margins associated with the early part of the year given you guys do have tough comps and you have elevated inventory levels on your own balance sheet?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Okay. Joe, let me start and then turn it over to Patrick. Let me tell you how we're kind of dealing operations because we saw such a sudden and extreme shift in our forecast and our demand. So, as we think about 4Q, we fundamentally had a decision to make. We frankly could have stopped production in a couple of our key lines and frankly, sites. And we decided to keep them going.

A

A cold start is very, very difficult for operations. You'd have to have a drastic reduction in head count, then you're suddenly hiring as you start to gear up for the season. So, we've kept operations going in places like Tennessee and Monterrey at very low levels, but continued levels. So, what that means for us is we've had a big absorption hit as we've gone 3Q into 4Q. We've seen some of our inventory levels a little bit higher than we'd like.

We're pretty disciplined on working capital, but we've purposely made that trade-off to keep operations going, which means as we get into the season in the March timeframe, we won't have as big a ramp in production, which might have a slight impact on absorption as we get in towards the end of 1Q. But I don't think anything major there, but we won't have the usual significant ramp as we get into season. Patrick?

Patrick P. Goris

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

A

And then just on the incrementals or decrementals in Q1, Joe, the first quarter of this year, CSA, which had very strong resi volume, and of course, we had significant production levels as well. Our incrementals were 69%, and so clearly, that's – it's going to be a tough comp. And I would expect the decrementals in Q1 on the resi side to be similar to what we're seeing in Q3 and Q4.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Got it. That's helpful. And then my quick follow-up, you've given the accretion from the buyback. Like any thoughts just given kind of the weakness in the stock this year, like any thoughts on an accelerated share repurchase program?

Patrick P. Goris

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

A

At this point, Joe, we're focused on repurchasing about \$3 billion for this year. And then the new authorization, our expectation is that it will take us into 2028, but nothing I can share at this point in terms of ASR.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Great. Thanks, guys.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Thank you.

Patrick P. Goris

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

A

Thank you.

Operator: Your next question comes from the line of Andrew Kaplowitz at Citigroup. Your line is now open.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Good morning, everyone.

Patrick P. Goris

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

A

Morning, Andy.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Morning, Andy.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Dave, can you give a little more color into RLC Europe and what you think is going on over there? I think you recently said that the German heating market could bottom at 600,000 units. And the obvious drag on your results have been boilers. So maybe just how you see that market playing out in 2026? What's the conviction level that we will mark a bottom this year? And maybe you can elaborate on what you're doing to get the margin up in that segment.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. Let me do first one first. I think it's a bit of a fool's errand to call a bottom. But I will say that we saw such strong growth in 2022 – so the market there has just taken a whole lot of the medicine since. So, the market this year, we thought would be closer to 650,000 or so. It's going to end up being in that 600,000 range. I'm talking about Germany specifically. So, it does feel like when you look at any kind of chart over last 40 years, the German market does seem to be getting to historic lows and prepared for some level of recovery. Now in Europe versus the United States, United States is almost all replacement. In Europe, you will see some planned replacement and a lot of that has been put on hold waiting for some things to settle out.

The new German government is having more fiscal stimulus, which is positive. We'll see what happens with the heating law and subsidy levels, probably a little bit more clarity as we get into the end of this year into early next year.

The good news is that if you look at the ratio in Germany between heat pumps and boilers, it's almost getting closer to parity. So, in terms of what we saw this year with a big decline in boilers in the 30% range and a very unique thing around very expensive floor standing boilers, which we don't expect to be talking about again next year, we do think that if we can continue, which we expect to see that strong growth in heat pumps, remember, we're seeing subsidy levels up 2x this year versus last, about 300,000 subsidy applications. And we see a little bit more muted decline in the boilers, Germany should be poised for strength as we go into 2026.

And then you've seen a mixed bag outside of Germany. Certain countries like France and Poland were weak. We saw strength in places like UK and even Italy was a little bit better than we had thought. So, I think throughout Europe, we see continued heat pump adoption. We see really good traction on our initiatives, things like air conditioning sales and some of the system level sales. And we're just going to have to watch the market dynamics, but we've taken a lot of medicine over the last couple of years. So hopefully, we've seen bottom.

Patrick P. Goris

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

A

And then Andy, very quickly on the cost out in Europe. Dave mentioned earlier, about 3,000 positions, overhead positions that we're in the process of taking out. Of that, about half of that is in European segment in CS Europe.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Thanks for that, guys. And then I think you had suggested recently that CSAME and CST would return to organic growth in Q3. And while transportation did, CSAME still lagged a little bit. Can you give more color into the outlook? Is that just China still being sluggish?

Patrick P. Goris

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

A

That is really China, Andy. And it goes back to Resi China. And so it's not on the Commercial side. The one thing we're doing in China as well, and that's going to carry over a little bit in Q4 and so embedded in our guide is we are also looking at the field inventories in our China Residential business. They have been somewhat elevated, and we are in the process – our team over there is in the process of working with our partners there to reduce the inventory levels in the field there as well.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Appreciate it, guys.

Patrick P. Goris

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

A

Thank you.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Thanks, Andy.

Operator: [audio gap] (00:45:38) question comes from the line of Deane Dray of Royal Bank of Canada. Your line is now open.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone.

Patrick P. Goris

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

A

Morning, Deane.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

I was hoping to circle back on the destocking. And if Dave, you could put some of this into context, most of these decisions on the destocking are being made by your independent dealers. So I know if you could just kind of collectively their mindset in being aggressively taking inventory down to eight-year lows. And then once this is done, is there a risk that just you get a normal seasonal demand in the spring, a couple of hot days, and then we'll be back talking about inventory shortages and just how quickly can it ramp up, assuming normalized demand in the spring?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, look, Deane, that would be a tremendous problem to have. We – what we have learned about this business is that it is very short cycle, and you can see sudden swings. And you can see sudden swings for a whole bunch of variables. So, I will say that we've looked hard at our forecasting model, too, that we had a model that's kind of

withstood the test of time in a short-cycle business over many, many years, but it clearly failed us over the past five months or so.

So, we've looked at it. We're using AI to see if we can get more correlations between certain variables so we can have a bit better. It's going to take a couple of quarters to figure out whether the new forecasting tool has some better correlation to some of these variables.

But having said that, I do think that our independent distributors are being very clear-eyed about making sure that they start the year with inventory levels that they feel are balanced, and we're working very closely with them, distributor by distributor to make sure that they have what they feel they need, but not a single unit more than what they need.

Could we see a nice influx of orders as we get into the spring, driven by whether it's weather or by consumer sentiment or by a rebound in new home construction? For sure. But right now, as we think about our own internal forecasting and quite honestly, our external forecasting, you'll see us err on the side of conservatism.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Understood. And then as a follow-up, the discussion about applied, we see vertical – if you take us through the verticals, you said they were mixed. Obviously, data center is at the top, but just kind of take us through the rest of them. And anything on the government slowdown, project push-outs, delays, anything you would comment there?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. I'd say on the second part of your question, Deane, I'd say the only real impact we've seen on the government shutdown has – we've seen it a bit in our Light Commercial business. That business is weaker than we thought going into 4Q. We thought 4Q would be flattish. We're now saying down about 15%.

And part of it is even though rates seem to be coming down a bit for some of the small businesses, they've been a little bit limited on lending and credit. And some of that is loans processed by the SBA have been put on hold. So that's the one area with the shutdown that we've seen that we can directly correlate to a business has probably been in our Light Commercial business. I would say, overall, the verticals of strength vary by region a bit. Like, for example, in most parts of the world, healthcare has been very, very strong. And it's gotten a little bit weak over the last quarter in China. In China, renewables has been weak.

But I would say if you're looking for trends globally, number one, two and three is data centers. That is strong in the Americas, and it's very strong globally. We're seeing pockets strength in the Middle East and Southeast Asia. We're winning orders in India. We have our sales folks in China diverting from projects they had been on focused clearly on data centers.

A lot of industrial production has been strong globally, including reshoring in the United States, some of the mega projects. Retail has been a mixed bag, but that's been an area of strength. Education K-12 is generally weak globally, certainly here in the United States.

And another area that you'll be hearing us talk a lot more about is mods and upgrades. So, where we see limited new construction and commercial real estate in key parts of the world and especially in some very dense populations in certain cities, we're very, very focused on modifications and upgrades. So that's a whole new vector for us. We've been at it for a while, but we're doubling down on that area as well right now.

Deane Dray

Analyst, RBC Capital Markets LLC

Great. Thanks for that update.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thank you, Deane.

A

Operator: Your next question comes from the line of Andrew Obin of Bank of America. Your line is open.

Andrew Obin

Analyst, BofA Securities, Inc.

Yeah. Good morning. How are you?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Good, Andrew.

A

Andrew Obin

Analyst, BofA Securities, Inc.

Just a question on magnetic-bearing chillers. Just where is the industry capacity? Where are you? Because our channel checks are picking up that overall, the industry sort of – was a bit too successful in getting orders, and there's not a lot capacity out there. So, what's your ability to take market share? Or do you need to add capacity yourselves?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

We're in great shape, Andrew. And it's been very purposeful. We've built a whole new facility in North America. We've expanded the existing facility that we have in Charlotte. So, if you look at our capacity, just since 2023 in North America, our capacity for water cool chillers is up 4x total chillers, when you include air cooled is up 3x. And I think, look, that's been contributing to a lot of the share gains that we've seen on Commercial HVAC. Some tremendous wins on the data center side. I could not be more proud of the team. And part of it is having the capacity now, and we have a lot more capacity to go – not capacity to go, we have a lot more capacity to continue to grow without further investments.

A

And part of it is the way we're interfacing with our customers. We said to our team and we said to our customers, if you have confidence in us, we will never let you down. We will track deliveries by the hour. We'll make sure that we're always there for you, not only on the delivery side, but technically in terms of installation, in terms of start-up. So a lot of our orders are coming from customers that we've proven that we are their corner. And then part of it is the investments that we've made in the technical portfolio.

We have a new air cooled chiller that has mag bearings. That's coming out right now, huge interest from our data center customers. So a lot of great wins and the investments that we've made over the last 24 months in the additional capacity are paying off. We don't need any more CapEx. We may do a little bit more in certain countries where that's a part of the win process, and we'll see how that plays out. But right now, we're well set in North America.

Andrew Obin

Analyst, BofA Securities, Inc.

Q

Thank you. And just a little bit more pace on Resi coming back in 2026. Should we be saying first – because you sort of said flat to slightly up. So should we be saying Q1 down and then it gets positive after second quarter? Or is it first half, second half story?

Patrick P. Goris

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

A

Clearly, the first half will be very difficult given the very strong first half we had this year. And so, I think it's fair to say that we would expect Resi first half, especially Q1 to be down year-over-year from a volume perspective.

Andrew Obin

Analyst, BofA Securities, Inc.

Q

Thank you very much, Patrick. Thank you.

Operator: Your next question comes from the line of Chris Snyder of Morgan Stanley. Your line is now open.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. I wanted to ask about Americas' margins into next year. It seems like the guide, if my math is right, puts Q4 at maybe a low double-digit to low teens exit rate. And if the company is, I guess, effectively under producing to maybe about Q2 of next year, I would think the absorption headwinds drag through maybe around midyear. I guess, should we expect Americas' margins down next year, just given how hard these first half comps are even if the segment can collectively grow in 2026? Thank you.

Patrick P. Goris

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

A

Obviously, quite early to comment on 2026 margins, but I think that CSA margin this year will be around 21% or so, unless for some reason, Resi would be significantly down next year, which we, at this point, do not expect, I would not expect the CSA margins in – to be down next year. Actually, I would expect them to be up.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. I appreciate that. And then just a follow-up on the price. I think you guys said expect low single-digit realization on fresh 2026 price. I guess, kind of how do you think about balancing the need to cover cost inflation, which is still evident versus just potential demand destruction. We have seen these price increases get multiplied as they work their way through the channel and on to the homeowner. And I think the risk would be that this just keeps the market in repair mode for longer. Any thoughts on how you guys balance that as an industry even? Thank you.

Patrick P. Goris

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

A

I think it will be important for us next year. And Dave mentioned that we expect to announce a price increase. We do expect to realize low-single-digit price next year. Input costs are going up.

And of course, we haven't spoken about this yet, but should there be any additional tariffs, this might impact the requirement – the need to further adjust pricing. And so, we certainly expect to realize additional pricing next year, though it will be much more modest, of course, absent any additional new tariffs.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

And I think [ph] Chris (00:55:55)...

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

...and we do watch the elasticity curves. So we are sensitive to not taking actions that drive that dynamic between replace and repair and we'll continue to watch our curves. But even watching those quite carefully, we're confident we'll get some level of price next year...

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

...albeit more modest than this year.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. I appreciate that.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Thank you.

Patrick P. Goris

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

A

Thank you.

Operator: Your next question comes from the line of Nicole DeBlase of Deutsche Bank. Your line is now open.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Thanks. Good morning, guys.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Good morning.

A

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Can we just start with CST? Orders were up pretty significantly. Do you think we're starting to see this market rebound off the bottom? Or is it more about just easier prior year comps?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

I would say, on the good side, the container business has been tremendous. I mean, up 50% in the quarter. The year is going to be very strong, probably up 30%. And that's been share gains. It's been share gains the right way through our new product introductions. So that has been just a very, very good news story for us.

A

It's hard to say with the North American truck/trailer business, we've seen – we expect that to have some good growth here in the fourth quarter. It was flattish in the fourth quarter. So, the trends there are right, but it's too early to call a strong rebound, but we are seeing it move in the right direction.

And I would say European truck/trailer was a little bit down. It was down a few percent in Q3. It will be down another couple of percent here in Q4. So, I kind of think of it similar to some of our Resi businesses.

Truck/trailer, we're number one player, very good margins, very well positioned. So as these markets, which have been a little bit depressed in Europe and the Americas, as they start to come back, and it's not clear exactly when, but as they start to come back over these next couple of quarters, that will drop through very well.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Okay. Got it. Thanks, Dave. And then can we just talk about Europe Commercial as well? I think it was down mid-single digits in the quarter, and you had expected something a bit better than that. Orders were also down a bit. Can we just unpack what's going on there? Is this more of a comp issue as well?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. I'd say it's – I honestly would call it more of a timing issue than much of anything else. We see that even though orders weren't even great, orders tend to be lumpy, especially when we're pursuing some key data center customers.

A

I think that this quarter will be up double digits. Internally, we're shooting for a fairly strong number, but it should be up double digits here in Q4. We expect to have good backlog going into next year. The data center pursuits have been very strong.

There's a couple unique things happening where, for example, in Q3, our rentals business was down more than 20% with year-over-year comparison with the Olympics in Paris. So, there are some things kind of at the margin within the factories and within aftermarket. But overall, demand very strong, team very well poised for double-digit growth, and we expect very strong growth in this space for next year as well.

Nicole DeBlase

Analyst, Deutsche Bank Securities, Inc.

Thank you. I'll pass it on.

Q

Operator: Our last question for today comes from the line of Amit Mehrotra of UBS. Your line is now open.

Amit Mehrotra

Analyst, UBS Securities LLC

Thanks. Operator. Hi, everybody. Maybe just a couple quick ones from me. One is not to beat a dead horse on pricing, but any movement on pricing related to tariffs over the course of the year? I know you guys took a price increase on May 1. Pricing discipline, obviously, very strong. So no questions there. But just with respect to any movement related to tariffs specifically vis-a-vis rebates or anything like that, just given how tariff have evolved over the course of the year?

Q

Patrick P. Goris

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

Yes, Amit, good memory. We implemented incremental pricing earlier this year related to some of the new tariffs. That was at the time of our Q1 earnings, we said it was about – it would require about \$300 million of incremental pricing. We updated that back in July with some of the additional actions we were taking, the pricing requirement was only closer to \$200 million this year to offset tariffs. That number has not changed. So we're still in that \$200 million range. And as I mentioned earlier, the carryover impact of tariffs, pricing and the cost equation of that is expected to be net neutral in 2026 based on tariffs in place today.

A

Amit Mehrotra

Analyst, UBS Securities LLC

Right. And then, Dave, just a quick follow-up. We're all trying to figure out the drivers of the weakness in residential HVAC this year and just a lot got thrown at the market this year, whether it was the pre-buy, the slower – shorter selling season, the refrigerant shortage, just a lot of stuff happened this year. You made an interesting comment, I think, last month where you talked about a third of existing home sales translates to new HVAC shipments. It just seems like – I understand that dynamic, but that number just seemed higher than I would have anticipated.

Q

So as you think about your demand models and the input to those demand models, we're all trying to answer this question about what volume looks like next year. What are the main kind of levers you're watching from a leading indicator perspective that may inform kind of how that market evolves?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yes. Let me just start by clarifying that when people buy new homes, our experience is that usually 20% to 25% of the time, that results in a change to their HVAC system. So, I think seeing the depressed new home construction, but also the sale of existing homes has been a double hit to demand. I think if you just step back and you think about Resi as you go into next year, I would say the good news is that overall comps this year will be down high single digits. As Patrick said, we have much easier comps in the second half than the first half. We are taking a lot of actions to get field inventory levels ending this year at a level where we feel like destocking should not be a further headwind as we go into next year.

A

On the positive side, interest rates hopefully will decline, and that should help both new home construction and the sale of existing homes, which, as we just discussed, does result in changes typically to HVAC systems and 20% to 25% of the time. And I think those that have been opting to do some level of repair over replace, there will be pent-up demand there.

The things that we got to watch is we do have tough comps in the first quarter, perhaps a bit into 2Q as well. And it will all come down to the strength of the consumer, and it's just too early to say how that's going to play itself out. We won't get too much of a mix benefit next year. It's probably in the \$20 million range or so. So, it's going to come down. There's some reasons for optimism. There are some watch items, and we'll just have to see how next year plays out.

Amit Mehrotra

Analyst, UBS Securities LLC

Q

Right. Okay. Thanks very much. Appreciate it.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thank you. And, let me just close by thanking you all for joining the call. And thanks to our 50,000 colleagues globally. This is a time where people are working extremely hard to control the controllables and support our customers.

And I could not be more proud of our team and how energized and how hard they're working to make sure that we provide best-in-class support to our customers. So, thanks to all my colleagues and thanks to all of our shareholders.

Operator: Thank you for attending today's call. You may now disconnect. Goodbye.

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