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Carrier Global Corp. (CARR)

Citi Global Industrial Tech & Mobility Conference

CORPORATE PARTICIPANTS

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Patrick P. Goris

Executive Vice President & Chief Financial and Strategy Officer, Carrier Global Corp.

OTHER PARTICIPANTS

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

We are very excited to have Carrier Corporation with us today. We've got David Gitlin, who is the CEO; and Patrick Goris, who is the CFO. Dave, as I walk over to you, obviously you had your Investor Day almost a year ago now. It has been a little bit of noise as you know out there about a couple of end markets. But I think the highlight of the Investor Day for me was about Carrier promoting accelerating growth, right?

QUESTION AND ANSWER SECTION

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

And I think you said you would drive that outperformance in growth through continued new product development, aftermarket, increasing systems, related growth. Som as we start 2026 where do you think Carrier is on that journey to increase that performance?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

When you look at – excuse me – three of the four elements that we talked about with our growth algorithm, products aftermarket systems, we said combined that would be around 4 or 5 points of growth and we feel good about all of them. Aftermarket, the formula works, product, we're introducing new products, we're gaining share. We're surely gaining share. And data centers and systems is this new frontier for us with things like CDUs to build out of quantum leap offering in data centers, carrier, energy system level offerings in HEMS in Europe. So, in terms of those three controlling the controllables we feel great. The issue we've had is this year we're going to face about 3 points to 4 points of market headwind with our CSA, RLC businesses down high single-digits and some continued headwind in the residential business in Europe. So, have had it not been for some of those market headwinds of 3% to 4%, which puts the whole company plus about 1%, even just a couple of points of market headwind would put us in our growth algorithm of 6% to 8%. I don't know – if we get there in 2027, but I can tell you as soon as we get a little bit of short cycle market tailwind, which we would expect, we get back into that 6% to 8% range.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Got it. And Dave, I know you just reported a couple of weeks ago, but you were with my peer earlier today, like has anything changed in your outlook? I just wondering like anything new that you want to sort of talk about?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

No. The short answer, Andy, is 100% nothing new. 1Q is what we thought, full years, what we thought calendarization, what we thought there's nothing new.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Easy enough. So, 2025 end up being a little bit more challenging as you talked about. Like you know are there any actions you can take to better anticipate potential perturbations in resi HVAC? I know it's cyclical, you know it's cyclical. Like what are you doing to sort of make sure you're on top of what's going on in the market these days?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, I think it's a couple of things. If you look at how we've been talking about the market, we're looking at what would be a standard mean 9 million units per year. And when you're going through a phase where you have

multiple years ahead of it, alarm bells should start to indicate that at some point you probably will go below the mean. So, I think there's a few lenses through which we can look now with the benefit of hindsight that, looking at inventory buildup as we got into the end of the second quarter, there were some indications that we look at more now than perhaps we were a year ago. Two is our channel contacts. We have weekly meetings not only with Watsco, but all of our independent distributors going super deep on all the early indicators. We're doing a lot more around field inventory management. We said we did last year at 30%. We ended January at down 32%. Our inventory levels continue to stay low and we're doing a lot more on keeping field inventory levels low. And then we brought in one of our hyperscaler customers helped us with some of their AI specialists where we not only look at the macros, things like existing home sales, new home sales, consumer confidence, interest rates. But we also obviously look at movements, sell in and inventory levels, but they're also saying you could look at other things like clicks on Zillow or other things like that. So, between indicators, daily, weekly communications with distributors and dealers and the macros, I think we're incredibly in tune. And remember we hadn't missed resi for a number of years. So, we'll take – we took a lot of medicine last year. We've learned a lot from it and I think we've really positioned ourselves well going into this year.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Sure point. And Patrick can chime in if he wants to. But like you set the industry volume decline this year down 10% to 15%, right? And I think it seems appropriately conservative, but maybe you can comment that in that vein. Have resi orders have been tracking so far early in the year, the way you would think.

Patrick P. Goris

Executive Vice President & Chief Financial and Strategy Officer, Carrier Global Corp.

A

Well, obviously, it's still very early.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

It's furnace season.

Patrick P. Goris

Executive Vice President & Chief Financial and Strategy Officer, Carrier Global Corp.

A

We just give guidance two weeks ago. But anything we're seeing this quarter is consistent with our full year guidance, including the guide for Q1. And frankly this is the quarter where our distributors would start to build inventory for the season and that's what we would expect. And therefore we would see – we would expect to see increasing volumes as the quarter progresses, as we typically see every year. And so distributor inventory will be up sequentially, but still down significantly year-over-year by the end of the quarter.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Got it. That's helpful. And then maybe one more resi related question. Given the cost and productivity actions you took in 2025 and as you're navigating the Americas resi chance, how are you thinking about operating leverage and incremental margins in your Americas business, in the second half of 2026 and into 2027, if resin does start to come back?

Patrick P. Goris

Executive Vice President & Chief Financial and Strategy Officer, Carrier Global Corp.

A

Yeah. So, what we've seen unfortunately in the second half of last year is how painful it is if that business contracts significantly in a short period of time. So, we've seen significant decrements. Obviously, that also means that as the business improves and we see growth year-over-year, we expect to see very attractive incrementals. And so for the second half of this year, the incrementals in CSA will be attractive because of resi will be up double-digits second half of the year in sales, given the absence of destocking. So, the incrementals should be in the 40-plus percent range.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Yeah, very nice. And then maybe Dave, just staying within your Americas business. Like commercial sales as you know we're down 20% in Q4 and for the year. But you also did note that field inventory is down materially with like commercial distributor inventories down 25%, but you still expect a high single digit decline that [indiscernible] (00:20:24) 2026. So, what's the outlook for that business? Like how are you feeling about that right now?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

I'll give you a few pieces of good news is orders up 70% in 4Q even though an easier compare because it was up 20%, it was down 20% in 4Q of the prior year. Field inventory down 25% as you said, we're introducing a lot of new products, which is in the past and continues to be a lot of tailwind for us, because we are quite differentiated with our rooftop units. So, I think the thing that's hard to gauge will be the 35% of that business, that's plan replacements, probably under a little bit of pressure with the small and medium business owners. And then nearly half is the replacement business. There's going to be some pent-up demand for full replacements. We'll have to see exactly when that kicks in. So, the team is doing a nice job to set ourselves up for this year. We guided down high single digits. We'll have to see how the year evolves.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Dave, I was with one of your competitors yesterday and they talked about retail, maybe getting a little better, like I don't know if I should get excited about that, but what do you think about different end markets within [indiscernible] (00:21:33).

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

When we look at the end markets, I would say retail hasn't shown a market improvement from an industry, but our share has had significant improvements in retail. We go direct in that business to some of our national account customers and our win rate with new national account customers, major national account customers has been very, very high. So, retail for us has been very, very strong. I think for the industry it's probably still a bit muted. [ph] K through 12 (00:22:06) was very soft last year. It is showing signs of life to start this year, which we had thought it was going to be a little bit better because a lot of that extra funding was going to shift over into state bonds, which we're now starting to see being released a little bit. So, a couple of the verticals do look promising. We'll have to see how 1Q, 2Q play out. But I think we've set the bar at a conservative level and the team is certainly grinding to do better than that.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Dave, to your point there's no unitary markets that I mean K through 12 is already pretty bad. Is everyone still going in the wrong direction you think, like I know your guide is still down, but...

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

No, it's hard to say. I think that there's nothing that is trending worse this year than it was last year. I mean some of the warehouse has been softish.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Yeah.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Commercial real estate has been soft, frankly despite the ABI numbers that's even been showing signs of life over the last couple of months, frankly surprising to us that's actually gone a bit well. So, nothing that's terribly off the rails. We just have to watch some of the small, medium business owners to see their confidence level to start releasing some CapEx for plant replacement.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Got it. And then obviously America's commercial HVAC has been a highlight for you guys. Q4 orders up over 80%. You doubled your data center business. You're going to do another 50% in 2026. So, given the significant focus you have, can you talk about how you're differentiating right now in the world of data centers? What are you doing?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah, I think a lot of it has to do with how we are introducing new products that are right in the sweet spot of what our customers want. We saw it with water cooled chillers where we introduced these 18 megawatt to 20 megawatt maglev-bearing chillers on the water cooled side and our share went from 10% to close to 40%. And we're doing the same playbook on the air cooled side. So, we've been working with our hyperscaler and colo customers. They wanted 2 megawatt, 3 megawatt maglev bearing. We've been introducing those, but with the specific requirements they want in terms of free cooling and quick restart. So, as we've iterated with our customers between the interplay between air cooled and water-cooled chillers with a point design that's very specific to what they're trying to accomplish with their data centers. We've seen significant share gains in data centers. So, I don't think on air cooled we will have the same 10% to 40%, but we are going to de facto gain significant share. And if you look at this business, Andy, when we spun, especially in the Americas where the team has done a phenomenal job, we were mid-single-digit ROS and kind of a distant third. We've come so far by investing in capacity in North America, we invested in the product portfolio, in technicians, in sales and the sales force in spec engineers and design engineers. Hats off to the team, because that's been a complete turnaround. Margin is now in the mid-teens. Our data center orders in 4Q for the applied business was up 400%. We were up 5x. So, we had great orders last quarter. Orders this year in the first quarter are going to be good. So, we're differentiating and we're gaining share.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Dave, as you know the technology changes really fast, right? So, how do you ensure that you're sort of keeping up with it? Obviously, there was [ph] Jensen Huang (00:25:38) came out and talked about maybe using warmer water or things like, how specked in are you? How do you think about that technology evolution?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. We think that the game ultimately gets one at a systems level. So, we're investing a lot in our traditional chillers. And I think that if you look at what I believe [ph] Jensen Huang (00:26:03) was saying is that the input temperature of 45 degrees C is the same for the Blackwell and the Vera Rubin chips. So, you're going to get more power effectiveness, power usage effectiveness out of the same chip, but the cooling needs are fundamentally going to be the same. It'll just be a more efficient chip. So, we will have chillers going forward. You will see the chiller market continue to grow 20% to 25% a year. We've been growing more than that because of share gains and liquid cooling will grow 2x traditional chillers. So, we've invested in our own CDUs, a new 1 megawatt. We have a 3 and 5 coming out later this year and we're spending a lot to leverage our BMS business, because we've become one of the top couple of players in our ALC building controls business. So, having our own liquid cooling, especially through the CDUs, having our BMS, having our traditional cooling, and then using things like AI and digital twins to look at system level differentiation.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Dave, similar question around capacity, because you've talked about it, you needed to really jam on the capacity pedal. So, are you still staying ahead? Could you've gotten more orders? Like how do you think about that over the next couple of years?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah, I think we've invested a fair amount. I think we're in a good place now. We've expanded our Charlotte facility. We took a facility in Mexico that was doing controls. We've outsourced those controls and we repurposed that entire facility to chillers, the size of multiple football fields. So, we've added the capacity in our four walls and I think we now have that footprint. We're now ramping our suppliers. We want to dual source as much as possible for contingency planning purposes. So, we feel really good about the capacity for North America.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Got it. Let me ask you about commercial HVAC outside of data centers. Like any markets that also are surprising on the positive side and or the negative side?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, south, when we look in excuse me, Asia, we've seen great growth in India for data centers. We're seeing it in the Middle East, places like the UAE and Saudi. And then we're going to start to see a lot more data center growth. We were in Japan recently. We're going to see good data center growth in Japan and Southeast Asia in places like Singapore and Malaysia. And then Europe, what's happening in Europe is, you can look at fairly lumpy sales. So, we're bidding on some very major colo type bids that we feel very confident in. And you can't exactly time when they're going to land. They will land. Europe will grow over time on the commercial HVAC side, significantly. This year we've said mid-single digits, over time we're very well positioned. There's a lot of growth in Western Europe in particular.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

I can't resist asking because one of your peers who was on stage with me. Like all of a sudden had a big influx of European orders, I would imagine significant thermal management. So, have you seen more activity there? Like are you more confident in that starting to be a new part of the cycle?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yes, we're seeing a lot of bidding activity. We're very well-positioned, especially on some of the major like, you're talking about facilities are in the 1 gigawatt range. So, we see a lot of bidding activity. We are in advanced stages on those, and we'll see how those play out. But Europe is showing signs of data center growth here as we look over these next couple of years.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

So, maybe just focusing on Europe for a second, can you remind us of the relative mix today in Europe of commercial HVAC versus resi and like commercial heat pumps and resi light commercial boilers?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. So, you look at Europe, think of it as \$5 billion. It's about 75% RLC, 25% commercial. And then within the RLC side, it's about 30%, 30%, 40%, it's about 30% heat pump, 30% boilers, and then 40% all other, and that all other category includes aftermarket, which is margin accretive. And then it's got stuff like solar PV and battery, which is a little bit below the margins of heat pump and boiler. When we look at Europe in terms of that controlling the controllables, you look at our growth algorithm, a point of price, couple of points of aftermarket, we need market instead of being headwind to come back, which ultimately it will, this year we've said it'll be down 5% to 10%. And then that big bucket of initiatives, we feel very good about things like air conditioning sales, system sales. The one to watch that I'll tell you that I think could be the most important is new product introduction. And later this year, as we have a new offering that's coming in below that premium, kind of in that mid to upper mid-tier range, that's a game changer, and we can't wait for that to come out. Viessmann brand had targeted at new installers converting over to us and even a second tier offering for our existing installers and for new customers. That one we're very excited about.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

So again, I can't resist there. So, what is a game changer mean? Like 2027 sales, how broad is the product offering? How do you think about that?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, it hits a much bigger class. So, what's happening in Europe is, as you see, uncertainty around subsidy levels. Those have been swinging. Our whole mantra has been, we're going to win and grow regardless of what governments do. If we have a business model that relies on what the Italian and German governments do, that's not a sustainable business model. So, we have said that we're going to introduce products to make sure that we can win and grow independent of subsidy levels. I would not be surprised in Germany if subsidy levels come down, our guide assume that in fact that happens. So, one of the reasons this product is so important is it's not

only lower price, lower cost on the OEM level, from an installation perspective, the indoor units, a fraction of the size, the digital capabilities are significantly advanced. So, it's a product that's going to bring the cost of the system installation down. So, we think it's significant.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Q

So, I feel like the kid in the back seat of the car asking you if we're there yet. But like you mentioned subsidies kind of swinging around. Like, what do you think it's going to take for the German market to sort of bottom and start to improve?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

I think a couple of factors. Number one is, we do need certainty on what's going to happen, not only with subsidy levels, but the heating law. So, I think the ambiguity uncertainty around that has caused a bit of a paralyzing effect in Germany. I think we've taken a whole lot of medicine. We talk about the overage in the United States and now we're in that underage, that's been happening in Europe. Germany averaging 800,000. We were north of a 1 million units. Now, last year we were at 600,000. So, I think in terms of absorbing that overage, we've done that. It does feel in Germany and other parts, fiscal stimulus is positive. So, there's some sense that optimism is too strong a word. But having spent the week in Europe last week with our installers, there is a sense that this market will start to recover. I asked a person, all of our installers, if subsidies come down, heating law goes away, customers go back to boilers. The sense is that train has left the station. The transition to heat pumps is happening, so we'll get that mix benefit with heat pumps up double digits, boilers down low to mid-single-digits. We've gotten some of that noise around for standing boilers fundamentally behind us. Little bit of market tailwind and we're really well positioned there.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Yeah, I agree. I'm going to open it up to the audience in a second. But I want to ask you one follow up on European commercial HVAC. We already talked about data centers. But anything else leading to a little bit of optimism there or any other markets helping out?

Patrick P. Goris

Executive Vice President & Chief Financial and Strategy Officer, Carrier Global Corp.

A

Generally speaking, for commercial HVAC is hospitality, higher education. That's where we see some activity as well. And our overall guide is for growth, of course, in data centers and non-data centers to be up low single-digits or so for the year.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Okay.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah.

Patrick P. Goris

Executive Vice President & Chief Financial and Strategy Officer, Carrier Global Corp.

So, we see some activity there in some verticals.

A

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Any questions?

Q

Q

One more time, could you talk to the residential market in the US in terms of the conditions you're seeing either by region or by different end categories?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Sure. The questions around resi in the US, what we're seeing. In the first six weeks of this year, we're seeing what we kind of thought we would be seeing. The way we've kind of positioned the year is that unit volumes in the industry would be down 10% to 15%. We'd be down high single digits because we get a bit of benefit of the absence of destocking in the second half. We get a couple of points of price. In terms of the start to the year or a colder start to the year, benefits furnaces at the margin. But the truth is we won't really know until we get, what drives our business splits. We won't really know until we get into the cooling season as we get into that March, April builder. Our channel partners will start to build anticipation of the season and then we'll have to see how movement plays out. So, I would say start to the year, no surprises. Certainly no bad news and we're going to have to see how the first couple of months play out over these next few months.

A

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Any other questions? I was thinking about you as my furnace was running all out, like, is there any potential for – I mean, you got to replace these things, right? And the OEM does it. So, but you can't really see it yet, is that what you're kind of...

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Well, furnaces were a higher than we thought. I'm saying it's not a needle mover. We have so much of our sales are split. So, was there a bit of upside to start the year in furnaces, yes. Does it change our 1Q forecast? No. I think the key is going to be underlying demand as we get into the season, we don't want to discuss the weather. We just want to see that existing home sales hit like a 20-year low. There's some discussion in the marketplace that existing home sales will start to improve. We'd love to see the 30-year start with a 5. We'd love to see a little bit of upside in single family new home construction, which is flattish, maybe up a point or so. We'd like to see a little bit of upside on that. So, I think we've calibrated this year where we've assumed that all the badness we saw in the second half continues through this year. If any of those factors get better, then things would be better. We're going to have to see how things play out though.

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Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Any other questions from the audience? So, let me ask you, Dave, about CSA. I mean, I know it's a little bit smaller portion of the business, but it's been more difficult maybe for us to get a read on was down high single-digits in Q4. So, maybe talk about the puts and takes that's impacting that business?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah, think about the business as \$3.5 billion. It's half China, half everything else. And then within China, it's about half commercial, half residential. Outside of China – outside of China, we've said up high single-digits. And there are some great growth opportunities outside of China, in Asia and the Middle East. Japan grew 8% last year. We've had a good start to the year. India, we're adding a new facility in India, because of the demand that we're seeing there. The Middle East between Saudi and the UAE is very encouraging. Southeast Asia 4Q, Thailand was a bit lower than we thought. But in general, we're seeing nice demand in places like Singapore, Thailand, Malaysia. So, outside of China, we feel good. Now, we've guided China to be down high single-digits with the residential business down about 20% and maybe flat to up a little bit, up a couple of points on the commercial side.

Residential is hard to say. We've actually introduced some new product offerings with Toshiba branded, so that should give us a little bit of lift. But that market has been tough for a long time and it's hard to find bottom there. Commercial HVAC, we have an opportunity like batteries are being shipped around the world out of China. So, that piece is quite good. EV is quite good, data center is quite good. So, we'll have to see how – [ph] see HVAC (00:38:38) plays out. But overall, that has the potential to be over any kind of sustained period, one of our better growth trajectory regions.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

To that point, Dave, like I don't know whether we have a trade deal with Japan or not, but like you mentioned a couple of times, Japan. I feel like Carrier would benefit if that happens, right? Is that something that you've talked about?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. I mean, we're very – the Toshiba brand is very strong in Japan. We're very well-positioned. We have modular chillers that are perfectly sized for some of the commercial growth, but especially for data centers. I actually think Japan is going to surprise the world to the upside on data center investments. It could be 18 gigawatts over time, especially along maybe 12 of that along the eastern part of the country. So, we're well-positioned in Japan. I think investments are going to increase, especially in our sweet spot. We've gotten margins up, up into the mid-teen range from basically flat when we purchased the business. So, the team in Japan is doing well.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

So, I think you've got transport relatively flattish for the year. But there's obviously a couple of different pieces of the business. Maybe talk about the puts and takes in that business?

Patrick P. Goris

Executive Vice President & Chief Financial and Strategy Officer, Carrier Global Corp.

A

Sure. One business that has done really well within transport is container.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Yeah.

Q

Patrick P. Goris

Executive Vice President & Chief Financial and Strategy Officer, Carrier Global Corp.

And then exceptional year last year, started out this year very strong as well. At the same time, global truck and trailer has been weaker and there is a margin differential between the two with truck and trailer having generally higher margins, especially in North America. And so we've seen growth, but from a margin point of view we have not seen the full benefit of that. The first half of this year, our guide assumes that container continues to be really strong. As I mentioned that's what we've seen so far this year. And we would expect truck and trailer to pick up a little bit in the second half of the year, whereas container will have tougher comps.

A

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Yeah.

Q

Patrick P. Goris

Executive Vice President & Chief Financial and Strategy Officer, Carrier Global Corp.

So, would expect margin to improve a little bit in the second half of the year from where we have been last year.

A

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Got it, got it. And then I did want to ask you about aftermarket, it's something that I know is near and dear to your heart. I think you've said maybe [indiscernible] (00:40:52) maybe not, double-digit forever. But maybe talk about how it's proceeded versus sort of when you first came in, you obviously came from the aerospace world. So, is it easier, harder to capture install base here? Like how do you think about your aftermarket progression?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

I think the opportunity is the same. The issue is that to drive an effective aftermarket business, it has to be in the DNA of how you run the business from everything from how you design the product, how you support your customers, how you price the product, how you think about your relationships with your channel partners and your suppliers. So, we've done a lot to change the entire nature of how we run the business and how we run the aftermarket business. So, we said, well, you need your devices to be connected. We used to have 17,000 a few years ago, now we have over 70,000. We said that we need more long-term agreements. We used to have something like 40,000 or 50,000 of our chillers under service agreements, and now we have 110,000. So, we had to change the nature of how we work with our channel partners in terms of how they buy spares from us. So, that's a work in process. But what we did in the United States is we started with a single branch, and we said what does good look like? And we optimized that branch with Salesforce, ServiceMax, how we look at productivity of our technicians, how we support our technicians, how we get parts onto vans, into a job site, what are the key KPIs we look at both leading and lagging. We – we said we're going to make this branch in the United States the absolute model of what we want. And then we cascaded that across every branch across North America and now we're doing the same in Europe and Asia. So, it's in the DNA. We've said double digit forever. We only capture about 25% of our own aftermarket, which you could say is a shame. But you can look at it and say it's an enormous opportunity and we look at it as the latter.

A

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

So, I think to that point, you – close to 60% in the Americas, right? So, like is there something you can take from the Americas? It's just a different market in these other places and you can't get as much. Or like how do you think about that? Just Americas is 60, the world is 25. So, where is the better opportunity? Is it in the Americas? Is it capturing the rest of the world, you think?

Patrick P. Goris

Executive Vice President & Chief Financial and Strategy Officer, Carrier Global Corp.

A

It's both from an overall company point of view.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Yeah.

Patrick P. Goris

Executive Vice President & Chief Financial and Strategy Officer, Carrier Global Corp.

A

Clearly it's both. And within the Americas, we benefit from a huge installed base. And for example, our carrier energy and home energy management systems. I think it puts us in a unique position to work with utilities and to – to go after the HEMS opportunity with the integrated home, the heat pump and battery system. At the same time, our opportunity without outside of the US, clearly from a market point of view, our market share is not as strong as it is in the US. So, it's an end, it's not an ore. And I think our investments reflects – reflect that.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Dave, it is a good opportunity to ask you about AI and how you're going to infuse it in the aftermarket. It has a chance to, I think, augment, right, but also disrupt. So, how do you think about it?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah, we want to use AI to play offense and grow the business, which you'll find is there's in general, not just in our industry. There's a lot of data out there that is being underutilized. So, we launched a new platform that's it's called Tell Me More. And we get data through our Abound digital platform. We get data from our technicians that gets logged in to things like ServiceMax. We get data from our channel partners. We're aggregating the data that we get from various inputs into a concentrated data lake and then we're using AI to drive solutions for our customers. So, for example, as you're getting that data, we're looking for patterns to say this would be an indication either because of the thermal or vibratory condition that this unit is going to fail and you should take a preventative action. So, we're very excited about using AI to help our technicians, whether it's residential or commercial, out in the field, and also to drive more stickiness with our customers. We're of course using it on the productivity side. You think about the complexity of warranty management on the residential side. So, we're using AI there. Patrick is using it within the finance department and elsewhere. So, we think we're in the early innings. But in addition to productivity, the one that excites me is using it to drive growth and customer stickiness.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Patrick, you mentioned HEMS, so I just wanted to ask you about it. I mean I think you're rolling it out into the Americas in 2026, right? So, maybe give us more color on the business model as you roll it out and the revenue opportunity as we think about it over the next couple of years.

Patrick P. Goris

Executive Vice President & Chief Financial and Strategy Officer, Carrier Global Corp.

A

Yeah. And so, you may recall that last year we started pilots in homes of some of our employees, those pilots have shown that during peak hours of demand on the grid that we're able to power the HVAC system of those homes through the battery and then recharge the battery during off peak hours. So, there is a lot of interest to the utility companies to kind of validate that. So, that is going well. This year we expect the first revenue to hit our books. The one thing that we're still working through is exactly how that model will look like. And it is more likely than not that we will have different models in different parts of the country because of different utilities and different regulators. But the premise is that what the objective is, is that for us we don't – our objective is not to have the homeowner pay anything more out of pocket than for a heat pump. Meaning the homeowner replaces their heat pump or their AC system buys a heat pump, we attach to that heat pump a battery. So, it's an integrated heat pump with a battery. So, the homeowner is not more out of pocket. The utility companies have a benefit because they don't have to fight up expensive power during peak hours. And so they're willing to share some of that benefit with us. And so how that model between the utility companies and us looks like that is still under discussion with different – with the different parties? Some of that could be a mix of upfront with overtime payments to us. Some of it could be all over time. That's what we're going through now.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Helpful. So, maybe just a question on pricing and price versus cost. Now, you mentioned I think \$60 million of net headwind from steel, copper to aluminum for 2026. You're offsetting that headwind with approximately one point of price. But maybe talk about the steps that you can take if cost drift on you on that side. I think you said you're 50% flat for the year, but do you have any other protections?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, as a rule of thumb, irrespective of what material prices do, we drive a lot of productivity, material productivity. We redesign our products. We take a lot of overhead cost out as we do every year. We look at warehousing and logistics. And so in – in the current circumstances, we see some headwinds from copper and aluminum, particularly our blocking policy helps because basically helps us delay the impact of that.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Yeah.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

That gives us a little bit more time to take some more cost out of the system. But at this point, the headwind in is that \$50 million to \$100 million range net of the blocking. We've seen some of the prices come down a little bit in recent, I think it was last week. But our approach is the same. Irrespective of what input costs do, we try and offset it with additional productivity. And of course it is a price levered as well. And this year as you heard us say, we expect low single digit price realization.

Patrick P. Goris

Executive Vice President & Chief Financial and Strategy Officer, Carrier Global Corp.

And when you say prices come down here, it's about the commodity prices.

A

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah.

A

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Yeah. And Patrick, you do have usually like a stockpile of productivity projects. Like how is that stockpile like you know.

Q

Patrick P. Goris

Executive Vice President & Chief Financial and Strategy Officer, Carrier Global Corp.

Yeah. The last several years I think we've made tremendous progress on that. It used to be at the beginning of the year, I think shortly after the spin, probably less than half of the productivity year was identified, that's completely switched now. And so well over half of the productivity is identified as we start the year. And it's basically an engine that I think is running well. For this year, we've added to that the extra overhead savings that we implemented last year as we saw the slow down, you may recall starting summer last year we took out additional cost and this year we will benefit from \$100 million of overhead savings in addition to call it the regular cost out materials, logistics, warehousing and everything else.

A

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Yeah. So, Dave, obviously a lot of portfolio transformation over the last few years. Maybe give us an update on how you're thinking about capital deployment going forward, the potential for meaningful buybacks as you've been doing maybe versus incremental tuck-in M&A or other investment priorities.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

We talked about a \$1.5 billion of buyback this year. We certainly plan to do that. Look, we will continue to make our priority investing in organic growth and – and to grow the business. So, we continue to invest in R&D and CapEx to drive growth. We'll be very targeted on the M&A side. We are not looking at the big transformational multibillion dollar type things right now. We're in a phase of heads down execution. We have a boatload going on with data center activity. Obviously, we see huge opportunities around some of the system level offerings. The aftermarket opportunity is tremendous. We have our shorter cycle residential and truck trailer type businesses that we want to make sure that we're prepared for when they eventually do ramp, that we can support that recovery. So, we'll do some smaller type M&A here and there. But right now, our priority is not doing the big multibillion dollar type deals.

A

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

And you feel like you have the technologies you need. Like one of your peers bought something last night in terms of dealing with data centers and all that kind of stuff?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah, we – obviously we looked at the same thing. I think that when it comes to things like liquid cooling, what we're looking at is what does it take to win. What do we have and what is the most cost-effective way to get to fill any gaps on what it takes to win? So, we said, what, to win, we need to see the you. And we could have gone and bought someone for hundreds of millions, but we said it's a lot more cost effective to do a bottoms up. So, we've now developed our own 1 megawatt, soon to be 3 megawatt and 5 megawatt CDUs and they're extremely competitive in the marketplace. The one-year referencing is a coal play technology. Do we need it ourselves? We need to partner, do we need to buy it? So, we need to figure out what do we need to win. And then when it comes to those things, if we have a gap, what's the best way to acquire? We have an investment, a company called ZutaCore that is a two-phase solution. They of course have access to things like CDUs and cold plates. So, we have a lot of ways to fill whatever perceived gaps that we think we have to make sure that we can win in the marketplace.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

That's helpful, Dave. And last question, what are the top two or three innovation and structural changes affecting your company over the next five years? Are there any emerging industry trends that are perhaps being overlooked in the current discourse?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

I think a lot of the differentiation is going to take place at the systems level. If you look at North America, we would tell you that our products are quite differentiated, but I would bet you if you had our peers on stage, they would say the same. So, in places where we don't have that degree of differentiation at a product level, the differentiation will be at a systems level. What Patrick was describing for HEMS is the new frontier. If you had a battery electric solution in every Carrier home and building, that would alleviate 13% of the demand that's put on the grid during peak hours. Our solution will win there and our solution on quantum leap for datacenters we are incredibly encouraged about because we believe that integrating traditional cooling, liquid cooling, data server management and the building management system that we believe is where the game is won and we think we have a unique portfolio to win there.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Awesome. Well, Dave and Patrick, thank you very much. Appreciate it.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thank you, Andy.

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