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Carrier Global Corp. (CARR)

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MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

QUESTION AND ANSWER SECTION

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

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...over the course of the dialogue, but happy to call on anybody for the question. Dave, just starting things off, big picture there. There are parts of the business poised to deliver pretty solid growth this year. There are other parts of the business that see some challenges and then things constantly evolving. And so, maybe just in terms of where we are and kind of how you see things playing out?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

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Sure. Well, first, Joe, thanks. Thanks to you for having us. Thanks to Wells Fargo. I think short-term, what I would say is for the quarter, all good. We had said it'd be \$6 billion in sales, \$0.80 of EPS. We're not concerned about that. So, we feel good about the quarter. Frankly, we feel good about the year. So, all of the stuff that we expected, there's always some puts and takes, but the team is performing extremely well in a fairly – an environment with a lot of moving parts. So, we feel good about how the team is executing.

When you step back and you look at the overall business, what's good has been phenomenal. You think about data centers, we're fully covered for the year. We said \$1.5 billion. We could certainly exceed that. It becomes an execution issue. And the biggest problem that we have right now on data centers is just keeping up. If you think about the \$1.5 billion this year, we're certainly pushing to exceed that and implies \$1 billion in the second half, it

means our exit rate for this going into next year, that would be enough capacity for \$2.5 billion for next year, and our demand exceeds that.

So we – as we start thinking about the setup that we have for 2027, we are looking about making further investments to keep up with the data center demand. So, we – typically, our CapEx around \$500 million, that's probably closer to \$600 million, because these are incredibly compelling investments. We've been winning way more than our fair share. If you look at our market share for the applied business here in North America, our share for data centers is well in excess of our share for applied.

So don't be surprised to hear more from us on further investments in US production here to support the demand we see for 2027 through 2029 and certainly beyond that. And then, our shorter cycle stuff, the CSA, residential and light commercial businesses have both been performing better than we thought. The demand there has kind of exceeded our expectations, so that's been encouraging.

So, there's always some puts and takes, but as we start thinking about 2027 and the stuff that's good, commercial HVAC, controls, aftermarket sets up very well with very, very good demand going into next year. And then, our shorter cycle stuff feels like it's hitting troughs and poised for a recovery.

If I may, Joe, there's one other thing I did want to mention before we get into more specifics, is that today, that we have announced a leadership change in our European business, our CSE business. We've been very fortunate to have a phenomenal leader and Thomas Heim leading that business. If you've ever been involved in integrations, they're complicated. And this integration with Viessmann Climate Solutions and Carrier has well exceeded our expectations. A 100-year-old family-owned German company coming together with a century-old American public company. Thomas has shown tremendous perseverance, leadership, focus on our customers, all the things that you would expect. And then you overlay that with a market that turned against us. And that made an integration even more complicated. But he has really done everything to set the table for the next leadership that's going to be coming in.

We've taken costs out of the system. We've consolidated footprint. We have a new product line coming in. We've innovated even product lines behind that. We've done a lot with our channel. We've introduced cooling only. So, he has really set the table both on the commercial side, but also the residential, light commercial for the next leader coming in. And he's – a gentleman by the name of Thomas Donato, he has great pedigree. He's going to be starting with us on Monday. Was ABB, then Rockwell Automation for about 17 years, Patrick worked with him there, and then more recently he's been leading the Bosch Power Tools business.

So, we could never thank Thomas Heim enough for everything that he's done for us. And we're excited to welcome Thomas Donato to the Carrier family.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

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Thank you. That's a – it's a great intro and then a number of areas that that we want to dig into a little bit more.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

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Yeah.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

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So let's start on the CSA and resi HVAC. And first just kind of cycle, because you've talked about a market where demand should average about 9 million units; 2026, where it could be 6.5 million, this is an industry kind of shipments figure. Are interest rates the primary pressure point or how you think about relief from there and the ability to do or the opportunity to do more than 6.5 million in the industry?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

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Interest rates of course, matter. We don't love the 30-year north of 6%. But I'll tell you, there's a lot of factors that go into it. It's just one of many. And when I look at the resi business here in North America, you have these two countervailing forces. You have true underlying demand that you look at new home build. There's 4 million or 5 million too few homes in the United States. And when I talk to the CEOs at homebuilders, they're like cage tigers ready to go. So, that is compelling underlying demand. The existing home sales at a couple of decade lows. People are anxious to move into those new homes and they've been putting off some of those purchases not only because of perhaps mortgage rates, but consumer sentiment, some general anxiety that's amongst the consumer base.

So, underlying demand is there. And then you look at the fact that, as you said, Joe, usually you're at 9 million units. We were a little above that from 2020 to 2024. And then, of course, last year it probably ended around 7.5 million, maybe 7.6 million. This year we had said it could be 6 million. It's probably hard to do math, it gets you to have it start with a 6 million, it's going to want to start with a 7 million. So, we'll have to see where this year plays out. But certainly, it's hard to imagine it not starting with the 7 million.

And then as you think about 2027 and beyond, I don't think you'll see a rapid increase back to that 9 million, but you're going to start to see, I believe, a trend back to that 9 million. because people have been putting off what's fundamentally a replacement business. So, anyone that's been limping along with a repair over replace, you're going to see that demand come back.

The countervailing force is high mortgage rates and some of that consumer sentiment. So some of that shorter cycle stuff, input cost increases on the consumer like fuel, as that starts, those countervailing forces play out, I think you start to see some of that demand come back and it could get accelerated, we'll have to see as we get into 2027. But, yes, we said – I think we said down 15% or so for 2Q. It's – we certainly would say it's going to be better than that. Again, we're not changing the number at a Carrier level, because there's always puts and takes in the system. But is there upside to that for sure and is there some upside for the full year on resi? Yes.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

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Yeah. And that we are in that time of year and as we get into cooling season, a lot of focus on what we're seeing in monthly trends, April pretty warm, right. May be mixed, but just overall what you've observed I guess that would kind of feed into this idea that north of 7 million, just because what you're tracking right now is performing a little better on the demand side.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

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Yeah, that's exactly right, Joe. I think April was quite strong. We did announce some pricing that came into effect in May. So, you might have seen some people trying to beat the price increase. And as you said, weather always plays in.

June is a big month. June started fine for us. We were happy with how June started, but June is a big part of the quarter and also kind of starts to set up. We – where we are – excuse me, orders have been fine. We're focused a little bit more right now on 3Q than 2Q. I think we're kind of set up for where we expect to land in 2Q. We just got to execute for the remainder of the quarter. And I think that's just generally true. I think we have generally at Carrier the coverage we need. For 2Q, it's just – there's a lot of moving parts on execution and that because you think about even the longer cycle stuff with data centers, we are winning projects, we're designing them, we're producing them kind of all at the same time. So, it puts a lot of stress in the system on our engineering and our operations organization. But our team literally, like this past weekend nights, weekends, we're driving to support our customers. So, I feel really good about where we've been on demand. I wouldn't be – don't be surprised to see good order rates on commercial HVAC this quarter, really focused on the second half of this year and then as we think about 2027.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

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Yeah. And then just the channel inventory side of things, you took some pain in the back half of last year, and where you stand today feel like that's normalized to where you want it to be?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

100%. Yeah, we feel good about that. We ended the quarter at 35% down year-over-year for field inventory levels, which we liked. I think I mentioned that – excuse me, April was – we ended down 40%. We expect to end the quarter probably down 25%, 30%. And we're kind of in the 30%, 35% down year-over-year range today. So, we look very, very carefully at our ship-to-move ratio. We want to make sure that stays consistent with past years, even pre-COVID. So, we've been very, very careful with our distributors at an SKU level to make sure that they have what they need to support the demand they're seeing, but not more than what they need. So, we've been managing that very carefully. So, we feel well positioned for where we should be, not only for right now, but as we start thinking about 3Q.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

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And then as these tariff rates continue to change, we take last week's announcement effective this week. Just unpack for us a little bit what the impact of that is? I think we talked about on last quarter's call, maybe the tariffs at that time meant something like a high-single-digit increase. Does this bring it down to mid-single the timing of when you react and how those changes go into the market?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, first, let me think President Trump, Secretary Lutnick, the entire Administration, because I'll tell you, this Administration engages with industry, wants to understand the impact of policy on American companies and on American consumers. And they've worked in a very constructive way. And we were very pleased with the change they made to the to Section 232. Takes it from 25% to 15% with a path to 10%, depending on your percentage US steel purchase. I think we'll end up with – we're going to shoot for the 10%, but some of the SKUs may end

up staying at 15%. So, we'll be kind of a mix. And then, we'll have to see how the USMCA negotiates – negotiations play out, because that may trump all of the Section 232. So, we'll have to continue to monitor all that.

And then, as I mentioned, we are seeing such strong demand for our data center offerings here in North America that I would expect us to be making further investments in our capacity in North America and that's stuff that we know that the Administration supports and they've been very collaborative at a federal level but in some of the states that we've been talking to at a state level as well. So, a very receptive environment to further investments in manufacturing in the United States.

At a pricing level, yes, on the resi side, when the tariffs came in place, we went to high-single digits. I think it favors mid-single digits going forward, and there's a big range there. And the key will be the realization rate. We have to work closely with our distributors to make sure that we get the realization that we expected. When we announced high-single digits, we said we expect to realize mid, now we're saying mid. I'd still like to see it in the mid range. So, if it ends up announcing 6%, realizing closer to 4%, we'll have to see exactly where that lands. But what it means – excuse me, Joe, but at a Carrier level, we came into the year saying 1 point of price. Then we – with the tariffs we added 2%, so we went from 1% to 3%. And now you can think about it as minus 0.5%. So, the 3% minus 0.5% puts you at like 2.5%. So we're probably looking at about 4.50% of price this year.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

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That's helpful. And in terms of the thresholds around the steel and aluminum, so like an 85% threshold and you think there's a path to hit that in some instances to get to the 10% tariff rate?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah, I think in some instances. The issue for us is not our desire or ability to buy US steel. We try to maximize US steel content. So, the issue is with some of our suppliers, you may have certain engineered components that are specked in such a way where the steel is actually not available in the United States. So now you're into a pretty significant redesign and we just are going SKU-by-SKU to figure out what we do about those. So, I think for the foreseeable future, we'll have some mix of the 10% and 15%.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

Around the April Section 232 announcements, there's a fair amount of debate on manufacturing footprints and what that could mean from the competitive kind of balance and different pricing reactions. Did you see any evidence of that to the degree that it had kind of market share impact, because different OEMs were forced to price in different ways in response to the tariffs?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Not materially. So, I think, first of all, we are very proudly a US company and not everyone is. Number two is that we have done a lot to increase manufacturing in the United States. And I think what you end up looking at is a lot of the supply chain, and we do have production that we're proud of in Mexico, but I do think we're very proud of our US manufacturing. A lot of the supply chain is in Mexico and everyone makes their own, of course, independent pricing decisions. We've done what we've thought was right for, given the current situation, and we feel good about share. I don't see us increasing share this year, but I don't see any kind of material reduction in share either.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

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And then, that share has moved up over the last several years?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

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Yeah, I mean, when we spun, I think we were in the 29% to 30% range. I think we're probably in the 32.5% range. So, we're very happy with the share increases that we've seen. It's a great business. It's high margin. We're dealing like right now we're trying to make sure that we're dollar-for-dollar covering the input cost increases, not just tariffs but some of the other input costs. Obviously, that will have an impact on margins. You would expect it too just mathematically. But we want to preserve sales and earnings, given that it has – there have been a lot of input cost increases that we've been navigating.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

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Let's shift to commercial within Americas. And I have a bunch of data center questions, but I'll start kind of ex data center and really kind of understanding non-resi markets outside of that area of strength and kind of what you're seeing out there?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

There's very strong demand with many of the verticals outside of data centers and a lot of the demand factors are unrelated to the economy. Take healthcare, you have an aging population. If you look at whether it's walk-in clinics for light commercial, you think hospitals. So, we see strong demand in many of the verticals. The constraint that we've had, frankly, has been capacity. So, we'll probably grow non-data centers, low-single digits this year.

We are trying our best to do every – all of our investments in data centers to make them as fungible as possible for non-data centers. So, platforming how we design the products, how we think about equipment and tooling, how we set up our lines, we're trying to make it as fungible as possible. But given the LTAs that we've been agreeing to with our hyperscaler and our colo customers, that has absorbed a lot of our capacity over the last year or two. So, we're probably in that low-single digit range, but some of the underlying demand factors are strong. We just won a robotics facility that has close to 100 chillers in it, so it's a non-data center win.

When you start to see capacity building not just in the United States, but we were in India, as an example, recently, when you start seeing big demand for data centers that drives demand for chip factories or other things that we are very well positioned in. So infrastructure, industrial, some of the robotics, we've done very, very well at.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

Shifting to the data center side of things, and just to understand, , recognizing that there will be future opportunities to add even more, but talk about what you've done from a technology standpoint in terms of the product suite and then from a capacity addition to go from \$500 million to \$1.5 billion plus?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. And that – those are just like early innings for us right now. I will tell you, if you look at our product portfolio, it's night and day versus what it was four or five years ago. Like, the conversations that we have with the hyperscalers and colos, they could not be any more different than they are than just three years ago. We have the product portfolio they need. We went from, in some cases when we spun, having gaps or having me-toos to having differentiated products now. Not only on the chiller side, water cooled, air cooled chillers, 2 megawatt, 3 megawatt maglev-bearing with free cooling, point design with some features specific for exactly what the hyperscalers want. Integrating them through QuantumLeap with an organically developed CDU portfolio. We have DCIM capabilities through the Nlyte acquisition that we did in the UK, and now we're working on digital twin capabilities to integrate that through a very integrated, differentiated offering.

So, I can tell you that I was talking to the CEO of a player that's coming into the data center space, and he met with the hyperscaler and that hyperscaler told him, if you're going to benchmark one company that what it really means to be a great partner, talk to Carrier. And I say that I hate, I give the credit entirely to our team, because we have the product portfolio. We've expanded our capacity 4 times water-cooled chillers in North America over the last four years, 3 times on air-cooled chillers, innovating, the team working night and day and it always starts with our customers, how do we commission the equipment in a way that we don't leave until it's exactly what you need?

So I apologize, it's about – it's a bit self-aggrandizing, but the credit goes to our team, because our share that we're seeing in data centers is kind of like the share numbers that our competitors have seen and overall applied. We've been really winning and now we're in the phase right now with the hyperscalers and the colos solidifying LTA. So, as we make these investments that support 2027, 2028, 2029 and 2030, we have confidence in that – in the demand that's going to support those investments over these next three, four or five years.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

In terms of the growth there, when we think about commercial business and the opportunity on the service side and the margin profile on the service side, just what that high growth on the data center piece and equipment oriented means for the margins in CSA?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, we've always said that I would say data centers accretive to overall applied, aftermarket accretive to applied. So, I think that's one of the really – if you think kind of long-term and you're starting to think about 2028, 2029 and the aftermarket revenues that we're going to get from all of this data center wins that we're having, it's incredibly compelling. We've traditionally said aftermarket revenues is 5 times to 10 times what we see on the OEM side, and data centers, I think, would be at the higher end of that range.

So, we feel extremely encouraged by the long-term revenue growth that we're going to have. And we've done a nice job. Like, in our base aftermarket business, we have tiered offerings, we have a base and elite and then an enhanced and then elite. And the elite is just a complete white glove treatment where we have technicians around the clock, we have full stocking of parts, we have guaranteed uptime. We want to encourage our customers to buy elite. Not every data center customer wants that. Some will say I've already built in redundancy in terms of how I've designed it. That's okay. If you don't want a technician, say 24/7, that's your call. But we can offer that. But as we start thinking about LTAs with our data center customers, it's very encouraging.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

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And that's interesting on the higher multiplier on the service, because you'll also hear about potentially shorter life, because they're going to be used much, much more heavily than what you might find in a traditional application. That service is just tied to the heavy use....

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

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Yes.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

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I would say.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

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The only thing I will say and I do agree, Joe, with what you said is they may not operate all of them at 100%. They may have designed some of the chillers to idle them at some point as part of redundancy. But I think on a chiller as opposed to a data center perspective, your point is exactly right.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

And then, there was a lot of attention on this idea of higher approach temperatures to the chip and what that could mean for chiller demand. Maybe just help us if we try to think about it in terms of the content per megawatt, right? And like what is it going to obviously the megawatt growth should be tremendous. But just how big of an impact this is on, you don't need to run them all the time or maybe you need fewer...

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

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Yeah.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

...just kind of a lot more megawatts?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, I would say a couple of things in there. One is that we've – we think of it more like \$1 million per megawatt, some have used \$10 million, but that spreads over, I would say, non-cooling kind of content. But if you look at the cooling content, it's probably closer to \$1 million per megawatt.

I think that part of your question on that input temperature in the 45 degrees C and are you going to need chillers with the Vera Rubin? The short answer is yes. You know that both the input temperatures for the Blackwell, Vera Rubin, the input temperatures you're looking at 45 degrees C, with the Vera Rubin you're going to get a lot more computing capacity with the same input temperatures, but for both Blackwell and Vera Rubin, you're going to need a combination of traditional cooling, but you'll see a lot more liquid cooling. That's why we're investing a lot

in our CDU portfolio. We came up with our own 1.3 megawatt CDU. We have a 2.6 megawatt coming out. We have a 5 megawatt coming out. So, we are building liquid cooling and you're going to see a lot more demand for that. That growth rate should exceed traditional cooling. But I think the key is going to be the integration of traditional and liquid cooling.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

And then what about QuantumLeap and the idea of a system sale to a data center? And my understanding and correct me if this is wrong, but that today a lot of it is going to be equipment sales as opposed to system sales. But if you can sell thermal management system and drive some energy consumption efficiency, that opens up more white space consumption of energy?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

That's exactly.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

What are you doing there?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

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I think it's so exciting. Look, you just step back and you think strategically about Carrier, we're effectively progressing from an equipment company to a thermal and energy solutions company. So, we think about in the past, we might have sold an air conditioner for a home or for a commercial office building. Now, we're selling solutions. So, you think about the opportunity presented by AI, and what that could mean even as part of a QuantumLeap offering where you have traditional cooling, you have liquid cooling. Those two loops interface with each other. And then you could think about using AI to anticipate whether to idle chillers, whether to maximize the liquid cooling loop. And then you think about the possibility of what kind of solutions from an energy efficiency perspective you can create for a data center operator. So, we have the – all of the portfolio we've built out for air-cooled and water-cooled chillers, we're building out the CDUs. We've looked at, we'll continue to look at acquisitions with some of that liquid cooling space. But we want to spend millions, not billions. So, we – and we can also develop it a lot ourselves. So, we're in no rush to do it. We'll continue to look at it while we organically develop our own CDU portfolio, which we're very pleased with what our engineers are doing.

But the real exciting secret sauce will be in the digital twin space of how you can create digital twins to really optimize those what were formerly disparate systems into one combined system, and that's value creation for our customers.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

What are you hearing from customers on timing of adoption around two-phase liquid cooling, and in your offering, do you think about cold plates should be part of that or shouldn't be part of that?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, we've made this strategic investment in ZutaCore. We've worked closely with them for a while. We just increased our investment with them. And that – excuse me, that's not just a passive investment. We also have a contractual relationship with them. So, we are co-developing and buying product from ZutaCore. So, that's a very strategic relationship and they're probably one of the best players in the world with two-phase solutions. Exactly when it comes is hard to say. At a conference a couple of weeks ago, I said it's not one year, it's not 10. And then people said that was kind of a soft answer. So I – but I'll repeat it, because it didn't go over well then. So I – but I think it's somewhere in the middle of that. But there's a – I think the one thing I will say, it's not whether, it's when. We – I think with the demand we're seeing for cooling and the properties of a refrigerant over water, I do think we move into that two-phase direction. So, we're building the foundation to lead once we enter that space. We're not spending a lot on immersion cooling. We think two-phase comes first.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

All right, I could keep going on data centers, but let's move to Europe and VCS as well. Just talk about heat pump demand trends, core markets, when we think about Germany, France, Italy and what you're seeing there?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Feel good about it. I think that this war has been in a bit of the inflection point we've been waiting for that once in places like Germany, that ratio of electricity-to-gas got below 3 times, it's at about 2.4 times, 2.5 times. We did see, I think, a relatively sudden increase in demand for heat pumps in countries like Germany, in France and Italy. So, the order rates for residential heat pumps has been extremely encouraging.

The thing we watch, so I think when we thought about the quarter, at one point we probably thought the commercial business would be up like mid-single digits. That probably wants to be flatter, but the residential business we thought would be flat, that probably is up mid-single digits. So, I think it just inverted a little bit. But we feel really good about this inflection point we're hitting on heat pump demand in Europe, certainly including Germany.

The thing we got to watch is how much boilers declined. So heat pumps, let's say they were up exponentially. If boilers declined more than we think, then we don't get as much growth as we thought. But if boilers could be down 5% and we let that heat pump demand continue to increase, that resi business is really poised for a turnaround. Plus, you're coming off such lows. Just like in the United States, you were asking about the 7 million, 7.5 million units, Germany is coming off multi-decade lows.

So, I think about Carrier, I start thinking about 2027. The stuff that's good stays good. Really, really strong. It's actually my thinking on data center demand for 2027 today versus two months ago, exponentially higher. And that's why we're looking like we weren't talking about a new facility on our earnings call. We're talking about it now.

So, we're seeing great, great demand because of the team's win rate and the kind of LTA discussions we're having. Now you start to see the short cycle stuff, truck trailer, resi here – resi, light commercial here in the Americas, same in Europe, those start coming off troughs. I don't want to get out of our skis for 2027, but you see a lot of factors coming together for a nice setup for a nice 2027.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

I'll go back to data center, because I can't resist. What happened in those two months? Is that orders that you've won or customer conversations you've had?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yes on both. It was orders that we've won that would manifest themselves in our 2Q orders. But also just the nature of these conversations, both not only with the hyperscalers, but also with the colos. And it's not a US-only phenomenon. It's been a little bit lumpy in Europe. Our order rates in Europe have not been over the last four or five quarters exactly what we would have expected, but now we're starting to see those.

There's a clock ticking in the US, that speed to market. Sometimes in Europe, finalizing those orders could take a little bit longer than we'd like, but we're starting to see the win rate. We're starting to see those wins materialize in Europe. That set us up for the second half into 2027. And the team in Asia and the Middle East has done a very nice job. Middle East, we were seeing great demand before the war, that needs to stabilize. And then after the war, I would expect Middle East to start to recover in places like Saudi. But India has been through the roof. We've been growing 20% five years or so in a row in India. First quarter was up 33%. We have a new facility that's coming in Sri City [indiscernible] (00:38:54). So, India really strong parts of Southeast Asia. So, it's a bit of a global phenomenon, including some of the hyperscalers in China as well.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

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But when you think about this setup for what's good stays good and what's been challenged, it gets good. What does that mean from a mix perspective on the margin side of things? And so, just thinking about resi, HVAC, being margin accretive, what you're doing in Europe and to see better volume there and the absorption, I don't know if you have a figure out there for, but just like if we were to get to that, what that natural step-up is in the margin profile?

Michael S. Rednor

Vice President-Investor Relations, Carrier Global Corp.

A

Sure. Thanks, Joe. Here's the way I would think about it in general. We have the long-term target out there of achieving 50 basis points or more of margin expansion annually. We'll kind of be in that ballpark this year. Now obviously, there's a lot moving around this year between tariffs, rising commodity costs, et cetera. But I think as you start to think about into 2027, it is somewhat of a similar setup to this year, right? Really strong on the commercial aftermarket side, if you start to see that recovery in the short cycle stuff, that stuff drops through with very nice margins and our overall gross margins pretty much across the business there 30% or higher.

So, the setup on assuming volume growth in the 2027 would be very, very strong. And obviously, we have the 50 basis points and we're always looking to achieve it through things like better productivity, and obviously, the volume drop through.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

I think we have time for one more. And so just on on capital deployment and it sounds like opportunities to invest in your business obviously to support the growth, then when you think about the share repurchase side of things, what you need to bring into the portfolio, your prioritization around capital deployment.

A

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Our prioritization has been consistent since our spin. We've always prioritized growth. So, that's both a combination of organic and inorganic investments. Having said that, right now, we see such strong demand. We've talked a lot about data centers. So, I do see CapEx increasing \$500 million to \$600 million or so. When we finalize how we think about the new site, it will be a multi-year investment. We want to kind of do it in phases. So, we want to be very thoughtful about. We got a rush of getting the capacity and the lines in place to support demand for 2027. But as we think about test labs or maybe some level of in-sourcing at a component level, we don't need to do that right away, so we can phase the investment.

We had said that we do \$1.5 billion buyback this year. I still expect us to do that for this year. And then, I think of M&A as opportunistic. The team's pretty busy supporting right now the demand we see. We may do \$100 million acquisition on certain things or – but it's – again it's in the millions, not the billions right now. And we want it to be very, very targeted, like we're trying to think about AI and how we integrate that into differentiated building offerings. So, that might be an area that we would look at. Liquid cooling, things that are related to controls or aftermarket, we want to be very strategically focused on some of the M&A.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Great. Well, thank you very much. Really appreciate that.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thank you, Joe. Appreciate it.

Michael S. Rednor

Vice President-Investor Relations, Carrier Global Corp.

Thanks, Joe.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Thank you.

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