

18-Mar-2026

Carrier Global Corp. (CARR)

J.P. Morgan Industrials Conference

CORPORATE PARTICIPANTS

Michael S. Rednor

Vice President-Investor Relations, Carrier Global Corp.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

OTHER PARTICIPANTS

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

All right. This is the last one. Hopefully, you guys have enjoyed yourselves and learned a little bit about the industrials sector and had some food and drinks. So that's kind of the point of all this.

But we're going to finish off here with Dave Gitlin, CEO of Carrier. Dave, thanks for being here and, sorry, Mike Rednor, as well. And Dave...

Michael S. Rednor

Vice President-Investor Relations, Carrier Global Corp.

Afterthought, yeah.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Dave, thanks for being here. And I'm going to kick it over to you for some intro and then we'll go to the Q&A.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Well, thanks, Steve. Thanks for having us. Thanks to JPMorgan as well. As we close out 1Q and look at our positioning for the rest of 2026, our team is energized and executing against a clear strategy. Over the past several years, we have intentionally reshaped Carrier into a focused, high-quality portfolio exposed to durable secular tailwinds, electrification, energy efficiency, digitalization, and the growth of data centers and cold chain infrastructure.

With leading positions across attractive verticals and geographies and 50,000 tremendously talented and dedicated teammates, we are advancing our vision to be the global leader in intelligent climate and energy

solutions, guided by a disciplined playbook to win in products, aftermarket, and systems. The strategy is showing up in results. Roughly 40% of our portfolio, commercial HVAC and aftermarket, have grown double digits for the past five years, and we remain on track to deliver our sixth consecutive year.

In commercial HVAC, we continue to see strong demand and record backlog, with data centers a standout driver. In CSA, data center orders were up about 400% in 4Q and we expect another strong quarter in 1Q. Importantly, our wins are not just cyclical, they are share-based, enabled by differentiated new products, expanded capacity, and deeper technical resources, all helping us capture a larger portion of the data center value chain.

In aftermarket, the playbook works, and we continue to drive annual double-digit growth by increasing service attachment and leveraging digital tools to deepen customer relationships and improve uptime. This creates a more resilient, higher margin earning stream.

On our shorter cycle Residential and Light Commercial businesses, we are translating our innovation roadmap into differentiated launches that support margin expansion and share gains globally. In CSA Residential, we've introduced our first integrated heat pump domestic hot water offering and new digitally enabled thermostats to increase customer intimacy.

In Light Commercial, we introduced the dual fuel rooftop unit, which automatically selects the most efficient fuel based on the outdoor temperature. In CSE, we are launching a new Viessmann branded lower cost but highly differentiated heat pump, which will expand our TAM. In CSAME, we released a Toshiba branded side discharge VRF system that is best-in-class efficiency with higher reliability and great aesthetics.

In our Truck and Trailer business, we expanded our all-electric refrigeration units into Asia, leveraging advanced technology to deliver a faster cooling with lower energy consumption and Lynx enabled cold chain visibility. Taken together, these actions reinforce the core of our strategy leading with innovation, scaling our aftermarket and digital capabilities, and allocating capital to the highest return opportunities, positioning us to expand margins and gain share across cycles.

From an outlook perspective, we remain on track to deliver our guidance on sales, profit and adjusted EPS. We are excited about 2026 and focused on delivering best-in-class results for our customers and shareholders as One Carrier.

With that, Steve, happy to get into the Q&A.

QUESTION AND ANSWER SECTION

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Great. Thanks, Dave. We're just having everybody kind of open up with a bit of a state of the world around all the events going on in the Middle East...

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

...and how that may impact you guys temporarily, or your exposure is pretty low, I understand.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

It is. It's actually a very strategic area that we want to grow, but today it's about 1% of our sales in the Middle East, so not material exposure. Our number one priority, of course, is supporting our 800 people in the region, the safety of them and their families, and we've gone to great lengths to do that. While supporting our customers, we have equipment that are in critically important areas to our customers, and we're balancing, obviously, the safety of our people and making sure that we support our customers. So no material exposure.

We'll watch some of the logistics of containers making their way through the Persian Gulf. But for us, we've been shipping all of our units from Asia to America, around Africa, around the Cape of Good Hope. So we don't have anything that goes through the Suez Canal, and we've taken all of those routes away from product going into Europe. So not a material exposure for us as a company.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Okay. Just sticking with, I guess, the near term, you guys talked about [ph] \$5.5 billion (00:05:12) to \$5.6 billion-ish of sales to 2Q. Anything on the bottom line that we have to be aware of as far as the move from 1Q to 2Q on kind of the sequential seasonality, understanding that you just reaffirmed the annual, of course?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. And look, reaffirmed the quarter, reaffirmed every quarter, and reaffirmed the annual, because there was some sense at a couple of the conferences down in Miami that we were changing something for 2Q and we were not. Everything is playing out exactly how we thought it was going to play out, \$5 billion in first quarter, \$5.6 billion in the second quarter. And I think what happened is, we generically said that we're kind of balanced between first half and second half, and we believe balance is in exactly 50%-50%, 49%-48%, one half...

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Right.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

...it fit our definition. But having said that, look, what you're dealing within 2Q is we said, if you think about just CSA, Residential is still down about 20% year-over-year. Light Commercial down in the high-single digits. We have really tough comps on the commercial HVAC side because 2Q of last year was up 45%. So I don't think we have any particular call-outs on the EPS side and we feel good about the \$5.6 billion in 2Q.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Okay. And anything on the order comps in – to keep in mind as we move through the year? You just talked about, I guess, touched on data center being another strong quarter. Anything to think about in this quarter from an orders perspective [ph] call-out (00:06:44)?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

No, not really. I think if you look at orders last year, the first half was down 6%, second half I think was up 3%. But when you look at it at a business level, it was kind of all over the map. If you look at CHVAC, we had really good quarters. I think it was 2Q and 4Q. Transport was really good 1Q and 3Q and Resi got weak as we kind of got into the middle of the year. And you know that data centers can be extremely lumpy.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Right.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

So, I guess, Steve, short way of saying, or a long way of saying, no particular call-outs on the seasonality or calendarization of orders. I will say that – I mentioned in the prepared remarks that Q4 was really strong with data centers, especially in CSA. We continue to grow our backlog. Our orders will be very, very strong, again in 1Q. And we continue to win head-to-head, which is extremely encouraging.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Yeah. It's really, you guys have really cranked hard on this data center stuff for sure. In that whole business, the transformation of where you were to where you are today has been pretty impressive. Obviously, you've got a kind of a empty cupboards from a technology perspective that you really cranked up over the last six or seven years so.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, I appreciate you saying that, because we were working on something to show when we do our 1Q call that shows the product portfolio that we had on the CHVAC side when we spun and what it is today. So, if you looked at, there's nothing that we don't bid today, and there was a lot of stuff three years ago that we just didn't have the products to compete. So we are – you think about what we've done, water-cooled chillers, maglev-bearing, 10-

megawatt, 18-megawatt. Not only do we have them, but we're winning with those products, 2-megawatt, 3-megawatt air-cooled chillers, maglev-bearing, free cooling. So we are very excited, the screw chillers that we have over in Europe and Asia.

So the product portfolio is night and day. So have we spent maybe a little bit more R&D than a couple of our peers? Sure. But we had to really build out that portfolio. And I can tell you, we're going to have one of the hyperscalers present to our board next month, but they will tell you that when they witness our FOK, our first-of-kind unit test, and they put us through a bit of the wringer on the requirements, they will tell you to a person that technically we are performing at superior levels.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

And just talk about the shift in the industry from not air to liquid cooling, but within the chiller industry from what's going on between water and air-cooled chiller, because I think people sometimes get mixed up in from liquid cooling and air cooling, but within the chiller...

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

...industry, there's water-cooled and air-cooled. Maybe just look at – talk about how Carrier views that transition and how you're addressing that.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

We still have both. There was this, like, our first major hyperscaler customer really had a bias for water-cooled chillers. And those were 18-megawatt and maglev-bearing, and it depends a little bit on your access to water in some of these locations. You know that traditionally data centers were built in very cold temperatures where water was a little bit more plentiful. Now you're seeing them built in hotter climates where water's a little bit tougher to come by.

So you see both are closed-loop systems, whether it's a water-cooled chiller or air-cooled, they're both closed loop systems. But when you – a water-cooled chiller will just use more water that needs to be treated. So you are seeing, especially with a couple of the colos, especially in Europe, which has a bias for air-cooled chillers and some of the colos and in even some of the hyperscalers, a bit more migration to air-cooled.

If you look at Carrier, when we spun, a couple of our – the key players, I'd call them, like, 30% share, we were probably in the 10% range. On water-cooled, when we introduced this new product line, we went from 10% to 3x that, 4x that in just the last five years. If you look at what's about to happen on air-cooled, I don't know if we're going to go up 3x or 4x, but we're going to go up exponentially, because what we're winning and bidding now a lot are these 2-megawatt and 3-megawatt, now they want 5-megawatt air-cooled chillers. So our share will de facto increase on the air-cooled side as well.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

And so is the market going in that direction, or is that Carrier now pivoting to focusing on share in that direction? Just talk about how the market's evolving, I guess, it's still pretty split.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

It's still split. I mean...

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Yeah.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

...it's both. We have a hyperscaler that we're close on a win with. It'll be a mix. They're going to order some water-cooled, some air-cooled, and it kind of depends on the specific needs of the location. I would say probably a little bit more of a move generally towards air-cooled, but you still see demand for both.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

And as far as your capacity is concerned, with all this growth and all these orders, just talk about where you've been on chiller capacity to date, and then where you're ultimately going by, let's say 2030, where you expect to be from here?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, I think it's our capacity expansion, especially here in the Americas, has helped us tremendously. Because we are – we're probably up 3x to 4x for both, our capacity for air-cooled and water-cooled here in our two major facilities in North America. So we have the ability to take orders, I think that some of our peers cannot. So I think we're winning technically. I think we're winning in part because of the relationship we've built with a lot of our key customers and how we support them, not just by shipping a product, but also seeing it through to commissioning, the type of aftermarket agreements we're working with them.

And I think, look, we came into the year with about a \$1 billion of backlog for 2026, not – that excludes backlog we have for 2027 and 2028. We committed to do a \$1.5 billion. I don't think it would surprise you that internally we're pushing for a bigger number if we're externally going to commit to a \$1.5 billion. And so that means we needed \$500 million of book and ship business just within the year, and we're pushing for more than that. But I could tell you we're working with one guy who's kind of vacillating between an order for 2Q and 3Q, and we're telling him, you tell us what you need, and we could support either one. And I don't think there's a lot of guys that can do that.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

And is that out of one, like main facility, or are you kind of like leveraging your whole footprint to be able to do this?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

We actually try to leverage our entire footprint. We try to deliver for the region within the region. So in North America, we have our Charlotte facility, which we've expanded by 50%. We've converted one of our Monterrey, Mexico facility that used to do boards entirely to chillers now. So we try to do most of what we need for North America. In North America, there will be times we import from Asia if we, before we had some of the capacity expansion. But we typically do a lot of in-region manufacturing.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

And as far as the revenue numbers here, the \$1.5 billion you're doing, is there – and you call it data center revenue, is the vast majority chillers, or are there other things in there like a BMS or something else that – some other type of product that may work its way in there? Is the majority of that chillers?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

The majority of it's chillers.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Okay.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

BMS is meaningful. I tell you, it's one of the unsung heroes within the Carrier portfolio is our ALC or Automated Logic Controls business. Very high margin. It's grown double digits every year since we spun. Really well-positioned, I mean, kind of the go-to for one of the hyperscalers in particular, it's like we have, I think, 80% share. But they – it's a real – a bit of a gem that's now I think going to become the big differentiator.

When you think about how do you differentiate with this whole liquid cooling, traditional cooling, I think a lot of it will come down to the controls. And we've gained a lot of share. There was a point at which we were number five. I think when we spun, we toggle between two and three now in the Americas. And I think the big differentiation will be the control mechanism between traditional cooling and liquid cooling. Because a lot of – I think most of us in the space will have the capabilities to do most of everything. It's going to be how you have the algorithms and the sophistication around the controls. And we have this gem of a business that will enable that.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

How much liquid cooling revenue do you think you're going to have in 2026?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

I would say it's probably less than \$100 million.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

But that's part of the \$1.5 billion.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

It's part of the \$1.5 billion.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Yeah. Okay.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

But we've been – we've taken the approach, Steve, of being kind of very judicious and structured on how we attack this opportunity. There's no question that we believe we have a right to win in the space. We looked at acquisitions on the CDU side, but as you know, it's effectively a mini chiller. So we said, let's just – we could develop it ourselves or we could go outside. We actually – pace matters because speed to market, but technology matters. And we have brilliant engineers. We have over 5,000 engineers, a lot of whom design chillers for a living, which is CDU effectively is. It's a packaging exercise. So we have our own 1-megawatt, we have a 3-megawatt and a 5-megawatt coming out here in the next few months. Manifolds, anyone can do...

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Yeah.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

...or buy. Cold plate, they're still like trying to figure out the best way to handle that. So I don't see us doing a multibillion dollar liquid cooling. I think that the key for us is organic development. And if we're looking at M&A, it's probably in the \$100 million to \$200 million range. It's probably not in the \$5 billion to \$10 billion range.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

And you're saying that cold plate is not an area that you don't really want to go that far into the room?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

No, I'm not saying that. I think cold plate is a part of the system. What we're debating is what we want to do in the area of cold plates.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Okay.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

I don't think we necessarily need to manufacture cold plates, for example.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Right. Right.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

But do we need people that know, like, today we work very closely with NVIDIA, and Dell and the chip manufacturers. Do we need to build up those skills? Do we need to build up systems engineering? Do we need people that can design cold plates and know how that can interface with the CDUs in the most effective way? Yes, that's a capability that we believe we need. But we're not looking to necessarily get into cold plate manufacturing. There's a – the jury's out on or something like that.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Right. And the thing about the CDU landscape is it's changing so fast that like you don't want to – it's kind of like the train is moving and everybody's kind of running, trying to stay close to the train, ready to hop on at any given time. So...

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

...to pigeonhole yourself into one of the early versions and then have to kind of like constantly redesign. I think it's been interesting to see how all the HVAC guys have, I think it's the right play to attack it when it becomes a system level...

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

...component, which plays right into your guys' strengths.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. You need the elements, the technology, as you said, Steve, will change. We have this relationship with ZutaCore. It was one of our early VC investments. We continue to be very, very close...

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Is that a two-phase or immersion?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Two-phase.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Two-phase, yeah.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

So we believe we're going to go from single phase to two-phase. ZutaCore is two-phase. So we like that investment because we think that's not when – it's not whether, it's when we'll move in that direction. We're not spending a lot on immersion today, but we are spending on obviously single phase and now ultimately through ZutaCore two-phase. And we may look at other things in that space as well.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

So the \$1.5 billion of data center may be a little bit upside there. On the rest of the applied markets, what are you guys seeing there pretty much in line as far as the orders and the revenues coming there?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. I mean, the math would get you to LSD on the non-data center piece, and that's really a function of focus. I mean, we have so much energy going into some of the data center activity. But look, the – I know we have one peer that often talks about 14 verticals, but we participate in all those as well. Education, higher eds, kind of made it a bit of a comeback versus last year. Same with K-12, which cuts across light commercial and applied.

A

Hospitality, we'll see what happens obviously with the war and how long that lasts. But hospitality has been doing quite well for us as well. Even commercial real estate, surprisingly for us, has been year-over-year positive. I saw the ABI numbers earlier today, which were in spitting distance of [ph] 50 (00:18:50), even projects proposals was above [ph] 50 (00:18:53). So, we'll see. I think we're well-positioned in the non-data center piece, but that's about what we thought.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

And so as far as this trajectory in the second – you got a kind of a tough comp. So it's growing low singles and it's kicking up pretty nicely in the second half. Is that really when the data center shipments really start to hit...

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

...in the second half?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yes, 100%.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Okay. Okay. That...

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

So, the backlog's there. It's going to be an execution thing. And we – I wish it were more linear by quarter. It is what it is. It's kind of how the customers wanted it. But we are really well-positioned to deliver that in the second half. We're not worried about that.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Even though it's really cold outside here, we are kind of tiptoeing closer to the spring selling season, so maybe we can pivot to Resi. What are you guys seeing out there? I know Watsco was here yesterday and making some encouraging comments about their sales trend. There's a lot in their portfolio, but a little more constructive. I know it's early. What are you guys seeing in the latest turn of the cards there as an indication for the season?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. Everything consistent with what we thought quarter-to-date. If you step back, we said down, volume down kind of in that low double-digit range and we said sales down in the high-single digit. When you look at it, you would be down about 20% in the first half and up about 10% in the second half, and that 10% is driven by the absence of destocking...

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Yes.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

...in the second half. So for the full year, that gives you 5%. I think down around 20% in the first quarter is how we planned it and things are going to plan. Movement's been January and February are in line with what we thought. Same with March to-date. So I feel certainly encouraged by the fact that there's nothing that is in any way worse than what we thought. And we'll have to see how the rest of the quarter and how the season plays out.

A

I'll say this that one of the most important metrics, KPIs that we have within Carrier is field inventory. We got burned last year by having more field inventory in the channel than we should have as we kind of went into the season and came out of it in the summer. And we are determined to not let that happen again. So we wanted to end the year, end January down 30% year-over-year, which we did. We ended February down 30% year-over-year. And we still are in that range of down 30% as we sit here today.

If you look at where we are, our field inventory, absolute levels, if you compare it to a six-year average, for us at Carrier, it's down about 15% to 20%...

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Okay.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

...and we're back to like 2018 levels. So we're being – we will 100% support the ramp. And if the ramp is better than we think because of demand or the heating season or cooling season, we will 100% support our customers. But we also don't want to get out over our skis on field inventory. So in 1Q, we're absolutely tracking to what we thought, and we will also be careful to prioritize field inventory over sales, and I think we'll be able to manage both of those equations.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Got it. And so would you – so you're saying inventories are low?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yes.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Are they, I guess, the first quarter steps up nicely from a shipment perspective. They're going to remain pretty low through the first quarter is what you're saying...

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yes.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

...into the selling season?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yes.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Okay. Got it. Okay. You also made a few waves with your industry projection on the quarter, on the quarterly call, down 15% or so, 10% to 15%, I think it was, right? Are you still feeling like that's the right number? Or is there – is that just a hedge for bad things to happen is, the former CEO of UTC used to say, but...

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Or what's the underlying model for that one?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. I mean, look, the way we came up with the number was that we said all of these, this perfect storm we had in the second half of last year, like these four macros that all went south at the same time were existing home sales at a 20-year low, soft new home construction, weak consumer, consumer confidence, a 30-year that started with a six. We just assume that all of that continues into this year.

A

And then if you took the second half number and you assume that continues into this year, the second half of 2026 versus the second half of 2024 would put you down 30%. So we assume the first half would be down 30% versus the first half of 2024. So that's how we came up with the math. Did we – do we want to be confident that we're going to not miss after what happened last year?

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Yeah.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Of course.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Yeah.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

But, we – it's a short cycle business. There's a lot of variables that we don't quite know how they're going to play out. 1Q is tracking as we expected, and then we'll have to see. I will say, if I may, Steve, that in terms of controlling the controllables, there's a lot of really good stuff we're doing behind the scenes that go beyond just tracking what the weather in Chicago is going to be. I mean, we see hydronics as an enormous opportunity for us, early days there. We see Carrier Energy, this integrated battery heat pump as a significant opportunity.

A

You know, Steve, we used to not be a thermostat player. Now we've introduced it at the high end. We're introducing it across the entire portfolio with digital as one of the real priority areas that we have here in North America. So I could double click on any of those topics, but I do think there's a lot going on underneath the covers with CSA Resi that positions us quite well.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

I guess, just if you throw all those in, and I know there was an announcement with you guys are partnering with Google and Tesla, I think, on the...

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

...on the energy storage combination, which is an interesting one. But if you kind of sum all those up, you should outperform the industry if you're doing pretty well on those. Is that like still a 3%-ish low-single digit percentage uplift for you guys relative to the industry you think over time?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

It's hard to say a precise answer to that. What I'll tell you is today we're a little under like – we're close to a third of the market. And we have very high margins in that business. I think the Carrier Energy piece, we've sized at a run rate number of like \$500 million of incremental a year. We're working – that one partnership that we kind of established with Google and Tesla and others to influence local policy is, we think that's exciting. But we're working closely with 10 utilities and two of the hyperscalers. So that's really exciting.

We're going to come out with our Gen 1 product that's already out there today. We are in Carrier homes. We're testing it. We need to validate that, not only will the heat pump move over to the battery during peak hours, but you can return the electrons, the excess electrons during peak to back to the grid. So that's getting certified by EPRI, that's going really well. And then our cost optimized unit, our Gen 2 unit comes out next year. So that's going well.

Our hydronics, we came out with a unit that is really for an air to water, which is a very small part of the North American market. And now for air to air, we have technology that others have with an integrated heat pump with a boiler. But we're also working something else in the kind of the more to come category that I think could be quite disruptive that will come out next year that can get us more, leveraging our heat pump to get us more into that hydronics space for air to air market.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Where are you on ductless now in your portfolio? You guys – Toshiba, obviously, good technology move.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Where are you on ductless now?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Ductless is great. I mean, it's a high-margin business for us. When I would say in 2010 that we were probably like 5%, and today, it's in the high-teens...

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Yeah.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

...in terms of market share. So we've come a really long way. We're in spitting distance of 20% share. I remember actually at our Investor Day...

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Is this globally or US?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

I'm talking US right now.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

US. Yeah. Okay. Got it.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

We're using the global technology.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Yes. Yes. Just making sure.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

But specifically, for the ductless market in North America, we've gained share. If you look at the crossover unit that we introduced here in North America, we did that three years ago. Since we've done that, our CAGR for that unit has gone – has been 36% over these last three years. So some people don't even realize that we have – that's really what you even asked us about on February 10 of 2020 at the New York Stock Exchange, you were focused on ductless, rightfully so, and you thought it was a growing market. See, I remember what you...

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

That's when you said you had the guy in the basement...

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

...calculating the market...

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

...and they're in their replacement age.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. We're going to go back.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Yeah. Is he stays...

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yes.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

...the guy in the basement still around?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

15 years. Yeah. Yeah.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Is he still around?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. No, we let him see the sun once. Just every five years, he's allowed out. Actually, last year he was not allowed out.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Yeah, yeah, yeah.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

But so, if – but if you look at this unit that we introduced last year, it's basically the external unit, as you know, is ductless, and it can pair with either a ducted or a ductless indoor unit. We've gained tremendous amount of share and that's part of the beauty is we can leverage Toshiba technology, we can leverage Viessmann technology to gain share in that really important space. It's very high margin.

If you look at our ductless business in the US, that new product that we introduced just three years ago is 40% of our sales today. And we're working on more innovation. So ductless in the US or North America is about 15% of the market. It's growing. It's growing quite well and we're really well-positioned there.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Can we just talk very quickly about price? You referenced the 1%. For Resi, what do you expect for price? Any updates there as we kind of move into the selling season that's pretty much set, that's pretty much baked?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Okay.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

We feel good about that.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Okay. Okay. And then just going to touch quickly on Europe.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yes.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Any update on the dynamics there? Dover was here yesterday, they do the heat exchangers at SWEP, and they were pretty bullish saying it's bouncing off but off of a very low level. They don't quite have the boiler offset that you guys may have. But, what – any updates there of note since the fourth quarter?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, look, I think the short answer is no major updates, things are tracking to what we thought. I would say heat pump's very strong. We said heat pumps would be up double digits. Our model assumed boilers down low-single digits, but we also have the market down mid- to high-single digits and that'll be driven by boilers. I think that – so when we look at 1Q, everything's tracking to kind of what we thought.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Okay.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

The thing to watch, I would say two things to watch in that market that are perhaps in the category of reasons to believe that we may, as we start to dig our way out of this, I mean, you think about the German market north of a 1 million units, down to 600,000. That's a big pill to swallow over three years. But number one is we have this new product coming out that will be transformational. We – today, Viessmann, a very premium brand. This one will be in the mid to upper tier Viessmann branded, lower cost product, but lower cost to install.

So if subsidies come down in certain countries, this is like perfect not only for the German market as a second offering or to convert existing non-Viessmann installers. But in places like Poland and elsewhere, this is like perfectly positioned. So this product is 100% one to watch. And then we're going have to see the impact of this war because obviously there's more planned replacement on the residential side in Europe than there is in North America.

And what happened with the Russian invasion of Ukraine was there was a lot more – there was this kind of rush to move away from fossil fuel, because Europeans get reminded that 85% of their natural gas comes from outside of Europe. And you don't want to – they don't want to be reliant on Russia or the Middle East or the US. So we're going to have to see when natural gas prices went from €30 per watt hour to almost 2x that in the span of five days. It's a bit of a reminder that it's probably a good idea to switch to heat pumps over time. So we'll see the impact of that over time.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

So it sounds a little more encouraging on, but nothing in the results. Everything's kind of on track so far, but a little more encouraging, some signs of life.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yes.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

On the Light Commercial side, just really quickly, and anything moving there relative to guidance, and any verticals stand out?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

No, I'd say the two that probably stand out, K-12 is a little bit better than we thought. Retail, especially where we go direct to the retail customers, the national accounts, those are going very well. We said that 1Q, the first half would be down around 10%, second half down mid- to high-single digits. I think that in 1Q, it's probably slightly better than we thought it was going to be, but we'll have to see a couple weeks left.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

And then lastly, just the transport refrigeration businesses, is this a keeper or is this going to remain in the portfolio or?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

We like the business.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Yeah.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

We like the business Ed Dryden and the team are doing a very good job. The way we handicapped the year at flat year-over-year that the container business just has really tough comps. And then Truck and Trailer would be a little bit more positive and offset some of that. I'd say to start the year, container has been stronger than we thought. I mean, if you think about some of the impacts of the war, one is sub-optimization of the container fleet out there, which can drive more orders.

So, I think container in 1Q, 2Q will be probably a little bit better than we thought, but we have really tough comps in the second half. But we got to keep our eye on Truck and Trailer because their customers are under some pressure with raising fuel prices. So we are where we thought we would be, and we feel good about the first half of container. We'll keep an eye on the rest of the business. But no real new news and it's a good – it's a really good high margin business that's got – been dealing with some of the short cycle stuff at recent lows, and those will come out of that.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

And then just moving to the bottom line, the \$50 million to \$100 million in positive price cost spread, I think that's the number. Is that still intact and anything moving around tariffs?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

No, look, the one thing I'll say on kind of tariffs overall, you have IEEPA, you have Section 232, you have Section 122. And so we deal with input costs that are all over – that change every day. It could be raw material, it could be tariffs. The short answer to your question, Steve, is no new news.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Okay.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

But we will get a point of price. I'll give you a couple hundred million and you combine tariffs and raw material, that's a couple hundred million, and we'll offset one with the other. But I do believe that I think it's a misnomer to say that all we did is pass IEEPA along to our customers, because when you have input costs that go up and you're raising prices, it's hard to do a one for one connection to that

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Right.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

So we manage all kinds of moving parts in the cost and price formula to get where we need to get to. But we have a formula around productivity that's been proven to work and it'll work again this year.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

So, is there a little bit upside there potentially?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

I don't think so. I don't want to say that. It's premature to say that. But we feel like – we feel that we can overcome a lot of surprises. We have every year since we spun, whether it was COVID, supply chain issues, maybe you see some logistics issues that happen with sub-optimization of container. We don't worry about surprises because we have a formula that works.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Great. Any questions out there? We got time for one question maybe. Nope, nobody asked a question the entire event.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Really?

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Yeah.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Maybe your last event, someone would do it.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

I mean, look, I just think I asked all the great questions. Not enough out there.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

All right. Thanks very much.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thanks for having us, Steve.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Really appreciate it.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Appreciate it. Yeah. Thanks. Good to see you again. Yeah.

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