

01-May-2025

# Carrier Global Corp. (CARR)

Q1 2025 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

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

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### Michael S. Rednor

*Head-Investor Relations, Carrier Global Corp.*

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

Except where otherwise noted, the company will speak to results from continuing operations, excluding restructuring costs, amortization of acquired intangibles and certain significant non-recurring items such as acquisition and divestiture related costs.

A reconciliation of these and other non-GAAP financial measures can be found in the appendix of the webcast. We also remind listeners that the presentation contains forward looking statements, which are subject to risks and uncertainties.

Carrier's SEC filings, including our form 10-K and quarterly reports on form 10-q, provide details on important factors that could cause actual results to differ materially. One additional note as you probably saw in both the press release and webcast presentation this morning we announced a revised reportable segments and segment profitability measures. So we will be speaking to financials on this basis going forward.

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

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### David L. Gitlin

*Chairman & Chief Executive Officer, Carrier Global Corp.*

Thanks, Mike. And good morning, everyone. Let me start by thanking our 50,000 teammates for delivering another strong quarter. I'd also like to welcome Michael Gergis to our team. He is leading our Climate Solutions segment in the Asia Pacific, Middle East and Africa region, and we are thrilled to have him on board.

So a strong and better than expected start to the year. Orders were up high single digits with double digit orders growth in climate solutions Europe and transportation. Within Climate Solutions Americas sales in both residential and commercial were up about 20% each, more than offsetting weakness in light commercial.

Global aftermarket remains on track for another year of double digit growth following 1Q, up 8%. Total company backlog was up about 10% year over year, and 15% sequentially. The team continues to use carrier excellence to drive strong productivity, with core earnings conversion of about 100% and 210 basis points of margin expansion.

We drove 27% adjusted EPS growth on 2% organic growth. Free cash flow was \$420 million, and we returned about \$1.5 billion to shareholders in the quarter through dividends and share repurchases, plus paid down \$1.2 billion in debt with no additional maturities until 2027.

Turning to slide four. We made great progress on all three drivers of sustained growth: products, aftermarket and systems. In terms of differentiated products, channels and brands, we introduced carrier's first air cooled commercial heat pump in Europe delivering high temperatures, increased energy efficiency, noise reduction and enhanced operational performance, all of which address increased demand for district heating and cooling in Europe. Also, as we displayed at the recent ISH show in Frankfurt, we are gaining traction selling our Carrier branded air to air residential heat pumps in Europe, leveraging Viessmann's channel.

Aftermarket strength continues. We drove tremendous progress in the attachment rates on our commercial chillers, now surpassing 60% for the first time, and we now have over 50,000 connected chillers, up about 5000 versus the prior quarter. Aftermarket for global commercial HVAC was up about 10%, supported by mods and upgrades, which grew about 20%. We also introduced a smart device application for LYNX Fleet, providing increased real time visibility, enhanced customer operational efficiency, and reduce costs while maintaining cold chain integrity.

On systems, we introduced Viessman's Profi to accelerate and expand our HEMS sales in Europe. Selling heat pumps versus boilers is a mix up sales benefit of about 4 to 1. Selling complete systems versus boilers is a mix up benefit of closer to 8 to 1, with more value to the homeowner. So we see this as a significant win win opportunity for sustained growth and customer stickiness.

For HEMS in the United States, we announced an exciting new partnership with Google to enhance grid resilience and support smarter energy management. By integrating Carrier HEMS technology with Google's Cloud, AI and analytics we will help increase the efficiency of the existing energy infrastructure, reduce grid congestion, unlock greater energy utilization, and reduce energy costs to the homeowner.

Turning to slide five for an update on our residential and light commercial business in Europe. Organic orders were up mid-teens, driven by strength in heat pumps, offset by a decline in boilers. Germany heat pump subsidy applications in Q1 were up significantly. The highest Q1 we have seen in the past five years.

Our RLC Europe book to bill was 1.3, and our backlog was up 60% sequentially. Organic sales were down about 10% as we expected, and we project the RLC Europe business to return to modest growth in 2Q. Revenue synergies remain on track for about \$100 million this year and about \$200 million next year. Cost synergies also continue to be strong and we are on track to achieve more than \$200 million by the end of next year.

A few comments on the recent election in Germany. We were pleased to see that the new coalition government is committed to the European Union's 2030 climate goals which include a 55% reduction in carbon emissions, which will contribute to a continued shift to electric heating. Also encouraging is the coalition's continued support for heat pump subsidies and its €500 billion infrastructure investments, including about €100 billion for additional green investments.

Importantly, the new government is also committed to bringing down electricity pricing by at least \$0.05 per kilowatt, which is expected to bring the ratio of electricity to gas prices below three. Further improving the ratio will be ETS 2, where across Europe in 2027, we expect fossil fuel prices to increase. All in we're pleased with improving heat pump demand and traction on our key growth initiatives.

A word on our guidance and the macro environment on slide six. Let me first say that we of course support free and fair trade. Also, Carrier's proud to be the largest US domiciled player in our industry. And we've grown our domestic head count by about 20% over the past five years. And we continue to invest in our US workforce and factories.

With respect to tariffs, virtually all of our imports from Mexico are USMCA compliant. For the tariffs that are in effect today, China is about 80% of our exposure. As reflected in our guidance we are fully mitigating our tariff exposure through supply chain and productivity actions with the balance of about \$300 million via price which represents a little over 1% of additional pricing. In addition, given the fluidity of the current market environment, we are taking additional cost containment measures.

Based on our strong start to the year and current FX rates we are increasing our full year adjusted EPS guide to \$3.00 to \$3.10, which is up about 20% year over year. As always, our team is committed to taking the actions needed to deliver on our commitments to our customers and investors.

You saw this when we addressed Covid and supply chain disruptions, and we are confident that you'll see us do the same here. Importantly, while we remain clear eyed and prudent given the current macroeconomic uncertainty, we will remain laser focused on our customers and continue to invest in differentiation and solutions to drive sustained, outsized growth for years to come.

With that, I will turn it over to Patrick.

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## Patrick P. Goris

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

Thank you, Dave, and good morning, everyone. Please turn to slide seven. As Dave mentioned, we had a strong start to the year with earnings ahead of our expectations and the guide we provided in February.

Reported sales were \$5.2 billion, with 2% organic sales growth, including about two points of price. The impact of mix up and volume was net neutral. We had an unfavorable 5% net impact from acquisitions and divestitures and 1 point of headwind from foreign currency.

Organic sales were largely in line with expectations, with stronger than expected performance in Climate Solutions Americas, partially offset by weaker performance in Climate Solutions Asia, Middle East and Africa.

Europe and transportation came in largely as expected. Q1 adjusted operating profit increased 10% compared to last year, driven by strong productivity and price. As a result, adjusted operating margin expanded by 210 basis points compared to last year. The absence of commercial refrigeration was about a 70 basis point tailwind to margin.

Adjusted EPS of \$0.65 was up 27% year over year, and better than expected due to strong productivity performance. Compared to last year adjusted EPS growth was driven by improved adjusted operating profit, lower net interest expense from deleveraging, and a lower share count. We have included a year over year adjusted EPS bridge in the appendix on slide 19.

Free cash flow of \$420 million in the quarter was also stronger than expected, driven by higher net income, lower than expected seasonal working capital build and lower capital expenditures. During the quarter we repurchased \$1.3 billion worth of shares and in April we repurchased an additional \$320 million worth of shares. We continue to target \$3 billion of share repurchases in 2025.

Moving on to the segments starting on slide eight. The CSA segment had a very strong quarter with organic sales growth of 9%. A bit more than half of the sales growth came from volume and mix up. The balance from price.

Commercial ex NORESCO and residential strength continued with organic sales in both businesses up around 20%.

Within residential regulatory mix up was the high single digit organic growth benefit with the balance split between volume and price. About 75% of our resi volume was for 454B, and we are realizing the expected 10% mix up.

Light commercial came in lower than expected, down around 35% with a tough compare versus prior year, which was up about 20%. Adjusted operating margins expanded 420 basis points, driven by strong organic growth and productivity. Overall, CSA had an outstanding quarter.

Moving to CSE on slide nine. About 75% of this segment sales represent residential, light commercial, or RLC, of which about 85% is represented by Viessmann Climate Solutions and 15% legacy Carrier. Commercial represents about 25% of this segment sales. Organic sales, in CSE were down 7%, with mid-single digit growth in commercial, offset by about a 10% decline in RLC, largely in line with expectations.

Adjusted operating margin declined 390 basis points, driven by lower volume mix and investments, partially offset by favorable cost synergies. At 9%, we are confident that we can and will drive significant margin improvement in this segment. We expect volumes to improve. We are addressing underperformance of Carrier's legacy RLC business, commercial margins are on an improving trend, and there is significant additional opportunity to streamline and drive synergies within the region. More on that at our upcoming Investor Day in a few weeks.

Moving to the CSAME segment on slide ten. Organic sales were down 6%, driven by continued weakness in residential China and parts of Southeast Asia, partially offset by growth in Japan and India. Within China, our residential light commercial business was down around 20% and commercial was up low single digits. Both businesses faced challenging compares versus the prior year, which were both up around 10%. Despite the organic sales decline. Adjusted operating margin for this segment expanded 240 basis points as a result of productivity, and the absence of a prior year unfavorable currency impact.

Moving to CST on slide 11. Organic sales were up 2%, driven by Container, up 20%, partially offset by Global Truck & Trailer, which was down low single digits with over 30% growth in Asia, low single digit declines in North America, and high single digit decline in Europe. Adjusted operating margin expanded 210 basis points compared to the prior year, mainly due to the commercial refrigeration exit.

Turning to slide 12. Total company organic orders momentum continued, up high single digits. As you can see on the slide, we had high single digit or double digit orders growth in all segments, but CSAME. Within AME China orders were down high single digits with a high teens decline in RLC and up mid-single digits in commercial where we continue to build backlog. Within transportation, orders were up double digits, driven by Global Truck & Trailer where North America orders were very strong compared to last year. Overall, we ended Q1 with a robust, longer cycle backlog in commercial and continued broad orders momentum in over 85% of our business.

Moving on to slide 13 and shifting to full year organic sales guidance. We continue to expect mid-single digit organic sales growth. Given current FX rates reported sales are now expected to be a bit above \$23 billion compared to \$22.5 to \$23 billion in the February guide. Also, compared to the February guide, we now expect slightly higher organic sales in CSA, driven by tariff related pricing to be offset by lower volume, mainly in light commercial. No other material changes in our organic growth outlook.

Moving to profit and cash guide on slide 14. At the top of the slide, you can see our margin expectation for each segment. Total company adjusted operating margin expansion remains unchanged at about 100 basis points

versus the prior year. I will cover adjusted EPS on the next slide, but before I do we are maintaining our estimate for free cash flow of between \$2.4 and \$2.6 billion, reflecting roughly 100% conversion.

Moving to slide 15, we are increasing our adjusted EPS guidance range by \$0.05 to a new range of \$3.00 to \$3.10. Stronger productivity and updated currency is partially offset by slightly lower expected volume. The net impact of tariffs is neutral. Some additional color on Q2. We expect sales of about \$6 billion, 100 basis points of adjusted operating margin expansion and 20% adjusted EPS growth. Additional guide items are in the appendix on slide 18.

In summary, Q1 was a strong start to the year. For 2025 we anticipate solid mid-single digits organic sales growth, strong margin expansion, and close to 20% adjusted EPS growth.

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And our first question comes from Nigel Coe with Wolfe Research. Your line is open.

**Nigel Coe**

*Analyst, Wolfe Research LLC*

Q

Thanks. Good morning. So CG guidance hot off the press, just want to confirm, Patrick, you're sort of pointing towards \$0.87 or so of EPS base case and about 5% core growth.

**Patrick P. Goris**

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

A

For Q2, you mean that, Nigel?

**Nigel Coe**

*Analyst, Wolfe Research LLC*

Q

For Q2, yes, Q2 2025, yes.

**Patrick P. Goris**

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

A

Yes, mid-single digits organic growth, about sales of about \$6 billion. I mentioned 100 basis points of margin expansion and roughly or close to 20% adjusted EPS growth.

**Nigel Coe**

*Analyst, Wolfe Research LLC*

Q

Yes. That's great. And then just given all the moving pieces across the portfolio, how does that mid-single-digits look across the new segments?

**Patrick P. Goris**

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

A

For Q2, or for the full year?

**Nigel Coe**

*Analyst, Wolfe Research LLC*

Q

For Q2, yes. Both, let's do both, Q2. Let's do [ph] two for (00:18:32) one, Q2 and full year, yes. Thanks.

**Patrick P. Goris**

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

A

I'll start with Q2. We expect organic sales growth to pick up in the Americas, mid-teens. In Europe, the Europe segment, we expect Q2 to be up, Dave mentioned, low to mid-single digits. In Asia, we expect another quarter of low single-digits organic sales decline and same for transportation. That's Q2. For the overall company to mid-single digits, maybe a little bit better than that.

For the full year, our organic guide for the overall company remains mid-single digits. For the Americas, we continue to expect high single digits. Europe low single digits, same for Asia and Middle East. And then we expect organic growth to pick up in transportation in the back half of the year, and we expect transportation to be up mid-single digits organic growth for the full year.

**Nigel Coe**

*Analyst, Wolfe Research LLC*

Q

That's great. And then just a quick follow-on on the tariff. I think \$3 million is the number that will be offset by price. Any more color in terms of what the gross impact is and how much has been offset by productivity and other actions?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

I would say, Nigel, we don't really think of it that way because we've effectively offset whatever we saw upfront with our suppliers and with the productivity actions. So as we sit here today, we view the exposure as the \$300 million that we need to go offset with price. And frankly, we've already implemented those price increases in our channel.

**Nigel Coe**

*Analyst, Wolfe Research LLC*

Q

Okay. Thanks, Dave.

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Thank you.

**Patrick P. Goris**

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

A

Thank you.

**Operator:** And the next question comes from Julian Mitchell with Barclays. Your line is open.

**Julian Mitchell**

*Analyst, Barclays Capital, Inc.*

Q

Hi, good morning. Maybe just wondered if you could drill a little bit more into the Americas segment and sort of flesh out perhaps what you're seeing in the resi piece there and light commercial and that's the two places where I suppose the full year guidance has changed in May versus February. So help us understand the drivers there and how you think about those two pieces playing out over the balance of this year?

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

A

Yeah, Julian. First, on the resi side, we did increase from high single digits for the full year to high single digits to perhaps low double digits. Some of the pricing on the tariff side, we will see on the resi side specifically. But resi was a bit of a stronger start to the year than we anticipated. It was up around 20%.

The regulatory mix played out well. It was about 75% of the mix between 454B and 410 was the 454B. And we realized a little over 10% on that, and that was about of course, 80% of the total volume for resi.

We got mid-single-digit price, mid-single-digit volume and 2Q is on track, probably in that 15% to 20% range. And I think we look at the full year and we have much tougher comps as we get into the second half, in particular, as we look at the fourth quarter. Because remember, we did have maybe \$75 or so million of pre-buy in the fourth quarter of last year.

So we feel good about resi certainly in the first half, and we'll keep our eye on the second half, and I think we've derisked that with how we've thought about high single digits to low double digits for the full year.

Light commercial was worse than we thought, and that's what's driven us to increase, to decrease our guide for the full year to down low double digits. We mentioned that first quarter was much lower than we thought, and it was really a combination of a couple things. Some of the small and medium businesses were soft. You can think about things like nail salons or a local restaurant or a barbershops. So that was a little bit softer than we thought. And there were some delayed spending on K through 12, some of that bond funding was a bit paused.

So Q1 was softer. I think we're looking at Q2 being down close to 20%, and then you'll see the second half of the year slightly flat to slightly up a bit. So that puts you at down 10% for the full year. But you know, Julian, our light commercial business is about \$1.5 billion of sales. So it's just about 5% of the company, a little over 5%. So it could be down 10%, and it impacts Carriers' top line by just about 0.5%. So we'll keep an eye on it, but it's something that the team is on top of, and I think we've derisked in our full year plan.

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**Julian Mitchell***Analyst, Barclays Capital, Inc.*

Q

That's very helpful. Thank you. And then just maybe secondly, wanted to understand on the CS Americas business, looking more at the margin front. So very strong margins up year-on-year in Q1 of over 400 points. The full year is guided up about 50 bps. And if we just look at absolute margin, there isn't much difference between what you saw in Q1 and what's guided for the full year, even though perhaps one might think with the seasonality, it should be moving higher, particularly second and third quarter versus first. So maybe sort of flesh out a bit how you see those margins developing over the balance of the year, please, in Americas?

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

A

Sounds good, Julian. And the way you can think about this is we do expect in Q2 the margins in the Americas to pick up by a couple of points. So it was about 22% in Q1 probably closer to 25% in Q2, somewhat similar in Q3 but then lower in Q4 to get to about the 22.5%. And maybe some additional color on that.

The tariffs represent a headwind to the Americas margin, given the price cost neutrality there. And that's a headwind to margin of about 50, 60 bps for the entire year. And so in that range for Q2, Q3, Q4. And so that, you'll see that play out in that segment. And then as Dave mentioned, resi volumes in the back half of the year will be lower. And of course, it has a margin impact as well. So 22%, north of 22% margin in Q1, expected to step up close to 25% in Q2, similar in Q3 and then a step down to get to 22.5% for the year.

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**Julian Mitchell**

*Analyst, Barclays Capital, Inc.*

Q

That's great. Patrick. Thank you.

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**Patrick P. Goris**

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

A

Thank you.

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**Operator:** And the next question comes from Andy Kaplowitz with Citigroup. Your line is open.

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**Andrew Kaplowitz**

*Analyst, Citigroup Global Markets, Inc.*

Q

Hey, good morning, everyone.

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**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Good morning

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**Patrick P. Goris**

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

A

Good morning, Andy.

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**Andrew Kaplowitz**

*Analyst, Citigroup Global Markets, Inc.*

Q

Dave, can you update us on your outlook for Viessmann at this point? Obviously, orders and backlog are up and you said RLC Europe will return to organic growth in Q2. So do you still see flat for Viessmann for the year? I think you talked about 150 basis points of margin improvement and then stepping back on overall CSE, you talked about your work to get that margin up, but maybe you could elaborate on the issues in the segment and what you're doing to address them?

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**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Yes. When you look at our overall growth algorithm for Viessmann, we still feel good about flat for the full year. We think that total unit deliveries in Germany may be a little bit lower than we thought. I think we were thinking more like down 7%, it may be down 10% or slightly higher, but we are seeing a better mix up.

In Germany, we think key pumps will be up more like 30% versus our previous estimate of up 15%. So the benefit of the mix offsets a little bit of the volume perhaps being a little bit lower than we thought. And a lot that lower volume is on the boiler side as we see very, very strong demand in Germany, in particular, but throughout Europe with that continued move to electrification.

I mentioned in my script that we were pleased with the new government coalition that is doubling down on the shift to electrification, doubling down on reducing electricity prices, they supported subsidies. Of course, we'll have to see the clarification on the new heating law. But the rest of the algorithm stays intact was, we'll continue to see a bit of price. We'll continue to see aftermarket up double-digits, which gives us another point or two. And all of our initiatives that drive 4% to 5% growth, whether the cost synergies, the share gains, the introduction of systems Profi, we feel good that all of those remain very, very much on track.

So we feel good about flattish. And the year, we had said that the first quarter would be down 10% to 15%. It was closer to 10%. And the team really came through in the first quarter, and we're confident that, that momentum will continue. We'll see second quarter up a bit.

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**Andrew Kaplowitz**

*Analyst, Citigroup Global Markets, Inc.*

Q

And then the margin on the segment, Dave?

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**Patrick P. Goris**

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

A

For the Europe margins across the...

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**Andrew Kaplowitz**

*Analyst, Citigroup Global Markets, Inc.*

Q

Yeah, correct.

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**Patrick P. Goris**

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

A

You mean the growth opportunity going forward? Or what do you think?

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**Andrew Kaplowitz**

*Analyst, Citigroup Global Markets, Inc.*

Q

Yes, the margin improvement in that segment, Patrick.

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**Patrick P. Goris**

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

A

We think that RLC and if I talk specifically about Viessmann. Viessmann will be double digits. It will be closer to low teens for this year. Last year, they ended up at 10%.

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**Andrew Kaplowitz**

*Analyst, Citigroup Global Markets, Inc.*

Q

Got it. And then Dave, can you give more color into what's going on with your commercial HVAC business in the Americas, given the capacity increase that that you have this year? I know you said you get data center to double,

I assume that's still on track. And then 20% growth in commercial HVAC is good. I assume that's pretty sustainable moving forward given the capacity you've added?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Yeah. We feel very good about commercial HVAC overall. You know that this will be our fifth year in a row of double-digit growth. Americas was very strong in the first quarter. It was up in the high teens. If you think about the global commercial HVAC business overall, call it up double digits again this year. We're going to see \$500 million of growth from data centers. We said that we were \$500 million last year going to \$1 billion, and we remain very much on track with that. We had a very strong first quarter for data centers, I think it was something like \$250 million of deliveries for data centers in the first quarter alone.

So we feel good about where we are for the \$1 billion of full data centers for this year. And then for the rest of the non-data center business for commercial HVAC we'll be up in the high single-digit range this year. So I think that the increase in capacity, particularly in North America, where we're increasing our capacity so much, that has really freed up the sales team to go aggressively after some of the non-data center work where data centers was probably taking up more of the capacity over the past 12 months than it will going forward.

So we see really good progress on some of the mega projects. Health care remains strong. Pharma has been good. Electronic fabs, some of the higher ed are all positive for us. Obviously, things like commercial office buildings continues to be weak. But overall, commercial HVAC is very, very positive.

**Andrew Kaplowitz**

*Analyst, Citigroup Global Markets, Inc.*

Q

Appreciate all the color.

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Thanks, Andy.

**Patrick P. Goris**

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

A

Thanks, Andy.

**Operator:** And the next question comes from Steve Tusa with JPMorgan. Your line is open.

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Hey, Steve. I don't know what, we'll go with Steve.

**C. Stephen Tusa**

*Analyst, JPMorgan Securities LLC*

Q

Yes, yes, a little euro in there. Just wanted to make sure that we're clear on the base of, there's been a lot of restatements here, but like what is the actual base for earnings for 2Q of 2024 again? Can you just remind us what that is, EPS?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Yes. [ph] Tony? (00:30:41) That hasn't changed, it'll be from the prior year.

**Michael S. Rednor**

*Head-Investor Relations, Carrier Global Corp.*

A

Steve, yes. There's no change. I think it's low \$0.70s, I'll pull the number up, give me one sec.

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

I think \$0.73.

**C. Stephen Tusa**

*Analyst, JPMorgan Securities LLC*

Q

Yes, \$0.73, okay. Just wanted to make sure because like Bloomberg still shows \$0.75, and you guys have restated a bit. So just wanted to make sure we have the base okay on that.

**Patrick P. Goris**

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

A

In the schedules of what we just disclosed there are the historical financials as well.

**C. Stephen Tusa**

*Analyst, JPMorgan Securities LLC*

Q

Yeah, yeah. Okay. Got it. Sorry for wasting time on the call here. Just on the resi front. And any, any real hiccups on the 454B actual channel and like the installation because of the kind of dramatic price increases that we're seeing from the suppliers. And I don't know there's limited supply of containers and things like that going on. Any issues there?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

No, Steve, we're, I mean the short answer is we're okay. I think that we have most of our 454B is coming from a specific supplier. They import some of the ingredients for 454B from China, and they have talked to us about passing that along. And of course, the team is in discussions about that right now.

But if we do have to get into a discussion, we don't think that will be material overall. I think the shortage that everyone's talking about, as you said, was the canisters that was affecting the overall channel, and we see that resolving itself here in the second quarter.

**C. Stephen Tusa**

*Analyst, JPMorgan Securities LLC*

Q

Okay. And then just one follow-up on Europe. That margin was a little bit lower than I was expecting. What do you think is a good kind of normalized rate, assuming Viessmann grows in line with your expectations? I mean that seems to be pretty depressed at a low double-digit rate, maybe what would be kind of a longer-term thought around that margin potential?

**Patrick P. Goris**

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

A

Well, our intention is to get that to mid-teens in the next couple years. And so, there is a lot of focus there. Next week is the benefit of it being its own segment.

And I'll maybe provide a little bit of extra color there, but there are really three different businesses within this segment that are now under one umbrella. One is VCS, as you know, we acquired last year. There is a commercial HVAC business, that's a little over \$1 billion, where we've seen continued margin improvement, but still not where exactly where we'd like it to be.

And then the third part is the Carrier's legacy residential and light commercial business, which is about \$700 million, \$800 million in sales, and that business has actually been operating with low, like low single-digit operating margins. And so, there is a lot of work being done now, and we expect, as I said, to get that to mid-teens operating margins in the next couple years.

**C. Stephen Tusa**

*Analyst, JPMorgan Securities LLC*

Q

Okay, great. Thanks a lot.

**Patrick P. Goris**

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

A

Thanks Steve.

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Thanks Steve.

**Operator:** And the next question comes from Jeffrey Sprague with Vertical Research. Your line is open.

**Jeffrey Todd Sprague**

*Analyst, Vertical Research Partners LLC*

Q

Hey, thank you. Good morning everyone.

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Good morning.

**Jeffrey Todd Sprague**

*Analyst, Vertical Research Partners LLC*

Q

Hey Dave, good morning. Just back to kind of the order and subsidy action in Viessmann in Germany, what do you attribute the rush for subsidy applications? Was there sort of a view that maybe the new government wouldn't be supportive and there was a rush to get subsidies in? Just kind of wondering what the real signal from the market is and that stat you shared with us today?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

It could be some of that, Jeff, but I will tell you that the numbers were very, overall very, very encouraging. Part of it could have been uncertainty about how the election would play out. Part of it may have just been pent-up demand. I mean you think about the first quarter of last year, subsidy applications were something around 9,000. The first quarter of this year was something like 65,000. So, it's just night and day. It's by far the highest first quarter of subsidy applications ever.

We'll have to see how 2Q plays out. But given that the new coalition government has said that it will continue with the subsidy rates in the same levels they were at, in the 30% to 70% range, gives us a lot of confidence that we see them continuing.

**Jeffrey Todd Sprague**

*Analyst, Vertical Research Partners LLC*

Q

And then just back to kind of the idea of gross tariffs, right? You kind of told us what's left on the \$300 million. Obviously, you've been very, very cost focused from day one since spin. I just wonder if you could give us some examples of maybe the incremental things you did to offset whatever that residual was, how much of it was inside your four walls versus sourcing and other changes you might have made?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Yes. I would say that a lot of it was with working with our supply chain. What we've been very purposeful about over the past five years, is this concept of first localization and two is dual sourcing. So this idea of dual sourcing has given us a little bit of flexibility with our supply base, not only in some of the negotiations and discussions we need to have, but also as we try to navigate where the work may come from as tariffs play themselves out.

So a lot of it's on sourcing. The team's done a great job on productivity. We continue to optimize our footprint. We've been doing that for a while, the amount of manufacturing we did for export out of China has come down significantly over these past few years. We still have a strong presence in China for China, and we have a China Plus One strategy. But we've been very purposeful about our overall footprint strategy. We've been pushing productivity within our factories. And the last is just basically tightening our belts on overall G&A and costs.

**Jeffrey Todd Sprague**

*Analyst, Vertical Research Partners LLC*

Q

Got it. Thank you.

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Thanks, Jeff.

**Operator:** And the next question comes from Joe Ritchie with Goldman Sachs. Your line is open.

**Joe Ritchie**

*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you. Good morning guys.

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Hey, Joe.

**Patrick P. Goris**

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

A

Good morning.

**Joe Ritchie**

*Analyst, Goldman Sachs & Co. LLC*

Q

So can we talk about the 454B transition just a little further. So clearly, good strength this quarter on the Americas resi business. I'm curious, Dave, do you have any kind of line of sight how much of the strength we saw in 1Q might have been just like this transition and your distributors stocking in the 454B product. And then just maybe any additional color you guys just have on inventory levels at the distributor level?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Yes. I think, I will tell you that the movements generally been okay. So we continue to watch movement. Inventory levels are a bit elevated versus where they were at the same time last year. So that's why I think that look, very strong first quarter up around 20%. We said the second quarter is going to be up 15% to 20%. We've said the full year will be up high single digits to double digits. And it's really for two reasons. One is, maybe three.

One is that we are going to watch those inventory levels, and we're going to try to, as always, be purposeful to work with our channel partners to have those inventory levels come back to a more balanced level. Two is, as you know, as we get into the second half, we have much tougher comps last year, the third quarter was up a little over 10% and the fourth quarter was up around 30%.

So we'll just inherently have tougher comps in the second half. And then we'll watch the overall economy. So we've tried to derisk the full year forecast looking at those factors for the second half. But the really good news is that we've gotten the price that we expected for the 454B, we've gained 100 bps of share over the last year and the team is performing very, very well.

**Joe Ritchie**

*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. Great. That's helpful. And then I'm sure we'll talk about this more at the Investor Day, but you want to maybe expand a little bit on that data center business. I know you guys are rolling out QuantumLeap, and it looks like you're getting closer to a liquid cooling product by year-end. So any color you can give us on how that business is, how you're seeing that business over the next 12 to 24 months?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Yes. This is something that we were very excited to launch QuantumLeap. And we've been in bid proposals, especially with a couple of customers in Europe, not only for our CDUs, our cooling distribution units, but also the complete integrated QuantumLeap, which has traditional cooling and liquid cooling and ideally has our BMS in it, our ALC business with our Nlyte business as well.

We think that's ultimately going to provide the most value to our customers. I will tell you, we're still in the first inning on that proposal, but we are getting a lot more interest, and that's how a lot of these discussions start. You propose something, you launch it. They start to come into your factories and look at the testing with your engineers. We did do, we looked at acquisitions on the liquid cooling side, but our team in a very short period of time, developed our own organic CDU, and it was kind of point designed for the sweet spot of the market.

So we're very excited about it. I will tell you that we haven't gotten a lot of sales yet from it, but we're optimistic given the nature of the value proposition and some of the ongoing discussions that, that could be a bit of game changer.

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**Joe Ritchie**

*Analyst, Goldman Sachs & Co. LLC*

Q

Great to hear. Thank you.

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**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Thanks, thanks Joe.

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**Operator:** And the next question comes from Deane Dray with RBC. Your line is open.

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**Deane Dray**

*Analyst, RBC Capital Markets*

Q

Thank you. Good morning, everyone.

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**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Good morning, Dean.

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**Patrick P. Goris**

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

A

Good morning.

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**Deane Dray**

*Analyst, RBC Capital Markets*

Q

I was hoping Patrick can take us through the free cash flow dynamics in the quarter. It was a bit light versus seasonal. You just mentioned a bit higher inventory and you reaffirmed free cash flow for the year, but what was unique about this quarter?

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**Patrick P. Goris**

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

A

Actually, Deane, actually, I think it's actually seasonally a stronger than typical Q1. Q1 tends to be somewhat light. What I mentioned was that in this Q1 that working capital was less of a use of cash than it typically is, and particularly on the payables side. So actually, we're quite pleased to start out the year with over \$400 million in free cash flow, which, as I mentioned, I think the last three, four years were a little lighter than that.

On inventory, again, nothing unusual in Q1. There is the seasonal buildup that starts in Q1, and then we expect to burn some of that off by the balance of the year and generally, there remains opportunity in our overall inventory levels.

**Deane Dray***Analyst, RBC Capital Markets*

Q

Great. Thanks for that clarification. And then can you just expand on services. They did well this quarter, just the plan for the year? Any new initiatives there?

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

A

Yeah. This has just become such a part of our DNA, Deane. We have this mantra we use internally, which I've been using externally, which is this double digit forever. So one of the big changes that we saw was we launched an initiative in the United States where we really tried to harmonize every single branch around not only the specific metrics that we're driving, but institutionalize it in the apps and the tools that all of our service technicians and sales folks use.

And now we're cascading that globally. So just the amount of rigor we have around productivity, unique offerings and of course, our same old playbook, which is BluEdge, Multi, you have base offerings, mid-tier, high-end offerings, driving attachment rates. We had the best growth in attachment rates that in a quarter that we've ever seen. We went from like 48% to 60% a quarter using the rigor around the tools.

The truth is we want to get that to 100% that every time you sell a chiller, it comes with a long-term agreement. But I'll tell you the progress to 60% in a short period of time has been encouraging.

And I think one of the things you'll be hearing from us a lot more on is mods and upgrades. A lot of the, as new construction in some of the major cities in the world have become a little bit slower, we see a huge opportunity in certain places in the world around mods and upgrades. So we view a country like Saudi to be a lot more new construction, but it may be that Dubai is more mods and upgrades. So that's been very encouraging, and it's across all of our businesses. So I'm confident this year, we'll be double-digits again.

**Deane Dray***Analyst, RBC Capital Markets*

Q

Great. Thank you.

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

A

Thank you.

**Operator:** And the next question will come from Joseph O'Dea with Wells Fargo. Your line is open.

**Joseph O'Dea***Analyst, Wells Fargo Securities LLC*

Q

Hi, good morning. Thanks for taking my questions. Can you unpack the tariffs a little bit just in terms of sizing the cost headwind this year and then that breakdown of what you're doing on the cost and price side? And then any specifics on the China component of that cost headwind as well as any other color you can give? And the last part

of it is, what does this mean for resi pricing, if we think about back half of the year, 454B normal pricing and then now the addition, what kind of price mix you're looking at on resi in the back half?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Look, Joe, the team's done a great job I think addressing tariffs head on. I will tell you on the USMCA, for example, we're now just under 100% USMCA compliant, and that's a group of folks across our supply chain team, across our customs and legal team, folks working very well together to make sure that we, of course, are USMCA compliant virtually across the board.

When we look at it, we looked at the tariffs as they exist today, and we frankly have, as we look at the cost actions we've taken, whether with our supply chain or in our own productivity in our own factories or other actions, we've effectively mitigated all but \$300 million of it. And that \$300 million, we said we would mitigate through price. That is going to be a lot of price in the Americas and the price will be a lot in resi.

So we feel that the team has been very effective at working very transparently and collaboratively with our channel. Obviously, no one likes price increases, our channel, but has been very clear eyed and understanding of the fact that we've done our best to mitigate as much as we can through cost and then the rest we've done through price.

**Joseph O'Dea**

*Analyst, Wells Fargo Securities LLC*

Q

Got it. That's helpful. And then on the commercial HVAC in Americas, the non-data center business up high-single digit is actually a little bit more surprising, I'd say, than the data center growth. Can you unpack that a little bit from renovation, new construction, price, I'd say some of the non-res macro indicators aren't exactly encouraging, but that growth rate's pretty good. And so what you're doing versus what you see in the market?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Yes. Part of it, frankly, is freeing up capacity. I would say that now that we've, we're going to increase our capacity for water-cooled chillers by 4x over a period of a few years here in the Americas because we effectively are expanding our facility in Charlotte, North Carolina, and then we're adding, we've repurposed another facility for both water-cooled and air-cooled. And, that's freed up our internal sales force and our channel partners to go more aggressively after some of the opportunities.

The mega projects have been very strong for us. So that dedicated vertical team that we have focused on data centers also focuses on the mega projects with some of the reshoring activity that we've been seeing here in the United States. Healthcare, pharma are both strong, as I mentioned. And we've been getting very good share on some of the electronic fab that we've seen going up. So you're right that ABI has been weak. Commercial real estate has continued to be weak year after a year recently over these last few years. But we've been offsetting some of the areas that are very visibly weak with areas that are sort of quietly strong.

**Joseph O'Dea**

*Analyst, Wells Fargo Securities LLC*

Q

Got it. Thanks a lot.

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Thank you.

**Operator:** And the next question comes from Chris Snyder with Morgan Stanley. Your line is open.

**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you for the question. I wanted to ask on America's resi. The \$75 million or so that you guys kind of called out in Q4 as pre-buy, did that come out in Q1 and was just overwhelmed by strength in [ph] mixed tail (00:48:01) and elsewhere? Or is that expected to come out in Q2, even with this 15%, 20% Americas guide? Or do you just, maybe don't even think it comes out anymore? Thank you.

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

It's honestly not a very perfect science because what you're really trying to figure out with prebuy, were people buying for demand that otherwise would have been in 2025, but they bought it in 2024. So what we really have to do is look at movement and look at the underlying demand. So the movement in the first quarter was about what we thought.

So the movement from our distributors to the dealers has been fine. It's been up, in April, the movement's been up in the mid-single-digit range. The thing that we really have to watch and that we continue to watch is the base inventory levels. On some of the split side, they are higher than where they were at the same time last year. So maybe there's some of that, that's kind of made its way into the inventory level.

So we'll want to we'll want to be careful with our partners how much that we ship in and then making sure that, that movement continues because we are, we have much better tools now than we used to have to make sure that inventory levels in the channel are about what we thought. And we're very purposeful with our channel partners to control that.

In fact, the team and I will be with our distribution partners this weekend, and we'll be deep diving all of this. But a very strong start to the year, 15% to 20% is what we expect here in 2Q, and I think we'll be measured as we get into the second half. But overall, another good year for resi in that 10% range, give or take a point or two.

**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you. I appreciate that. I wanted to follow up on service. And clearly, the focus there has driven great growth for the service business with a double-digit forever mantra holding strong. But I guess my question is, is it also helping you win on the equipment side for some of the bigger applied projects, having the stronger service offering. Just anything you could talk about the flywheel of actually driving equipment on the back of service? Thank you.

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Yeah, 100%. We look at our commercial HVAC business overall, I would say, the team has really differentiated ourselves in Europe and in Asia, where I think that, that flywheel and our presence, not only the upfront but the

spec engineers upfront, the sales force, our customer intimacy, our relationships, our presence, our brand, that's made us traditionally number one or two in Asia and in Europe. We've been very frank that we've been number three in the Americas, and that's been the opportunity in front of us. And the team in the Americas has really been turning around that business. We've been, we've said that we're going to add 1,000 technicians over the next five years in the United States.

We've said that we're adding salespeople, our relationship with not only our direct sales force, but to some extent, we go through distribution in the United States, only where it makes sense. And those distribution partners have good relationship with the mechanical contractors and our ability to provide connected devices to provide a bound and to be able to support the customers throughout the life cycle is clearly advantageous. It is an entire flywheel. We've recognized that. We've been investing in the resources to build out that flywheel. And now I would say we're winning more than our fair share in the Americas, as I think you'll, you've seen and you'll continue to see in our numbers.

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**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you, Dave. Appreciate that.

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**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Yes, thank you.

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**Operator:** And our question comes from Amit Mehrotra with UBS. Your line is open.

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**Amit Mehrotra**

*Analyst, UBS Securities LLC*

Q

Thanks. Patrick, can you just, I just want to come back to the new resi Americas guide, high single, low double. I think in your previous guidance of high single, it was all kind of price/mix and then volume or units were flat to down. Can you just update that in terms of what you're assuming?

And then obviously, Europe resi and light commercial orders were just a lot stronger than the organic growth right now. And I don't know if that's a comp issue or maybe if that's a fair assumption that we should expect a decent sequential uptick in revenue as we progress through the year?

---

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Yes. Look, let me take the first one and Patrick will take the second. If when we said high single-digits, we assume that almost all of that came from mix because we assume that you get with about 10% higher price on the 454B than the 410A, and if you assume that, that becomes 70%, 80%, 80% of the total volume for the year, you're into that range of 7%, 8% from just regulatory mix.

I think what we've seen is probably a little bit better on the price side overall, part of that because of that's where tariffs landed and part of it is because we've seen better price realization, and we'll probably get a little bit more full year volume than we originally anticipated. And then Patrick, on the second.

**Patrick P. Goris**

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

A

Yes. On the Europe comment, the way you can think about it, so Q1 was down about 7% in sales, with commercial HVAC up mid-single-digits, resi light commercial, a little more than 10%, about 10%. We expect growth actually to start in Q2 for the balance of the year, and that will continue we think, for both commercial HVAC and resi.

Actually, commercial HVAC within Europe, we have a strong pipeline and we think that the growth will accelerate from mid-single-digits in Q1 and we'll end up double-digits in the second half of the year and double-digits for the year. And then with respect to the resi part of our European segment, we think that will be low single-digits for the balance of the year starting in Q2, as Dave mentioned, modest growth in Q2 and continue for the balance of the year. So, overall, full year double-digit growth in commercial HVAC within the region and resi about flat, leading the overall segment to low single-digits.

**Amit Mehrotra**

*Analyst, UBS Securities LLC*

Q

Got it. So just, Dave, just circling back on what you said, it looks like both volume and mix is an attribution to the revision of resi HVAC, which is top line, which is great.

One final question, if I could, just maybe high level. And listen, you don't have to comment on it if you don't want to, but you have this proxy target out there of \$3.60 of earnings. It's really hard to forecast that far out.

But, maybe just give us some puts and takes on your confidence around that number in terms of above the line versus below the line items? I know you got some tax dynamics, too, with Viessmann tax losses, things like that. But just talk about why you put that out there? Why was that the right number and maybe the confidence around below or above the line items on that?

**Patrick P. Goris**

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

A

Yes, I won't comment on why the number is out there and so on. I think that was very well described in the proxy. But, and we'll talk about a framework at the upcoming Investor Day in mid-May. But the way we are thinking about our business and that's our current valuation framework is we target organic growth of 6% to 8% over the medium term. This year, organic growth is mid-single digits. You also have heard us say that we target over 50 basis points of margin expansion each year. We've done better than that the last several years. And this year, again, we'll do better than that, than 50 bps.

And so clearly, we would expect all else equal to continue on that path. So organic growth at attractive rates, attractive margin expansion as well as to earnings conversion close to 30%. That's aligned with that. On top of that, we will have the benefit of the repo from this year that will carry over next year. As you probably know, our free cash flow generation is quite strong after paying the dividend, there is still well over \$1.5 billion of free cash available for acquisitions or share repurchases.

And then the last item you mentioned, which relates to tax, I think it is known. We've disclosed it, that we have a tax benefit that we have on the books. And of course, we would like to monetize that and working hard to make that happen and to bring down our effective tax rate going forward. And I think with those building blocks, I think it's not unreasonable to see a path towards \$3.60.

**Amit Mehrotra**

*Analyst, UBS Securities LLC*

Very clear. Thank you very much. Appreciate it.

Q

**Patrick P. Goris**

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

Thank you.

A

**Operator:** And the next question comes from Stephen Volkmann with Jefferies. Your line is open.

**Stephen Volkmann**

*Analyst, Jefferies LLC*

Hi. Good morning guys. Thanks for taking the question. I'm wondering, if we can just look at CST a little bit, the mid-single-digit growth forecast kind of unchanged, but it feels like some of the industry forecasts around things like truck have deteriorated. So I know your mix is a little different than some others, but maybe just call out a little bit what's driving that mid-single-digit growth in CST?

Q

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

Yes. When we look at, I think some of that refers specifically to the North American truck trailer business, where ACT did say that the full year for trailer would be down 15%. And I would say, when we look at there's two things. Number one is trailer's just a subset of the overall NATT market. And two is, we're not really sure we believe the number.

A

So I think when we look at it, we think that you have this dichotomy where there's a lot of pent up demand for trailers, because it's a very old fleet. But you also see this overall issue with people looking at what's happening with tariffs and the economy. And I think they're trying to be judicious on some of their spend to update some of those fleets. So as that plays itself out, we'll have to see how the year plays out. But we expect for the full year North American truck trailer to be up in the mid-single-digit range.

We expect European truck trailer to be closer to flattish, probably volumes down a bit, and we'll see aftermarket growth there. But you have a similar dynamic. You have some aging fleets, but there's some questions around the economy, container will be strong. We had a very strong first quarter up around 20%. We think it will be up in the high single-digit range.

And like every part of the business, aftermarket will be up double digits. And Ed Dryden and the team have done a great job expanding our Lynx offering and really pushing some of the upgrade opportunities. So we think that the overall Transportation segment is poised for mid-single-digit growth this year.

**Stephen Volkmann**

*Analyst, Jefferies LLC*

Great. Helpful. Thanks. And then it looks like margin is also going to be sort of on the upswing here as the year progresses. Any sense of how we should kind of model that cadence?

Q

**Patrick P. Goris**

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

A

Actually we expect so, Steve, Patrick here, so we're about 15% in Q1. We would expect that to pick up by about 200 bps or so in Q2 and stay at about that level for the balance of the year, maybe Q4 a little lighter.

**Stephen Volkmann**

*Analyst, Jefferies LLC*

Q

Perfect. Thank you, guys.

**Patrick P. Goris**

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

A

Thank you.

**Operator:** And our next question comes from Tommy Moll with Stephens. Your line is open.

**Thomas Allen Moll**

*Analyst, Stephens, Inc.*

Q

Morning. And thank you for taking my questions.

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Hey, Tommy.

**Thomas Allen Moll**

*Analyst, Stephens, Inc.*

Q

Dave, I wanted to start on your Americas light commercial business, noting the comps there can be tricky, but I'm just observing that the outlook was reduced pretty significantly from up low to mid singles last time we spoke, and now we're looking at down doubles. What were some of the factors that changed there in your outlook?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

I think it's a combination of a couple things. I would say, the first thing is that the first quarter surprised us to the downside there, Tommy. We did not, we did not anticipate that the first quarter was going to be down as much as it was.

And then we look at 2Q here and the start to the quarter has not seen an appreciable uptake. So we balance the first quarter, the first half of the year to be down. We think the second half will recover a bit, but I think that there were some of the customers that again are on that small and medium type business. I think they really did slow some of their spending here in 1Q and we think that continues into the second quarter, and I think K through 12, some of the pausing on some of the bond funding that's coming at the state level and the local level that slowed a bit more than we thought.

Look, this is not something that we are in panic mode on. It's a great business, high margins. We're coming off a few years of phenomenal growth, especially 2021 through 2023. I think we took a lot of share. We reduced our lead times probably earlier than some of our peers, which gave us some lift. And now I think they're shipping out of some of the backlog that they had built, which is which is fine.

I think we have a good product line. We have some differentiated products. We have a great channel, we got great brands. And look, the market will loosen itself up as we get into the second half. And I think we tried to de-risk the full year plan by saying it'd be down double digits.

**Thomas Allen Moll**

*Analyst, Stephens, Inc.*

Q

Thanks for the detail, Dave. I wanted to pivot to a question on the Google partnership that you discussed earlier in the call. Is this participation in a demand response kind of program or what additional detail can you give particularly around the monetization opportunity there? Thank you.

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Yes. We've been working closely with Carrier Energy, with the utilities and the whole concept is that we can have an appreciable impact on the grid, especially during peak hours. If you think about the demand that is being added by the data centers to the grid, we really have the biggest challenge for the utilities is during peak. And you think about what most of the demand is during peak, it's your HVAC system, which is now because more than 40% of our sales are heat pumps, you have both cooling and heating putting demand on the grid during peak hours.

What we need is more intelligence as we connect those devices, and as we look at how to control those in an automated fashion, we have an opportunity to partner with Google to use their AI and analytics tools, which are phenomenal, and work with them as a company, work with their cloud, with them as a cloud partner, as well, and be able to provide more value.

And you think about the digitization of energy and digitization of cooling devices. This is all about using traditional [ph] might have been (01:03:34) appliances to use digital to create analytics, to create more value. And we see this Google partnership as a tremendous win-win opportunity, not only for us and Google but for our utility partners as well. In fact, we had a call with Google yesterday, and we're in the early phases of this relationship. But as you think about the use cases, the opportunities is very encouraging.

**Thomas Allen Moll**

*Analyst, Stephens, Inc.*

Q

Thanks, Dave. I'll turn it back.

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Thanks, Tommy. Okay. Well, yes. Go ahead.

**Operator:** No. Go ahead please.

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

Okay, I got it. So we want to thank you all for joining us today. As a quick reminder, before we wrap, we will be in New York City May 19, 8:30 for our Investor Day. We encourage you to join us and listen in. Our whole focus will be on accelerating growth. You're going to be hearing from not only Patrick and myself, but we'll have our four

segment leaders there as well. And you'll hear from them with some really exciting initiatives we have to drive sustained growth over the long-term. So thank you all for joining us today. And we'll see you on May 19.

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**Operator:** This does conclude today's conference call. Thank you for participating. You may now disconnect.

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