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Carrier Global Corp. (CARR)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Carrier's First Quarter 2026 Earnings Conference Call. I would like to introduce you to today's host for the conference, Michael Rednor, Vice President of Investor Relations. Please go ahead.

Michael S. Rednor

Vice President-Investor Relations, Carrier Global Corp.

Good morning, and welcome to Carrier's first quarter 2026 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 the results from continuing operations, excluding restructuring costs and certain significant non-recurring items. A reconciliation of these and other non-GAAP financial measures can be found in the appendix of the webcast.

We also remind listeners that the presentation contains forward-looking statements which are subject to risks and uncertainties. Carrier's SEC filings, including our Form 10-K and quarterly reports on Form 10-Q, provide details on important factors that could cause actual results to differ materially.

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

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thanks, Mike, and good morning, everyone. Let me start by thanking our team globally, who continue to deliver differentiated solutions for our customers and help preserve the planet for generations to come, while also delivering financial results that exceeded our expectations.

Demand for our Commercial HVAC and aftermarket solutions remain strong, while our shorter cycle businesses have performed better-than-expected. Company orders in 1Q were up 11%, led by global CHVAC up 35%, including CSA Commercial HVAC up over 80%. Global data center orders were up over 500%, reflecting continued customer demand for our differentiated solutions. Our current data center backlog now fully covers our expected \$1.5 billion of data center sales this year. Of course, we are targeting to exceed that number.

Organic sales were about flat as CSA Resi and Light Commercial both performed better-than-expected. CSA Resi movement was better-than-expected and field inventory levels remain healthy. CSA Light Commercial was up nearly 10%, driven by share gains in large retail accounts and continued traction from our recently introduced highly efficient hybrid fuel rooftop units.

In Europe, encouragingly, the increase in natural gas prices supported strong demand for heat pumps. With the ratio of electricity to natural gas in Germany below 3 for the first time since early 2023, strong demand for heat pumps has continued into April in Germany and across Europe. Both EPS and free cash flow were better-than-expected, and we returned about \$500 million to shareholders through dividends and share buybacks.

In summary, I am proud of our team for navigating macro headwinds and delivering better-than-expected results. Our growth algorithm is centered on products, aftermarket, and system differentiation, and we are making strong progress across all three. I'll start with products on slide 4.

Our CSA RLC business is a superb business with high share and strong margins, ROIC and free cash flow, and we continue to invest in differentiation. On the product side, for example, we recently introduced a new highly efficient fan coil with a significantly smaller footprint and lower weight, which is very attractive to our extensive dealer network as it is easier to install and service.

We are also expanding our TAM with new system offerings focused on hydronics. Last year, we introduced an air-to-water heat pump that delivers heating, cooling, and domestic hot water. In 2027, we will expand the Viessmann boiler lineup with an entry-tier offering and will then further expand into the attractive North America domestic hot water adjacency through a differentiated system solution that combines our air-to-air heat pump expertise with Viessmann's deep knowledge of hydronics.

Carrier Energy continues to progress well with utilities and key hyperscalers, and we plan to introduce our gen 1 units in the market this summer. The Resi digital ecosystem is another key opportunity. We expect that connecting homeowners, dealers, distributors, and Carrier into a single 360-degree digital stack will provide greater customer satisfaction, increased renewal rates and parts capture, as well as improved forecasting and working capital performance across the value chain.

In Light Commercial, we're executing the same disciplined playbook. Our field retrofit kit is converting existing rooftop units into connected assets, improving operational insights and expanding parts, service, and aftermarket opportunities. Our recently launched multi-stage ultra-high efficiency WeatherMaster platform has the best-in-class efficiency to weight ratio.

While I am highlighting CSA RLC as an example of product differentiation, we're seeing similar progress globally. In the fall, ahead of the heating season, CSE RLC will be introducing a new differentiated high-tier Viessmann branded heat pump that is complementary to our current premium offering.

Our CSAME business introduced a new Toshiba-branded side discharge VRF platform featuring best-in-class efficiency, distinctive aesthetics, low noise performance, and high reliability. So product differentiation is a consistent theme across the portfolio.

Turning to slide 5. On the CHVAC side, our product portfolio, field network support, and operational capacity are night and day versus where we were at spin. We now not only have a comprehensive product portfolio, we are winning head-to-head, which you see in our orders, share gains, and backlog. We've invested in the right products with new offerings such as two and three-megawatt maglev bearing air-cooled chillers with free cooling, and a range of water-cooled chillers enabling reliable data center operation in high ambient environments.

And by the end of this year, we will have introduced an expanded suite of very attractive CDU offerings. Our high margin controls business has also significantly increased share in the US, and is a key differentiator in our system-wide offerings. Significant capacity expansion and superb technical talent additions have supported growth in this important business. The team's great work and investments are driving results as you can see on slide 6.

Sales in our global CHVAC business are up 80% since spin. Our backlog is up 130%. We've gained 500 basis points of share, and our margins are up 3x. Not only is the applied business driving great growth for today, the related aftermarket business will drive great growth for years to come. And the good news is that we have the aftermarket playbook to ensure that we capture the opportunity as you see on slide 7.

Similar to our Commercial HVAC business, we have transformed the way we think about aftermarket. Our playbook starts with how we design products with aftermarket as a focus. We continue to expand our parts capture availability and partnerships to deliver growth. We've added highly skilled salespeople and technicians globally. And we are focused on providing solutions for customers that meet their mid and late life upgrade and modification needs.

Importantly, we continue to lean into the opportunities created by AI and digital connectivity with the number of connected devices in the field up over 25% in the quarter. All segments have plans to deliver on their aftermarket targets, and we feel good about our start to the year and our expectation to deliver our sixth year in a row of double-digit growth.

Last on systems on slide 8. Data centers present a clear opportunity to bring together the full power of one Carrier to provide our customers with unique solutions. Our QuantumLeap offering leverages our unique capabilities and is gaining great traction with our customers. Since launching this integrated holistic offering about a year ago, we've won hundreds of millions of dollars in orders.

Our differentiation lies in integrating previously discrete systems, including chillers, CDUs, our Nlyte data center infrastructure management system, our building management system leveraging new digital twin capabilities, air handlers, and complete lifecycle support. Earlier this week, we announced our expanded investment and partnership with ZutaCore, which will further enhance our technology differentiation in this space.

In transportation, we've been building visibility across the cold chain, which creates value for our customers and drives subscription and aftermarket revenues for us. Our link subscriptions cover nearly 240,000 units, and we expect to triple this number in the next few years.

Before I turn it over to Patrick, a brief comment on our full-year outlook. Compared to our February guide, we are seeing an increase in input costs as a result of new tariffs, fuel, and raw material prices. We expect to offset these headwinds dollar for dollar through supply chain actions, cost reduction, and increased pricing.

On the latter, we now expect to realize an additional 2 points of pricing globally this year. I am pleased with the better-than-expected start to this year, but with just one quarter behind us and still a lot of macro uncertainty, we are reaffirming our full-year guide.

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

Patrick P. Goris

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

Thank you, Dave, and good morning, everyone. Please turn to slide 9. For the quarter, reported sales were \$5.3 billion, adjusted operating profit was \$594 million, and adjusted EPS was \$0.57. By comparison to last year, this was a challenging quarter, although company results were better across all metrics compared to our Q1 guide.

Better than expected total company sales and operating profit performance was mainly driven by CSA Resi and Light Commercial. The year-over-year decline in adjusted operating profit and adjusted EPS largely reflects lower sales and absorption in our CSA Residential business and continued headwinds in China Resi and Light Commercial.

Adjusted EPS declined 12% as tailwinds from a lower effective tax rate and a lower share count were more than offset by the lower operating profit I just mentioned. You will find a year-over-year adjusted EPS bridge in the

appendix on slide 19. Free cash flow in the first quarter was a cash outflow of \$15 million, which reflects normal seasonality and was also better-than-expected.

Moving on to the segments, starting with CSA on slide 10. Organic sales for the segment were down 3%. Residential sales were down 12% driven by movement. That is the unit volume from distributors to dealers, which was down 8% in the quarter, and lower field inventories, which were down about 35% year-over-year. As Dave mentioned, Light Commercial was up 9%.

Commercial sales were up low-single-digits in line with expectations, and we continued to expect significant sales growth in the second-half, driven by data centers. Segment operating margin of about 15% was as expected and largely reflects the impact of lower sales and associated under absorption in our Resi business.

Moving to the CSE segment on slide 11. Flat organic sales were a few points better-than-expected, driven by Residential Light Commercial, which grew low-single-digits, offset by a mid-single digit decline in commercial. We're seeing a continued shift toward electrification and heat pump adoption in this region, as evidenced by strong heat pump sales, up low teens, and partially offset by continued declines in boilers, down mid-single digits. Similar to the CSA segment, we expect a significant ramp in commercial deliveries in the second-half, mainly driven by data centers.

Segment operating profit and margin performance was disappointing in the quarter, driven by lower commercial volume and higher temporary promotions, only partially offset by RLC volume growth and strong productivity. RLC price increases and surcharges went into effect in April.

Turning to the CSAME segment on slide 12. We are seeing continued very strong performance in commercial in this segment outside the China region, with sales up high teens, led by strength in India and Australia. This was more than offset by ongoing weakness in Residential and Light Commercial China, leading to an overall 1% organic sales decline.

Overall sales in China were down low teens, with the RLC business down around 25% and commercial down low-single-digits. Sales in the Middle East were down mid-single digits, impacted by the ongoing conflict in the region. The decline in segment operating margin to about 10% was mainly driven by the weakness in China RLC, as expected.

Moving to the CST segment on slide 13. CST had a third consecutive quarter of solid organic growth, with another very strong quarter in container, partially offset by pressure in global truck and trailer. Our container business was up nearly 40%. The decline in segment operating margin reflects unfavorable business mix.

Turning to Q1 orders on slide 14. Total company orders in the quarter were up 11%, mainly driven by our commercial businesses globally, which were up about 35%. CSA commercial orders growth reflects some large data center wins in the quarter. We've seen positive momentum in RLC orders and CSE continue into April. CSAME remains a tale of two halves with strong performance outside of the China region, offset by China RLC. Within transportation, global truck and trailer order intake was weak while container continued to outperform.

Moving on to slide 15 and shifting to our 2026 organic sales outlook. As Dave mentioned, we had a better-than-expected start to the year, but given the current macro uncertainty, we are reaffirming our full-year sales outlook of approximately \$22 billion with organic growth of flat to low-single-digits. Think of our prior guide being a bit below \$22 billion and our current outlook a bit above \$22 billion, both round to \$22 billion. This includes a roughly

\$250 million year-over-year revenue headwind from the exit of Riello, mainly reported in the CSE segment, with the sale now expected to close before the end of the second quarter.

The building blocks of our full-year outlook have not changed and largely reflect our expectations for continued double-digit growth in commercial and aftermarket globally, offset by softness in our short cycle businesses.

Moving on to slide 16, profit and cash guidance. Same as prior slide, we are reaffirming our full-year outlook for operating profit and adjusted EPS. No change in CSA and CSE expected margins, and we now expect CSAME margins to decline approximately 50 basis points, reflecting the impact of the Middle East conflict, offset by margin expansion in CST by approximately 50 basis point.

A quick comment about the Middle East. Our total sales in the Middle East were about \$400 million in 2025, with the vast majority reflected in the CSAME segment and the balance in CST and CSE. The CSAME segment also benefits from equity income related to unconsolidated JVs we have in the Middle East, which is reflected in the updated margin guide for this segment. No change in outlook with respect to free cash flow and share repurchases.

Moving to slide 17. We expect adjusted EPS of approximately \$2.80, up high-single-digits versus 2025. The bridge is unchanged from our February guide. As usual, additional guide items are in the appendix on slide 20, and you will note there is no change for our February guide on these items.

Finally, let me provide some color on the second quarter. We anticipate Q2 revenues to be just below \$6 billion. This includes about \$100 million more revenue from Riello compared to our prior guide, and about 2 points of incremental pricing to offset increased input costs. We expect operating margin of about 17%, a 24% tax rate, and about \$0.80 of adjusted EPS. For cash, we expect normal seasonality, which would imply a few hundred million of free cash generation for the quarter.

With that, I would ask Elizabeth to open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Jeffrey Sprague with Vertical Research. Your line is open. Please go ahead.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Hey, thanks. Good morning, everyone.

Q

Patrick P. Goris

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

Morning, Jeff.

A

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Hey, good to connect, guys. Just on the, maybe unpacking the guide a little bit more, right, with 2% more price, the organic growth is unchanged. So maybe just talk a little bit about maybe the price volume trade-off you're expecting there. And also sort of interesting that we don't see margin pressure on the inflation. Usually we get the arithmetic pressure there. Maybe that's inside the ranges. But could you touch on that? And how much of that inflation is Section 232 related versus general inflation?

Q

Patrick P. Goris

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

Okay. I'll begin with the comment you had about the revenue guide and organic sales growth for the year. Our original guide was \$22 billion in revenue. Think of that was really a little less than \$22 billion. We added 2 points of price, which basically still rounds to \$22 billion, but we're a few hundred million dollars above \$22 billion now. And both end up being low single-digits organic growth, Jeff. And so it's really in the rounding to the \$22 billion, and it remains within our LSD organic growth outlook for the full-year.

A

In terms of the impact of pricing on the margin outlook at the total company level, it's about a 30-basis point headwind to margins for the full-year, which remains within the range that we've provided really on that. The third element of your question was related to input costs. Of the 2 points of price that we're realizing or expect to realize for the year to offset increased input costs, think about 75% of that related to tariffs, and that is really Section 232 related. And think of the balance, the other 25% related to other input costs, which includes fuel and some of the commodities.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Great. Thanks for that. Hey, Dave, and then, just back to Resi, kind of good to see this, sort of initial evidence of things kind of normalizing and the like. Could you just elaborate a little bit more on what's going on in movement, kind of the signals you're seeing from the channel? And just how you see the early part of kind of the season beginning to unfold here?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. I guess, Jeff, I'll start at 30,000 feet at kind of the macro level, which is that on the challenging side the 30-year is [ph] above 6 (00:21:55), and there's still some stress on the consumer with the high fuel prices. But I will say, on the other hand, there is clearly pent-up demand both at a housing level, there's 4 million too few homes in the United States, and for HVAC replacements, because there was probably a bit of repair over replace last year.

So, we think existing home sales will be up in the mid-single-digit range, which would be very important. New home construction, probably flattish. And yesterday it was reported that applications for mortgages to buy a home were up 20%, which was good to see. So there's some counterbalancing macro indicators.

What we're seeing – what we saw is that 1Q was better than we thought. We thought movement would be down in the 20% range, and it was kind of down more in the 10% to 12% range. So it was a little bit better than we thought. April has started better than we thought, but having said that we'll go the way of May and June in 2Q. So orders were up in the 5% or 6% range in 1Q.

And I think what's really good for us this year is that field inventory levels are very, very healthy. They ended the quarter, as Patrick said, down 35%. As we look at it today, they're still down about 35%. So we're being very cautious on managing field inventory levels. So things so far year-to-date are better than we thought, but again, we have a long way to go.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Understood. Thanks a lot.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Thank you.

Operator: Your next question comes from the line of Nigel Coe with Wolfe. Your line is open. Please go ahead.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Thanks. Good morning. Thanks for the question. Patrick, can you maybe unpack the 2Q guide? Looks like your point towards low-single-digits core sales decline in 2Q, and the 17% margin, maybe just unpack that between the Americas and other segments, please?

Patrick P. Goris

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

A

Yes. You're right, Nigel, that for the second quarter we expect flattish-to-down low single-digit organic sales. And some info there by segment. We expect the Americas to be about mid-single digits down. And with margins last quarter, I said mid-20s. We're still in that range, probably closer now to about 24% for the Americas.

In Europe, we expect organic sales low-single-digits, so positive, with margins closer to 10%. And then we expect both Asia and Transportation to be down low-single-digits. Margins for total company down around – margin total company at about 17%, as I mentioned, and then Asia closer to 12% and Transport in the mid-teens.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Great. Any color on margins, Patrick, and in particular, just double-clicking on the mid-single...

Patrick P. Goris

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

A

Oh.

Nigel Coe

Analyst, Wolfe Research LLC

Q

...digit decline in the Americas. How does that shake out between residential? I think – yeah.

Patrick P. Goris

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

A

Yeah. Sorry, I forgot that part of your question. The story is actually similar to Q1. If I look at our Resi sales in the second quarter, we expect them to be down similar to what we've seen in Q1, meaning close to the – about mid-teens, which means that we expect to see the similar headwind from mix in the second quarter that we've seen in the first quarter, which explains the still the margin headwind from a mix point of view in CSA.

Similarly, we expect Light Commercial to be down as well in about the mid-single-digit range. And so that basically our two most profitable businesses, will represent a headwind on margins for CSA in the company in the second quarter of the year, just not as much as it was in Q1.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Great. Thanks, Patrick.

Patrick P. Goris

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

A

Yeah. Thank you.

Operator: Your next question comes from the line of Julian Mitchell with Barclays. Your line is open. Please go ahead.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Hi, good morning. Maybe just wanted to circle back to the price and cost aspect. So I suppose I think you said it's dollar for dollar offset. So if it's sort of 2% more price is maybe \$400 million, and then it sounds like over \$300 million of that is the result of the tariff movements. So just wanted to double-check that.

And how should we think about the extra several hundred million of costs kind of phasing in through this year and then the mitigation efforts into 2027 on the tariff front? And any sort of update on the phasing of price, does that sort of match and move with the costs moving up?

Patrick P. Goris

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

A

Yeah. And first of all, Julian, your math is correct. It is in that \$400 million, \$450 million range for the total year, with the impact being overweight, of course, on the Section 232, as I mentioned earlier.

In terms of phasing of that extra 2 points of price, we'll see more of that in Q3, Q4 than in Q2. Because as you know, this was all effective April 6, and so the pricing followed a little bit after that, but is in effect now. So in Q2, it will be – the net of the two will be a little bit of a headwind. And we expect that to become neutral in Q3, Q4, and for the year then as well. And so as you may recall, we're on LIFO, and so we see the impact immediately. And so there is a little bit of a gap in Q2, but there won't be a gap, or at least that's our expectation in Q3 and after that.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

That's helpful. Thank you. And maybe just following up on sort of how to think about the CSA margin progression. Because I guess, as you said, you've got the most profitable parts of CSA are down decently still in the second quarter on the revenue front year-on-year in both R and LC. But you're sort of saying the margin decline is much narrower year-on-year for the second versus the first quarter. So maybe just help us understand sort of the movement in CSA margins as we go through the year, to hit that guide you have...

Patrick P. Goris

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

A

Yeah.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

... of the full-year margin there being stable up a bit.

Patrick P. Goris

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

A

Yeah. So I mentioned earlier to Nigel, we expect about 24% margins in Q2. We expect Q3 to be a little bit better than that, so, mid-20s. Then we expect high teens in Q4, for the full-year to be around 21% segment margins for the Americas. And so sequentially, very typical to go up for the Americas, of course, Q1 to Q2, given the ramp-up for the cooling season and distributors building inventory. And then in Q3, as I mentioned, we do not expect there to be a gap between price and the input cost headwinds. We see a little bit of that in the second quarter.

And then, of course, year-over-year, we expect significant growth in CSA in the second-half. It's going to be in the teens. And we expect very significant margin expansion, given much better volumes and the absence of the really strong headwind of under-absorption we had in the second-half of 2025.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

That's great. Thank you.

Patrick P. Goris

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

A

Yeah.

Operator: Your next question comes from the line of Scott Davis with Melius Research. Your line is open. Please go ahead.

Scott Reed Davis

Analyst, Melius Research LLC

Hey, good morning, guys.

Q

Patrick P. Goris

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

Morning, Scott.

A

Scott Reed Davis

Analyst, Melius Research LLC

Do you guys think we're close to a bottom in China? It's been kind of sloppy for a while, and I know it's probably not the most visible market in the world. But a little color there on what your local guys are saying, I think, would be helpful?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

On the Residential side, Scott, it's really hard to call a bottom. It's just been bad for a while, and we're seeing no real signs of it turning. What I would say is that the team is taking the right actions to position us to start to perform better than we in the market have been performing. But it's hard to call a bottom on the housing side. I think there are other parts on the CHVAC side that actually look quite encouraging. Data centers, there's a lot of opportunity. We're in great discussions in China on the Commercial HVAC side for data centers, where I do expect some good wins as we go forward.

A

Some of the EV battery type areas continue, even though that there's some challenges globally, that part of China continues to do well. It's an aging population, so things in healthcare are good. Semiconductor fab is good over there. So there are some verticals of real strength in China. So we were kind of flattish in 1Q on the CHVAC side. I think with the momentum around some of the orders that we'll start to see, I can see CHVAC starting to, I guess you could say, quote unquote, bottom. On the housing side, there probably are challenges as we go through the year.

Scott Reed Davis

Analyst, Melius Research LLC

Okay. That's helpful. And just to switch gears a little bit. I would imagine you're pretty much sold out on data center and applied for 2026. So when you get a new order in let's just say in the month of May, I would imagine that's for 2027 delivery. Is that or can you still book and ship in this calendar year?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

No, we could still book and ship. I mean, the reality is that, we are very back-end loaded. So as it is, there's quite a ramp in the second-half of this year for data centers. I mean, most of the growth is really in the second-half. And we've actually taken orders for the second-half of this year where we got to complete the design and then order the parts and deliver it in the second-half. So it's a little bit back-end loaded, but we still have capacity to take additional orders.

A

We had committed to a \$1.5 billion of data center sales this year. Our backlog, as it is today, at least covers that number. But we would still take some additional orders for this year. We are starting to book a fair amount for 2027. We track that by quarter, so next year we are not as back-end loaded as this year. But we still have additional capacity for some additional orders on top of where we're currently booked.

Scott Reed Davis

Analyst, Melius Research LLC

Q

Okay. That's great color. Thank you, David. Appreciate it, guys. Best of luck.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Okay. Yeah, thanks, Scott.

Operator: Your next question comes from the line of Joe Ritchie with Goldman Sachs. Your line is open. Please go ahead.

Joe Ritchie

Analyst, Goldman Sachs

Q

Hey, guys. Good morning.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Morning, Joe.

Joe Ritchie

Analyst, Goldman Sachs

Q

Yeah. A lot of helpful color already. Just I wanted to follow up on the pricing comments. There's some concern in the market, just given what's happened over the past year, yeah, on your ability, and not just you, but the other OEMs as well, to continue to push price through. Just, Dave, can you maybe just talk about your conversations with your customers, your dealers, distributors on your ability to continue to get pricing even in this – if the tariff environment continues to worsen?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. Look, no one likes it to be honest. The distributors, we've had some tough discussions with them, the dealers, as well. I will tell you that our extended channel gets it though. They understand that when we get a sudden input cost increase, we'll take every action we possibly can to mitigate it with supply chain actions. We're actually doing everything we can to optimize activities in the United States.

But we've done a lot of actions to differentiate ourselves through the product, through digital, through some new TAM introductions, like around hydronics. So our channel knows that we wouldn't be doing it unless we had to. We are spending a lot on R&D to innovate. We are spending a lot on branding and with the Viessmann opportunity here in the Americas. So we all basically get together. We've been off-site with our distributors and our dealers. We stack hands, and we say, let's go at it.

Now if tariffs change, we'll take not all of it off because some of the price increase was related to some of the fuel surcharges and other raw materials that Patrick mentioned. But I will tell you that to President Trump's credit, and this administration listens. I know that industry, a lot of industries have been talking to the administration about this, the new Section 232 tariffs. And we remain optimistic that something changes there, and if it does, then we would change the pricing that we put in place, both in Resi and Light Commercial here in the Americas.

But we have to take actions assuming they don't change, and we'll just have to see. But I'm confident that the pricing that we expect to stick will stick. And we're confident because of the investments that we've made that we will maintain the share.

Joe Ritchie*Analyst, Goldman Sachs*

Q

That's helpful. And then just a quick question on data centers. Clearly, you're expecting a pretty significant ramp as the year progresses. Just any color just around, like, how your CDU offering is going? Is that part of some of the order growth that you've seen at this point? And just talk to us about the trajectory there.

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

A

Yeah. I got to tell you, I'm really proud of the team on the CDUs. We've looked at some of the acquisitions that have been out there, but we decided that we can not only organically design and develop and produce our own CDUs, because it's effectively a mini chiller. It's what we do. But we could do it in a differentiated way. So we've already introduced our 1 megawatt CDU. We'll have a 3 megawatt that'll be out in the third quarter or so. 5 megawatt will be out, I would say, towards the end of this year, maybe into early next year. And we've sold them to a few hyperscalers – a few colos, we're in great discussions with the hyperscalers.

The ZutaCore investment, we already had one. We increased it a couple of days ago. And they're a great partner for us. It's a very, very strategic relationship that we have with ZutaCore. They're one of the few guys that has two-phase solutions, which I think is where the puck is going overall. So it's nice to get in early with them. We'll continue to look at M&A in the liquid cooling space. But right now, our engineering team is doing a superb job designing our own products. And the traction, I mentioned that we've won probably, I think something like \$300 million or \$400 million of these QuantumLeap sales, and a lot of it is in the CDU area. So that's gone very well, and I can tell you, we got a lot of irons in the fire globally to sell more.

Joe Ritchie*Analyst, Goldman Sachs*

Q

Great. Thank you.

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

A

Thank you.

Operator: Your next question comes from the line of Andrew Kaplowitz with Citigroup. Your line is open. Please go ahead.

Andrew Kaplowitz*Analyst, Citigroup Global Markets, Inc.*

Q

Good morning, everyone.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Morning, Andy.

A

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Dave, could you give us a little more color into what you're seeing in CSE? I know you mentioned the strength in heat pumps. You didn't change your revenue guidance, I don't think, for CSE. But could you talk about what you're seeing? And then can you talk about CSE margin and the need to drive promotions? I know you focus on productivity and cost cut efforts in CSE, so does that help mitigate the margin pressure that you're seeing in that business?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. Let me speak, I guess, Andy, specifically on the RLC side, and then we can expand it to overall CSE. But what we're seeing on the Resi side is clearly sales were up in the low single-digit range. Orders were up in mid-single digit. But here's the good news, is that it appears that with heat pump demand, we did see a bit of an inflection point here in 1Q. The ratio I mentioned in my prepared remarks that the ratio of electricity to natural gas in Germany, it's now about 2.5, and that's the first time it's been less than 3 since early 2023. And that's about the time that we were seeing the big demand for heat pumps in Germany and across Europe.

A

Germany subsidy applications were up 30% in the first quarter. They were at very, very high numbers. So we saw demand for Germany heat pumps on the sales side up about 20% in Germany. It was up more on the volume side, and low teens across Europe, and it was frankly, in many countries in Europe, quite strong. Boilers were down a bit, but we expected that. So the disappointment, as you mentioned.

So look, I think on the sales side, we are seeing a moment around heat pumps that we've kind of long expected. And now we're starting to see that not only in Germany, but across Europe. The margins were impacted by some of these one-time promotions that we did that were a little bit heavier than planned. And I will tell you, the team recognizes that, and they've now taken actions to address that. And we've implemented both price increases and surcharges, effective April 1.

The good news is that we did convert about 150 new installers, and we converted over 500 homeowners that were first time to the brand, and we expect those conversions to be sticky. We've also – we will be introducing this. It's a high-end unit, but it's a little bit lower-end than the premium current Viessmann brand. That's coming out in the fall, and I think that's going to be perfectly placed to address some of the key parts of the market, not only in Germany, but in places like Poland as well.

So look, I think we did take some pricing actions. They were a little bit more than we planned. They are behind us. We've now increased prices and surcharges going in. The margins were a little bit disappointing, but we see margins for the full-year, getting back 100 bps, year-over-year because we're taking cost actions, driving productivity. And I think we've actioned some of the pricing to compensate for what we did in the first quarter.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Very helpful. And then can you give us more color into what you're seeing in the CSA Light Commercial? I think up 9%, I think you said, in Q1. You said it was better-than-expected, and I know you said down and Patrick said down in Q2, but can you talk about your share gains there, the potential that you can end up trending better than that, I think, down high-single-digits that you have for the year?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. I'll tell you, we had guided it down for the first quarter. I think a few weeks before the end of quarter, I had indicated in one of the conferences that there was some upside, and it did – the team did well. We were up 9% in 1Q.

I'll tell you, the area that we're seeing the best strength is in retail, especially on national accounts. We've had some really major wins, which is helping us significantly on the share side. We get a little bit of favorability from price mix. We had some new products that were introduced last year that are doing really, really well in the marketplace, especially this hybrid unit, so.

And the other thing we talk a lot about field inventory levels on the Resi side, which are very healthy, but they're very healthy on the Light Commercial side. They were down about 25% year-over-year ending the quarter. So we came into 2Q pretty well positioned. I think that we're in the same boat as Resi, is that we're just being very careful to get out over our skis. There's a lot of macro uncertainty. There's some watch items around consumer confidence and inflation and some of the related pricing with tariffs.

So, we expect sales in Q2 to be down in the mid-single-digit range. We'll have to see. April was okay, and the team's doing well, but, again, there is a lot of macro uncertainty, and that's why we haven't changed the full-year guide down high-single-digits because it's kind of early and there's still some uncertainty. But from a performance perspective, new products, major new wins with national accounts, team performing well. So pleased with the start to the year, and we'll have to see how the next couple of months and the rest of the year play out. But so far so good.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Appreciate the color, Dave.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. Thanks, Andy.

Operator: Your next question comes from the line of Deane Dray with RBC Capital Markets. Your line is open. Please go ahead.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Hey, Deane.

Patrick P. Goris

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

A

Morning, Deane.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Hey, Dave, I was hoping you'd give us the update on services. How do you feel about the growth there, and the outlook for the year?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Great is the short answer. This is kind of what we do. It's now – I mentioned in the prepared remarks, the key for the whole aftermarket playbook is it has to be in the DNA of how you run the business. We have to design for aftermarket. We have to work all of our supplier contracts for aftermarket. Every distributor discussion has to include about not only our performance around fill rate, but it has to include getting to 100% of their part needs coming from us.

And what do we need to do with each other to make sure that we're getting 100% of our own parts. And this is something that has cascaded the world. We have a whole focus on talent in the aftermarket. We've recruited some great folks across the world in aftermarket. And we keep pushing some more and more of our top talent into this area. So, we've said double-digit forever.

We got a playbook around mods and upgrades, connecting our devices, driving parts, driving service attachment. And I think we're in the very early innings of this. So we feel extremely confident, it'll be our sixth year in a row of double-digit. We target a number that's, I think closer to 13% or 14% internally, and we expect our teams to drive that.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Great to hear. And then just as a follow-up, and I recognize this is a sensitive question. But are you able to comment at all about the recent litigation against the Resi HVAC manufacturers? And if it helps you, we did an expert call where someone who's looked at this case declared it to be weak. So I guess it still has to play out, but be interested if you were able to provide any comments.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah, Dean, I think weak is being generous to the plaintiffs. I think the case is meritless, and we'll defend it vigorously as you'd expect. And look, you're not going to find a more compliant company or more compliant industry than us. So it's meritless, and we're going to fight it.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Good to hear. Thank you.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thank you.

A

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

Andrew Obin

Analyst, BofA Securities, Inc.

Hey, guys. good morning.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Hey, Andrew.

A

Patrick P. Goris

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

Hello, Andrew.

A

Andrew Obin

Analyst, BofA Securities, Inc.

Hey. Just a follow-up on ZutaCore and your comment on two-phase cooling. There is chatter in the industry that with transition to sort of direct current, the industry already has too much on its plate to sort of manage a transition to two-phase. I found your comment to be very interesting in terms of this is where the puck is going. Clearly, your acquisition reflected.

Q

Any commentary from you as you talk to your customers as to what the timing is of two-phase for the industry? Do you think it's going to happen with the next rack generation, or do we have to wait?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

It's hard to answer that, Andrew. I think I would say, it's not 10 years out, and it's not one year out? So it's going to, I think. So there's the range for you. I do think we'll ultimately migrate in that direction. It's not going to happen overnight. So I think that we have a lot on our plate developing a whole host of single-phase CDUs. And look, there are some smaller M&A out there on the single-phase. We'll continue to look, or we'll continue to do DC-type investments because we're kind of doing well either way.

A

We did look at – we looked at some of these bigger plays, but we decided that what was best for us and our company is keep developing things organically with DC-type investments and maybe look at a smaller acquisitions over time that round out our portfolio. But those are in the millions, not in the billions range. I think when we get to two-phase remains to be seen. But is it in the next five years or so? Probably.

Andrew Obin

Analyst, BofA Securities, Inc.

Q

Excellent. And just a follow-up question. What do you say? What are your thoughts, people are getting more optimistic on Class 8 truck getting better? Historically, it's a nice market for you. How do you think about visibility on that recovery into second-half of 2026 and also 2027?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah, I mean, we've seen some indicators on the Class 8 side that appear positive. So I think, look, there's – if you look at truck trailer in the Americas, I felt like we were on the path for a good recovery, but at the higher level, some of the fuel prices has really probably hurt them a little bit. I think on the good news side is that there's a lot of pent-up demand where people have been delaying big CapEx decisions over these last few years. So you're going to get to a point where a lot of our key customers in the Americas are going to have to and want to start spending more.

And I think that was the plan coming into the year. Some of those decisions, because of some of the fuel prices has probably been pushed to the right. So when I look at our overall CST business, the way I think about it is that container has done very well, much better than we expected. Orders have continued to be great for 2Q.

So we were expecting container to be down a bit this year. I think container ends up performing better. When you look at NATT for the full-year, ACT is in the flattish range, maybe up, yeah, low mid-single digits. But ACT has seen a few challenges. I think our European truck trailer business is about where we thought. So I think net-net, Ed and the team are doing a great job. I think we land the year exactly kind of where we thought with container probably a bit better and NATT probably a bit worse.

Andrew Obin

Analyst, BofA Securities, Inc.

Q

Thank you very much.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Thank you.

Operator: Your next question comes from the line of Chris Snyder with Morgan Stanley. Your line is open. Please go ahead.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you. I wanted to ask about America's Resi HVAC. Just with all the moving parts on the cycle changing quickly and then the macro changing maybe even more quickly, can you just kind of maybe provide some color on how the company is able to distinguish true demand in the market versus maybe potential channel build?

I would imagine there's some supply chain concerns out there with the geopolitics, and there's obviously pretty well anticipated Q2 price increases. I guess, so maybe even just to put a finer point on it, if a customer places an order in mid-April, is that price locked in now ahead of this late April price increase, or would it ultimately just be adjusted higher alongside any changes? Thank you.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. Yeah, Chris, here's the way that I would try to answer that. I think given last year, we've done a much better job at really trying to understand true underlying demand and the amount of inventory that is in the field. We obviously know at an SKU level by distributor, by location, by SKU, what they have. And we try to work very closely with our distribution channel to make sure that we – they don't have more than what we think they need and what they think they need.

We don't have precise SKU visibility into the dealer network, but they're typically very small dealers. We have over 100,000 in the United States, and it doesn't make sense for them to hold a lot of inventory.

So I think that we have a pretty good sense of trying to match supply and demand. We did announce a price increase that became effective April 27. That was known by the channel. April movement was better than we thought, and I think part of that was probably people trying to beat the price.

Once the price is in place April 27, it's in place. Now if something happens with tariffs, we'll take a lot of that pricing back away because it was related to tariffs, and we told our channel, if we get reprieve on the tariffs, the pricing will revert except for the pricing associated with things like the fuel surcharges.

So, was April movement a little bit better than we thought? Yes. Did we keep our guidance in place that we thought for the full – for the quarter? Yes, because we do believe some of that might have been trying to beat the price. And then we'll have to see how the cooling season plays out.

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you, Dave. I really appreciate that color, and I understand it's almost an impossible situation to forecast. Maybe if I could follow up on Americas' margins. Q1 met the mid-teens target. But just given that volumes came in high-single-digits, better with positive mix on Resi and Light Commercial driving the beat. I would've maybe expected a little bit more upside.

So I guess the question is, did you start to already feel some of this cost pressure coming through in Q1, whether it could be maybe the fuel on the service side, some of the – even the metal, given your LIFO exposure there? Thank you.

Patrick P. Goris

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

A

Yeah, Chris, two elements there. One, as Dave mentioned, we're seeing a lot of activity on the data centers, and we're trying to do more than \$1.5 billion this year. We're making some investments in CSA to continue to enhance our capabilities in data centers and go after more opportunities. And two, there was a small FX headwind in the quarter as well. If you adjust for these two items, you would have had margins that we would have expected given the higher sales. So not related to it [indiscernible] (00:53:51)

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Q

Thank you very much. Appreciate that.

Patrick P. Goris

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

Thanks, Chris.

A

Chris Snyder

Analyst, Morgan Stanley & Co. LLC

Thank you very much.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thanks, Chris.

A

Operator: Your next question comes from the line of Patrick Baumann with JPMorgan. Your line is open. Please go ahead.

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

Good morning.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Good morning.

A

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

Sorry to...

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

No. It's not an earnings call...

A

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

Yeah

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

...without Steve Tusa, we're not sure how to get through it, but go ahead, Patrick.

A

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

He'll be back at some point. On the pricing side, sorry to beat the dead horse here, but. So the two points of increase, and you said 75% was Section 232 related, and it's flowing into second quarter to fourth quarter. And so when I run the math on the implication for the price that you're putting through on RLC, assuming it's kind of there.

Q

It's like a high single-digit percent increase on the revenue for that piece of business. Is that what you're expecting there from the tariff pass-through?

And I'm asking because I thought the increases you put through were like, at least what I saw was high-single-digits, but only for a portion of the Resi product line that was sourced from Mexico. And it seems like it's maybe broader than just that.

Patrick P. Goris

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

A

I think your math is broadly accurate. And in addition to that, pricing is going up in every segment given the higher oil prices and some of the commodity prices. But your math on Resi is accurate for CSA.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

And what I'd add, Patrick, is we did not selectively raise price for only certain products in Resi. We raised it. Because then what you end up doing is disproportionately raising it for some, and then not others. So we raised for our RLC business, both Resi and Light Commercial here in the US. We did have to raise prices kind of across the product portfolio.

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

Q

And do you think – are you seeing others react in a similar way?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

We don't know. People are going to do what they do. We've seen what – probably you've seen people do publicly. But we know that all of us have cost input challenges, and how others react on the pricing side is their call. We do have – what we have is very good elasticity curves, so we watch that quite carefully.

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

Q

Understood. And congrats on the orders in data center. I just wanted to go back quickly to the \$1.5 billion guide there for sales this year. It doesn't sound like it's a capacity constraint issue as to why you're not increasing that. So is it just like lead times of when these orders are being booked? And then can you touch on profitability for data center sales?

Just wondering as sales continue to ramp for this business, the mix implications of that. You highlighted investments in the quarter. Just curious in terms of profitability relative to maybe the rest of your CHVAC sales in the Americas or however you want to describe it?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. Look, I think that we kept it at \$1.5 billion because we have a lot of execution to do in the second-half of the year. If you look at our true bookings that we would be able to, and what we think we booked and what we anticipate booking here in just 2Q, we would be able to exceed that number. We just got a big hill to climb here in

the second-half. So we felt it was prudent to keep it at \$1.5 billion for now. And we'll have to see how these next couple of quarters play out. Excuse me.

In terms of margins, the data center business is attractive. I mentioned that our overall CHVAC business margins are up 3x since when we spun. And data centers are overall accretive to the CHVAC business.

Patrick M. Baumann

Analyst, JPMorgan Securities LLC

Thanks so much. Best of luck.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thank you.

A

Patrick P. Goris

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

Thank you.

A

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Appreciate it.

A

Operator: Your next question comes from the line of Joe O'Dea with Wells Fargo. Your line is open. Please go ahead.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Hi, good morning. Dave, wanted to come back. I thought some somewhat constructive comments in terms of Section 232, and I think touching on optimistic that something could change there. And so if you could just unpack that a little more and whether you think there could be exemptions, the timeline for something to change? And then also kind of related, if it doesn't change, like, is there any realistic path to a 10% tariff rate, or given the thresholds, that's just unrealistic?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. I think the short answer, Joe, is I don't know. What I do know is that President Trump and his administration have created space for industry to comment on things that impact industry and American consumers and American jobs. And I know that we appreciate the administration's willingness to listen.

A

What happens with Section 232, I would be lying if I said I knew. I don't know. I just know that there have been constructive discussions. Optimistically, I would love to see something change in that, but I really don't know whether, when or if something would change. We have to...

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

And 10%...

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

...assume that they won't change. We do understand that there have been ongoing negotiations related to the USMCA. How those play out? We don't know, and whether those would take over the recent Section 232 proclamation, we don't know. We do know that the USMCA discussions have been going on, and our understanding from the sideline is those have been constructive as it relates to Mexico.

Joseph O'Dea

Analyst, Wells Fargo Securities LLC

Q

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

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Thanks, Joe.

Operator: This concludes our Q&A session. I will now turn the call back to David Gitlin for closing remarks.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Okay. Well, thank you to our team for continuing to perform very well in an uncertain environment, and thank you to our investors for your continued confidence in us.

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

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