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Ingersoll Rand Plc (IR)

Q3 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Liandra and I will be your conference operator today. At this time, I would like to welcome everyone to the Ingersoll Rand Third Quarter 2017 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

Thank you. Mr. Zac Nagle, Vice President of Investor Relations, you may begin your conference.

Zachary A. Nagle
Vice President-Investor Relations, Ingersoll Rand Plc

Thanks, operator. Good morning, and thank you for joining us for Ingersoll Rand's third quarter earnings conference call. This call is also being webcast on our website at, ingersollrand.com, where you'll find the accompanying presentation. We are also recording and archiving this call on our website.

Please go to slide two. Statements made in today's call that are not historical facts are considered forward-looking statements and are made pursuant to the Safe Harbor provisions of Federal Securities law. Please see our SEC filings for a description of some of the factors that may cause our actual results to differ materially from our anticipated results. This presentation also includes non-GAAP measures, which are explained in the financial tables attached to our news release.

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The participants on this morning's call are, Mike Lamach, Chairman and CEO, and Sue Carter, Senior Vice President and CFO.

With that, please go to slide three and I'll turn the call over to Mike.

Michael W. Lamach

Chairman & Chief Executive Officer, Ingersoll Rand Plc

Thanks, Zac and thank you to everyone for joining us today. I'll start this morning by discussing our focused execution of our strategy underpins our ability to deliver sustainable high levels of performance over time. And also provide comments on how we're thinking about our business in our end markets broadly as we close out solid performance in 2017 and move into what we expect to be another strong year in 2018.

Sue will discuss our third quarter performance in more detail and address some key topics we know are on the minds of investors. And I'll then close with a brief summary before we take your questions.

As I said on prior calls, our overall strategy remains straightforward. We believe our business operating system, people and culture are source of competitive advantage. First, our business strategy is grounded in anticipating and addressing global trends that positively impact many of the world's most pressing sustainability challenges. We focus on delivering the most reliable, energy efficient and environmentally friendly products and services in durable growing markets. In our case, it's an orientation towards the importance of sustainability which is enabled by digital and other exponential technologies growing at dramatic rates that are enabling new business models and sources of productivity in a world that will increasingly value the conservation of resources. We excel at delivering energy efficiency and reducing greenhouse gas emissions, reducing food waste, preserving natural resources and generating productivity for our customers. It's what we do and it's what we're known for.

We maintain a healthy level of investment in our businesses to sustain leading brands which are number one or number two in virtually every market in which we participate.

Second, we excel at delivering strong top line incremental margins and free cash flow through our business operating system. Our business operating system is continuously improving and underpins everything that we do. It enables us to consistently generate high levels of free cash flow which powers our dynamic capital allocation strategy. One example of our capital allocation strategy is the acquisition we entered into this week that strengthens our telematics portfolio, an important component of our connected technology strategy. Sue will cover this within topics of interest later in our call.

Our year-to-date results continue our strong track record of performance and position us well for a solid finish to 2017, and strong momentum going into 2018. Sue will discuss the details of the quarter in a few minutes. So I'd like to turn my attention to discussing where we're at this stage in the year and how we're thinking about key aspects of our business going forward.

Moving to slide 4. We're going to follow the format we started last quarter and discuss how 2017 is shaping up relative to our expectations, so you get a feel for how the landscape is evolving. I'll touch on some of the areas that may read through to 2018, as we are in the midst of our 2018 planning now, but I want to be clear upfront that we'll give 2018 guidance with our Q4 earnings call. So I'm not going to go into any specific detail on targets at this time. I know 2018 is on many investors' minds, but it's important for us to complete our planning process in order to provide you with a high quality discussion on 2018 that we all expect.

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I'll hit the key areas that are most important to investors in order to keep the discussion focused, so if we don't hit something here, we'll cover it in Q&A session. The first point I'll make is probably the most important. We are on track to deliver against the revenue, adjusted EPS, free cash flow and capital allocation guidance that we set out at the beginning of the year. We're using all the tools in our business operating system to get there, and given evolving market dynamics it is a bit different than what we envisioned when we gave guidance back in January.

I'm proud of the way our team has pulled together in some challenging market conditions to achieve these goals, which should yield strong revenue growth of about 4.5%, 9% EPS growth and free cash flow of approximately $1.2 billion. In 2017, orders and revenues have been consistently strong, our end markets on balance have been solid. The outlook for the markets continues to be healthy looking into 2018.

Our HVAC businesses are performing well and we'll have strong order and margin expansion in 2017. Our transport business is demonstrating the resiliency we expect with a modest decline in revenues and margins despite challenging markets. Our industrial business is recovering nicely with order growth and margin expansion ahead of our expectations. There are a lot of things working well for us.

One area that we're not satisfied with and we expect to improve on in 2018 is our operating leverage. Our business model is rooted in our ability to drive margin expansion in low growth environments and we did not make enough progress expanding incremental margins for the enterprise in 2017. We were negatively impacted by a few key factors in 2017, including higher than expected and persistent inflation.

Mix of business as we've penetrated underserved commercial HVAC markets, most notably in China, which at present carry lower gross margins than our portfolio average but still are accretive to our EPS. This business is particularly accretive when you add in the highly profitable service tails from applied equipment sales in the mid to long-term.

The way our bridges on price versus cost are compiled, the impact of moving into these newer markets shows up as price, although some would probably would categorize this as business mix. Rather than confuse anybody, we've kept the designation in price consistent for all of 2017, but I believe it is worth noting this distinction that it has a pronounced impact in how our price versus cost spreads shows up in the bridge.

We're seeing better than expected success in these markets in China, with approximately 20% order growth year-to-date and low 30s order growth in the third quarter. This has put increased pressure on Climate and enterprise margins as China is experiencing the impacts of both negative price and inflation, whereas the majority of our businesses are seeing positive price.

We're in the process of developing our 2018 operating plan and we're focused on accelerating productivity initiatives to drive higher leverage in 2018 and beyond. Increased focus here will drive more direct control of our margin expansion, irrespective of market conditions. We also see inflation moderating in 2018 as we begin to lap the inflation we saw throughout 2017. So, we should see reduced headwinds here.

Similarly, on the China market penetration strategy, we'll begin to lap the lower gross margins for those markets in 2018. So, we anticipate the pressure on leveraging the region moderating as well.

Moving through the update, year-to-date our end markets continue to perform well with strong broad-based orders and revenue growth. Our outlook is for our end markets to remain healthy through at least 2018. Execution across the business continues to be solid. The tragic unprecedented natural disasters in the third quarter took a toll on our 750 associates in Puerto Rico, our customers and more broadly on our markets.

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Our thoughts are with our employees, their families and all the lives that were impacted by these terrible tragedies. Financially these natural disasters had an impact on us in the third quarter. We estimate that the impact was between $0.04 to $0.05 of EPS, when you take into account downtime at our Thermo King Puerto Rico manufacturing facility, the disaster relief funds we provided to assist our employees and the three days of lost sales and productivity in two of our largest HVAC markets in Florida and Houston.

Slide 6 points out the main impacted areas and Sue will cover these in more detail in a few minutes. We think we'll see some recovery in the fourth quarter and in 2018, and there likely will be additional market opportunities over the next one to three years as building occurs in the affected geographies.

As I laid out earlier, the impact of our strategy to compete in new markets in Asia and the Middle East is driving exceptional growth for us in these markets, but the impact of leverage and the price versus cost equation was significant in the quarter. Again, we see these areas improving as we move into 2018 as we lap 2017 inflation and gross margin headwinds. We are also driving aggressive productivity plans for 2018 to expand margins.

The next topic is on price versus cost as we see it at this stage in the year. Things are shaping up fairly consistent with what we expected coming out of the second quarter earnings call, pricing remains positive in both Climate and Industrial. The areas that are impacting our price versus cost equation across both Climate and at the enterprise level are predominately emanating from Asia and to a lesser extent the Middle East as we've previously outlined.

With regard to our Industrial segment, this segment has been performing well in 2017 and ahead of our expectations. We've seen strong bookings growth and margin expansion in the segment.

And the last topic is an update on our Climate businesses broadly. Commercial HVAC equipment businesses remained strong with high-single digit order growth in Q3. Our commercial pipeline and outlook continue to show healthy markets going forward. Our residential and transport outlets are also on track with our expectations. Focused execution of our strategy will deliver strong performance over time, and we're excited about the opportunities that lie ahead in 2018 and beyond.

So I hope that this has given you some important insights into how our outlook has evolved through this point in the year and now I'll turn it over to Sue to discuss third quarter in more detail.

Susan K. Carter

Chief Financial Officer & Senior Vice President, Ingersoll Rand Plc

Thank you, Mike. Please go to slide number 5. I'd like to begin with a summary of main points to take away from today's call. As Mike discussed, we drove solid operating and financial results in the third quarter with adjusted earnings per share of $1.44 despite business disruptions from natural disasters in the quarter negatively impacting results by approximately $0.04 to $0.05 per share.

Our adjusted tax rate was 17.7% driven by the timing of a number of tax-planning related discrete items that hit in the third quarter that were expected in the second half of 2017. We continue to expect our full-year 2017 adjusted tax rate to be approximately 21% or the lower end of our previous range.

Bookings growth was strong with growth in both segments and in every strategic business unit. On the Climate side, organic bookings were up mid-single digits in both commercial HVAC and transport and up low-single digits

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in residential with another quarter of share gains. We also drove high teens commercial organic bookings growth in Asia and Europe, Middle East and Africa. Climate organic revenues were also higher, up 3% in the quarter.

Our Industrial segment continues on the path of steady improvement and is actually performing a bit better than our guidance with strong organic bookings growth of 5% overall. Compression Technologies had growth across small and medium compressors and particular strength in large compressors. We also drove a 90-basis point improvement in adjusted operating margins on essentially flat revenues. Flat revenues were also better than our expectations given difficult compares versus Q3 of 2016 as we discussed on our second quarter call.

In January, we laid out our capital allocation priorities for 2017, including spending approximately $430 million on dividends and an additional $1.5 billion on a combination of share buybacks and acquisitions and we're on track to achieve those priorities.

We also discussed our objective to grow our dividend at or above the rate of our earnings growth. In August, we raised our dividend by 12.5% to an annualized rate of $1.80 per share. Year-to-date through October, we've spent $1 billion on share buybacks and $318 million in dividends. We also spent or entered into commitments for approximately $200 million in acquisitions.

Please go to slide 6. During the third quarter, we saw positive and negative financial impacts from natural disasters, primarily the hurricanes that hit the Caribbean, Florida and Texas. We saw increased commercial rental activity and increased parts sales in the third quarter, offsetting the positive financial impacts, shipments for transport in our Puerto Rico facility, residential and small electric vehicles were also delayed and our businesses were down for several days resulting in lower absorption, productivity and other additional costs. We expect to regain some of the deferred business in the fourth quarter and we're currently assessing the potential impacts for 2018. If the recovery from these storms follows past experience, we'd expect to see an overall strengthening in the underlying markets in the impacted areas over time rather than a spike of activity in any given month.

Please go to slide number 7. The focused execution of our business strategy underpinned by our business operating system enabled us to drive solid year-over-year financial performance. Organic revenues and adjusted earnings per share increased 2%. Adjusted operating margins declined 40 basis points year-over-year impacted by the $0.04 to $0.05 earnings per share headwinds from natural disasters.

As Mike discussed earlier, our strategy of penetrating very large under-served markets in China in commercial HVAC is resulting in strong bookings growth with China Commercial HVAC up low-20s percent year-to-date and up low-30s percent in Q3. In the short term, the negative impact of this growth is approximately 55 basis points of margin contraction at the enterprise level in Q3, although still accretive to our earnings per share year-to-date and it is expected to represent 75% of the negative price costs spread for the full year 2017.

Please go to slide number 8. As we've discussed organic orders were strong in the third quarter with increased activity in both our Climate and Industrial businesses. Organic Commercial HVAC bookings were up mid-single digits. Q3 2017 North America bookings were up low single-digits. Outside of North America Commercial HVAC, bookings were broad-based with high teens growth in EMEA and Asia and mid-teens growth in Latin America. Transport organic bookings were up mid-single digits with gains in North America, Latin America and Asia. Bookings growth expand the product portfolio with gains in trailer, truck, bus, aftermarket, APU and marine.

Industrial organic bookings were up 5% in the quarter with growth across all industrial businesses. Regionally North America and Asia bookings gains were offset by declines in Latin America and Europe, Middle East and Africa.

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Please go to slide number 9. In our Climate segment, organic revenue was up low-single digits in North America, up mid-single digits in Europe, and up low-teens in Asia. Globally, equipment was up low-single digits and aftermarket was up mid-single digits. In our Industrial segment, organic revenue was down 1%. We had large compressor shipments in Q3 of 2016 that did not repeat this year. Regionally, we saw low-single digit growth in North America and Latin America.

In our Compression Technology business, North America was up low-single digits in parts and services. Industrial products were up mid-single digits, and Club Car had high-single digit growth with continued success in Onward personal vehicles. Overall, North America and international revenues were up low-single digits, netting a 2% organic growth rate for the enterprise.

Please go to slide number 10. Q3 adjusted operating margin declined 40 basis points primarily driven by volume, productivity improvement and positive price, more than offset by natural disasters as previously discussed and material inflation including the negative impact of price versus cost largely driven by our penetration of under-served markets in China and competitive pricing in the Middle East.

The impact of China and the Middle East were greater than we anticipated earlier in the year driven by higher volumes than forecast and higher than expected material inflation which widened the negative price/cost spread. Outside of these markets the price versus cost spread was largely in line with our expectations.

Please go to slide 11. We covered the main points from this slide on prior slides. Performance in the quarter was strong on bookings and revenues. Excluding the natural disaster impacts in Climate, margins would have been roughly flat. Margin decline is largely attributable to our China strategy and the negative price versus cost spread in the Middle East, which combined, were approximately negative 65 basis points.

Please go to slide 12. We've also covered the highlights of this slide on prior slide. Our Industrial business continues to outperform our expectations and deliver strong improvement in bookings and margins on relatively flat revenues. Our continued focus on improving the fundamental operations of the business is yielding good results.

Please go to slide 13. Free cash flow was $408 million for the third quarter driven largely by strong profits. Working capital as a percentage of revenue remains on track to our expectations for 2017. Our guidance for free cash flow remains unchanged at $1.2 billion. Additionally, our balance sheet continues to strengthen, which provides optionality as our markets continue to evolve.

Please go to slide 14. Continued strong cash flows in 2017 is powering our dynamic capital allocation strategy, employing capital where it earns the best returns. In January, we laid out our 2017 capital allocation priorities and they remain unchanged. Our first priority is making high ROI investments in our business to drive productivity and to maintain our product leadership positions. The second area is maintaining a strong balance sheet with BBB ratings and healthy optionalities as our markets evolve. The third area is our commitment to paying a highly competitive, reliable dividend that grows at or above the rate of earnings growth over time. The fourth priority is strategic acquisitions and share repurchases. In January of this year, we committed to spend $1.5 billion between these two areas and we're on track to achieve these commitments.

Year-to-date, we spent approximately $1 billion on share repurchases and approximately $200 million has been spent or committed to acquisitions. By the end of 2017, we expect to have approximately $400 million to $500

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million spent or committed for acquisitions. As we look forward to 2018 and beyond, our overarching strategy and priorities remain the same.

Please go to slide 15. For 2017, we're maintaining our revenue, earnings per share and cash flow guidance. For modeling purposes we also wanted to provide tax rate guidance which should come in at the lower end of our previous range or approximately 21%. For the full year, we expect fully diluted shares to approximate $258 million based on share repurchases in 2017.

Please go to slide 17. We've received positive feedback on the section covering key topics we know are of interest to you in our prepared remarks. So we'll cover a few of these topics on the next couple of slides. The first topic is HVAC order growth in the third quarter. Our HVAC markets remain very healthy. In the third quarter, orders were higher in all of our major geographic regions. We had especially strong order growth in overseas markets up by high teens.

North America Commercial HVAC continued to see good order growth against difficult comparisons with 2016. Residential HVAC orders also improved compared with record activity last year and the business continues its steady market share improvement.

Please go to slide 18. The last topic for today is the acquisition pipeline. As previously discussed, we're expecting to close on or have signed agreements on approximately $400 million to $500 million in acquisitions in 2017. We are focused on channel and technology investments that add to our existing core businesses. Most recently, we entered into an agreement to acquire a telematics company. This acquisition will complement our 2015 acquisition of Celtrak and allow us to expand our expertise in telematics in addition to the many services it already provides for our small electric vehicles business today.

Now I'd like to turn it over to Mike.

Michael W. Lamach

Chairman & Chief Executive Officer, Ingersoll Rand Plc

Thank you, Sue. So in closing on slide 19, we expect to deliver our 2017 plan for revenue growth, adjusted EPS, and free cash flow utilizing our business operating system and building a thriving, more valuable Ingersoll Rand.

To summarize, our Climate segment remains strong led by our Commercial and Residential HVAC businesses which are focused on growth areas, with equipment, controls and service. Our transport refrigeration business is diverse and agile and is executing their strategy and delivering against our high expectations in a challenging market. Our Industrial business is improving ahead of our expectations for growth and margin expansion. 75% of our negative price versus cost spread in 2017 is expected to come from very strong growth in Asia, primarily China and we expect both the inflation and pricing headwinds to moderate heading into 2018.

The balance of our markets should see moderating inflation in 2018 as well as they lap 2017 inflation. Nonetheless, we're accelerating our 2018 productivity initiatives to drive more direct control over margin expansion irrespective of market conditions.

We're also on track to achieve the capital allocation priorities we laid out at the beginning of 2017. We expect to deploy roughly $1.9 billion in cash in the form of dividends, buyback, and acquisitions. We have a tremendous depth of talented people and our culture remains as strong as ever and taken together, I'm confident that with this formula we'll continue to deliver top tier financial and operating performance.

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And with that, Sue and I will now be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Andrew Kaplowitz with Citi. Your line is open.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Hey, good morning guys.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Good morning, Andy.

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll Rand Plc

A

Good morning.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Mike, you gave a lot of color on your price versus cost issues, and you talked about how most of the issues were emanating from China and the Middle East. I know you don't want to give detail on 2018, but as you tend to shift the overall company to a little more of these longer cycle applied HVAC orders especially in international markets, how difficult do you think it will be to get your arms around price versus cost? And what could you do specifically in these regions where competition is significant and inflation is still reasonably high?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Yeah, Andy, I think maybe it's best for us to start with what is our China strategy historically, and how are we evolving? And I think that will answer a lot of questions for you. First of all, China as a country and Asia as a region would have some of the highest operating margin that we have across the HVAC space still today even this quarter.

Historically, we've been a Tier 1 and Tier 2 city focused company and largely on applied equipment and we've been very successful there. We've penetrated those markets with very high share and often Trane is the basis of design in many of these projects. What we've done over the last two years and you're seeing it this year in spades is we've extended to Tier 3 and Tier 4 cities. We've also launched both localized ducted and ductless unitary product nationally. We've penetrated and are penetrating larger infrastructure projects, think subways and airports, and the electronics verticals specifically which is applied. And those three things in Tier 3, Tier 4 cities helped drive Trane as a basis of design in those cities as well. It's been a formula we've followed for years and it's been very successful for us.

We know that that grows a large service tail and we know that we grow our margins by leveraging the SG&A and the manufacturing base around that. So to put it in context, the strategy has been very successful.

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We've put a PGT in place about two years ago. We fully localized product portfolio in unitary, ducted, ductless we've been there and applied for some time.

We added 178 selling and marketing people onto the street over the last 12 months and 165 of those we've put in just since January. So the project pipeline we're seeing in China is up 211%, so to just speak for clarity, it's three times larger than what it would have been last year at the same time around that pipeline.

So year-to-date, we've seen bookings growth in unitary, it's actually been 40-plus-percent. We've had mid-20s revenue growth in unitary. Unitary is now 25% of the mix that we have in equipment in China. We've also been able to grow the applied business at twice the market rate year-to-date and we're seeing excellent service growth.

So, again, it's become so successful that it really is – we classify it as price, but we're growing this accretively to the company and long term it's the right and most successful strategy that we know how to conduct. By the way we would have a similar strategy, there are nuances to what we've been doing in Europe or Latin America, but every region of the world has got a unique strategy and in China it's just been very successful for us.

Andrew Kaplowitz — Q
Analyst, Citigroup Global Markets, Inc.

Mike, that's helpful color. And then just shifting gears to North American Commercial HVAC bookings, they were up low-single digits against the tough comp as you talked about. I think it's a good result compared to last quarter, but can you give us a little more color regarding what you're seeing in the overall North American HVAC market, it's been slowing light unitary, you talked about applied HVAC improving there. Do you still see a good runway in applied HVAC so North American Commercial HVAC bookings should be up low-single digits or better moving forward.

Michael W. Lamach — A
Chairman & Chief Executive Officer, Ingersoll Rand Plc

Yeah. I would say, first as a starting point, nothing has changed that would make us less bullish on the end markets than we were five years ago when we talked to everybody at Analyst Day. Our outlook continues to be very positive, we'll see continued – five months ago, thanks – low-single digit to mid-single digit growth in North America Commercial and that we're going to drive share gains. Our project pipeline is actually stronger today than it was last year at the same time.

We also think inflation in 2018 is fairly consistent with what we expected five months ago. We think it's going to be much more copper-related which is much easier for us to set pricing and costs into the factories about how to price and cover that as opposed to steel which is very difficult on the longer lead item.

So we think that that will be more manageable for us. So, staying with where we were five months ago, the CAGR of 4% to 4.5% over the three year period, 11% to 13% EPS growth over that period, still very much in the cards for us. We're very confident about that. We'll update that in the fourth quarter. But a lot of that's underpinned, that we're seeing strength not only in North America, but across the globe and you're seeing that in even Latin America. Sue pointed out, mid-teens growth rate in Latin America. We're finally seeing some recovery there. And don't forget that's an important market for us too. It's a $0.5 billion in revenue in the Climate space for us.

Andrew Kaplowitz — Q
Analyst, Citigroup Global Markets, Inc.

Thanks, Mike. I appreciate the color.

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Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Thanks, Andy.

Operator: Your next question comes from the line of Nigel Coe with Morgan Stanley. Your line is open.

Nigel Coe
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Good morning.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Hi, Nigel.

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll Rand Plc

A

Good morning.

Nigel Coe
Analyst, Morgan Stanley & Co. LLC

Q

Hey, Mike. So, just want to go back and visit the price/cost. So the 55 bps impact from Asia and Middle East, you called out, so just given your comments on China, is that more accurately a mix impact as opposed to a price/cost impact?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Yeah. Nigel, it's a very specific definition we use. And we say that if it's equipment coming out of a factory using the same machining and assembly processes that we mark that as price. But clearly, what you're seeing in Tier 3 and Tier 4 cities is even more de-contented product and you're seeing that generally those have been some of the local players that have been in that market. So, it is mix more than it is price. But again for consistency of what we've been talking about, we classify on the bridge as price just to keep it sort of straight for everybody at this point in time.

But it is something that if you move past China, you look at, say, res for example. In the residential North American business, we grew margins considerably, we grew share considerably. We're managing that. If you go to the balance of the commercial businesses, excluding the Middle East and Asia, we're largely covering inflation there and of course in the industrial side, recovering inflation there completely.

So it is really isolated to this penetration we're seeing in China. Middle East is a bit different. Here you've got just this fact that you've got the same number of competitors fighting over fewer projects there and so you're going to have a bit more competition there as well.

Nigel Coe
Analyst, Morgan Stanley & Co. LLC

Q

Okay.

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Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc
A

I think that if we – yeah, in 2018, I think that we're clear that we've got a moderating steel environment. We've got a copper environment that we can lock a good portion of it, understand it at the beginning of the year. We feel like generally speaking, it's a more manageable year in terms of the global material inflation pricing scenario. And specific to Asia, it's really a matter of just getting scale on some of these Tier 3, Tier 4 cities, getting additional service density in these cities. And we know how to grow margins from there. So, again, it's a long-term view toward China, I think we see an improvement in 2018 in China leverage.

Nigel Coe
Analyst, Morgan Stanley & Co. LLC
Q

Right. Okay. But if you have to think about maybe just moving away from China because obviously it's kind of a good problem to have as you grow on that kind of rate. But if you think about North America, Europe, if you think about the pendulum of competition and pricing, is it becoming more competitive, less competitive, about balance? I mean, how do you say the pendulum is shifting?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc
A

Yeah. There's nothing structurally different about the competition in these markets. We've had high teens growth before in Europe, we've had substantial growth in Europe over the last few years. It's really about new product introduction around next generation refrigerants, building out a controls portfolio, a wireless portfolio, double-digit growth there, more digital involvements in connecting our businesses remotely, more service feet on the streets.

So it's always been a competitive environment. But you're able to differentiate that business on total cost of ownership which is 90% of that equation, it's not the initial cost, it's the energy efficiency and the maintenance and the reliability of the product over the long haul, and nothing has changed about our value proposition there at all.

Nigel Coe
Analyst, Morgan Stanley & Co. LLC
Q

Okay.

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll Rand Plc
A

And Nigel, it's Sue. Let me add a little bit of color on the pricing too that I think is important and it really doesn't come out in all of the detail that we've got. So we talked about that price is actually positive in both of the segments which it is. The other piece of it is that the pricing that we have achieved in the year is actually higher than last year. Again, we know the inflationary pressures that we've got, but we have really been able to build positive pricing in the areas of the world and like I say, in total it is positive in a dollar terms on a year-over-year basis and it's fairly significant.

And it does have the headwind in there on price from Asia. So I don't want anyone to think that the pricing is actually not strong and that we haven't achieved pricing in 2017, we actually have and it's actually stronger than it was in 2016.

Nigel Coe
Analyst, Morgan Stanley & Co. LLC
Q

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That's an important point. Thanks, Sue. And just follow on SG&A, you talked about G&A as an important area of productivity improvement and, Mike, in the PR, you talk about ramping up productivity to offset some of these price and material pressures. If we delineate between the S and the G&A in that 5% inflation, are we starting to see the G&A good news coming through but it's been masked by some of these sales investments, so is that on the come?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Yeah. Relative to 2018, Nigel, I will tell you that we're going to generate $300 million-plus in productivity like we do every year. It's going to be direct material, it's going to be PGT-led with engineering and product management and operations, it'll be both direct and indirect in that regard. I think what's going to be different for us is we spent a couple of quarters in excruciating detail understanding the G&A and sort of benchmarks and ideas around reducing G&A across the company, which will show up strictly on the G&A line over time between 2018 and 2020 over a multi-year period, certainly starting in 2018 will have an impact.

We also see opportunities with a lot of what we've done around automation in lean around things like warehouse consolidations and logistics opportunities that we are able to take advantage of. I think, yeah, and we'll start to see those in 2018 as well. So what I'm saying is in addition to the normal high levels of productivity that we expect in the operating system, there are a couple of projects that literally we're having to build program offices and second very talented people into a program office to be able to drive what's likely to be hundreds of projects that roll up into these two bigger ideas. But I think that we've got more leverage in 2018, 2019 and 2020 from those things and I'm pretty excited about it. We talked about it at your conference in fact, and I'm glad you asked me the question.

Nigel Coe
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thanks, Mike.

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

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Hey, guys. Good morning.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Good morning, Steve.

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll Rand Plc

A

Good morning.

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

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On the commercial side, last quarter you had mentioned the unitary markets on that slide as growing. What are you seeing in those markets and ahead of this kind of regulatory transition in 2018, do you expect any kind of pre-buy and then just what's your outlook for kind of the core unitary markets going forward, commercial unitary?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Yeah. Unity. Yeah Commercial – growth again in North America, in the quarter nice growth in the quarter there. So I don't anticipate a pre-buy there, Steve per se. There could be some. It would be great if there was, but we don't anticipate much of one at this point in time. We're going to be sure that we've built inventory and that we're talking to customers about what is stockable and if in fact they want to take that on.

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Okay, great. And then in residential, you guys also mentioned for the first time channel at least relative to last quarter. What are you – I've heard from the channel that you guys are kind of building out a bit of these store fronts like Lennox has, I don't know if that's kind of an ongoing strategy that you've been just doing under the radar that you haven't talked about a lot. Maybe if you could just give us some clarity on what exactly you're doing in the channel outside of the digital stuff that you've already mentioned, it may be different relative to last year or the year before that?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Yeah. Thanks, Steve. We've got about 260 part stores today. Generally speaking, we've got them where we want them. We were adding up through last year, but we've got the coverage we generally need. And we're finding opportunities to transition some of that digitally, so it doesn't have to be brick and mortar, but this 260 brick and mortar stores that are out there. What you're finding on unitary both res and commercial though is there was, this past year in particular, much more of a bias with customers replacing than repairing. So I do think that that's put a little bit of pressure on mix, but for the right reasons. You're really seeing people at this point in time doing wholesale replacements.

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll Rand Plc

A

And Steve, I would also point out that in the context of our parts stores, the 260 that Mike mentioned, that serves both commercial and the residential markets for us and in fact, commercial is a little heavier than residential in terms of overall sales for those parts stores.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

And as you know, Steve, a lot of contractors don't identify themselves as one or the other.

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll Rand Plc

A

Right.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

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So it makes sense that we just have one presence to our customers.

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

That makes sense. And how fast – just one last question, how fast did those grow like over the last couple of years? How many, I guess, did you add in 2016 just as a reference point?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Yeah, a dozen maybe, and we – Steve, we've been working at that for a long time. It's not – this hasn't been something that you'd pull out of our company as being the large mover and shaker around the business, but they're an important part of the business, and we've got the 260 stores, the coverage we think we need.

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Yeah. Cool. All right. Thanks for the detail as always. I appreciate it.

Operator: Your next question comes from the line of Rich Kwas with Wells Fargo Securities. Your line is open.

Rich M. Kwas
Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning, everyone.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Good morning.

Rich M. Kwas
Analyst, Wells Fargo Securities LLC

Q

Mike, I wanted to just get your thoughts on, big picture, as we think about mix within Climate for next year. You've had very strong growth on the order side in China, you've talked about the price that the mix headwinds there, that brings lower growth in the developed markets. How does that shape up as we think about a normal incremental margin for Climate, particularly in comparison to this year? Do we get – do you think, you can get back into that 25%, 30% on a year-over-year basis with some of the initiatives you have in place and given the mix changing?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Yeah. I have no doubt, Rich, that the planning we'll do for 2018 would have us coming back to more normalized leverage in that business. And we've built a portfolio that should be agnostic to the products specifically. I mean, as you know, applied has got a little lower margin, but great service base over a long period of time and unitary gives you a little bit of a margin pop sooner.

But there's enough happening in the world and enough growth in the world that I expect, again, good growth in 2018, the pipeline supports that. We think, we've got a more manageable mix of inflation moving from steel to copper, easier to get on top of that from a pricing perspective. And then, your question I answered to the one

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that Nigel asked, if we can do a bit more around some of the rooftop consolidation, a bit more around the G&A leverage in the company, no doubt that we'll get back to where we've historically been.

Rich M. Kwas
Analyst, Wells Fargo Securities LLC

Q

Okay. And then just on – as we think about institutional given it seems to have some macro wise some moving numbers here with regard to forward indicator given Dodge and ABI, et cetera, but generally moving in the right direction . I know you emphasized no change versus five months ago earlier in the call, but just within the mix of the business, how do you think about that shaping up this year in terms of a higher growth rate potentially for 2018 versus 2017 and impact on margin, I think you touched on applied being lower margin, but you know is that meaningful enough to impact overall incrementals and how much – what's the offset on the top line with regards to that?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Yeah. So one of the issues, it's tough, I know from an analyst and investors perspective is to take that Dodge or ABI data, and by the way all you can do is take it at face value. But I've always said that that Dodge data would really account for about 50% of what we consider to be the market, the visible market would be what Dodge is reporting, but 50% of it, frankly, it's the good 50% is the negotiated piece of that, the negotiated retrofitted with a performance contracting side of that and that's where we've got the added benefit of looking at a pipeline and those pipelines are well done, it's a process that we've been running in a company for a long time, it's a high level of confidence about what gets reported in there and how we assign close rates of probability to those projects.

And so when I look at what I see for 2018, I see a good runway and good projects. There is a number of very large projects that have the possibility of going in 2018 for us that we generally wouldn't put into a forecast, we generally wouldn't even put into our guidance, but similar to what happened in 2016 or it distorts 2017 a little bit for us, we're going to have a little bit of that in 2018 as well. These projects would range from $50 million to $200 million apiece and so, they're going to move the numbers a great deal, if in fact they hit, but excluding those we see a strong pipeline, including those is a very strong pipeline.

Rich M. Kwas
Analyst, Wells Fargo Securities LLC

Q

Okay. Thanks for the color.

Operator: Your next question comes from the line of Julian Mitchell with Credit Suisse. Your line is open.

Julian Mitchell
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Good morning.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Hi, Julian.

Julian Mitchell
Analyst, Credit Suisse Securities (USA) LLC

Q

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Maybe just switching to the Industrial segment for a change. So, Compression Tech, you've had pretty good equipment orders growth in the last, say, three quarters. The sales though have been down substantially in equipment year-to-date. So, I just wondered within Compression Tech, how we think about the conversion of that order number into equipment revenues, and when we should start to see the equipment revenue line accelerate?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc
A

One really good data point for us that I'll tell you on this call is that you know we're very indexed toward very large compressors. We're number one in centrifugal compression technology in that space and of course you know that that carries 40% to 50% pull through on service along with that over time, and that has grown in the mid 20s bookings growth during the year and it grew in the mid 20s again in the third quarter.

So, we're feeling good about what that means for 2018 shipments and even beginning to formulate early 2019 shipments around some of the larger compressors. So, that's an exciting change for us as it relates to backlog being built in large compressors and it's exciting as it relates to the kind of leverage we expect to see from that.

Julian Mitchell
Analyst, Credit Suisse Securities (USA) LLC
Q

Understood. Thank you. And then just circling back on the productivity and other inflation line in your margin bridge. Historically, in years when that have been good, it was about 100 basis point tailwinds 2012 or 2014, 2015. When you're talking about more aggressive measures on productivity for next year, is that the type of tailwind you think that we should expect about 100 bps from that line?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc
A

Julian, without setting guidance being careful here. That's sort of the general theme about how we think about setting plans would be to have about 100 bps of positive spread there. And then I take you back to my boxer analogy that works great sitting in November and December and then as you get the ring in January, you can take a punch to figure out how to use all the tools at your disposal to win the fight. So that would be a sort of going-in idea. And then what we want to make sure we're doing is we're putting some additional levers in place around ideas like rooftop consolidation and G&A that would be additive to that or in the event that inflation or pricing wouldn't behave the way we expect it to, we've got some additional countermeasures in place.

Julian Mitchell
Analyst, Credit Suisse Securities (USA) LLC
Q

That's great. Thank you.

Operator: Your next question comes from the line of Jeff Sprague with Vertical Research. Your line is open.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC
Q

Thank you. Good morning everyone.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc
A

Hi, Jeff.

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Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll Rand Plc
A

Good morning.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC
Q

Mike – Hi. Mike, I want to come back just a little bit again to China and just the maturation of this Tier 3 and Tier 4 strategy. Just a couple points I'm interested in. Where are you on product development for those companies – for those cities, I'm sorry? You mentioned decontenting product to serve those markets, do you have a product refresh or product redesign that needs to happen to kind of effectively address this? And also, I'm just wondering you talked about the opportunity for service capture, what kind of service capture are you actually seeing in those markets?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc
A

Yeah. And to be clear, Jeff, we've got all of the product now in the marketplace both ducted, ductless and applied and controls in the marketplace, so we're fully functional there. What will happen is you'll get certain feature sets that are often specified by others into Tier 3, Tier 4 cities. You go out and you try to explain the value and the total cost of ownership around that and over time we're pretty successful with that. But initially, you tend to find feature sets that carry lower margins than perhaps something you'd find in Beijing or Shanghai typically.

In fact, the product development going on now around the unitary space is to take the unitary product that we have and actually go the other way with that which is higher efficiency unitary coming back in a Tier 1, Tier 2 cities around that. And again, it's all in the commercial space, not in the residential space at all.

So it's a very thoughtful strategy over time about putting manufacturing, product management, operations in place, product growth teams, feet on the street incrementally quite a few as a result of all this. And then excellent execution on the ground by the team there.

To the point where you just don't forecast 40-plus-percent growth rates as you're doing your plans, you set goals and objectives around those sorts of things, but you don't sort of plan those things. The team has generated sort of – they've been on top of even those stretch goals which to me is really solid execution. In the long run, it's building out a strong base and it's not changed that half the world's chillers in last five years has gone into China, half the world's chillers are going to go into China in the next five years. And it makes sense like it does everywhere for us to have a full unitary, applied, controls, service and digital footprint and for that to be direct on the commercial side and that's what we're doing.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC
Q

And on the service capture side of things, how is that playing out?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc
A

Yeah. When I look back to 2008, 2009, it would have been in that 10% range compared that to North America or Western Europe, 50%. Today it's in that 20%, 25% range and it'll continue to move up in over the next, say, 5 to 10 years, look like Western Europe and North America, no doubt about that.

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The equipment gets more sophisticated, customers expectations around energy efficiency, around sustainability goals in China much more stringent than they have been in the past. All those things really lead more toward the OEM having an advantage in maintaining the equipment.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

How much actual physical capacity are you needing to add to accomplish this. I mean, there is certainly concerns that there's just excess manufacturing capacity in this space. Clearly, you're winning orders and growing your business and therefore may need some, but how do you balance that risk reward?

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Yeah. We don't have a need to build additional factories in Asia. We've got a substantial footprint today and we continue to lean it out. So lines are running faster in less space. And the more scale we get, the faster we can run the lines and hypothetically the less space per dollar of margin we're going to need. So I don't have in the plans us needing to build a factory in China at any point in the future.

Jeffrey Todd Sprague
Analyst, Vertical Research Partners LLC

Q

Great. Thank you.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Thank you

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

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Thanks. Good morning, guys.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Hi, Joe.

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll Rand Plc

A

Good morning.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

So maybe going back to price for a second, we heard from Watsco this morning that some of its vendors were starting to advertise the pricing increases in the fourth quarter. Are you guys trying to pull forward price in 4Q or should we think about that as being more like, typical like 1Q type event?

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Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll Rand Plc

A

No, I mean, Joe, I think we'd follow our normal cadence, some of which might be in the fourth quarter, some in the first quarter, but there is no discussion that we're having about pulling any of that forward on a different schedule than normal.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

And Joe, just to confirm, price in res is exceeding material inflation. We grew margins again in the quarter, the hurricane impact to us was not in the res space. In the res space, we were able to move inventory into the market, we're well-positioned there. The impact for us was really losing three weeks of time in Puerto Rico at the manufacturing facility, and there just to skip to it, it wasn't the factory itself, we had the factory up and running with our own temporary power with plenty of diesel, with plenty of water. It was the fact that it was so difficult for our employees in the market that many of them lost their homes, they lost everything, were just unable to come to work or didn't have the means to come to work to be able to build products.

So we're back up, we've been back up for a couple of weeks, we're running at rate. We haven't missed a beat in terms of customers there. We planned ahead to build for hurricanes in advance, and so we had stock there, just waiting for the ports to open up a little bit to ship them back out. But just to skip to that, it really wasn't a res business for us, it was largely in the Thermo King business.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Got it. No, that's helpful color, Mike. Maybe my follow-up here, and this is just perhaps refreshing my memory, but I thought you guys were targeting investments in the second half of the year that were roughly two times that of the first half. So we were thinking it was going to be closer to – like call it $40 million of spend in the second half. I think you did about $11 million this quarter. So, should we think about the fourth quarter as being pretty highly loaded with an uptick in investments or are you pulling back on spend a little bit?

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll Rand Plc

A

Well, Joe, so that's an interesting area. We are pulling back a little bit, but let me tell you how that's actually coming about because this is not Mike and I going out and saying we need to cut investments, so I would expect the fourth quarter to be a little higher than the third quarter, but no more near what the math would tell you that you would pull in, it's not $30 million by any stretch. But our businesses, as we get closer to actually going through the projects that are in investments and again our investments are mostly new product development, channel and some IT type of investments are actually looking at the projects and the return on those projects and they're coming to the conclusion that the returns are not at the expectations that they have, and we have as a company.

And so they're the ones pulling them off the table and perhaps going back to do some additional work on those business cases and maybe they'll show up again in 2018. But it's really, SBU-driven, pulling down those investments in the back half of the year, and we're very supportive of that for those reasons.

Joe Ritchie
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thanks. Thanks, Sue. I look forward to seeing you guys soon.

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Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll Rand Plc

A

Okay.

Operator: Your next question comes from the line of Andrew Obin with Bank of America Merrill Lynch. Your line is open.

Andrew Burris Obin
Analyst, Bank of America Merrill Lynch

Q

Hi, guys. Good morning.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Hi, Andrew.

Andrew Burris Obin
Analyst, Bank of America Merrill Lynch

Q

Hey, just a question on sort of management succession. You've had some recent changes at the top, I think some have been scheduled like Didier and Robert, but I think Gary Michel was probably not expected. Can you just tell us as to what this means about sort of operational direction of the company with this transition at the top and what's happening with Gary's role? Thank you.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Yeah. Thanks, Andy. It's a good probably opportunity to step back and talk about all the changes, some of which you mentioned, some that there will be good catch up on. Robert and Didier have been great partners to this company for a long time. Both had plans for 2018 retirements. We began to put pen to paper in January 2017 and we've got Robert, who will step out in January of 2018 and Didier in September of 2018, so we're able to benefit from their involvement for some time yet.

At that point, we began to plan and in early September, the 5th of September, we actually appointed Dave Regnery as the EVP combining those two roles. And really what's happened here is we've had very strong consistent leadership at the SBU level for now a long time. We're not at the same place we were five years ago and so the role has changed and I've got a lot of confidence in Dave and Dave's capability, 30 years with the company and obviously doing a great job with the HVAC business in North America and EMEA, lived in different parts of the world and managed about every part of the company at one point or another.

At the same time we put Dave in that role, we moved Donny Simmons into Dave's role. Now, Donny, you all would have met at our Investor Day, Donny was leading fluid, material handling and power tools. He led a large part of the commercial North American Trane organization before that. Before that, he was in finance, both the Climate segment and going all the way back to TK. So Donny stepped into that role.

A couple weeks later, Gary had announced his intent to retire from the company at the end of September. Concurrent with Gary's announcement, we appointed Jason Bingham, Jason is the President for Res HVAC & Supply. He also spoke at the analyst conference, if you recall Jason was running our controls, contracting and digital business. It's been built into a $1 billion plus business for us over time and he's got a 26 year tenure with

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the company going back to 1991. Strong commercial, strong residential background, so he's a fish in water really in the res business.

And then we had also the planned retirement of Marc Dufour. Marc runs our Club Car business. And Marc is going to retire in January of 2018, so we announced Marc's retirement around the same time, 36 years with us over that period of time. And Mark Wagner, who you would have all again met at Leadership Conference, Mark was one of the speakers there, is running Club Car for us. So it's really leveraging very strong total leadership talent, very good communication by the senior executives in the company around their succession plans and timing. The tremendous willingness for them to work with us around dates so that it could work for everybody and have good continuity. We're very excited about the changes that we've got and these guys have been in place now for a couple of months, a good month at this point and it's pretty exciting.

Andrew Burris Obin
Analyst, Bank of America Merrill Lynch
Q

And just a follow-up question on cost, and I apologize, I'm sort of beating the dead horse here. So we had slightly lower spend in the quarter, follow lower investment spend than we're planning on. I would imagine that China and Middle East strategy, you've had that for a while. So, I'm just still sort of a little bit missing, why there was this earnings shortfall, is it because sort of China and Middle East ended up being more expensive than were expected? Or is there something else on top of that below the surface that was weaker than we expect? And I apologize, if I missed it.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc
A

Yeah. I mean, if I put it really simply, I would say that the Tier 3, Tier 4 strategy for some of the larger infrastructure projects are carrying about five points lower gross margin, let's say, than the Tier 1, Tier 2 cities historical applied market, and the fact that we've grown that at a rate twice the rate of the other business just put margin mix pressure there. And then again adding 178 people into the mix it takes a while for those people to ramp up, but again 40% plus growth rate, so they're ramping up pretty quickly.

Susan K. Carter
Chief Financial Officer & Senior Vice President, Ingersoll Rand Plc
A

And the other element, Andrew, is that Asia, China specifically has had material inflation that has escalated throughout the year. So, when we talk about that being persistent, it is very persistent. In fact, if I looked at where biggest impact occurs, it's our Commercial HVAC in North America followed by Asia Pacific, followed by residential. So, they've also had that headwind that was bigger than what we thought earlier in the year and that also contributes to that dynamic.

Andrew Burris Obin
Analyst, Bank of America Merrill Lynch
Q

Terrific. Thank you very much.

Operator: Our last question comes from the line of Jeff Hammond with KeyBanc Capital Markets. Your line is open.

James A. Picariello
Analyst, KeyBanc Capital Markets, Inc.
Q

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Hey, good morning guys. Thanks for filling me in.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Hi, Jeff.

James A. Picariello
Analyst, KeyBanc Capital Markets, Inc.

Q

This is James Picariello actually. So, just on M&A, you mentioned $200 million commitment year-to-date, it looks like only $60 million has actually been spent. So, is it safe to assume that the telematics asset represents most of that difference. And then also how do you bridge to this $400 million to $500 million range. What's the timing between an actual agreement and a close of a deal? So just trying to get a sense there? Thanks.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Yeah. James, I think we've closed four transactions or will close four transactions by the end of the month. So I wouldn't assume it all to be in the telematics space so that would have been the larger of the group, but the couple of hundred million is really laid out and we'll have that closed by the end of the month. The balance of that is our best guess of stuff in flight of which I would say between $50 million and $200 million, there's a number of things in flight there that the timing could be off slightly, it could be a quarter off here and there, but those are lining up nicely as well too and it ranges between channel and technology being added to the core portfolio.

James A. Picariello
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And then just last one on the residential HVAC replacement opportunity. How have prior storms really pulled through that demand and typically over what timeframe? Just trying to get your early assessment of what the opportunity could be next year and maybe even beyond that? Thanks.

Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

Yeah. Commercial is a little easier to predict than res. Commercial, you could predict a great rental boom and followed by an immediate service requirement and we've poured people into those locations to be able to provide service from out of state. And then depending on the criticality of what it is that you're conditioning space for, those things moved really quickly. Res, you get everything between the tip of the tail which is people with insurance maybe a bit more affluent who are able to step in very quickly with or without insurance and replace. You've got – let's say, the body of the bell curve, which is folks waiting for insurance that can take some time to process, and it's probably at this point a 2018 event, as you think about that. And they've got sort of the other part of the bell curve, people without insurance that may not be able to step in and buy that as well. So that'll take one to three years before that happens. So generally over one or two years, you see growth as a result of this. So the net of it's usually growth, but it usually takes one to two years for that to show up.

James A. Picariello
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks, guys.

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Michael W. Lamach
Chairman & Chief Executive Officer, Ingersoll Rand Plc

A

On the res side that is, on the commercial side it's quicker.

Operator: I will now turn the call over to Mr. Zac Nagle, for closing remarks.

Zachary A. Nagle
Vice President-Investor Relations, Ingersoll Rand Plc

Great. Thank you. I'd like to thank everyone for joining today's call. As usual, we'll be around to take any questions that you may have today or over the coming days. And we look forward to seeing many of you on the road in the coming weeks and into 2018. Thank you.

Operator: This concludes today's conference call. You may now disconnect.

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