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Carrier Global Corp. (CARR)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Carrier's Second Quarter 2024 Earnings Conference Call.

I would like to introduce your host for today's conference, Sam Pearlstein, Vice President of Investor Relations and CFO of the Fire & Security segment. Please go ahead, sir.

Sam J. Pearlstein

Vice President-Investor Relations, Chief Financial Officer-Global Fire & Security & Chief Financial Officer-Commercial and Residential Fire, Carrier Global Corp.

Thank you, and good morning, and welcome to Carrier's second quarter 2024 earnings conference call. With me here today are David Gitlin, Chairman and Chief Executive Officer; and Patrick Goris, Chief Financial Officer.

We will be discussing certain non-GAAP measures on this call, which management believes are relevant in assessing the financial performance of the business. These non-GAAP measures are reconciled to GAAP figures in our earnings presentation, which is available to download from carrier's website at ir.carrier.com. The company reminds listeners that the sales, earnings and cash flow expectations and any other forward looking statements provided during the call are subject to risks and uncertainties.

Carrier SEC filings, including forms 10-K, 10-Q and 8-K provide details on important factors that could cause actual results to differ materially from those anticipated in the forward looking statements. Once the call is open for questions, we ask that you limit yourself to one question and one follow up to give everyone the opportunity to participate.

With that, I'd like to turn the call over to our Chairman and CEO, Dave Gitlin.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thank you, Sam, and good morning, everyone. Let me first welcome Ed Dryden to Carrier, who comes to us from RTX's Collins Aerospace to lead our Refrigeration business, bringing extensive experience driving business growth and delivering results. Ed succeeds Tim White, who has moved into a new Chief Product Officer role responsible for program execution and our increased focus on global platforms. Both reporting to me. Welcome, Ed; and thank you, Tim.

Pivoting to 2Q, another strong quarter. Q2 organic orders were up roughly 30% year-over-year, and HVAC organic orders were up over 40%, with very strong order intake in data centers. Better than expected and continued strong sales growth in our Global Commercial and Light Commercial HVAC businesses helped offset weakness in our RLC businesses in Europe and China. Importantly, our resi business in North America returned to year-over-year volume growth. And given strong orders and low inventory channel levels, we are now poised for a strong second half.

Also, we continue to execute well as reflected by another quarter of significant margin expansion. Q2 adjusted operating margins expanded by 200 basis points to 18.1%, and adjusted EPS was again up double digits, fueled by strong productivity driven by our Carrier Excellence business operating system. While we perform, we continue to transform. We closed on the sales of our Access Solutions and Industrial Fire businesses.

KFI closed on its sale, and we expect to close the commercial refrigeration transaction around the end of Q3. We are also making great progress on the sale of our Residential and Commercial Fire business. Strong free cash flow in the quarter of about \$550 million, and our progress on the business exits have contributed to our significant net debt reduction in the quarter and have positioned us to initiate a multibillion dollar share buyback \$1 billion targeted for the second half of this year.

As you can see on slide 4, we continue to stay laser focused on and make great progress towards our north star of being the global leader in intelligent climate and energy solutions. Each word of our vision has meaning and we are purposeful in our investments to prioritize the key elements of our strategy. As a global leader, we have gained share across all major segments.

Connectivity is a key enabler to provide scalable intelligent solutions. We now have almost 40,000 connected chillers on track to 50,000 by year-end. Our abundant intelligent building platform now monitors over 1.1 billion square feet, and we currently have over 150,000 paid subscriptions for our Lynx cold chain platform. We have also established an AI center of excellence.

Internally, we are targeting increased productivity for everything from contract reviews, where we have seen improved productivity of up to 90% to call centers. Externally, we now provide services to customers combining classic and generative AI, analyzing data alongside service and maintenance records to deliver more real-time and proactive chiller maintenance.

We continue to innovate and launch differentiated sustainable solutions. In Q2, we introduced a low GWP variant of our award-winning AquaEdge water-cooled chiller. Likewise, we are the first to offer 3- to 10-ton entry tier rooftop units using our highly differentiated EcoBlue fan technology with low-GWP refrigerants. All these offerings provide our customers with energy savings, while reducing their greenhouse gas emissions.

We play a key role in enhancing grid resilience. For example, Viessmann Climate Solutions recently launched a battery energy storage system with expanded capacity from 15-kilowatt hours to now 75-kilowatt hours, importantly expanding our addressable market. The solutions concept relates to the unique value propositions that we provide to our customers and greater recurring revenues they provide to us.

You see examples of our continued traction on aftermarket on slide 5. Aftermarket growth in Q2 was 9%, and we are confident that this year we will deliver another year of double-digit growth. We have further refined our playbook with new digital tools that we have cascaded globally, driving both better execution and new solutions for our customers. We are confident that our proven formula works, as we continue to target double-digit aftermarket growth forever.

Moving to slide 6. About a year ago, we announced that we would be transforming Carrier into a more focused, pure-play, higher-growth company with significantly higher exposure to the secular tailwinds around sustainability, electrification and energy resilience. I am proud to report that our team continues to do what we're going to do. We are successfully integrating with Viessmann Climate Solutions, a truly world-class organization. Our divestitures remain very much on track and we are deploying the proceeds as committed.

Our first three exits will yield over \$7 billion in gross proceeds. Our Commercial and Residential Fire exit is also progressing well, supported by excellent business performance. We plan to announce a signed agreement before the end of Q3, with a transaction close around year-end. Given our progress, we have reduced net debt by over \$5 billion in the second quarter and plan to initiate our multibillion dollar buyback that I mentioned earlier.

With the portfolio transformation tracking to plan, we are heads down focused on working with Viessmann Climate Solutions to realize the full potential of this tremendous combination and you can see our progress on slide 7. This is truly a world-class team and business. Our heat pumps are unquestionably differentiated, providing superior electricity savings for our customers. Noise attenuation, energy efficiency, ease of installation, reliability, and aesthetics are all best-in-class.

We have added 1,500 direct-to-installer relationships this year and continue to expand our network. The successful launch of our new larger capacity heat pumps will give us a point of growth this year, and we expect more than that next year. Viessmann Climate Solutions has gained share in heat pumps across all primary countries where it sells, with particular strength in Germany. We have also realized positive price year-to-date.

We have identified hundreds of millions of dollars of run rate synergy savings. The most immediate opportunity is leveraging our respective channels. For example, in Europe, we have already delivered our first Carrier branded air-conditioning units and our Beretta branded boilers through the Viessmann channel. Given that only 20% of homes in Europe have air-conditioning, roughly 12% in Germany, we see a unique opportunity for us to grow in the cooling-only space.

We are also leveraging our combined technology strengths. Examples include: deploying Viessmann's One Base digital platform across all residential applications; and at a systems level, working to provide unique home energy management solutions for North America using Viessmann's battery and systems integration capabilities.

We remain on track to achieve \$75 million of cost synergies this year and over \$200 million by year three, with particular progress on supply chain, logistics and value engineering. The team is also taking tough, but necessary additional cost control actions. All of this set us up for higher conversion rates.

We are also clear that the residential market in Europe has been weaker than we expected. VCS Q2 sales were down about 30% year-over-year, roughly one-third of which was driven by lower solar PV sales. And our revised outlook for 2024 assumes about a 15% drop in year-over-year sales, with a typical seasonal pickup in the second half.

Importantly, we still have deep conviction in the long-term strategy and growth profile of the business. The EU remains steadfast in its target for 55% reduction in greenhouse gas emissions by 2030, and the shift to heat pumps must play a critical role. Over 25% of greenhouse gas emissions in Europe come from boilers in homes. Heat pumps are clearly the best alternative to fossil fuel home heating. So, we remain confident in this continued long-term transition.

The reality in our industry is that the macro surrounding certain geographies and verticals will not be strong every year. And the great thing is that we have been very purposeful about constructing our portfolio to provide focus, resiliency, balance, growth and increased exposure to key secular trends, all of which you see on slide 8.

We love our positions globally. We are number one or two in most segments with prospects to achieve the same ranking in other targeted segments. Not only do we believe that we have the right presence in the right markets, we have the global scale and engineering operations, aftermarket and other functions to benefit the entire portfolio.

The combination of our portfolio and our performance culture gives us confidence that we will continue to consistently deliver on our commitments. As we look ahead to 2025, we are poised for strong growth across a significant percentage of our portfolio.

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

Patrick P. Goris

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

Thank you, Dave, and good morning, everyone. Please turn to slide 9. We had a good second quarter. Earnings were in line with our expectations and ahead of our implied adjusted EPS guide provided in April. Reported sales of \$6.7 billion were up 12%, with organic sales up 2%. Acquisitions and divestitures had a net contribution to sales of 11%, substantially all driven by Viessmann Climate Solutions, partially offset by the absence of one month for Access Solutions.

Q2 adjusted operating profit of over \$1.2 billion was up 26% compared to last year, mostly driven by the contribution of Viessmann Climate Solutions' price and productivity. Continued strong productivity also led to a 200 basis points adjusted operating margin expansion. Core earnings conversion that is excluding the impact of acquisitions, divestitures, and currency, was over 200% in the quarter.

Adjusted EPS of \$0.87 was up 10% year-over-year. Compared to last year, organic growth, price and productivity more than offset the dilutive impact of the Viessmann Climate Solutions acquisition. We have included a year-over-year adjusted EPS bridge in the appendix on slide 22.

Compared to our Q2 expectations, headwinds from lower earnings at Viessmann Climate Solutions and the earlier timing of the Access Solutions exit, were offset by stronger sales in Commercial HVAC and North America Light Commercial HVAC, productivity and a few cents from the timing of taxes. Free cash flow of about \$550 million was better than expected, mainly driven by working capital performance, and on a year-to-date basis free cash flow is up 35% compared to last year.

Moving on to the segments, starting on slide 10. HVAC reported sales growth of 18%, reflects the contribution of Viessmann Climate Solutions and organic sales growth of 2%. Organic sales in the Americas were up mid-single digits, driven by double-digit growth in Commercial and Light Commercial. North American resi was up about mid-single digits, and we expect volume to be up year-over-year in each of the remaining quarters.

Organic sales in EMEA were up low-single digits, driven by about a 15% increase in Commercial HVAC, partially offset by weaker Residential and Light Commercial sales. Sales in Asia Pacific were down around 8%, driven by weakness in our Residential and Light Commercial markets in China, partially offset by double-digit growth in South Asia. The HVAC segment expanded adjusted operating margins by 110 basis points due to net price and strong productivity. Overall, another strong quarter for HVAC.

Transitioning to Refrigeration on slide 11. Organic sales were up 1% and reported sales were flat. Within Transport Refrigeration, container was up around 35% year-over-year, while global truck and trailer was down mid-single digits, driven by about a 15% decline in North America. European truck and trailer was up mid-single digits and Asia truck and trailer was up over 25%.

Our Sensitech business, which provides solutions for tracking and monitoring temperature, was up mid-single digits. Commercial refrigeration was down mid-single digits year-over-year. Adjusted operating margin was flattish compared to last year. This was driven by favorable net price and productivity offset by business mix.

Moving on to Fire & Security on slide 12. Reported sales were down 7% with 3% organic sales growth, partially offset by a 10% headwind from the absence of one month of Access Solutions and the deconsolidation of KFI in last year's second quarter. The Residential and Commercial Fire business was up mid-single digits and is performing well.

Adjusted operating margins were up a significant 310 basis points year-over-year, as organic volume growth and strong productivity more than offset headwinds of the business exits. Overall, a very strong quarter for this segment.

Turning to slide 13. Total company orders were up about 30% in the quarter. Overall, HVAC orders were up over 40%, with strength across key verticals. Within the Americas, orders were up over 70% with Commercial orders up over 40% and Light Commercial orders about 5%. North America resi orders were up over 100% or around 60% when excluding preordering for late Q3 and Q4 deliveries this year. EMEA organic orders were up over 10%, with Commercial orders up over 15%. Organic Resi and Light Commercial order intake in EMEA was down low-single digits.

Within Asia, weak orders in China were only partially offset by other countries. Globally, Commercial HVAC orders were up over 20% and the backlog for that business continues to grow. We booked large data center orders in all regions, positioning us for continued strong Commercial HVAC growth.

Refrigeration orders were down over 5% in the quarter, with strength in container offsetting some weakness in North America truck/trailer. As a reminder, our North America truck/trailer orders were up almost 90% in last year's second quarter. Truck/trailer orders in Europe and Asia continue to be strong. Orders in our Resi and Commercial Fire business were up over 10%.

Turning to slide 14, guidance. Before I get into the details, I will share that you will see in the 10-Q later today that we expect, consistent with accounting rules, that as we get closer to announcing a sale of the Resi and Commercial Fire business, the Fire & Security segment in aggregate will likely be presented in discontinued operations in future quarters. This could happen as early as Q3, but would not apply to commercial refrigeration.

We do not yet know the full impact on reported earnings from continuing operations this year, which is why our July guide is consistent with how we have been disclosing our results. In addition, we plan to continue to disclose actual and projected 2024 results of our core business, that is all the businesses we are keeping including Viessmann Climate Solutions which we continue to see as the best base to project 2025 financial performance.

With that, let me provide our outlook for 2024. With respect to exits, our updated guide now includes commercial refrigeration for nine months compared to six months in our previous guide. We now expect reported full year sales of roughly \$25.5 billion compared to a little under \$26 billion in our April guide, with underlying organic growth of mid-single digits remaining unchanged versus prior guide. The expected upside from our Commercial and Light Commercial HVAC businesses, essentially offsets lower revenue at Viessmann Climate Solutions.

Lower Residential and Light Commercial sales in China and a stronger foreign currency translation headwind, are only partially offset by having commercial refrigeration for another quarter. We are maintaining our adjusted operating margin guide of roughly 15.5%, maybe a little more, and continue to expect full year core earnings conversion to be north of 40%. Interest expense is expected to be about \$510 million based on the timing of the exits and redeployment of the net proceeds.

The end result is that we're maintaining our adjusted EPS guide range of \$2.80 to \$2.90. Our free cash flow outlook remains \$400 million, reflecting about \$2 billion of tax payment on gains from the business exits and transaction and restructuring-related cash costs. Our underlying free cash flow outlook remains \$2.4 billion.

Moving on to slide 15, full year adjusted EPS year-over-year guidance bridge. Adjusted EPS increases from \$2.73 last year to \$2.85 at the midpoint. The darker blue represents the business we are retaining, including Viessmann Climate Solutions, whereas the lighter blue represents the adjusted EPS contribution from businesses we're exiting. You can see that the adjusted EPS from our core business is projected to be up 17% compared to last year.

The operational contribution of \$0.55 now reflects stronger business performance within our Commercial and Light Commercial HVAC businesses as well as a stronger productivity. Increased dilution from Viessmann Climate Solutions reflects lower expected sales. We updated the impact of the exits to include the net effect of losing seven months of earnings from Access Solutions, six months of earnings from Industrial Fire and only three months of earnings from commercial refrigeration, all offset by net interest savings from the proceeds.

There is a modest benefit from our planned \$1 billion in share repurchases in the second half and the headwind from a higher year-over-year adjusted effective tax rate. In the appendix on slide 23, you will find a full year adjusted EPS guide to guide bridge. And on slide 24, there is a summary of additional items which were also updated as part of the new guide.

With respect to the third quarter, we expect sales of about \$6.6 billion and adjusted EPS of about \$0.80, including a few pennies from businesses yet to be divested. And we expect the adjusted effective tax rate to be up 500 bps compared to last year, a \$0.06 headwind. In summary, a good second quarter overall and on track for another strong year.

With that, we'll open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question comes from Andy Kaplowitz with Citigroup. Your line is open.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Good morning, everyone.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Good morning.

A

Patrick P. Goris

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

Good morning, Andy.

A

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

David, I think you've been saying that as you own Viessmann for longer that you get more visibility into the expected orders and sales ramp. Obviously, you lowered your guidance for the business, but how would you characterize the new guidance? I think you're still talking about a typical seasonal pickup. Is that 20% growth off a lower base? Or do you see expectations now as more derisked for the second half ramp.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

I would call it more derisked, but it's also about 15% to 20% growth in the second half over the first half. So, we had said that previously, but now we're coming off of a lower base. I think in terms of the typical seasonality, as we start getting into the heating months, we went back a number of years and that number of 15% to 20% is true almost over 90% of the time.

A

So, we do think we've derisked the forecast for the rest of year. We do need to see this as we start thinking about 2025, what we're really looking at is this inflection point. As we get closer to October, which in Germany is when the subsidies start paying back, we'd like to see orders pick up at the very end of August, leading into September and start building that orders pipeline. That gives us the kind of growth that we'll expect for next year. But we do feel balanced for the revised forecast for this year.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Very helpful. And then, could you give us a little more color into the order trends you saw in the quarter? I know you had a relatively easy comp and you'd already talked about some data center orders, but maybe you could talk about the inflections that you saw. Was the inflection bigger than you expected, or was it mostly data centers and commercial? And the expected turn in Americas residential, is it more broad based? I know you've been talking about share gains that they actually accelerating.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. We did get share in – if I think about US resi, we've gotten about 120 bps of share on a 12-month roll. So, to see orders up over 100% is obviously significant. But as Patrick said, if you take out orders that were a little bit beyond our lead time that go into 4Q, they still would have been up about 60%. So, really good order trends that we're seeing in resi that position us well for that high single-digit, maybe 10% or so growth for this year for resi.

When we look at Commercial HVAC, it was strong, particularly in the Americas and in Europe. Commercial HVAC was up over 40% in the Americas, up close to 20% in EMEA. In Asia Pac, it was up low-single digits. And a lot of that was data centers, but some other verticals remained strong there as well. Things like higher edge and healthcare have been strong for us. And K-12 has been particularly strong and that helped us in Light Commercial, where we saw the first positive orders there that we've seen in some time.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Appreciate the color.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Thanks, Andy.

Operator: One moment for the next question. The next question comes from Jeffrey Sprague with Vertical Research Partners. Your line is open.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Thank you. Good morning.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Hey, Jeff.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Hey. Can you just elaborate on this comment about the preorders into the back half? Is this some kind of jockeying happening, pre-buy happening on the A2L conversion or really kind of what's behind that and why are you calling that out?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

No, it's just because I do think our distributors are trying to figure out what they want on the shelf at the end of this year leading into next, and with our – we put in place a fairly disciplined PSYOP process. So, all that really is, is just talking to them about reality. What do you guys feel like you need this year, and then we can plan our factories accordingly. So, it's all about production planning.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

And then on the Fire & Security margins, I think obviously selling the Lenel business is mixed negative, it was only gone for a month. But that's just a surprisingly strong margin performance. Maybe you could just elaborate, Patrick, on what was going on there, was there some one-offs happening or kind of something else unusual in the quarter on F&S margins?

Patrick P. Goris

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

A

In essence, it was very strong performance on both price and productivity in that segment. And so, compared to last year where margins obviously were significantly weaker, they were below 15%. This was just a quarter where price/productivity very strong compared to last year. We had a few negative one-offs last year. Also, of course, we're doing a lot of work related to stranded costs, some of that benefits in that segment as well.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

All right. Sam must be doing a good job in his new role. I'll pass it there. Thanks.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Thank you, Sam.

Operator: The next question comes from Julian Mitchell. Your line is open.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. Maybe just a first question for Patrick perhaps. So just wanted to clarify the third quarter commentary. It sounded like sort of \$0.80 of earnings versus – maybe we look sequentially, it's easier versus \$0.87 that you just printed. The revenue number sounded like it was down maybe \$100 million sequentially, so it implies a sort of a very large sequential margin drop unless there's something moving around a lot below the line. So, any sort of clarity on that, please?

Patrick P. Goris

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

A

Yeah. Julian, a couple of comments there. We expect margins to be down about 100 bps, maybe a little bit more, in Q3 versus the prior year. The way you can think about it is, Viessmann will remain a dilutive impact. With the exits, we're losing about \$100 million of operating profit and then tax represents about \$0.06 headwinds as well. And so, all of that is offset by some volume pickup and then pricing and productivity. That continues to be strong.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

That's helpful. Thank you. And then, just maybe switching back, Dave, to Viessmann. So understand you have the second half sort of half-on-half bounce in line with normal seasonality. Just sort of following up on that, is the right way to think about it that you're assuming that year-on-year Viessmann is sort of flattish exiting this year in

the fourth quarter? Just trying to understand kind of how you think it looks entering next year? And maybe I missed it, but was there an updated operating margin assumption for Viessmann for the year now?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. I think when we look at 4Q, our expectation is we'll be flattish to 4Q of last year. It might be up 1% or so.

Patrick P. Goris

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

A

Yeah. We expect Q4 sales to be flat year-over-year. And the outlook for margins for the full year now, Julian, is about mid-teens for EBITDA and a few points below that for operating margin.

[indiscernible] (00:30:33)

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

That's very helpful. Got it. Thank you.

Patrick P. Goris

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

A

You're welcome.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

With a better EBITDA in 4Q than 3Q as you'd expect.

Patrick P. Goris

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

A

Yeah, the exit rate is clearly higher.

Operator: Our next question comes from Noah Kaye with Oppenheimer. Your line is open.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Q

Thanks. Good to hear on the progress around Resi and Commercial Fire divestiture. Just curious on the timing between expected agreements and the actual exit. It seems a little bit tighter than some of the divestitures that you've previously executed. So, just help us understand what would kind of drive that relatively condensed timeframe?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

It's going to most likely go to a sponsor. So, we don't see any real regulatory issues. So, we think the time between sign and close should be pretty brief.

Patrick P. Goris

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

Yeah. And it's something we've seen similar for Industrial Fire exit.

A

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. Yeah. Same amount of time we saw there.

A

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

That's very helpful. And then, just again to clarify on the resi side with the longer lead orders. Maybe you can talk to your updated expectations around the mix of R-410A versus R-454B for the year. I think that would help us better understand what some of these buying dynamics look like?

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. We think there's going to be lower R-454B this year than we had previously said. We thought it could be closer to 20%. I think it's going to be less than 10%, maybe closer to 5% this year. I don't think a lot of our distributors and dealers are in a major rush to put in the R-454B.

A

We have our initial units out there. We're starting with the residential new construction piece because they're not going to want mixed developments. But we think that as you get into next year, it's probably closer to 80%, will be maybe a bit more than that R-454B, but probably only about 5% this year.

Noah Kaye

Analyst, Oppenheimer & Co., Inc.

Very helpful. Thank you.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thank you.

A

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

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Hey. Good morning, guys.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Hey, Joe.

A

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Hey, Dave. Maybe just – it's really encouraging to see that progress with the data center orders. And so, maybe talk a little bit more about what's driving that progress. And then secondly, I know that you're planning to increase your North America content as well to sell into that vertical. And so, just any update on that would be helpful.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Sure. I mean, we are very enthusiastic about the data center opportunity. It's actually the first time that we put together an entire program team led by [indiscernible] (00:33:26) here, with a dedicated team focused just on this vertical, whether it's operations, technical, aftermarket support, everything we need to do to not only secure the orders, but then equally if not more importantly, is support our customers.

So, we had a big order in 2Q that we had mentioned. And with the same customer, they actually ended up adding a bit more to it. We are in discussions with the other hyperscalers and colos. We have the technical offerings that we're very encouraged by and our customers are very encouraged by. I can tell you, for one customer, they gave us some technical requirements that we beat. They gave us more significant technical requirements, which we then beat again.

So technically, I couldn't be more proud of our engineering team. And operationally, we're ramping up. We have facilities in Asia and Europe. Here in the United States, we're going to put max capacity into our Charlotte, North Carolina facility, adding capacity, multiple shifts to that. And we're building out our Mexico facility to add both air-cooled and water-cooled chiller capacity there.

So, a really exciting opportunity here. We're going to win more than our fair share. And then excitingly, we're starting to build up our whole aftermarket strategy with a very unique dedicated aftermarket offering that we're going to be offering to these critical customers.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Yeah. That's all really great to hear. I guess, my follow-up question. Yeah. Patrick, I don't know if I missed it earlier, but did you guys give an update to your Light Commercial expectations for the year? And then, given that orders have kind of turned positive in that business, are you guys feeling better about that business more broadly? I know there's been some concern that you see – you see that business start to fall off a little bit.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. Patrick and I are pointing at each other who takes it. We feel good about Light Commercial. I mean, we tend to – my experience over the last few years is we tend to beat what we say we're going to do. But look, in the first quarter we were up 20%. In the second quarter, we were up 10%. On the full year, we're saying up low-single digits. I think we came into the year saying down mid or so.

So, I think we're balanced in the second half. The verticals that have been good remain good. K-12 is still a unique opportunity. Some of the value-based retail, healthcare, quick-serve restaurants are still good. We see things that are soft, continue to be soft like warehouse and office space. So, it's an area that we've had great technical offerings, great share gains over time.

The team's performing well. We think we're calibrated for the year, instead of low-single digits, could it be up mid. Perhaps, we'll have to see how it plays out. But continued strength, and I was happy to see that we had positive

orders in the quarter. Our orders in Q2 were the first positive orders quarter we've had in something like five quarters which was up about 5%, which was encouraging.

Patrick P. Goris

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

A

And compared to the prior guide, Joe, the swing in revenue for Light Commercial was a little less than \$100 million. So, from down low-single digit prior guide to now up low-single digit. So, it's a big swing that helps offset some other area.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Nice. Thanks, guys.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Thanks, Joe.

Operator: And the next question comes from Nigel Coe with Wolfe Research. Your line is open.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Thanks. Good morning, everyone. Congratulations on the orders. That's quite eye-popping growth. Just Patrick, I thought maybe a few more details perhaps on sort of the second half. On that 3Q margin, I think you said 100 basis points lower Q-over-Q. Maybe just some color on the HVAC margin, because that's obviously been very strong.

And then, on the Viessmann, second half, it looks like the exit rate implies maybe down 20% in 3Q. Just want to make sure that's correct. With EBITDA for the full year of about \$550 million, just want to make sure we've got those right.

Patrick P. Goris

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

A

Yeah. I'll start with the second part of your question, Nigel. So, your EBITDA number is in the ballpark for VCS for the full year. And we do expect Q3 sales to be down high-teens and then Q4 to be about flat year-over-year from a revenue growth point of view for Viessmann Climate Solutions.

In terms of margins for the third quarter, and I think you were specifically about...

Nigel Coe

Analyst, Wolfe Research LLC

Q

HVAC...

Patrick P. Goris

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

A

You were talking – you asked specifically about HVAC. We continue to see strong productivity, that's almost – that's over 150 bps of margin. The VCS acquisition, however, offsets that. And besides that, we see some larger investments and some currency that take us about to 100 bps lower margin for HVAC year-over-year in Q3.

Nigel Coe

Analyst, Wolfe Research LLC

Okay.

[indiscernible] (00:38:28)

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. 3Q, you're right. It would be down high-teens and then 4Q would be flattish.

Nigel Coe

Analyst, Wolfe Research LLC

Okay. Thanks, Dave. And then my follow-up question. I'm sorry. On the second half – sorry, I didn't mean to interrupt you, Dave. Sorry about that.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

[ph] No, no. (00:38:53)

Nigel Coe

Analyst, Wolfe Research LLC

My follow-up question is really around the order strength in HVAC. It does look like there's a pre-buy building here in the fourth quarter. It seems like distributors want to have the R-410A products, which implies a pre-buy. So just wondering, sort of like maybe just some more color in terms of like what you're hearing from the channel because it does feel, given that one year kind of [ph] install (00:39:18) window that there should be a fairly meaningful pre-buy here. Just curious on your thoughts there.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. Nigel, just not clear how much yet. I think will the distributors go into next year with R-410A on the shelf for sure? Exactly how much, I think at the end of the day it won't be that material to either this year or next year. But I do think they're starting to figure out exactly how much do they want going into next year, because I think they know and the end customers know that it's going to be just 10% to 15% base price increase. But at the end of the day, with the guide that we've given for today, it assumes just a very modest pre-buy.

Nigel Coe

Analyst, Wolfe Research LLC

Okay. Thanks, Dave. That's helpful.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thank you. Thanks, Nigel.

Operator: The next question comes from Tommy Moll with Stephens. Your line is open.

Tommy Moll

Analyst, Stephens, Inc.

Good morning, and thank you for taking my questions.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Hey, Tommy.

Patrick P. Goris

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

Good morning, Tommy.

Tommy Moll

Analyst, Stephens, Inc.

Dave, a couple of follow-ups there on A2L. Can you – correct me if I'm wrong here, you just mentioned the 10% to 15% base price increase. But I think that that continues to sync up well with the 15% to 20% cumulative increase you've talked to before. Is that correct?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

That's correct, Tommy. Yeah, 15% to 20% over two years. Now, that 15% to 20% includes our annual price increase, call it, a few percent a year. So, the best – the rest of that would be just the base price increase on the R-454B, which is appropriate. I think that we're doing it. I know it seems like I've heard that just in these public calls that our peers are doing it, and it just seems like it's appropriate and that it will stick.

Tommy Moll

Analyst, Stephens, Inc.

Thank you. Follow-up question for you on the repurchase. With the sizable \$1 billion you've now announced for the second half, you've got good visibility to closing the last divestiture by the end of the year. Without putting an exact time line around it, my question is, is it reasonable to think that if all goes according to plan, by the end of next year all of Viessmann dilutive shares could be taken back out of the float. Is that a reasonable bogey?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yes.

Tommy Moll

Analyst, Stephens, Inc.

Great. Thank you, and I'll turn it back.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thanks, Tommy.

Operator: And our next question comes from Jeff Hammond with KeyBanc. Your line is now open.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Hey. Good morning, guys.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Hey, Jeff.

A

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Hey. Just wanted to come back to like the organic growth bridge in HVAC. A lot of good numbers, but maybe the [ph] hole (00:42:15) is the weakness you're seeing in China and Europe. So maybe if you can bridge that and then just talk about what you see from a visibility in those markets going forward.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. If I look at the second quarter growth for HVAC, as I mentioned I think in my comments, the Americas continued to do quite well with mid-single digit growth, with the strongest growth there in Light Commercial and then in Commercial HVAC. In EMEA, the growth is a little bit lower, and it's low-single digits there. And then you have two phenomena: Commercial HVAC, also driven by data centers continues to grow pretty well, mid-teens year-over-year; and then Residential and Light Commercial, and obviously we see that more broadly in Europe.

A

Residential and Light commercial, where we have a business that comes towards organic, is down mid-teens. And so, that's kind of the dichotomy there in that region. And then Asia Pacific, frankly, is very much all about China, where China is down about mid-teens, and that's a reflection of what we see there in the broader market, including in Residential and Light Commercial.

So, that's kind of an overview that – of overall HVAC organic growth by region in Q2. And we expect that, of course, to pick up in the second half of the year as we expect resi growth rates to pick up. We think the Americas will be up double-digits in the second half. EMEA and Asia Pacific both expect to be up about high-single digits in the second half of the year.

Operator: Excuse me. It does look like that that participant...

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Okay, we can move...

[indiscernible] (00:44:09)

A

Operator: So, I'm going to move on to the next question.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

We can move on.

A

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

Andrew Obin

Analyst, BofA Securities, Inc.

Hey, good morning.

Q

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Good morning, Andrew.

A

Patrick P. Goris

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

Good morning, Andrew.

A

Andrew Obin

Analyst, BofA Securities, Inc.

Just a question. I mean, clearly, data centers are making an impact. Just can you just talk to us, as data center technology evolves, right, we're sort of hearing a lot that some technology changes sort of air-cooled versus water-cooled, centrifugal versus scroll. Can you just sort of elaborate a little bit where do you think technology is going long term? And what products do you have right now? And you talked about adding capacity. What are the products that you're targeting to add capacity in the data center vertical? Thank you.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Yeah. For almost the entirety of the market, depending on – regardless of what hyperscaler or colo you're talking about, we have the technology. We have a really broad range of offerings both on water-cooled in Europe and a little bit more on the air-cooled side. But when you look at chillers, we have the technology, and we're adding capacity for both water-cooled and air-cooled in places like Charlotte and in Mexico to support the customers.

I think longer term, what you're looking at is going to be the need for more liquid cooling. So, we're in the middle of development for CD use, the coolant distribution units. We have a lot of the capabilities in-house to do many elements of the CD use and also the air-assisted liquid cooling units. We can do those as well. And we're offering some level of hybrid offerings between traditional and liquid cooling for customers today.

And then in terms of future direct-to-chip, we have this partnership with STL, we have an investment. We're working closely with them. That's a really impressive startup that has a number of former Dell employees that we're working with. And we're also doing a lot of organic development in-house on liquid cooling. But liquid cooling is not a replacement; it's an end. And I think that combination is going to play right to our strengths.

Andrew Obin

Analyst, BofA Securities, Inc.

Q

Thank you. And just from a regulatory standpoint, sort of [ph] SR (00:46:34) is running out. Where are we in terms of sort of your customers still applying for funding before the deadline? And when do you think we're finally going to start running into tougher comps in education?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Well, it's hard to say because the – as of right now, the funds need to be committed by September of this year, but there's still \$40 billion remaining on \$190 billion. So, we do know that many have applied for extensions to that. And then the funding itself, under the current legislation, has to be spent by March of 2026. So, we still have some time.

And we know that there's 30 or so states that have applied for extensions to be able to spend that money well after March of 2026. So, this has been a really strong vertical for us. We continue to see strength in orders. There's a lot of funding to be spent. Probably an extension on the front-end and probably an extension on the back-end.

Andrew Obin

Analyst, BofA Securities, Inc.

Q

Great answer. Thank you so much.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Thank you.

Operator: And our next question comes from Brett Linzey with Mizuho. Your line is open.

Brett Linzey

Analyst, Mizuho Securities USA LLC

Q

Hi. Good morning, all.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Good morning, Brett.

Brett Linzey

Analyst, Mizuho Securities USA LLC

Q

Hey, I wanted to come back to pricing. So, you're seeing some puts and takes in some of the metals trends, non-material inflation probably still higher. Is there a need to go back out this year with price? Or are you pretty well set both in HVAC and the other businesses?

Patrick P. Goris

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

A

I think we're pretty much that – they're part of our business where we do annual price increases. And if needed, we do more. That's more on the resi side. I don't expect anything there at this point this year. On different parts of the business like Commercial HVAC where they're really project-by-project, the pricing can be a little bit more dynamic.

On the – what you were mentioning on the commodities, obviously we've seen copper run up a little bit earlier this year, but it's come down quite a bit. So, still probably a few pennies of a headwind compared to prior guide, but we are absorbing that with other parts of our business.

Brett Linzey

Analyst, Mizuho Securities USA LLC

Q

All right. Great. Got it. And then, just thinking about the divestitures. I guess, as you guys look to disentangle these businesses upon close, is there anything to think about in terms of stranded costs or excess that needs to get worked down? And then maybe what are some of the actions you're taking there?

Patrick P. Goris

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

A

Yeah, Brett. So, you're absolutely right. And so, we're very focused on ensuring we eliminate any of these stranded costs. And you may recall that earlier this year, I think at the February call, we mentioned that we proactively executed an \$80 million cost reduction program to get ahead of it. That is all happening. We're doing additional actions on top of that.

Some of that, you see, of course, already reflected in our margins before some of these businesses exit. But it is absolutely our intention to ensure that our overhead structure is aligned with a simpler and more focused company that we're basically transforming into. It also means that G&A will be less than 2024 and beyond than it was, say, in 2020 and 2021. And so, the S maybe up, but the G&A we expect to be lower, and that's where we're heading.

Brett Linzey

Analyst, Mizuho Securities USA LLC

Q

All right. Best of luck.

Patrick P. Goris

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

A

Thank you.

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

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Hey. Good morning.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Good morning, Steve.

Patrick P. Goris

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

A

Good morning, Steve.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Could we just get a little more info on – so these resi orders are huge. How do you, a) I would assume, July is looking pretty good as well. I've heard that the cutoff date kind of extended a bit into July. Maybe the cutoff date was June 30, I'm not sure. But maybe like what do you see from an orders and sales perspective for resi in 3Q and 4Q, given these like still pretty gigantic orders even without the pre-ordering.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. We don't have a cutoff date, Steve. So, we haven't formally said that you can no longer order B-410A past a certain date. What we did is, we just asked our distributors, look, we got to get a sense of how you're thinking about how much B-410A you want for the year. So, please start giving us a sense of that.

So, I would tell you, the orders surprised us. They were very strong in 2Q. I think what we said is, if you take out the orders that we got for 4Q that normally would have come later in 3Q, they were still up 60%. Now, I will tell you that when we look at the second half of the year, we are very well booked for the second half of the year on the resi side.

So, if you look at the sales guide up high-single digits, you're still looking – we have an easy compare as we get into 4Q, but we still see very strong growth as we get into sales in 4Q, partly because of the order book, partly because the inventory levels out there are very low. They're down a little over 10% year-over-year. And it's nice to see sell-in, sell-out is about equal. So, any kind of debate over destocking, we feel confident that's behind us.

And I would say, on the R-454B side, the team has done a great job de-risking that. I would say, by the end of the third quarter we will have produced our first units for every single model that we have. So we've tried to get very much out in front of that, but there has been a lot of strength. I'm sure weather helped a bit, but very good strength in orders here in 2Q.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

So you said up high singles for the year for resi basically, and then we can kind of figure out the comps for 2Q and 3Q. Is that right?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. Yeah.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Okay.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

That's what we said for the year. It's much higher in 4Q year-over-year than in 3Q. It's probably very strong multi double-digit growth in 4Q and probably high-single digit in 3Q. But I would say, Steve, the high-single digits, if it's

not 8% or 9%, it could be 10%. There's just a lot of strength in the system, and we're going to have to see how the second half plays out. But yeah, as you said, July has been good.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

And then, just one on the data center stuff. What percentage now do you expect it to be a sales exiting the year? And where are we, do you think, in the continuum of like the pipeline you see building? Like your orders are obviously up a lot. If the total's up that much, the orders are obviously up a lot. How much is – just give us context around the order growth versus the pipeline growth, and the timing of those orders you expect to come out of the pipeline? Like where are we – in a baseball analogy, what inning are we in on that?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. Let me take the first one first which is, you can think about it – if you think about our new portfolio after we've completed our divestitures, overall Commercial HVAC is about 25% of Carrier NewCo, and data centers are a little over 10% of that today. Next year, it's going to be closer to 15% on a higher base. So the absolute value, of course, of data centers is increasing exponentially.

If you look at orders this year, it's going to – we have more orders for data centers through the first half than we had for all of last year. So, our bookings have been very strong as we enter 2025. We should go into next year with an extremely strong backlog on Commercial HVAC overall. It would be our – next year would be our fifth year in a row of double-digit CHVAC growth, and a lot of that is coming from data centers.

When I look at – we get the question on how long can this continue? We're in the very, very early innings. I mean, I think if you think about the hyperscalers, we've had some great wins, but we are currently bidding on a whole lot more. So, I don't know if we're in the first or second innings, but it's certainly not the fourth. And the other very, very – if you think out many years, the aftermarket is going to be significant.

If you think about a typical building having three water-cooled chillers in it, and now we may have data centers with 80, you think about failure is not an option, they can have no downtime. We're looking at really hyperscale type agreements with parts, with real-time monitoring, technicians on site. So we're thinking about solutions for our hyperscale customers that are very unique that should position us for growth for many years after the initial sales.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Great. Thanks a lot for the color.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Thanks, Steve.

Operator: Thanks. And the next question comes from Sahil Manocha with RBC. Your line is now open.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Hey. Good morning. Actually, it's Deane Dray.

Operator: Hey, Deane.

Deane Dray

Analyst, RBC Capital Markets LLC

Hey. Can I add my congrats to Sam?

Sam J. Pearlstein

Vice President-Investor Relations, Chief Financial Officer-Global Fire & Security & Chief Financial Officer-Commercial and Residential Fire, Carrier Global Corp.

Yeah.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thanks.

Sam J. Pearlstein

Vice President-Investor Relations, Chief Financial Officer-Global Fire & Security & Chief Financial Officer-Commercial and Residential Fire, Carrier Global Corp.

Thanks, Deane.

Deane Dray

Analyst, RBC Capital Markets LLC

All right. Dave, a couple of moving pieces in the competitive landscape recently. You've got Bosch now as a competitor, and Lennox announced saying this JV with Samsung with a focus on heat pumps. Any changes at the margin that you see competitively on these moves?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

No. All good competitors, and I don't see any material change to the landscape. Bosch buying JCI's business. Bosch is a great competitor. They're a rational competitor. So, we don't see any concerns or issues there? And then, in terms of the Lennox-Samsung partnership focus on ductless and heat pumps, that's a nice combination and both are great competitors. So, we don't see a change there.

I could tell you, I could not be more proud of our resi team. The margins have been great. The growth has been great. The share gains have been great, the new technology, de-risking the R-454B transition, introducing differentiated products. So, I love our team. I love the way they're performing, and we have great competitors and I don't see any real change to that.

Deane Dray

Analyst, RBC Capital Markets LLC

All good to hear there. And then, any update on the mega projects, just kind of line of sight, bid activity, any color there would be helpful.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. We talk a lot about data centers. But between the CHIPS Act and some of these mega projects, we're positioned very well there. I mentioned that dedicated program team. It's not just data centers. It also includes the mega projects.

And so, our sales force, we have dedicated folks focused on the hyperscalers, the colos and the mega projects. We've had some very important activity in the bid process with some major ones. We've had some key wins as well, and we'll continue at that one. And hopefully, more to announce there, but the team is working it very well.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Great. Thank you.

Operator: And our next question comes from Gautam Khanna with Cowen. Your line is open.

Gautam Khanna

Analyst, TD Cowen

Q

Hey. Good morning.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Good morning.

Patrick P. Goris

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

A

Hey, Gautam.

Gautam Khanna

Analyst, TD Cowen

Q

I had a couple of quick ones. First, any evidence of trade downs by consumers opting for repair over replacement? Lennox made a remark about that yesterday.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

No, we have not seen. We watch it super carefully, and we have not seen customers opting to repair instead of replace. No real material trend there.

Gautam Khanna

Analyst, TD Cowen

Q

Okay. And maybe you covered this and I joined late, the VCS kind of – maybe the components, what you're seeing between the various business lines. You mentioned what's going on in Germany, but in the other product lines, just broadly outside of heat pumps, what you're seeing? What are your expectations?

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Yeah. I mean, I think what we've been seeing is heat pumps has been down quite a bit year-over-year, if we look at 2Q. We start to see a recovery as we get into 4Q on heat pumps, but boilers has been down quite a bit, too, which has been a bit of surprising. I think the big one, which is probably kind of good news, bad news is that we don't want to see solar PV down, but that's been down the most.

So, that was down something like 60% in Q2, it's probably down around 40% for the full year. And again, that comes with lower margins and things like heat pumps and boilers. So, we're not thrilled about it, but we'd rather have that be down than some of the higher-margin heat pumps and boilers.

Now the good news is that, Thomas and the team have been driving mid-teen aftermarket growth both in 1Q and 2Q. So, I have to give that team credit. It's always easy to show leadership when you have huge market tailwind. Leadership really steps up when markets turn against you for a short period of time, and that's what we've seen.

But Thomas has been in that team controlling the controllables, driving aftermarket growth, taking costs out, revenue synergies, that will end up being in the hundreds of billions of dollar range. So, the uniqueness of this combination are going to withstand the test of time. So, is it the right company, the right market, the right combination to be sure, and we're taking the challenges we see in the market head-on this year. And we're going to be very poised for growth as we come out of this year. So, we'll take our medicine this year and come out super strong next year.

Gautam Khanna

Analyst, TD Cowen

Q

Thank you.

Operator: And the last question comes from Damian Karas with UBS. Your line is now open.

Damian Karas

Analyst, UBS Securities LLC

Q

Hey. Good morning, everyone.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

Hey, Damian.

Damian Karas

Analyst, UBS Securities LLC

Q

Just following up on some of the prior HVAC order comments. We had heard that one of your North American competitors was having some notable supply hiccups. So, I was wondering if maybe you could just talk more broadly about any industry supply issues that are out there, and to what extent that might be impacting the strong orders growth and the 120 basis points of share gains you called out.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

A

We hear anecdotal things as well. But I'd rather not talk about the competitors and just talk about our customers and our team, which is that our teams – as I mentioned, we picked up about 120 bps over the last 12 months. Our goal is having the right products at the right price when they need what they need. And I'm confident that if we continue to do the right thing for our customers, we'll continue to see outsized growth.

Damian Karas

Analyst, UBS Securities LLC

Terrific. Appreciate it. Thanks for your time.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Thank you.

Operator: I would now like to turn the call back over to management, for closing remarks.

David L. Gitlin

Chairman & Chief Executive Officer, Carrier Global Corp.

Okay. Well, listen, thank you all for joining us this morning. We're very pleased with the first half of this year we're positioned well for a strong second half. 2024 is a really important year for us as a team as we finalize the transition of our portfolio. And we position ourselves for sustained growth and margin expansion for years to come. So, we appreciate you joining us. Sam and the team, of course, are available for questions throughout the day. And thank you again for your confidence in us.

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

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