

09-Feb-2021

Carrier Global Corp. (CARR)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Carrier's Fourth Quarter 2020 Earnings Conference Call. This call is being carried live on the Internet and there is a presentation available to download from Carrier's website at ir.carrier.com.

I would now like to introduce your host for today's conference, Sam Pearlstein, Vice President of Investor Relations. Please go ahead, sir.

Sam Pearlstein

Vice President-Investor Relations, Carrier Global Corp.

Thank you and good morning, and welcome to Carrier's fourth quarter 2020 earnings conference call. With me here today are David Gitlin, President and Chief Executive Officer; and Patrick Goris, Chief Financial Officer.

Except as otherwise noted, the company will be speaking to results from operations, excluding restructuring costs and other significant items of a non-recurring and/or non-operational nature, often referred to by management as other significant items.

The company also reminds listeners that the earnings and cash flow expectations and any other forward-looking statements provided during the call are subject to risks and uncertainties. Carrier's 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.

This morning, we'll review our financial results for the fourth quarter and full-year 2020, discuss the full year 2021 outlook, and we'll leave time for questions at the end. Once the call is opened up 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 President and CEO, Dave Gitlin.

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Okay, thank you Sam, and good morning everyone. I'll provide a quick summary of our fourth quarter performance on slide 2 and Patrick will provide more color.

In short, no surprises. Sales were up 2% on a reported basis, flat organically as residential HVAC remained very strong with a 25% year-over-year increase. We produced \$453 million of adjusted operating profit executing on the cost actions that we planned and communicated including accelerated growth investment, incremental public company costs, and some onetime items that Patrick will cover.

And we are very pleased with our free cash flow generation in the quarter. Excluding the Beijer tax payment of \$272 million, we would have exceeded our forecast by about \$100 million. Importantly, we continue to consistently execute on our long-term strategic growth agenda while maintaining strong traction on our Carrier 700 and G&A cost reduction initiatives. All of this positions us well for 2021 and beyond.

Turning to slide 3. Before we dive into 2021, let me provide a broader look back at 2020. I look at 2020 as both a foundational and a transformational year for Carrier. With the spin from UTC, it was clear that we had a unique opportunity to create tremendous value. But to do so, we needed to create a new Carrier. We started with our culture and took an intentional and deliberate approach to launching The Carrier Way. Our culture reinforces our value and is centered around customers, agility, innovation, talent and winning, and the energy level within carrier is tremendous.

In addition to culture, we have invested in and promoted existing employees while infusing the team with key outside talent who have brought fresh perspectives and proven leadership. We also launched several new initiatives designed to further enhance the agility and effectiveness of our organization. For example, we launched Carrier Excellence, our new operating system; Carrier Alliance, our new supply chain program; and we undertook a holistic and structural approach to driving sustained G&A reductions and simplicity across the business.

We put a disciplined process in place to drive \$600 million of recurring cost savings over three years, Carrier 600. And given our strong progress, we recently increased our target to \$700 million under the renamed Carrier 700.

We also dramatically improved the balance sheet since spin. We now have increased financial flexibility to invest and grow, execute bolt-on M&A, and return capital to shareholders. In December, we announced a 50% increase in the dividend. And today, we announce the share repurchase program.

And we leaned in to becoming ESG leaders, committing to significant, achievable and important goals such as by 2030 reducing our customers' carbon footprint by more than 1 gigaton and achieving carbon neutrality in our operations. Commitments that are not only good for the environment but also good for business.

We also made progress on our profile commitment to improving our diversity representation and creating a truly inclusive culture. And we reframed our focus to position Carrier as a growth company.

While the COVID pandemic in 2020 presented unprecedented challenge – challenges, it also served to reinforce our position as the world leader in healthy, safe and sustainable building and cold chain solutions. With this as our enterprise strategy, supplemented by our three-pillar approach to driving sustained growth, we are confident in our top line opportunities for 2021 and beyond.

Slide 4 shows the flywheel that I used in our last earnings call to help explain how our key focus areas will drive shareholder value. As COVID shined a light on the criticality of healthy, safe and sustainable buildings and cold chains, we acted on our ambition to become a world leader in both.

There has been a tectonic shift in how business, government and society value the safety of indoor environments and the importance of robust systems for distributing food and medicine. There has also been a groundswell of recent focus on sustainability, all of which represent opportunities for Carrier's business now and in the future.

On the building side, we introduced new products like our OptiClean unit that Time magazine recognized as a top innovation Of 2020. More recently, as part of our healthy home strategy, we introduced an air purifier for the home. This is our first direct-to-consumer product focused on improving air quality, and we also are now selling Carrier one-inch filters directly to consumers. Overall, we have over \$100 million of orders for healthy building products and services and have a pipeline of more than \$200 million.

The next milestone is the release of a new digital solution that we're calling upon that will work with building management systems to provide visibility to indoor air quality and other key healthy building indicators. Using machine learning, this solution will connect to building control systems and auto mitigate deficiencies.

The overall goal is to work with our customers to give their patrons and tenants confidence to re-enter indoor environments. As an example, we recently signed a sponsorship with the American Hotel and Lodging Association where Carrier will help define AHLA Safe Stay guidelines for guests and staff around indoor air quality and contactless solutions. And then we'll play our part to help hotels implement those solutions.

On the Refrigeration side, we continue to see traction on connected cold chain offerings that address the critical challenges inherent to food and pharmaceutical distribution. Sales at our industry leading cargo monitoring Sensitech business were up about 10% in the fourth quarter and we entered 2021 with a backlog that is up over 170% over the same period last year. And we continue to push for adoption of our cloud based Lynx platform that we are co-developing with AWS to extend our current digital offerings.

Our growth levers are further fueled by delivering against our three strategic pillars. First, in terms of growing the core, we can say with confidence that we gain share in many of our core markets. We met our objective of adding over 500 sales and sales support people, invested over \$400 million in R&D, enabling us to introduce over 120 new products last year.

We continue to have key new wins. Our team never needed to be pushed to win just given the freedom and the investments needed to get back to our market leading routes. We also continue to push on product extension such as VRF and geographic coverage with a focus on increasing sales in China.

Our third pillar growing services and digital has yielded very strong initial results as we push our business models to focus more on recurring revenues. To kick start progress, we focused last year on our conversion rates. That is converting new OEM units coming off warranty to long-term agreements. We started the year at 20% conversion rates. We committed to end the year at 30%, and we did.

Going forward, our focus will be on overall coverage. That is of our overall installed base of chillers in the market, how many of those are under some sort of long-term agreement. Today, we have coverage of about 50,000 units, and our plan is to increase that by about 10,000 units per year. We have similar objectives in other parts of our business as well.

Increased coverage is enabled by digital solutions. Our truck/trailer segment launched eSolutions 2.0 with a web-based dashboard that provides critical fleet information, enhanced visibility and improved geo fencing. And in F&S, we launched our Edwards' EST4 network fire alarm and emergency communications platform to tie multiple remote buildings together to provide more flexibility and cost effective solutions to our customers.

We also continue to invest in and grow our ALC building automation and controls business where customers have embraced our open architecture solutions. 50% of our 2020 sales in that business came from recently introduced products, and we are complementing that with continued investments in our channel and field network. [audio gap] (00:10:30) culture and our growth mindset, we are taking a very disciplined approach to capital allocation. In a span of just nine months, we reduced our net debt from about \$10 billion to approximately \$7 billion, and ended the year with over \$3 billion of cash.

Our balance sheet improvement now opens the door to bolt-on M&A. Our acquisitions will align with our focus on healthy, safe and sustainable building and cold chain solutions and more broadly with the three pillars of growth that we have laid out.

Before I turn it over to Patrick, let me give you some color on how we're thinking about 2021 on slide 5. Our outlook for the year reflects our objective of being a consistent mid-single digit organic growth company. We expect sales to grow 6% to 8%, and that includes 2% tailwind from FX. And with strong conversion, we expect adjusted EPS to increase by about 14% at the midpoint. We'll continue to invest in growth while we project improving margins by about 70 basis points and producing strong free cash flow of about \$1.6 billion.

While we are starting this year with continued uncertainty around the global economic recovery as the pandemic continues to impact people and economies around the world, we are optimistic that the uncertainty will subside as we get into the second half of the year following more widespread vaccine distribution.

The good news for our first half is that our backlog is solid given the strength in orders in 4Q that has continued very well into January. As we get into the second half of the year we expect some of the businesses that were acutely challenged by the pandemic to start to recover, particularly in retail, hospitality and small to medium sized businesses.

So with that, let me now turn it over to Patrick. Patrick?

Patrick P. Goris

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

Thank you, Dave, and good morning, everyone. Good to be with you on the call today and very excited to be part of the carrier team. I've spent the last two months gaining a deeper understanding of our strengths and the opportunities we have in front of us. I see tremendous opportunities to create value, given our focus on innovation, accelerating profitable growth, driving internal efficiencies, free cash flow generation and capital deployment and portfolio management. I will sharpen this focus and drive execution so we can continue to deliver long-term superior financial returns to shareowners.

Let me share some detail around the quarter. Please turn to slide 6. As Dave discussed, Q4 was broadly in line with our outlook. As you can see on the right side, we exceeded the outlook we gave you in October for sales and adjusted operating profit. Sales of \$4.6 billion were up 2% versus the prior year and flat organically. Currency was a 2-point tailwind for sales in the quarter, about \$100 million, but with little profit contribution. The sales growth was driven by continued strength in our residential HVAC business, which was up 25% in the quarter. We saw a continued sequential improvement across our other businesses.

As expected, adjusted operating profit of \$453 million was down versus the prior year as Carrier 700 cost savings were more than offset by the reversal of some temporary cost actions related to COVID-19. We expect \$75 million of investments, about \$25 million of incremental public company costs and about \$50 million of one-time items in the quarter. These one-time items were about \$20 million higher than we expected and included a pre-spin vendor contract termination and legal and related costs.

Free cash flow of \$38 million in the quarter included \$272 million in tax payments related to the sale of the Beijer shares. We anticipated \$50 million to \$60 million of that from the September sale, but the remainder, associated with the December transaction, was not captured in our October outlook.

Moving on to the full year. Sales of \$17.45 billion were above our most recent outlook of about \$17.3 billion due to currency translation. Full year adjusted operating profit was \$2.23 billion, just over our October guidance. And excluding the tax payment for the sale of Beijer shares, we would have exceeded our free cash flow target by about \$100 million.

Let's now look at how the segments performed, starting on slide 7. HVAC organic sales were up 4% in the quarter, driven by the 25% increase in residential. As expected, field inventory levels have now normalized and we should see more typical growth trends in that business going forward, but recognize there will be a much easier compare in the first half versus the second half of 2021. Commercial HVAC sales were down mid-single digits organically. Light commercial was down 10% and continued to lag, but the rate of decline improved sequentially.

Turning to Refrigeration, sales of \$949 million were down 3% on an organic basis, but improved sequentially. This was by far the best quarter from a year-over-year perspective for this segment.

Organic sales of the Fire & Security segment also continued to improve sequentially in Q4 and were down 5% compared to last year. We saw a 6% decline in the products business and a 2% decrease in the field business.

Within the product businesses, which represents about 60% of the segment sales, residential and commercial fire continued to be solid, while access solutions in our industrial businesses remained challenging.

Now, let me review the order activity we saw in the fourth quarter because that is important to understand what is driving our 2021 outlook. As you can see on slide 8, our residential and light commercial businesses continued to see strong orders, driven by residential. We intentionally worked with our channel partners to exit 2020 with more normalized inventory levels.

Backlog in residential is up almost threefold compared to a year ago and puts us in a solid position for shipments in the first half of 2021. Commercial HVAC orders were about flat compared to last year, and we exited 2020 with backlog up mid-teens year-over-year.

For Refrigeration, order activity for the truck/trailer business continued to improve sequentially. North American truck/trailer orders were up well over 100% in the quarter, and Europe was up about 10%. Container orders up almost 50%, pointing to a recovery in 2021. Commercial Refrigeration orders were up mid-teens organically as the business is also seeing pent-up demand. Strong order intake and backlogs exiting the year position the Refrigeration segment for the strongest growth of the three segments in 2021.

Order intake for our Fire & Security segment also continued to improve sequentially. Product orders were down low-single digits. Like prior quarters, industrial end markets and global access solutions remain weak. Field orders were up low-double digits year-over-year, and we exited 2020 with record backlog for installations in this business. Overall, a generally improving order trend gives us confidence in our ability to deliver solid growth in 2021.

Please turn to slide 9, as I walk you through our 2021 outlook. Based on current exchange rates, we expect reported sales to be up 6% to 8%. We expect organic growth of 4% to 6% and a currency translation tailwind of about 2%. We expect HVAC and Fire & Security organic growth to be low to mid-single digits, and expect Refrigeration to be up low-teens.

We expect adjusted operating margin to expand by about 70 basis points at the midpoint to around 13.5%. We expect our full year adjusted effective tax rate to be about 25%, 1 point lower than last year. And adjusted EPS is expected to be between \$1.85 and \$1.95. This represents about 14% EPS growth at the midpoint. We expect about \$1.6 billion in free cash flow, which represents about 95% conversion despite higher capital spending and about \$100 million more in interest payments.

Moving to slide 10, let's walk through the pieces in our 2021 adjusted EPS bridge. Adjusted EPS growth will come almost entirely from operational performance as the increased volume converts to earnings. Core earnings conversion which excludes the impact of currency, the 2020 Beijer sale, and the 2020 Q4 items is about 30%.

We anticipate additional benefits from Carrier 700 of about \$225 million in 2021 and expect the absence of COVID-related inefficiencies and disruptions in our factories and supply chain to benefit us by about \$125 million. Offsetting that is about \$200 million of cost containment snapback and about \$150 million of planned incremental investments.

We previously talked about the three-year plan as \$100 million of investment in each year of 2020, 2021, and 2022. We are accelerating some investments into 2021 and therefore currently expect incremental investments in 2022 to be only \$50 million. We expect the net impact of pricing and input costs to be neutral for the year. Interest expense will be a headwind in 2021. We raised most of the debt in late February 2020 so we did not have an entire year's worth of interest expense last year.

Lastly, we currently have some restrictions in our debt covenants on the total number of shares we can repurchase. And so while we target repurchasing about 5 million shares in 2021, the average number of shares used for EPS in 2021 will still be above 2020, and so that represents about a \$0.02 headwind 2021 versus 2020. Page 16 of the slide deck includes some additional items related to our 2021 outlook.

Let's shift focus to the balance sheet and our leverage profile on slide 11. Carrier completed the spin in April with substantial leverage. Since that time, we've been able to reduce leverage significantly through strong free cash flow performance and the sale of our stake in Beijer. We repaid the entire \$1.75-billion term loan in the fourth quarter and net debt adjusted EBIT – and net debt-to-adjusted EBITDA improved from about 3.4 at the time of the spin down to about 2.8 at the end of fiscal 2020.

We expect 2021 year end net debt just north of \$6 billion, which would bring our net debt-to-adjusted EBITDA ratio closer to 2.1 by the end of 2021. That is assuming no impact from potential acquisitions or divestitures. The bottom line is that we're in a much stronger position today given the improved health of our balance sheet, which provides more flexibility with respect to capital deployment.

That takes us to slide 12. During 2020, it was clear that the focus had to be on reducing leverage. As we entered 2021, we plan a more balanced capital deployment while remaining within our overall capital structure of an investment grade credit rating. We expect 2021 CapEx to be about \$375 million. Dave talked about some of our priorities with respect to inorganic investments. We're not putting a dollar amount placeholder here, but we will be opportunistic on bolt-on M&A that help achieve our strategic objectives and meet our financial criteria.

We plan to reduce debt by \$500 million in 2021 and in light of our pending redemption, we will not have any debt maturing until 2025. In December, we announced a dividend increase and we now expect to 2021 dividend payments to amount to about \$425 million. And today, the board authorized a share repurchase program of \$350 million. And our outlook for 2021 incorporates repurchasing about 5 million shares this year.

Before I turn it back to Dave, let me just add that the volatile quarters in 2020 should lead to some unusual comparisons in 2021. We expect strong double digit organic growth in the first half of 2021 and closer to flat organic performance in the second half given the residential comparisons. In addition, we expect the first quarter to have the lowest incremental margins for the year, probably in the high teens due to having more buyer your income in last year's Q1 than other quarters, a larger currency conversion headwind, and some prior year deferred comp favorable items.

With that, I'll turn it back to Dave.

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Okay. Thank you Patrick. Our results demonstrate that we successfully navigated through 2020. We remain focused on driving key strategic growth initiatives alongside aggressive cost actions that will fuel future investment and innovation. Our balance sheet improvement provides additional flexibility to create shareholder value through bolt-on M&A, dividends and share buyback. All of these factors combined with the tailwinds from important megatrends position us well for strong top and bottom line growth in 2021 and beyond.

So with that, we'll open this up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Stephen Volkmann with Jefferies. You may proceed with your question.

Stephen Edward Volkmann

Analyst, Jefferies LLC

Hey. Good morning, guys. Thanks for taking the question. I'm hoping you can just talk a little bit more about the commercial HVAC business. Obviously, strong backlog heading into 2021 but orders kind of flattish. Maybe you can give us a little bit more color either by market or by type of product or anything that sort of give us a sense of the cadence on commercial HVAC. Thank you.

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Yeah. Good morning, Steve. Yeah, we are pleased with the backlog being up in the mid-teens. But clearly there are some watch items there. The ABI being at about 43 in December, it has been below 50 since April. So we have a watch on it. Remember that commercial new construction is about 15% of our overall business.

The things that give us a lot of confidence are some verticals remain very strong globally. Data centers, warehouses, education, healthcare have all been strong. Number two is we are seeing traction in our whole focus on indoor air quality healthy buildings, we have a pipeline of \$200 million there. So, it's clearly a watch item particularly North America.

I was pleased – China has continued to be strong. Europe, we actually saw coming back. You may recall earlier in 2020 I felt like we weren't gaining the share in Europe that we had been in North America, China. The team made a number of changes in Europe and we're seeing traction there so signs of life in Europe. Orders were up

about 5% there in the fourth quarter. Asia Pacific actually showing a bit of strength towards the end of last year for the first time in eight or nine months. So, signs of progress but clearly a couple of watch items, probably the biggest being North American new construction.

Stephen Edward Volkmann

Analyst, Jefferies LLC

Q

Great. That's helpful. And do you feel like people are able to get out into the field now and do more of the kind of service, maintenance, upgrade stuff that is probably sort of represents pent-up demand for 2021 or is that still on the come?

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

A

No, we do. The good news for the aftermarket is that we actually come in – HVAC services backlog ended the year up about 20%. So, we are seeing people get out there even in Europe where it's a bit spotty and some markets are more closed than others. Even though they've been distributing the vaccine in England, we still see some pockets of closed down locations there. Same with Germany.

But by and large, we are getting our field support and our technicians out into buildings certainly in the United States. So, we're looking at double-digit HVAC aftermarket growth in 2020 and it'll be fueled by folks getting back into the buildings.

Stephen Edward Volkmann

Analyst, Jefferies LLC

Q

Super. Thanks. I'll pass it on.

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

A

Thank you, Steve.

Operator: Thank you. Our next question comes from Joe Ritchie with Goldman Sachs. You may proceed with your question.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Thanks. Good morning, everybody.

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

A

Good morning, Joe.

Patrick P. Goris

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

A

Good morning.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Hey, can you guys maybe provide a little bit more color around the \$50-million charge that you took this quarter, and then whether all of that been through on HVAC margins this quarter?

Patrick P. Goris

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

A

Yeah, Joe. Patrick here. So really one big item as part of those one-time items is a – as I mentioned, a vendor contract renegotiation. Think of it as a pre-spin contract that we had from another UTC umbrella. We think we can do better than that specific contract so we decided to terminate it. There were costs associated with that that we incurred in the quarter. We'll benefit from that in future years, and the NPV obviously was positive on that transaction.

That was by far the biggest item within the \$50 million. And I would say that clearly HVAC had the biggest part of that onetime cost of about \$50 million in the quarter. So, clearly HVAC's margins were impacted by that more than the other segments.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Okay. That's helpful, Patrick. And maybe my just – my one follow up maybe just sticking with HVAC margins. I think that was probably the area where we're hearing the most from investors today.

Can you guys just kind of parse out what really kind of happened within the quarter outside of this one contract because margins still would have been down outside of you seeing growth in the quarter? And I recognize that you spent about \$75 million in investment, but maybe just kind of parse out what were the kind of key drivers for the margins in HVAC this quarter.

Patrick P. Goris

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

A

Sure. So, within HVAC, currency helped us. Currency translation was a tailwind on sales of about \$40 million, but basically with no operating profits contribution. We did see a benefit of the higher volume particularly in resi, which was up 25%. Mix was actually a headwind in the quarter, and actually that relates to commercial HVAC.

The applied equipment piece of that commercial HVAC return to growth, we saw it up low single digit which is a good thing. We saw good growth in China. We have not yet seen service and aftermarkets return to growth. Service and aftermarket was down year-over-year in the fourth quarter. They tend to have better margins. Now, the good thing is backlog for service and aftermarket was up double digits for us in the quarter. So that bodes well for future periods.

Other items that impacted the HVAC margins in the quarter, one you referred to investments. Investments were up \$75 million in the quarter for the overall company. HVAC saw the vast majority of that. And so that together with the one-timers that I referred to earlier is really the story around the HVAC margins. For next year, we expect for the full year HVAC margins to be close to 16%.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Great. Thank you.

Patrick P. Goris

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

Thank you, Joe.

A

Operator: Thank you. Our next question comes from Nigel Coe with Wolfe Research. You may proceed with your question.

Nigel Coe

Analyst, Wolfe Research LLC

Thanks. Good morning. And, Patrick, good to hear your voice again.

Q

Patrick P. Goris

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

Thank you, Nigel.

A

Nigel Coe

Analyst, Wolfe Research LLC

[indiscernible] (00:32:59), but here we are. So I think we just kind of addressed the HVAC margin issue quite well. But when you say the vast majority of the investment spending, are we talking about like over \$50 million of that, \$25 million would have been within that segment? Just trying to size the impact of that investment spend.

Q

Patrick P. Goris

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

Yeah. North of \$50 million would have impacted HVAC, Nigel.

A

Nigel Coe

Analyst, Wolfe Research LLC

And then the nature of this investment spending, is it primarily head count spending. And I'm wondering if the carry forward of that \$150 million, if it mainly just the annualization of whatever has been spent in the second half of this year.

Q

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Yeah, Nigel. Good morning, Nigel. It's Dave. Yeah, recall that we really look at our investments in three categories. We said that we'd add – the first is selling and salespeople. We said we'd add 500 sales and sales support people last year. We ended up adding more like 550 and a lot of that we started to see in the fourth quarter. We also invested in R&D. That was a big chunk of it.

A

We had tapped the brakes a little bit on some of our investments in 2Q. We started to release it in 3Q, into 4Q. So we did accelerate R&D investments. And also, the third piece is digital. A little bit less than the R&D side. But we're going to come out with some new digital products here at the beginning of the second quarter especially tied into healthy building. So we really try to lean forward because that's what we see is one of the most transformational opportunities. It has to do with that digital offering that's going to be an extraction layer that gives customers visibility into things like indoor air quality. So we really accelerated some of our investments there in the fourth quarter.

Patrick P. Goris

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

And then, Nigel, of the \$150 million, about half of it would be carryover from investments made late in 2020.

Nigel Coe

Analyst, Wolfe Research LLC

Thank you. One question is on the service attaché initiative. You point towards a significant increase in the installed base of chillers being serviced. What is driving that uptick and what are you doing differently today that you weren't doing this time last year? And then, secondly, and as part of that, would you be pointing towards double-digit service growth going forward?

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Well, certainly we feel positive about double-digit service growth in 2021, and we'll have to see as we get into 2022 and beyond. But you look at that we have a relatively small percentage of our, say, chillers under some form of long-term agreement. It's less than 25%, and the reality is it should be something that's exponentially higher.

One of the ways to do it is having those chillers be connected. So we're going out of our way to add edge devices to the chillers so we can have more of a two-way communication with the customer. So we can not only do things like diagnostics and prognostics, but other value-added services such as energy efficiency through making the devices connected.

So connecting the devices is one, adding the salespeople is another key one. One of the reasons we were successful in our conversion rates last year was simply putting people in the building, working with the building operator to say while it's under warranty or while it's under an agreement with someone else, there's value-added services that we can provide. So increasing our sales forces in a very targeted way. So, for example, in China at some of the tier 2 cities, in the North America at some of the underserved regions that we have today. So really it's a lot of blocking and tackling. I am very confident in the double-digit aftermarket growth this year.

Nigel Coe

Analyst, Wolfe Research LLC

Great. Thanks again.

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Thank you.

Operator: Thank you. Our next question comes from Jeff Sprague with Vertical Research. You may proceed with your question.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Thank you. Good morning, everyone.

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Good morning, Jeff.

A

Patrick P. Goris

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

Good morning, Jeff.

A

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Good morning. Just wondering if you could address a little bit more of what you're expecting on the price/cost side. Was it an issue in the quarter? You did go through a lot of the margin dynamics in Q4, but I don't think you mentioned price/costs. But more importantly, as you look forward into 2021, what do you see and what do you have modeled?

Q

Patrick P. Goris

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

Yes, Jeff. For 2020, price realization was really about flat. Obviously, for 2021, we're very closely monitoring commodity prices, especially steel, copper, aluminum. And we expect price to offset commodity inflation in 2021. We announced our price increase during the normal cycle, which is early in our first quarter.

A

And then from a blocking or locking point of view, currently, over 75% of our 2021 requirements are locked or blocked. If prices stay high, of course, this could be a watch item for 2022. But we'll be continuing to look at this closely and looking, of course, at continued recovery through pricing as well. So, overall, neutral for fiscal 2021.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

And then, I'm also just wondering kind of NewCo, independent Carrier. You provided in the appendix kind of the outlook on corporate expense and the like. Are we largely at run rate, though, coming out of Q4 on public company costs, anything that's left over on TSAs, that sort of thing? Maybe you could just address what, if any, kind of nuances or headwinds we should be thinking about as you kind of get into your first full independent year here?

Q

Patrick P. Goris

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

Yeah, Jeff. I think this will be de minimis in fiscal 2021. There might be a little bit in the first quarter, but really not a big number for the full year.

A

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

And I would add, Jeff, that, look, we've been clear that our G&A is just too high. So we have a very structured focus around taking G&A out. It's not something that you can kind of do the right way overnight. What we're trying to do rather than just give kind of head count targets or things like that, we're trying to make structural changes.

A

We have a leader that reports to me, Eva Azoulay, who is leading a whole low-cost center of excellence approach. We're outsourcing some aspects. We're moving some of the work to low-cost COEs. And we're really

trying to reduce our G&A in a structured way. 2021 is a lot of putting that in place. So we'll start to see a lot of the benefit of it as we get into 2022 and beyond. So our G&A should come down for sure. And \$100 million of the Carrier 700 is G&A, so we expect to start seeing that drop through certainly as we get into 2022.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Great. Thanks, guys.

Q

Operator: Thank you. Our next question comes from Steve Tusa with JPMorgan. You may proceed with your question.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Hey, good morning.

Q

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Good morning.

A

Patrick P. Goris

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

Good morning, Steve.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Can you just clarify what the raw material impact is, just so we have an idea of what those two components are? Just following up on Jeff's question.

Q

Patrick P. Goris

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

Oh, for the full year?

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Yeah, for the year.

Q

Patrick P. Goris

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

Yeah. We see a headwind of several tens of millions of dollars.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Okay, got it. And then what did Carrier 700, ultimately, come in at for the year on the benefits side?

Q

Patrick P. Goris

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

Carrier 700 came in at \$250 million in fiscal 2020. We expect that 2021 to be about \$225 million.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Okay, got it. And then, just one more on resi. You said your backlog was up, like, 3x. Is there any buy-in there ahead of those price increases that's influencing that number? I mean, that just seems like a pretty big number for the year-end December 31?

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Yeah. Certainly, we were pleased with backlog coming in 3x higher than it was at the same time last year, Steve. What we've really worked very purposefully on with our distributors is to make sure that we were trying to match our flow to them with their movements at the dealer base. So as Patrick said, we had sales in the fourth quarter up 25%. Movement from the distributors into the dealers was about 20%. Inventory was up around 10% coming out of last year into this year. So, fairly normalized.

We saw order strength continue to be very, very strong in January. Now part of it is that you know that we have a good position with new home construction that was up about 8% last year, we expect it to continue to be strong this year. But we're working very closely with our channel partners to make sure that we're giving them what they need when they need it. And there's just a lot of demand in the system, but we're trying to modulate that to make sure we're there to support them so they can support the dealer network.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Got it,. Okay. Thanks for the info.

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Thank you.

Patrick P. Goris

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

Thank you.

Operator: Thank you. Our next question comes Jeff Hammond with KeyBanc Capital Markets. You may proceed with your question.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Hey. Good morning, guys.

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Good morning, Jeff.

Patrick P. Goris

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

Good morning.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

So slide 10, great color on the different moving pieces in cost. Just wondering how you think of cadence for investments. And you gave good color on incrementals on 1Q, just how some of those moving pieces impact kind of cadence and incrementals as you kind of move through the year.

Patrick P. Goris

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

Yeah, Jeff. I think from an investment point of view, you can expect that to be fairly even throughout the year in 2021. From an incremental point of view, as I mentioned, Q1 a little weaker than the other quarters.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Okay. And then just on kind of the first half, second half I understand – I mean, I guess the – things have been were improving through 2020, but outside of residential being so strong in the second half, where else do you see "tough comps" to kind of get you to that flat dynamic in the second half?

Patrick P. Goris

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

I think it's really driven by residential in the second half, so obviously we had a very strong resi second half in 2020 with very high growth rates. As we lap these, some of those headwinds get partial – get offset by what we expect to be a pickup in light commercial, commercial HVAC in our Fire & Security business. And so that's really the – what we're counting on in the second half of the year that it is a recovery related to COVID that helps offset some of those headwinds in resi.

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Yeah, Jeff. I'd add that I think we really view this as a tale of two halves. You look at the first half, we're coming in with very strong backlogs. Orders, Patrick mentioned were up 15% in the fourth quarter. Some were quite high like in our transport Refrigeration business, very strong there. So, we like our opening backlog position. Orders continue to be very strong in January almost across the portfolio.

So we expect that the backlog in orders that carry us through the first half clearly have the compares. But as you get in the second half, there is pent-up demand in some of the key verticals that have been acutely challenged. So our light commercial business, we start – we would expect to see recovery as we get into the second half of this year. You start looking at some parts of our Fire & Security business that were hurt by small and medium sized businesses and the impact of retail and some of the big box retail impacts that we've seen.

So, we expect that first half carry through was backlog. Second half, as economies start to reopen and there is some pent-up demand, we expect that to give us some lift in the second half. Tough compares but progress in some acutely impacted verticals.

Jeffrey D. Hammond*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. If I could sneak one more in. Just sell in versus sell through your sense for residential as you look at your independence or just kind of what your distributors are telling you what sell through was in 4Q.

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

A

Well, we looked at – we were looking at 20% movement in 4Q from our distributors into the dealers. So, we were trying very hard to really match our sell in and sell out. It was a little bit higher on what we sell to them than what they moved out but not materially so.

There is significant demand in the channel. I would say that one thing that is positive is that we had gained share. It's always complicated when you look at share on a quarter-to-quarter basis with all the different moving parts on selling either direct to dealers or selling through independent distribution. But if you just step back and look at 2020 as a whole, our resi sales were up 10%. And you're looking at probably a market that was up 7% to 8%.

So, we feel positive that we're gaining share the right way. Our partnership with our distribution partners has been very positive. New construction has – new home construction has been positive. So, we feel positive about where we are and where we're going on resi. And we're trying to be very careful to not get out over our skis ourselves or our distribution partners.

Jeffrey D. Hammond*Analyst, KeyBanc Capital Markets, Inc.*

Q

Great. Thanks a lot.

Operator: Thank you. Our next question comes from Deane Dray with RBC Capital Markets. You may proceed with your question.

Deane Dray*Analyst, RBC Capital Markets LLC*

Q

Thank you. Good morning, everyone. And Dave, congrats on being named chairman.

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

A

Thank you, Deane. Appreciate that.

Deane Dray*Analyst, RBC Capital Markets LLC*

Q

First question for Patrick. You don't often hear about covenants that restrict buybacks. I know it does happen but the expectation if you're going to be a 2.1 net leverage by year-end, you would think those covenants would not be in play and maybe they can get rolled back. I know you negotiated covenants last year. Might this be an opportunity as well?

Patrick P. Goris

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

A

Yes, under our current covenants we have those restrictions and those remain there till the end of the year. We could decide to renegotiate them. The other factor that's at play here is that our current capital structure, we're kind of growing into our existing credit ratings. And so by the end of the year, our capital structure will be much more aligned with our existing credit rating.

And so this would not be the time to buyback significantly more shares as we're trying – as we're still working our way into our existing credit rating, and so that's the other element that's at play here, Deane. We could renegotiate it, but it is still the credit rating that's in play as well and it's clearly our intention to remain a solid credit rating company.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Appreciate that. And just if you could expand on the opportunities in bolt-on M&A. It's interesting the covenants don't restrict that, it would appear. Just what's the final look like especially like across the product lines?

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

A

Deane, we're in the process of building up that pipeline. We've had some that we've been working. We're adding more to the pipeline. So, it's something that as we continue to look at the portfolio, there's still some things that we would say that we're assessing whether or not they would be of more value in the hands of others.

And then we look at our overall strategic priorities, healthy, safe and sustainable buildings is a big ecosystem, the cold chain is another ecosystem, our three pillars of growth. We want to grow the core. We want to look at adjacencies. We're underrepresented in China. We're underrepresented in VRF. So, those are areas, and anything that builds out our services and aftermarket offerings as we continue to shift to recurring revenue. So, we have some things in the pipeline that we've been working. We're trying to add to that pipeline as we go.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

That's helpful. Thank you.

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

A

Thank you.

Operator: Thank you. Our next question comes from Vlad Bystricky with Citigroup. You may proceed with your question. Your line is on mute. Please unmute.

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Q

Hi. Hi, good morning, guys. Sorry about that.

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

No problem.

A

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

So, lots of great color on the quarter as always. One thing that was a little surprising is looking at the order trends. It looks like APAC outside of China was actually stronger than China in terms of orders. Can you talk about what drove that strength in APAC outside of China and how you're thinking about the sustainability of the strong order growth in the APAC region?

Q

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Yeah. I would say that the whole Southeast Asia is – it's still fragile. I mean it actually caught us a bit by surprise because it had been quite negative in the second and third quarter. Even places like India we started to see traction. Other places, Singapore, Australia, Hong Kong still a mixed bag because of a multitude of reasons there. But we were pleasantly surprised by some of the traction we started to see in parts of Asia outside of China.

A

And look, China has just remained just continuously strong really across the portfolio on the cold chain side, both in commercial Refrigeration and transport Refrigeration. Overall look at Carrier, our China – in the fourth quarter, China sales were up 10%, orders were up about 5% in China, particularly strong in Refrigeration where it was up about 20%. So, we remain very, very bullish on China overall. And it was nice to see progress in Southeast Asia, but it's still a watch item. We got to see more vaccine distribution in places like India and then we'll get more confidence on the sustainability.

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Okay. great. That's helpful. And then just thinking about the 2021 free cash flow outlook, can you just maybe help to level set us in terms of how you're thinking about the seasonality of free cash flow in 2021?

Q

Patrick P. Goris

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

Yeah, Vlad we would expect – and which is typical for our business that the first quarter would be our weakest quarter of free cash flow, and at the second half we'd generally be stronger than the first half. So generally, Q1 we would expect to be our lowest quarter of free cash flow, followed by stronger quarters and a significantly stronger second half than the first half. And that's of course related to some of the seasonality in our business especially in HVAC.

A

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

Right. Right, so more typical seasonality we normally see.

Q

Patrick P. Goris

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

Correct.

A

Vladimir Bystricky

Analyst, Citigroup Global Markets, Inc.

It's helpful. Thanks. Thank you, Patrick. Thank you.

Q

Operator: Thank you. Our next question comes from Julian Mitchell with Barclays. You may proceed with your question.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Thanks. Good morning. Maybe just trying to hone in a little bit on the Q1 context and understand that in general this year's seasonality may be a little bit different at least on earnings if not cash flow than the normal. So any extra color on that?

Q

But if I start with Q1, you've mentioned the high teens incremental. That compares with I guess the full year guide of more like 25%. For revenues, in Q1, should we be thinking that sort of up high-single digit? And so, you end up with about 50 bps of margin expansion against 70 bps for the year as a whole? Is that roughly the right framework?

Patrick P. Goris

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

Yeah. We do expect double-digit organic growth in the first quarter, and we do expect margin expansion as well in the first quarter. And as I mentioned earlier, we think that the timing of the investments is pretty even throughout the year.

A

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

And also, Julian, again, because of the strong Q4 that continued into January, our coverage for Q1 is solid. So we feel positive about that.

A

Julian Mitchell

Analyst, Barclays Capital, Inc.

Thank you very much. And then just thinking about the free cash flow guide for the year as a whole, understood the context on seasonality that you just provided, Patrick. But for the year as a whole, if I back out the Beijer tax payments, it looks like you are guiding for around flattish operating cash flow year-on-year in 2021. Just wondering about any moving parts within that. You have that \$100 million interest expense, I think, called out. Maybe help us understand what you are dialing in for the working capital scale of headwind.

Q

Patrick P. Goris

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

Yeah. Actually, so for the full year, free cash flow we expected to be about flat year-over-year. Obviously, adjusted net income is expected to be up year-over-year. That's a tailwind there. There are two items that are large offsets. You mentioned one of them. Interest payable is – we will be making extra \$100 million of interest payments. And then, CapEx, we expect also to be up about \$65 million. And so, that offsets most of the adjusted net income.

A

We do expect working capital overall to be a slight tailwind. On the headwinds associated with free cash flow, we expect comp and benefits to be a little bit of a headwind there in fiscal 2021. But those are the biggest pieces. It's really higher adjusted income, offset by \$100 million extra interest payment and \$65 million additional CapEx. And then...

Julian Mitchell

Analyst, Barclays Capital, Inc.

Great. Thank you.

Patrick P. Goris

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

... some minor items which make it about flat year-over-year. Thanks, Julian.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Perfect. Thanks.

Operator: Thank you. Our next question comes from Gautam Khanna with Cowen & Company. You may proceed with your question.

Yes. Hi, guys. This is [ph] Dan (00:55:37) on for Gautam. Thanks for the question. Could you discuss how you see permanent restaurant and brick-and-mortar closures impacting the near-term versus longer-term Fire & Security demand? If that has any impact on your long-term view of that business. Thank you.

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Yeah. I look at it, it impacted Kidde as we start to see some of the brick and mortar. We saw very strong e-commerce sales in our residential smoke detector business. But we did see an impact on more of the brick and mortar piece of that business. So we are expecting, with the vaccine distribution, some recovery there as we get into the latter part of 2021.

Another piece of the business is some of the security portfolio that – some of that piece of that business is tied a little bit to more towards SMB and small and medium sized businesses. So if you take our S2 business, for example, we would expect to see that to start open up with pent-up demand with the SMB side of the business as we get into the second half of the year.

Okay. So you would expect the pent-up demand aspect to be stronger than say like I don't know – what do they say, like, one-third of restaurants may have closed permanently now?

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Yeah. I mean, I think, look, the restaurant closures, I mean it's something that we watch not only for our Fire & Security business, but our light commercial business. We look at that business that was down 10% in the fourth quarter and we have that business up mid-single digits this year. So, clearly, there's been a big impact on that whole industry, but we do expect to see some pent-up demand as people start to reenter society in the second half of the year.

Q

Okay. That's really helpful. Thanks.

A

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Yes.

Operator: Thank you. Our next question comes from Josh Pokrzywinski with Morgan Stanley. You may proceed with your question.

Q

Joshua Charles Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Hi. Good morning, guys.

A

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Good morning, Josh.

Q

Joshua Charles Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Just, Dave, first question on service versus equipment in commercial, I think maybe relative to some of your peers out there, those folks are a little bit more sanguine on service and saw equipment kind of lagging behind. You seem to have a bit of the opposite experience, but I know you're still sort of working your way up the curve on service market share.

Is there something about either the timing of being able to actually schedule that or the nature of the service you guys are winning that would suggest that there's sort of a lag? Just curious that building access phenomenon I suspect is kind of similar for everybody, and that seems to be impacting you more, but you're doing better on equipment. A lot of moving pieces there, but I guess it kind of comes down to how do you feel about either timing or kind of the nature of service maybe versus the broader market?

A

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Yeah. On the equipment side, look, we've added the salespeople. We've introduced some new products. It's not really putting a new machine, a new construct in place. It was really accelerating and doing what we know how to do with more focus and energy. So the ability to turn that in an effective way has been positive and a bit easier than it has been on the aftermarket for us, because it hasn't traditionally been as big of a focus area for us as it has been perhaps for a couple of our peers that have done well in this area.

So I would say, on the aftermarket, we added a new head of aftermarket. Ajay Agrawal, he's been working tightly with the new heads of aftermarket that we put in place in the BUs and the BU presidents. And now, we've put in place a playbook that we know works, but it's not a playbook that you can affect overnight. So adding the sales and sales support people, adding a BluEdge tiered offering, adding digital offerings that can really differentiate the overall offerings.

So a lot of this playbook of how we think about pricing parts and how we can provide more value-added services to our customers, that playbook is in the process of being rolled out. But when we talk about a 20% increase in our chiller coverage this year, that's a pretty big percentage and – a lot of 2020 was putting that foundation in place. 2021, for us, is the show me year. And now, we've got to – going to go realize a lot of that foundation that we put in place last year.

Joshua Charles Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then on the portfolio side, clearly asset prices are high out there. I know parts of Fire & Security namely Chubb got a peek under the hood, a couple of years ago now. What's the appetite to maybe explore some dispositions just given that multiples are fairly high in the marketplace?

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

A

Look, we've – we said consistently that we would be very objective as we look at our current portfolio and that's continued. We started that process day one, and that's going to continue really forever. So, we look at all aspects of the portfolio, whether they're worth more to someone else than they are to us and whether they fit in our long-term strategy. And that applies – I mean you mentioned Chubb. It applies really across the board.

So, we will continue to assess. We will continue to do what's right for our shareholders. If we make that determination, we will look at what to sell and what's the right time to sell. And then the exciting thing for me is the – that we now have the balance sheet flexibility to start looking more aggressively at bolt-on M&A. So, we're hopeful to see some of that in 2021 as well.

Joshua Charles Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Q

All right,. Thanks guys.

Operator: Thank you. And I would now like to turn the call back over to Dave for any further remarks.

David L. Gitlin

President, Chief Executive Officer & Director, Carrier Global Corp.

Okay. Well, thank you. Thank you everyone for joining. Sam is around to take your questions and we appreciate all of the focus and attention this morning.

Patrick P. Goris

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

Thank you.

Operator: Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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