

29-Oct-2020

Carrier Global Corp. (CARR)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Carrier's Third 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 third quarter 2020 earnings conference call. With me here today are David Gitlin, President and Chief Executive Officer; and Tim McLevish, 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 Carrier's registration statement on Form 10 and the reports on Forms 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 third quarter of 2020, discuss the full year 2020 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. You may ask further questions by reinserting yourself into the queue as time permits.

And 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.

Thank you, Sam, and good morning, everyone. Before we get going, let me first comment on the upcoming CFO transition that we announced last week. Patrick Goris, currently the CFO at Rockwell Automation will be joining us as our CFO in a couple of weeks. At that point, Tim will take on the role of Senior Advisor, helping us with a smooth transition of Patrick and taking on specific key projects until his retirement in mid-February.

For context, when we hired Tim, he was very clear with us that his role would be to help effectively stand us up as a public company including building the finance team and functions, strengthening the balance sheet, helping us establish our strategic priorities, working with the rating agencies and investment community and charting the course for his successor. Doing all that and more, Tim has been the perfect CFO at the perfect time.

I can't thank him enough for everything he has done for me personally and for Carrier. After a thorough search, I could not be happier to have Patrick joining us. I suspect most of you know him well. During his time at Rockwell, Patrick transformed the finance function, helped to drive industry leading top and bottom line performance and a shift toward a recurring revenue model, and he was instrumental in guiding strategic capital allocation and portfolio optimization. We look forward to welcoming Patrick to the Carrier team.

With that, please turn to slide 2 where I'll discuss our Q3 highlights. In short, Q3 was a very encouraging quarter. Sales of \$5 billion or up 4% year-over-year and substantially exceeded our expectations. Adjusted operating profit was up 6% year-over-year. We had strong incrementals in the quarter putting our reported year-to-date decrements at 30%, but operationally at 26% factoring in the \$53 million of additional public company costs.

Our performance was driven by continued strength in North America residential HVAC, which was up 46% in the quarter and by continued traction on our cost and growth initiatives. In resi, this was our highest quarter ever for both sales and operating profit. We are pleased with our free cash flow generation in the quarter, which was \$880 million primarily driven by higher net income and better working capital performance and we realized \$300 million of cash before taxes from our sale of 9 million shares in Beijer.

We continue to aggressively reduce costs via a strategic disciplined approach including reducing G&A and simplifying the back office. As a result, we are now raising Carrier 600 to the Carrier 700, which costs for \$700 million of recurring costs take-out by the end of 2022. This will allow us to fund investments in growth, while driving margin expansion.

We remain on track to invest an incremental \$100 million in growth initiatives this year. Based on our Q3 strength, we are again raising our 2020 full year outlook on sales, adjusted operating profit and free cash flow. Given that we had \$3.8 billion of cash at the end of the quarter, we plan to pay down \$1.5 billion of debt in the fourth quarter. Next year, we expect to do more while supporting our dividend and preserving flexibility for M&A opportunities.

Pivoting now to slide 3 on our progress on our overall priorities. We put in place a playbook that is gaining traction. Adoption of the Carrier Way has created a profound cultural transformation, which is resulting in an agile innovative aggressive winning focused organization all of which is helping fuel our growth agenda. It starts with ensuring a performance culture, putting our customers first and through a rigorous deployment of Carrier Excellence and our Supplier Excellence program, our on-time delivery has increased to 96% and our quality and performance has improved 30% year-to-date. We continue to invest in our growth initiatives. We have added an incremental 450 sales and sales support personnel this year and have introduced a number of innovative offerings including the first fully autonomous all electric engineless refrigerated trailer system in Europe and a new multi-purpose cloud connected commercial fire detector that combines smoke detection with advanced sensing capabilities.

And in terms of services aftermarket and digital initiatives, our commercial HVAC business closed the quarter at a 27% attachment rate globally on track to achieve 30% by the end of this year. We have signed over 300 BluEdge contracts since the program launched in June. We are also continuing to drive connected offerings across the network. For example, in the commercial refrigeration business, we completed a very successful pilot on our condition-based maintenance program, improving uptime by about 33% and improving technician productivity by over 20%. In Fire & Security, our Kidde Fire Systems business shipped its first orders for IntelliSite, a remote health monitoring service for industrial fire alarm and suppression system control units.

At a Carrier Enterprise level, we are truly leaning into the emerging trends around healthy, safe and sustainable building and cold chain solutions, which you see on slide 4. Starting with healthy, safe and sustainable buildings. Our strategy here is to be the leading one-stop shop provider, which is driving strong customer interest and new product introductions that continue to gain traction. We obtained independent validation through a rigorous testing process that our Infinity air purifier's capture and kill technology inactivates 99% of coronavirus trapped on the filter, the first of its kind.

Orders for those filtration systems were up 140% year-over-year in the third quarter. We also have orders for nearly 15,000 OptiClean units and we are working in active pipeline for thousands more. Through our relationship with Cushman & Wakefield, we were able to upgrade a Denver area office campus with air purification systems with needlepoint bipolar ionization technology for every rooftop unit on its campus along with service by Carrier's BluEdge platform.

And we just signed a strategic HVAC deal at 54 One Court Square Tower in Long Island City, which we estimate will save up to 20% in energy cost annually and deliver improved comfort and air quality. For the healthy building space overall, we now have an active pipeline of potential order activity of \$150 million and we're still in the early stages of putting the comprehensive strategy in place to maximize our offerings and capture the opportunity ahead of us.

Similarly, we recently launched our healthy, safe and sustainable cold chain program. I am thrilled with our new relationship with Amazon Web Services with whom we are partnering to develop a robust and powerful data ecosystem for cold chain operations. We also introduced Carrier Pods monitored by our Sensitech business to support added mobile cold chain capacity and cargo insights.

With key partners, we're working to connect the dots to provide a one-stop shop approach for cold chain solutions for both food and pharma distribution. So we've made progress on our financial results, our performance culture, strategic growth initiatives and capital allocation. Before I turn it over to Tim, let me give you some color on current order trends.

Slide 5 outlines our three segments, which we have broken into two key business lines each. We also provide color by geographic region, starting with HVAC. You see here that our residential and light commercial orders were up 60% year-over-year in the quarter driven by resi. Movement from distribution to dealers was strong and distribution inventory levels are now in balance. For commercial HVAC, orders improved from down about 15% in Q2 to almost flat in Q3.

In our Refrigeration segment, transport business, order trends indicate that Q2 is the bottom for our truck trailer business. Unit order rates more than doubled from June to September. Container orders were down in Q3, but these tend to be lumpy and we have seen solid October orders. Commercial refrigeration orders were also down in the quarter, but improved sequentially from Q2.

For Fire & Security products, orders improved from down 20% in Q2 to down about 10%. We saw improvement in commercial and residential fire, China and the controls business, while the small and medium sized business, oil and gas and hospitality markets were weak. The F&S field business orders improved from down almost 30% in Q2 to down around 5% in Q3.

Installation and non-recurring service orders were down around 10%. Given the discretionary nature of that work, while recurring service and monitoring orders were flat. Our business has reflected the bifurcated macro economy where residential, healthcare, education, data centers and warehouses have remained strong while the oil and gas, small and medium businesses and hospitality verticals remain challenged. Fortunately, the latter verticals are a much smaller part of our portfolio.

We see the same bifurcation geographically where the US and China remain strong, Europe is recovering and Asia excluding China is very challenged. While we're encouraged by Q3 order trends, we recognize that continued global uncertainty and we remain prepared to adapt.

With that, I'll turn it over to Tim and then come back to summarize before Q&A. Tim?

Timothy R. McLevish

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

Thanks, Dave. Good morning. Please turn to slide 6. As Dave just mentioned, the quarter surpassed what we had expected as we saw very strong demand in residential HVAC and continued recovery in the broader markets in which we participate. Recall that last quarter we said that we believed the Q2 year-on-year sales decline would be the low point for the year. That proved to be the case as Q3 sales of \$5 billion did not decline. But in fact we're up almost 4% over the prior year and 3% organically. This is driven primarily by residential HVAC. While we saw sequential improvement across the company since the second quarter, we still had modest year-over-year sales declines in the majority of our businesses in Q3.

GAAP operating profit was \$1.1 billion and that includes a \$252 million gain on the sale of about 9 million shares in Beijer. Adjusted operating profit of \$867 million, was up 6% from last year. Our incremental margin was 27%. And this number would be materially higher, absent the incremental public company and TSA costs. Accelerated productivity and continued cost control drove the strong performance on margins.

Our Q3 GAAP EPS was \$0.84 and adjusted EPS was \$0.67. Since we're not a public company last year, the year-over-year comparisons are not meaningful. Our free cash flow was strong, considerably higher than we had expected. The biggest driver was higher net income, but we also saw working capital improvement and a favorable timing impact from interest and tax payments. All things considered, a very strong third quarter for Carrier in a very difficult environment.

Let's now look at how the segments performed. Please turn to slide 7 and note that the year-over-year numbers, which I will refer to as organic comparisons. The HVAC segment sales were up 11% from last year. Within the segment, residential was up 46%. We are very proud of how well the team executed on unprecedented levels of demand that enabled us to gain share. Recall that we ended Q2 with field inventory levels down about 25%. At the end of Q3, we saw field inventories back to prior year levels and expect a more normalized Q4 in that business.

COVID created very atypical seasonality for residential as Q2 was down materially and Q3 was unusually strong, and we expect the full year 2020 will likely end up as a fairly normal year in total. In North America light commercial, we saw sales decline of 13%. We did see sequential improvement during the Q3, as reopenings continued, but we expect light commercial to continue to lag this year.

Commercial HVAC sales were down 7%, with modest declines in most of its business lines. We saw low-single-digit decline in applied and a high-single-digit decline in the services businesses. Applied sales were down less than the overall commercial HVAC as we enter this slowdown with a healthy backlog in this longer-cycle business. All of these year-over-year declines improved from those in the second quarter.

From a regional perspective for commercial HVAC, China sales were up about 10% in the quarter, but Asia excluding China was weak, especially India, as it remains heavily impacted by disruptions related to COVID. We are confident we gained share in China and North America in applied.

Now over to Refrigeration, where segment sales were down 6%. North America truck trailer was down about 30%, but that reflects almost a 50% improvement from the trough we saw in Q2. Europe truck trailer was down close to 10% and container was up mid-single-digits. We saw improving order trends for both North America and Europe truck and trailer, and believe we have turned the corner on the downcycle in both businesses. Commercial refrigeration sales were flat in the quarter, as a modest decline in EMEA was offset by mid-single-digit growth in Asia.

Moving over to Fire & Security segment, which was down 7%. The products business was down consistent with the segment. Declines in the Americas and Europe were partially offset by double-digit growth in China. Within the Americas, our residential fire products business grew low-single-digits, which was offset by declines at some of our security businesses that are more impacted by the slowdown in the small business and hospitality markets. The field business is also down in line with the segment, as restricted building access and lagging commercial construction activity drove mid- to high-single-digit declines on install and repair jobs. That effect was partially offset by low-single-digit growth in the recurring service piece of the business.

Bottom line, we saw continued encouraging trends across the company, with the pace of recovery differing in some areas. While we have observed more normalizing market conditions, we continue to focus on controlling the controllables and on aggressive cost management that will help us fund investments to position us for future growth.

Please turn to slide 8. I will provide an update on our cost programs. In each quarter this year, we have accelerated our in-year savings plan for Carrier 600. With that success, we are now confident in increasing the three-year target to \$700 million and renaming the program Carrier 700. On this slide, you'll see that the \$250 million target for 2020 for Carrier 700 and a planned investment of \$100 million remain unchanged. We had previously discussed spending about \$300 million over three years for investments in R&D, digital and sales, and we still expect to do so.

You'll notice that our savings from cost containment actions is now \$250 million, down from \$300 million that we discussed last quarter. Because the business has been executing at a much higher level, in the fourth quarter we are restoring some of the temporary people-related cost actions taken earlier this year.

Also updated from last quarter is the headwind from productivity and absorption issues related to the pandemic. Better than expected volumes as well as strong execution has resulted in the absorption headwinds not being quite as bad as we had anticipated. If you recall, our original model for Carrier 600 was that the savings we generated would fully fund our growth investments and the remainder would drop through. With about \$100 million in year-over-year headwind expected for 2021 from the reversal of onetime cost containment measures, it will require a larger portion of our Carrier 700 benefits. This means less of the savings should drop to the bottom line and could impact our incremental margins next year.

Continuing on slide 9, as we've said, a key priority during the pandemic has been to maintain ample liquidity. And as you see on this slide, our strong focus on cash has enabled very good free cash flow, which was driven by better than expected earnings and tightly managed working capital. We exited the quarter with \$3.8 billion in cash on the balance sheet, which was helped by the partial sale of our shares in Beijer.

As conditions in the market have improved, we now planned to pay down \$1.5 billion in debt before the end of the year, a big step towards our debt repayment plans. With a healthy balance sheet, we are well positioned to emerge from the pandemic on a stronger footing and capitalize on the opportunities as we return to a more normalized environment. As a result, we expect to be in a position to communicate more details on our capital allocation priorities early next year.

Please turn to slide 10 and I'll review our outlook. On our Q2 call, we gave you guidance ranges that reflected the broader uncertainty associated with the economic climate we were experiencing. Now, with two months to go in the year, we can provide a more precise and improved outlook from what we gave you in July. We now expect sales to be about \$17.3 billion, higher than the high end of our prior guidance range. This is based on the significant strength we saw in residential HVAC in Q3 and the broader economic improvement. We expect adjusted operating profit of approximately \$2.2 billion, which is also above the high end of our prior range. This reflects the drop-through from the higher sales outlook.

On free cash flow, we now expect to generate about \$1.5 billion in 2020, a significant improvement from our prior outlook of at least \$1.1 billion. The biggest driver of the cash flow is higher net income, along with continued tight working capital management and a few timing items.

With that, I'll hand it back to Dave to wrap things up before Q&A.

David L. Gitlin

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

Thanks, Tim. Our results demonstrate that we are successfully navigating through this unprecedented environment. We continue to focus on aggressive cost actions, while driving our key strategic growth initiatives. We remain confident in our three- to five-year medium-term outlook of mid-single-digit sales growth, high-single-digit EPS growth, and strong cash flow. Given the lower base from the COVID-driven disruption in 2020, recent order trends and the execution of our strategy, we anticipate pulling those medium-term growth rates into next year.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Joe Ritchie of Goldman Sachs. Your line is now open.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Thanks. Good morning, everybody.

David L. Gitlin

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

Good morning, Joe.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

So, I just want to understand just the full year guidance a little bit better. It's clearly 3Q turned out to be just a lot stronger than we anticipated. And like if you think about the 4Q sequential, is it the way to think about it that sequentially 4Q is going to be lower this year just because 3Q turned out to be a lot stronger than expected driven by resi. I'm just trying to understand [indiscernible] (00:24:31).

Timothy R. McLevish

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

Yeah, Joe. This is Tim. Well, in 4Q, we have some – I mean that, yes, resi was particularly strong in Q3 and that drove a lot of our Q3 favorability. We're expecting a bit more normalized Q4, as they are transitioning kind of from [ph] split-served (00:24:52) air conditioners into furnaces that would be a bit more normalized than we saw in Q3. But also, in Q4, we are anticipating – remember, we have about \$25 million of quarterly impact from year-on-year effect from our public company costs, and we do anticipate that we're going to spend about \$75 million of the \$100 million that we've set aside for investments. You might ask the question why so back-end loaded, but the reality of it is, this year we started out with an expectation we're going to invest \$150 million before the COVID hit. We scaled that back considerably and now we reinstated as things are looking better, but it takes a little bit of time to ramp down and ramp back up. So, we have baked in there about \$75 million of our investment to hit. And there's about \$20 million of other kind of transition-related things from UTC as we stand alone as a public company. So, adjusting for those things, you would see that it's much more normalized fourth quarter.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Got it. That makes a lot of sense. I appreciate the color there, Tim. I guess, my follow-on question is, as you think about 2021, obviously, it's again really encouraging to see Carrier 600 step up to Carrier 700, and also the non-recurring cost containment actions stepping down this year. As we kind of think about the puts and takes especially on the margins for next year, I guess, is the way to think about this really is that there's probably going to be more goodness than from the cost reduction savings from Carrier 700 and then less of a headwind also from the temporary cost actions that you took this year?

Timothy R. McLevish

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

A

Joe, this is Tim. I mean on balance, I mean if you look at the cost containment measures and we set that down to \$350 million, we probably will still get some carryover, probably travel will not snap back fully. But also, we identified that our – the impact from productivity related to the COVID has stepped down a little bit. On balance across that, we probably have \$100 million of headwind – net headwind from those actions. And it probably is going to take a little bit more of the Carrier 700 than typically we would experience. I mean we haven't set up. Think about the average remaining of \$450 million on the Carrier 700 versus the \$250 million we've experienced already and then subtract out the investments and then probably we'll use a little bit of the Carrier 700 remaining to cover some of that year-on-year decrement.

Joe Ritchie

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Great. I'll get back in queue. Thank you, all.

Operator: Thank you. And our next question comes from Stephen Volkmann of Jefferies. Your line is now open.

Stephen Edward Volkmann

Analyst, Jefferies LLC

Q

Hi. Good morning, everybody. Thanks for taking my question.

David L. Gitlin

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

A

Good morning, Stephen.

Stephen Edward Volkmann

Analyst, Jefferies LLC

Q

It appears that your share is improving pretty broadly. So, I guess, I just wanted to touch on that. Maybe you could talk about areas where you think you've done best in the share relative to the market. And Dave, I think you said the sales force was up like 450 people or something. Is that process kind of done now, or is there anything else that these guys are doing, any change in incentive compensation, just kind of how are you managing the sales force and driving those share gains? Thanks.

David L. Gitlin

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

A

Yeah. Let me hit the first one first. On resi share gains, yes, I mean, look, we grew 46% in the quarter. We were really 2x the overall market. So clearly we picked up share in the third quarter. But it's really not, I think, fair for us to look at it just one quarter at a time. If you look at it over a 12-month period, we picked up about 100 basis points of share which is, I think, a better indicator. But, look, we've said that we were going to really lean into growth and focus on really winning out in the marketplace. And I think our team [ph] personnel, Justin, Kathy (00:28:45) and the team has done a really nice job of that partnering with our distributors. So, we've seen it really across the US and it's not just splits. We've seen it on the [ph] front-end (00:28:55) side as well. I think part of it was the fact that operationally we were able to perform and provide units to the dealers. There's been some dealer conversion. And I think the other factor is that we came into the quarter with somewhat depressed inventory levels with our distribution channels. Inventory levels coming into 3Q were down about 25% year-over-year. And then you kind of look at the sudden spike we saw in orders in June that carried forward into July and

August. We really had to turn up the heat to make sure that we could support our customers. And frankly, it was a challenge. Our customers have done a great job working with us, but we did – it was quite a ramp to support them.

But on balance, we've been very pleased with the share gains. The key is that we sustain that going forward. I think in terms of the salespeople, the 450 we referred to is, that's really mostly outside of resi, where we've been looking at that in both the applied space, on the OE side, as well as in services and aftermarket, and that's a very much global phenomenon. We've been adding those mostly in China and North America, a little bit in Europe which has been a bit more challenged to add them there, but – and I don't think that's the end of it. We had come into this year saying that we had a deficit versus some of our competitors. We said we'd add 500, we have added 450, and I think we'll end up adding more as we go into next year.

Stephen Edward Volkmann

Analyst, Jefferies LLC

Q

Great. Thanks. And then just quickly, anything to call out relative to the resi trends in October so far?

Timothy R. McLevish

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

A

So far so good. I mean, the orders that we've seen in October have been strong. So, we'll have to see how things play out. We're trying to work with our distributors to give them the product they need when they need it. So, orders have remained strong and we're working with them to work on managing that delivery schedule. Normally at this time of year, we'd be ramping down and we're not doing that. We're continuing to support our customers through the off-season as we kind of gear up for 1Q and beyond.

Stephen Edward Volkmann

Analyst, Jefferies LLC

Q

Okay. Thank you, guys.

Operator: Thank you. And our next question comes from Julian Mitchell of Barclays. Your line is now open.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Hi, good morning. Maybe, I want to say thanks for all the help since the spin, but maybe a follow-up question on the savings versus investments. So as you said, there's sort of \$450 million of savings left off for this year and you implied maybe around \$200 million of extra investment, just wanted to check that. And any thoughts around the split of that \$450 million and \$200 million between next year and the year after? And is there any sort of baseline operating leverage number we should dial in? I think you talked about 28% to 30% previously. Is there any kind of minimum level that you calibrate around?

David L. Gitlin

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

A

Yeah, Julian. Let me start at a high level and then ask Tim to add on. I think as we think about 2021 and going forward, we do think ourselves – let me start even on the sales side is that we had said that we would grow on the top line mid-single-digits. What I would have told you a couple months ago is that we were kind of at the high end of mid-single-digits, but we've been a bit surprised by the resi strength that we have seen over the last couple of months. So, it's probably still mid-single-digits but more at the low end of that. And we've been consistent that

incrementals would be in that 30% range, give or take various moving parts in the system. And then you have all of these costs puts and takes between our increase on Carrier 700. So, we have \$450 million to go. You could probably consider \$225 million a year next year and the year after that. We have the \$100 million of sort of onetime headwind going into next year because of the onetime – \$100 million of onetime savings that we incurred this year. And then, we have incremental investments. So, I think what you're really looking at is the sales growing mid-single-digits probably at the lower end and then the drop-through on those sales.

Julian Mitchell

Analyst, Barclays Capital, Inc.

That's helpful. Thank you, Dave. And then maybe my second question would be around the sort of portfolio and you started, I think, some cleanup actions with that partial Beijer stake sale a few weeks back. Do you think that the macro environment is now conducive to sort of steady pace of maybe some of that portfolio rationalization? And how quickly do you want to try and take that process to help with the balance sheet de-levering?

David L. Gitlin

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

Yeah. We've remained consistent that the single best thing we can do to create shareholder value is executing on our long-range plan. We've actually just reviewed it with our board. We've done a very detailed assessment by business unit. We've done our strat reviews. We've done our LRPs. And the way we run the business is that for all of our strategic initiatives, we track those with significant clarity and focus. And we are very confident that we can create significant shareholder value by making sure that we have a performance culture that we're laser-focused on the cost side, but also on our growth initiatives, which is really using some new muscles within Carrier, but it's getting great traction. And then, we've said that we would take a very clinical look at our portfolio, including the 58 JVs and you saw some actions that we did take in 2Q. We continue to look at every JV to make sure that they really are the best use of our capital. And we'll look at some bolt-on M&A and perhaps some divestitures over time. But in terms of sort of the bigger transformative transactions, our biggest focus right now is executing on our LRP.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Great. Thank you.

David L. Gitlin

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

Thank you.

Operator: Thank you. And our next question comes from Josh Pokrzywinski of Morgan Stanley. Your line is now open.

Joshua Charles Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Hi. Good morning, guys.

David L. Gitlin

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

Good morning, Josh.

Joshua Charles Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Q

Dave, I just want to dig into the commercial side of the house. Orders flat, pretty spectacular there. Anything more that you can tell us on the order front. I know it's not really a channel especially on applied, where there's inventory. But anything from a replenishment standpoint or a comp that we should keep in mind, because I guess just given the mix of business there and what we're seeing in non-resi construction, there should at least be a little bit of headwind, so that that surprises me as being particularly strong.

David L. Gitlin

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

A

Yeah. Look, I think that it's quite bifurcated. There's some real strength in applied, when you look at things like data centers and healthcare and warehouses, we're seeing continued strength globally, especially in China and the US. Education has picked up quite well, not only K through 12 but universities. Commercial buildings a bit of a watch item. We know there's some real headwinds, things like retail, hospitality, restaurants that has a more acute impact on our light commercial business. So, when we look at it, one encouraging metric that we did see pop up a bit was ABI, the Architectural Billing Index which is a good forward-looking indicator. It's been hovering around 40. We saw it go up to 47. We would like to see that north of 50.

Dodge Construction year-to-date is down about 20%, but only about 15% of our business ties to that metric. So, I think when you put that all together, it's a watch item. There are some encouraging areas. And where it's strong, I think we've really leaned into and seen some share gains. China has been particularly strong and I'm quite proud of the team there, and North America has been continuing to recover. So, I look at it. I think we're going to exit this year with our applied business backlog up around 5% or 10% going into next year, but it's clearly a watch item and we'll have to keep monitoring it.

Joshua Charles Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Q

Got it. That's very helpful. And then, I think this whole kind of industry group has turned into the collection basin for IAQ and discussion around building energy efficiency, and it sounds like Carrier is clearly part of that with some of your opening remarks. Anything that you can talk about in terms of seeing it's actually show-up with customer sizing and opportunity. You mentioned some rooftop opportunity there, I think most people would consider this kind of applied first, unitary second. I know there's kind of a lot to unpack in that question, but maybe just kind of level set us on what you're seeing out there and how that would fall into kind of the various slices of Carrier's exposure? Thanks.

David L. Gitlin

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

A

Yeah. Josh, I would tell you that we are very encouraged by not only the trends we're seeing in IAQ, but the opportunity. It starts with the premise that people spend 90% of their time indoors. So, if you're 50 years old, you've spent 45 years on this earth indoors. And you look at the amount of indoor square footage, that's going to double over the next 40 years. So, when you look at something like COVID, it's really shined a light on the criticality of making sure that people have healthy, safe and sustainable indoor air environments. So, the way we've approached it is really twofold. One is introduce new products, things like OptiClean, the certification of our electrostatic filters for the home. We're working on air purifiers. We're working on new types of filtration, whether it's UV or bipolar ionization and really round out the portfolio and get those to market, and there's been significant pull. On top of that, we've been working on more customized solutions that look at more broader ventilation solutions about airflow and air changes per hour that are more holistic changes.

And then, the broader solution is ultimately going to be something that gets into independent assessments about the healthy and safe and indoor air quality. We'll work on digital solutions, so tenants have visibility to whether or not the indoor air environment is up to standard and then we'll be rolling that out in a more holistic way. When we look at the market size, we get this question a lot and here's what I'd say. If you look at the products that we sell into our HVAC systems or Fire & Security systems, that total market is about \$90 billion to \$100 billion. And we think that the additional opportunity created through IAQ is about 10%, so call it \$9 billion to \$10 billion, and one thing I can tell you is that I'm extremely confident that we'll get more than our fair share of that piece. Now, it takes some time to build up. I talked about a pipeline of \$150 million. We continue to see real traction, real customers making orders. So, it's going to take some time to build up to that number, but we do think it's certainly within our sights over time.

Joshua Charles Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Q

Yeah. That's great color. Thanks so much, Dave. And I feel like I've had 45 years just in 2020, so I can certainly speak for myself then.

David L. Gitlin

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

A

All indoors.

Operator: Thank you. And our next question comes from Nigel Coe of Wolfe Research. Your line is now open.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Yes. Good morning.

David L. Gitlin

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

A

Good morning, Nigel.

Nigel Coe

Analyst, Wolfe Research LLC

Q

And Tim, thanks for the help and good luck for the next chapter.

Timothy R. McLevish

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

A

Thanks, Nigel.

Nigel Coe

Analyst, Wolfe Research LLC

Q

I'm guessing there will be too many [ph] covenant (00:40:48) questions today, Tim. So – and I'm just guessing that. But then going back to the resi performance and I understand that obviously benefits from channel fill there, but I'm just curious do you have any intelligence from your sell-through of the Carrier brands through your channels, because obviously the market looks like it's up high teens. So, I'm just curious how your sell-through compared when we back out that impact from the channel fill?

Timothy R. McLevish

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

A

Yeah. We closely track the movement from our distributors to our dealers and it's been consistent with what we would have thought. I think the nice – the encouraging thing is the inventory levels at our distributors ending 3Q is about what we would have seen at those inventory levels last year. So, when you look at the very unusual swings that you saw Q3 down, something like 13% – excuse me, Q2, Q3 up 46%, when we get into next year, there's going to be unbelievably unprecedented comparisons, we're trying to explain what happened in 2Q and in 3Q of next year. But when you look at it more holistically for the year, the whole market's going to be up mid-single-digits, will be up high-single-digits this year. So not an incredibly unusual year, just unusual phasing within the year.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Yeah. That's for sure. And then speaking about compares, I think last year you had a pretty tough compare on furnaces with the kind of the prebuild that happened through the spring and summer. So, I'm expecting you to do quite well versus the markets in 4Q just given that dynamic, is that fair?

Timothy R. McLevish

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

A

Well, I think that our 4Q should be strong on resi, clearly not 46%, but I would guess in the 15% to 20% range.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Okay. That's great color. And then maybe just one more question. Can you just touch on the filtration margins? They were a little weaker than what we expected. So just wondering what we saw there in terms of mix and then maybe [ph] some sort of deleverage (00:42:47). And then as we kind of come into 2021, I'm expecting strong trends from truck and trailer. Would you expect the [ph] filter (00:42:55) margins to be north of that 30% range for that segment?

Timothy R. McLevish

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

A

Yeah. Nigel, I'll take it. First of all, I will say when you look at decrementals for that segment of the business and Refrigeration, first of all, you get kind of what I call the law of small numbers. There was a \$46 million decline in sales and the operating profit decline was a small piece of that. But within that you had a mix between CCR, our commercial refrigeration business and transport. Commercial was top line, pretty flat and modestly down on the bottom line. Transport obviously our high margin business was down about 10% on balance across that business and down, say, \$15 million to \$20 million on the bottom line. There were a couple of other smaller charges in there. So that really explains the very high decremental for the business. But I would say to your last question. When we see that turnaround and we expect that we're kind of at the bottom or have seen the bottom of that cycle, you will see very strong incrementals on the way back up. The transport is a nice – very attractive margin business. And you will see strong incrementals as we see that recover.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Great. Thanks very much.

Operator: Thank you. And our next question comes from Steve Tusa of JPMorgan. Your line is now open.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Hey, guys. Good morning.

Q

David L. Gitlin

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

Good morning, Steve.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

What was price realized in revenue for the company and then for HVAC in the quarter?

Q

Timothy R. McLevish

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

Flattish, Steve.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Okay. Got it. And both for the company and HVAC?

Q

Timothy R. McLevish

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

Yes.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Okay. When you're kind of looking at how you kind of moved down from the increase in guidance to cash. I think you said some timing items. What were those timing items and do you think I assume you can grow cash next year, but maybe a little bit less than revenues – less than net income because of those timing items?

Q

Timothy R. McLevish

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

Yeah. Most of the timing, we would expect actually to play out in the fourth quarter. If you kind of use a subtractive method of where we are year-to-date in the cash flow and where our guidance is for the year, you'll see that the fourth quarter is not what we typically would see in the fourth quarter of this year. Some of that is the strength we had in resi and the relatively short receivables terms and the long payable term. So you're seeing a lot of the purchases we had for that as positive cash flow in Q3 that interchange between them, we'll pay those mostly back in the fourth quarter, maybe a little bit of bleed into the first quarter of next year.

A

And then also somewhat COVID related and somewhat start-up related, we have some tax deferrals for practical purposes. So for instance, there is \$50 million, \$60 million of tax on the sale of Beijer. We obviously recognize the gain in the third quarter. We will pay the tax [ph] forward (00:46:05) in the fourth quarter. And then there was some estimates as probably another \$30 million, \$40 million, \$50 million of tax timing. So it's really some working capital items, some tax impact.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

I see, the timing in the fourth quarter, right? I got it. And then just lastly, Dave, what's kind of your call on the resi market next year? Lennox has said mid singles. I think Trane said up a bit. What's kind of your view on the high level on the resi market trend here?

David L. Gitlin

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

A

Yeah. I think it feels in that sort of low, perhaps it gets up into the mid-single digit range. I think when you look at some of the underlying factors, I do think there is more demand for IAQ. We are seeing more demand for that. We'll have to obviously see – we'll see about weather, but you look at a lot of the underlying fundamentals that have driven the strength that we've seen now. They will continue into next year. New construction should continue to be strong, up mid this year, probably up mid next year. And we have good position with resi new construction.

We do see that the whole stay at home phenomenon of people putting additions on their house for their studies or people really prioritizing spend on resi – residential air conditioning because their families are spending more time at home. I think that will certainly continue into next year. So there's going to be some compare issues, but it's certainly would feel low and it may get up into the mid-range all in.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Thanks [indiscernible] (00:47:40). Tim, thanks for all the help and congrats to both of you on a pretty good start to in a very tough environment coming out as a public company for sure. So kudos to you guys on the execution. Great job.

Timothy R. McLevish

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

A

Thanks, Steve. I appreciate it.

David L. Gitlin

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

A

Thank you, Steve.

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

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Good morning, guys.

David L. Gitlin

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

A

Good morning, Jeff.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Just a couple of questions on commercial service. I think you said it was down high single-digits. Just a little surprised that that's not starting to get more resilient here. So what's the outlook as you look at service going forward? And then just on the attachment rate comment, you seem encouraged, you're adding feet on the street. What do you think entitlement is for attachment rates a couple of years out?

David L. Gitlin

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

A

Yeah. Look we originally thought this year was going to be 25 and we test ourselves to get to 30. We're at 27% attachment rate and we'll exit this year at 30. So we're getting really, really strong traction there. And our [ph] Assurance 1 (00:48:43) program is helping that. The playbook is clear. We know what we have to do. The feet on the street as you mentioned will help. Look I see that number getting up to 50% over the next few years. We just got to keep chipping away at it. I will say that a couple of our peers had a bit of a jumpstart on us with their focus on things like modernizations and attachment rates.

So, in all candor, we're playing a little bit of catch-up, but we know what to do. We know the playbook. We have confidence in it. If you look at our overall service backlog, it's actually up about 30% because some of the orders that we've had, have been pushing out to the right when you look at some customers pushing out modernizations in some other tasks. So as we get into next year, we think that we'll see some real growth on the service side.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And then just on the applied backlog, it was encouraging to hear a backlog up kind of mid-singles exiting the year. What is the mix within that and just kind of within the order rates this quarter that kind of normalized or get more resilient? What are the key end markets or verticals that are kind of helping you there?

David L. Gitlin

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

A

Yeah. I was mentioning a little bit around things that are helping us. It's really – it's by location and it's by vertical. It's kind of like when you fish, you go where the fish are. Right now, you go where the customers are. And they happen to be in places like data centers, healthcare, warehousing. Education is shown some positive trends. So those have been quite positive. Our light commercial business is down 10% to 15%, but that's very much a replacement business. 80/20 is replacement. So eventually as those start to come back, we would expect that to recover as we get into 2021. But we have seen really, really proud of the China team. They've continued to pick up share and do a very nice job. And in North America, we've seen some real traction here and some recent wins even over the last few weeks. So I feel confident that coming even in a very challenged environment, we're continuing to get some key wins here in North America.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. I appreciate the color.

David L. Gitlin

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

A

Thank you.

Operator: Thank you. And our next question comes from Jeff Sprague of Vertical Research. Your line is now open.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners, LLC

Thank you. Good day, everyone. Hope you're doing well.

David L. Gitlin

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

Hey, Jeff.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners, LLC

Hey. Maybe two questions. One, first, a little bit in the [ph] leads on data center if we could. ALC (00:51:21) struck an agreement with data center information management company, Nlyte, not too long ago. Maybe just a little color on what incrementally you're doing in data centers on top of kind of the core kind of cooling play that we're all kind of thinking?

David L. Gitlin

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

Yeah. You look at data centers has been a big focus area for us. We've actually had a number of key wins. And when we look at data centers, it kind of plays into the Carrier story overall, which is that we have a group that sells across Carrier. It covers every one of our verticals. So it'll include ALC and complete digital solutions that will include, of course, our HVAC systems, chillers and others. But it can include everything from our Marioff business that provides a very kind of purpose fit suppression system for things like data centers. The rest of Jurgen's portfolio on Firing & Security, many aspects of that play well for data center. So when we look at our building systems group that we have that sells into verticals. We have a holistic data center solution. We do the same for things like hospitals where we had a significant win with Emory University that we're now talking to other hospitals across the country on. So that group can really look at holistic offerings.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners, LLC

Interesting. And then just a follow-up on some of these kind of variance items. So just to be clear on the investment spend that's \$100 million incremental this year. Are we at run rate or you're suggesting that goes up to a higher level in 2021? And I – also just kind of a similar question on CapEx. What kind of variance might be into 2021 on that? Thank you.

Timothy R. McLevish

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

Yeah. So let me start on that. So if you recall back in Investor Day, we kind of dimensionalize the investment back into the business to position it for growth was 150, 100 and then 50. And as COVID hit, it kind of changed that pacing. So we're 100 this year. Again I said earlier we spent 25 to date, most of the third quarter, we're anticipating 75 in the fourth quarter that will be 100.

In 2021, we expect another 100. And then in 2022, we would expect to finish out that program at 100. And we'll have to see from there what further investment may make sense. So that's kind of that. And that's all baked into

what we said earlier. From a CapEx standpoint, we do expect considerable still \$125 million, \$150 million of capital spend in the fourth quarter of this year that also contributes to the what you might consider a weaker cash flow in the fourth quarter. So there is considerable capital spend there.

You also may recall back in Investor Day, we said we would spend \$350 million to \$400 million as kind of foundational capital expenditure in 2020. That was scaled back considerably because of the COVID. But we do expect that that will push out into 2021. So you would see that level in 2021. So there will be some cash headwind there.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners, LLC

Great. Thanks for the color.

Q

Operator: Thank you. And our next question comes from John Walsh of Credit Suisse. Your line is now open.

John Walsh

Analyst, Credit Suisse Securities (USA) LLC

Hi. Good morning, everyone.

Q

David L. Gitlin

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

Good morning, John.

A

Timothy R. McLevish

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

Good morning.

A

John Walsh

Analyst, Credit Suisse Securities (USA) LLC

Obviously, when you talked about commercial earlier you called out US and China. Curious about what you're seeing in Europe especially around some of these green stimulus plans that are being announced and thinking about France in particular, where they're trying to really intact their installed base. Is that a big opportunity or is that an opportunity you see going forward?

Q

David L. Gitlin

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

It sure is. We just introduced our R32 air cooled scroll chiller that we've seen initial early traction, but the GWP focus is probably globally most acute in Europe. We think we have some very strong technology on the sustainability side. We continue to invest with new products coming out next year. So I think a real differentiator in Europe is going to be the focus on low GWP offerings and we continue to lean into that. That does present an opportunity. And look we were a little bit critical of ourselves of our Europe performance, Q2. We've seen some nice order trends recently. We'll have to see how things play out with what's happening with COVID in Europe. But I do think the team is starting to gain some traction over the last couple of months.

A

John Walsh

Analyst, Credit Suisse Securities (USA) LLC

Q

But it sounds like you feel like you have the right product and the right position within the market to participate in that?

David L. Gitlin

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

A

We do. We feel well-positioned. I will tell you that we have more products on the come. We have a mag-bearing offering that's coming out next year. So we continue to invest in the technology and the portfolio. We like the products we have, but certainly innovation is going to be key as we get into next year and the year afterwards.

John Walsh

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. And then maybe just a separate question here. As we think about in the next year and you gave that kind of bridge on the investments a couple of times. I still get asked the question why 300 is kind of the right number for the investments? Obviously, that's probably a much larger discussion than an earnings call. But it seems like you're taking up your savings and so all else equal, we have an extra 100 million of drop through relative to what we were thinking before. Is that right or could you actually over time take up that investment number to kind of offset it?

David L. Gitlin

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

A

Look, we'll have to assess the investment levels over time. We have an [ph] LRP (00:57:25). We factored in. What does it take to consistently grow in that mid-single digit range and that's where we've come up with that investment level. And we've also consistently said that we would expect to improve ROS 50 bps a year. So we keep all that in balance in our algorithm. But I could tell you something that is very – a little bit new, but very thematic at Carrier is that we are going to grow. We are going to invest in growth. And we're going to be consistent. We're not going to do a lot of fits and starts. We're going to make commitments on growth areas and we're going to stick to them.

John Walsh

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you. I appreciate it.

David L. Gitlin

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

A

Yeah.

Operator: Thank you. And our next question comes from Deane Dray of RBC Capital Markets. Your line is now open.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everybody.

David L. Gitlin

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

A

Good morning, Deane.

Timothy R. McLevish

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

A

Good morning, Deane.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Hey. I just want to follow up on that indoor air quality theme and I appreciate that you all are the first to size this among the big HVAC players. And it does make sense in terms of what the opportunity is. And if you just give us the context of the 150 million orders that you called out that would – we should group that as part of your bucket of the assessment for the healthy buildings and so forth. How does that split between equipment sales and then the recurring side of this, the BlueDiamond piece?

David L. Gitlin

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

A

Yeah. The 150 million that was a pipeline. We are an active – they're not all firm orders yet. We've actually – we have a number of firm orders like I mentioned with the OptiClean and others. And we actually have – this is something obviously we review often. And I was looking at our top 20 projects where we've been pulled in to the project that I mentioned in Colorado where through Cushman & Wakefield, we would have had a typical chiller sale, which would have been significant, but we added a number of UV lights and other kind of bipolar ionization.

Other kind of filtration add-ons to an otherwise typical order that was really quite significant. We've seen it with a university in Southeast Asia where we had a very significant dedicated IAQ sale where they were very focused on as they were welcoming students back. So look some are firm orders, some are I think soon to be converted into firm orders. And it really has been primarily on the HVAC side. But Jurgen and his team have some really creative offerings.

The BlueDiamond piece is going to be part of our overall digital solution because that's the piece that can have that customer intimacy where you can look at your smartphone and you can use that, excuse me, see how are the actual indicators for IAQ, whether it's your CO2 levels or the amount of ventilation that you're seeing or other things that you may be measuring. We're looking at about seven attributes that we'll be looking at. And BlueDiamond will be a great source for us to kind of monitor those seven attributes and also give the end customer insight into those attributes.

BlueDiamond also gives you capabilities around contact tracing. We have the announcement that Jurgen and team drove with FLIR around thermal scanning. So there's a number of things in his portfolio that are attractive, but become a lot more attractive when they're part of the Carrier Solution.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Terrific. And look I know we're at the top of the hour, but I did just want to squeeze in one last question. Your HVAC peers all are [ph] scanned (01:01:13) favorable within the ESG community in terms of holdings. You all are new – as a new public company, you really haven't cracked the top 10 yet. It would be interested in how do you expect to position Carrier for this ESG demand that we expect is will be interested in the stock. But what has to happen before you'll start seeing the ESG and sustainability investors considering Carrier.

David L. Gitlin

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

A

Yeah, Deane. I'm glad you ended on that question because we're very energized about ESG. And we just reviewed with our board, our specific targets that we will be committing ourselves to and we'll be releasing publicly. Obviously, it's going to be a big focus on sustainability and I think folks will be quite pleased by how we're stepping up around our sustainability targets. But it includes everything from D&I where I really believe that we've leaned into the moment around diversity and inclusion. And that's just the profound impact that's had on us this year. That's going to be sustainable in all other aspects of D&I, how we deal with our suppliers and various elements in our own operations. So I think this will be very, very thematic for Carrier. It's thematic for our space, but we're really looking to differentiate ourselves and I think you would expect us to be within the top quartile on an ESG basis.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Great to hear. Thank you.

David L. Gitlin

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

A

Thank you.

Operator: Thank you. And ladies and gentlemen, this does conclude our question-and-answer session. I would now like to turn the call back over to Dave Gitlin for any closing remarks.

David L. Gitlin

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

Okay. Well, thank you and thank you all for participating. Sam is around, of course, the rest of the day and beyond for any questions. Thank you, all.

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

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