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# Carrier Global Corp. (CARR)

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## CORPORATE PARTICIPANTS

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

**Patrick P. Goris**

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

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## OTHER PARTICIPANTS

**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

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## MANAGEMENT DISCUSSION SECTION

**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

All right. Thank you, everybody. Chris Snyder, US multi-industry analyst. I'm super excited to have Dave Gitlin, Chairman, CEO of Carrier; Pat Goris, CFO, with me today. Before we get into the Q&A, Dave is just going to start off with some prepared remarks.

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**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

Good morning, everyone. Thank you, Chris, for hosting us. Over the past few years, we have transformed Carrier. Our portfolio is focused, balanced, and we are highly exposed to enduring secular trends. We are market leaders in the right verticals and in the right geographies globally. Our vision and strategy are clearer. We outlined our growth playbook at our recent Investor Day in May to drive sustained growth through leadership in products, aftermarket, and systems and we continue to gain traction on all fronts.

Our team has a consistent track record of controlling the controllables and delivering strong results. Our EPS has grown at a 17% CAGR since 2022 and we were up over 25% in the first half of this year. That said, the current environment in North America residential is challenging. Let me give some perspective.

The first half of this year was generally in line with what we expected with our volume being about flat to last year with our sales up mid-teens. Nevertheless, because we saw movement weakening in June and July, in our 2Q call, we reduced our 3Q volume forecast to being down 15% versus last year. We now expect volume in Q3 to be much lower than that.

Just yesterday, trade association data was released, indicating a nearly 30% reduction in industry volumes in July and our volumes were down about the same. We estimate that industry volumes in August and September will be down in that range, if not worse. This would represent the weakest industry Q3 volume in over a decade. It is hard to pinpoint the exact root cause, but clearly the combination of high interest rates and pressure on the consumer

are increasingly weighing on consumer spending, including on new and existing home sales, leading to delayed residential HVAC activity.

As a result of weaker consumer demand, distributors are aggressively and purposefully reducing their inventory levels. We now expect that by the end of Q3, field inventory levels will be down 15% year-over-year. So, in essence, in Q3, we are seeing the combined impact of lower consumer demand as well as aggressive destocking by our distributors.

Given these factors, we now expect North America resi volumes to be down a bit more than 40% in Q3. Total Q3 North America resi sales are expected to be down about 30%, with weaker volume offset by the continued double-digit tailwind from the benefit of price and mix up.

On a base of approximately \$1.6 billion, this represents just over \$500 million of a sales shortfall in Q3 versus our prior expectation. About half of the shortfall is from the field inventory reductions and half from lower consumer demand. This sales drop translates into about a \$0.20 to \$0.25 Q3 adjusted EPS headwind. We are, of course, very much focused on reducing this headwind through aggressive cost actions and targeted growth initiatives across our portfolio. Indeed, we are seeing strong traction on our growth initiatives.

Our global Commercial HVAC business, which is about \$6.5 billion of sales, is on track for its fifth year in a row of double-digit revenue growth and showing particular strength in North America. Data centers are on track for \$1 billion in sales this year, which is up 2x versus last year and we continue to realize great wins and build out our backlog for next year and beyond.

In addition, our aftermarket business is on track for its fifth year in a row of double-digit growth. Also, even though the overall German heating market volume continues to be lower than we expected, it is encouraging to see a strong pickup in heat pump demand.

Our growth rates in emerging regions such as India and the Middle East remain very strong. We expect Climate Solutions Asia as well as Climate Solutions Transportation to both return to growth in Q3. As we look forward, we are controlling the controllables and we'll continue to play offense. Driving productivity is a way of life within Carrier as reflected in the 100 basis points of annual margin expansion that we've achieved over the past few years. We are taking out fixed costs across our business to position ourselves for greater drop-through as volume recovers.

We are reducing indirect head count by over 2,000 and it will probably be more than that and are taking a number of other aggressive cost actions. This is all on top of the factory workforce actions that we are taking to reflect the reduced volumes. We will provide an updated full year outlook during our Q3 call.

As we look ahead, we will address this short-term resi challenge head-on as we always do while we continue to take all the necessary actions to position us for the long-term growth. Our portfolio is well-positioned and we will continue to play offense to ensure that we deliver the results that we all expect in 2026 and beyond.

And with that, Chris, let's jump into Q&A.

## QUESTION AND ANSWER SECTION

**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you. Thank you. Well, very much appreciate that update. I think everyone can appreciate a lot of the headwinds facing resi HVAC, whether it's just the consumer side, but also the comps from a year ago. So, I guess my kind of question is do – I think you said Q3, you think inventories will be down 15% in distributors. Is that balanced? Like any sense for how much they need to go down before you feel like that destock is over or behind you?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Yeah, the way we look at it, our field inventory levels in Q3 are going down about \$75 million to \$100 million a month. In Q4, it'll be about \$75 million to \$100 million for the entire quarter. So, Q3 will end up 15% down year-over-year. Q4 will end up at levels that we really have not seen since before COVID. We're going back to kind of the 2017, 2018 levels for the year-end inventory numbers.

So, it's too early to talk about the demand side for next year, but if there's any good news is that we are very purposefully seeing a reduction in those field inventory levels down to numbers that we haven't seen in quite a long time that will be nice to have that behind us this year.

**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

And do you feel like the channel under those assumptions would be entering next year balanced, or do you think there's a risk? Obviously, it's hard to call the demand side. But you think there's going to be tail risk on this into Q1?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

We think that that should be balanced. Obviously, to figure out balance, you've got to look at what the demand side is going to be, but when we look at the inventory levels not only for Carrier, Bryant, Payne, but some of our ICP brands, I think that we expect to go into next year very much balanced.

**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

And when you guys talk to the channel or distributors, is this just a function that resi's still weak, new home sales, existing home sales or is this more of a function of consumers are uncertain, there's a lot of maybe risk out there to them and they're maybe just pushing this to the right?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

We think it's a combination. I think when we look at what happened because quite honestly, we were obviously taken a bit by surprise. When we look at what we saw, the first half was kind of in the category of not much to see here. As I mentioned that our volume was flat. Our sales were up 15%. We were getting the pricing that we

expected on 454B. We were getting additional pricing through price increases and volume was essentially even a little bit higher than what we thought in 1Q, a little bit lower in 2Q, but by a few percentage points. There was no alarm bells.

What we saw was that movement was slow in June, but frankly, what happened was it started to pick up towards the end of June into early July. So, there was enough flashing yellow lights that we took our volume forecast down. We said Q3 would be down 15%. Q4 would be down around 25%. So, we said, all right, but then what happened is as we looked at total volume in July was very, very soft. It was very soft, as I mentioned, in August and we've had to look at that.

And what that's called our distributors to do is effectively our order rates are very low because they will purposefully get inventory levels down to these levels. The root cause of it, clearly we're not going to talk weather. I mean, clearly there's an issue. The higher interest rates has had an impact on new home sales, existing home sales. We benefit a lot from people, of course, moving into new homes. They do an inspection. They end up replacing HVAC some of the time so that's clearly had an impact and I think once you start to see, in many parts of the country, say, in Boston or Chicago, if your unit fails as you get into the fall into this kind of time period, they may just wait until the spring to replace their unit. So, especially with just anxiety amongst the consumer right now.

**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah and then maybe last one on this specific topic, but margins. Volumes down [ph] 40% (00:09:50) is a huge number. Obviously, that's not good for margins. I mean, are you guys like taking down production for a period of time and how should we think about the margin outlook in this volume scenario?

**Patrick P. Goris**

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

A

Yeah. So, if you think – Dave mentioned \$0.20 to \$0.25 on \$500 million of revenue. That's a pretty steep fall-through and it's a combination of, one, it's a really good and profitable business for us. Two, we are aggressively reducing output, so our manufacturing facilities are much less active than what we expected them to be.

**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah.

**Patrick P. Goris**

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

A

And so – and this goes back to the [indiscernible] (00:10:28) inventory we talked about earlier, but it's our intention to take all the pain now and not have any hangover of this next year.

**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah. No, appreciate all of that. Maybe moving over to some more positive and secular topics, ever since the spin, the Commercial HVAC business has been a really good story for you guys. I guess, one, can you talk about what you've done there to better position the company and then just what are you seeing globally on the commercial HVAC side?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Well, first of all, thank you for pivoting to commercial HVAC. So, I'll tell you. I think that there's a misnomer on Carrier that if you want to – if you're interested in commercial HVAC, there's other peers that you would be more focused on than us and the reality is, is that we have come such a far way on commercial HVAC. It's \$6.5 billion, call it, 30% of our portfolio.

Data centers, I'm telling you that there's a belief that in some – I talked to a couple investors that others are getting more wins than us. I'm telling you. We're winning more than our fair share. We went from \$500 million last year to \$1 billion this year in data centers. We were just with hyperscalers this week. We've had a lot of traction with the colos. The product portfolio has come such a long way.

I was in discussions earlier this week with a hyperscaler where we talked about our QuantumLeap offering, which is a combination of traditional cooling, liquid cooling, ties into our BMS. And if you think about the acquisition that we did in the UK of this company called Nlyte, they do both load management and load – and heat identification. So, now with AI, we can really target heat dissipation directly to where that heat is being generated. So, that's perfect for that combination of a single control system for liquid cooling and traditional cooling.

So, we're building our backlog for next year. Very pleased with that and if you look at total commercial HVAC globally, and we are winning on data centers globally in Europe and China and throughout Asia and the Middle East, we had a great win in the UAE recently. So, if you look at that, we've built out the product portfolio. We're going to quadruple our capacity in North America over the span of four years for water-cooled, air-cooled chillers. We have a brand-new facility to support the demand.

We're not only winning in data center. We've been seeing double-digit growth for the verticals outside of data centers. We've been – we're going to add 1,000 technicians in United States alone over five years. So, we're investing in the product. We're investing in capacity, investing in technicians, our service network, and we're seeing the benefits of it. We've been growing double digits four years in a row. North America is going to have another quarter that's better than what we thought. So, they're doing very, very well.

**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

I guess maybe following up on data center, which you kind of put out some of the numbers, but went from not much revenue when you spun to \$1 billion this year, kind of pretty incredible. I remember last year, when we talked about that, you talked about you're spending a lot more on R&D. And then I may have asked, but I think you kind of acknowledged that the industry being sold-out and the incredible demand that we're seeing has been helpful.

I guess my question is as we see the players that have had – the industry leaders there historically add capacity and come to market or bring more capacity to market, are you confident that you guys can hold the share you've taken, even take more share as the supply and demand comes closer together, or maybe after Oracle yesterday, it's never coming closer together?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Well, the short answer is yes. The short answer is yes and it is – it's exciting to see what we saw, of course, with Oracle yesterday. But that's a proxy for overall continued investments in data centers driven by, obviously,

demand around AI. So, the short answer is we are not only winning because of our increased capacity. We're winning because of our product portfolio.

We had a water-cooled mag bearing design that we introduced a few years back. We have air-cooled mag bearing design that we are making sure that we not only can match the competition, but when our customers come in to do a first-of-kind inspection, that we are solving for their specific needs and have attributes that are better than our competition. So, we're supporting them with long-term aftermarket agreements. We're winning because of technology. We're winning because we have the capacity to produce where they are because we have a very global footprint. So, we're very excited about our positioning on data centers.

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**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Carrier, you said better, a really good global footprint, better share in a lot of those international markets. Data center has been mostly US. It will obviously broaden. Do you feel like you guys are better positioned to win and have a higher share number in those international markets as that evolves?

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**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Yes, we do. I mean, we're number one or two in both Europe and Asia. We're very well-positioned in China. So, we feel very poised to get more than our fair share outside of the United States. Where we have been number three is in North America. So, we knew that we were having to swim upstream a little bit versus the peers, but I can tell you, having personally spent time with our key hyperscaler customers and the colos, that they are super excited about the investments Carrier has made over the last five years.

And we admitted when – 2020 we stood on the New York Stock Exchange and we said we need to invest in the portfolio. We need to invest in R&D. We need to invest in digital. We need to invest in technicians, in our service portfolio. We've made those investments. We continue to make them, but now we've gone from a little bit behind. We were on par and I truly believe that we have taken some parts of our portfolio where we're now clearly ahead of the competition. But outside of the United States, I think we are in the pole position.

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**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Appreciate that. Within commercial HVAC, can you talk about what you're seeing outside of data center, maybe into some more of the traditional commercial markets? Construction hasn't been great. We're seeing some leading indicators get better. Rate cuts would be helpful. Are you seeing any momentum there?

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**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Well, there's no question rate cuts would be helpful, but traditionally, we haven't said a positive thing about commercial construction in years. Last quarter was the first time in the US we said something slightly positive. So, we saw a little bit of traction there, but a few months doesn't make a trend there.

Outside of China, healthcare globally has just been very strong, hospitals, just generally healthcare has been good. A lot of electronic fab has been very good. Some of the construction – new construction coming back. United States has played to our advantage. We've had some great wins there.

Electronic fab, especially in China and other parts of Asia, has been very good for us and in the United States. So, generally retail is kind of a mixed bag. Wholesale, a bit of a mixed bag, but for us to be growing double digits outside of data centers and of course, data centers, I think has been north of 25% kind of growth rates, that's been very encouraging.

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**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah, no, absolutely. I guess in the Americas, on the light commercial side of the market, weak first half. It doesn't seem like there's as much or nearly as much pressure there in the back half as you're seeing on resi. What's kind of the outlook there?

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**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Yeah, I think that we had said that for third quarter for light commercial in the Americas, it'd be around 10%. I think it'll be a little bit better than that. It's still probably going to be down a bit year-over-year, probably in the 3% to 5% range, something like that.

But we've made – what we're starting to see is some level of stability in the light commercial space in the Americas. It was clearly bad in the first half and now we're seeing some of the folks that had put off some of their orders and activity come back. But it's too early to spike any balls when you're down a few percent. But we are seeing traction.

I will tell you for both resi that we've at least maintained share in resi and we believe we've gained a bit. On light commercial, when you look at movement share, we've done very well, so the team has done very well. When we look at our share from what's moving to an end customer, we've had done very well on emergency replacements. We've done very well on enterprise accounts. So, we're happy with the share gains and we think that things are turning a bit to the positive as we get into 4Q.

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**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah, maybe a couple on resi. Resi HVAC has a phenomenal track record of price and not giving it back. But where we are now where it's a lot of stops and starts with tariffs. Maybe companies are on different footing. Obviously, the volumes are very challenged. Do you think there's price risk or price competition that could come to the resi market?

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**Patrick P. Goris**

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

A

What we've seen so far this quarter is that the combination of the price and the mix up is still double-digit [ph] positive (00:19:29). And so that is – obviously that's really good. Is it a couple of points maybe lower than we expected it to be? Yes, but the combination is still positive year-over-year by about double digits.

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**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah. Appreciate that. There's also been headlines that the EPA may consider an extension to 410A production currently or to inflation. I guess what are your thoughts on this and what could it mean for not only Carrier but also the broader industry?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

We think it's a bad idea. We've told that to the – and we have a very good relationship with the administration. And they're very receptive to listening to business, which is great, but we've switched our factories over to 454B. So, to switch back to 410A would be an investment and that investment would have to go somewhere and it would probably go to the consumer.

**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah.

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

So, if you're thinking about price and impact on consumer, you would really want to not switch the industry back to 410A. And again, the industry has been very, very supportive in terms of listening to business. I think they appreciate the fact that we're investing in United States. We've said that we're adding another factory in United States. We're adding thousands of jobs in United States over these next five years. So, I think that collaboration with the administration's been positive, and we hope not only for Carrier but for the industry it does not go back to 410A, putting aside the impact on the ozone layer, of course. That's another reason to stick with 454B, but putting aside the environment, even in terms of jobs, pricing, consumer, you would stick with the changes that have already been made.

**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

And it feels like it would effectively be a negative for reshoring because the companies in producing in America are 454. I would imagine it's inviting competition from international players who would maybe still be able to make and sell the 410.

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

I think there would be a lot of negative unintended consequences.

**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah, yeah, absolutely. I guess maybe switching over to Europe, obviously you guys did the big Viessmann Climate deal almost two years ago. Demand's been obviously weaker than expected. I guess how do you view that acquisition today and what benefits does it bring Carrier as you look forward?

**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Strategically, when I think about M&A, I think about was it the right market. The rest, I am very happy that we are in the RLC, the Resi Light Commercial business in Europe, especially with the underlying trends from fossil fuel to heat pumps. And you look more broadly at combined with broader electric solutions whether it's PV or batteries and so on.

So, we want to be part of that market. We think the attributes are very similar to what the dynamics that we see in the Americas. It's a highly configured system. It's not really a DIY type business. So, we think that we're well-positioned in the key countries in Europe now through what we would say is the best brand, the best technology, the best company in RLC Europe.

So, right market, right company, the right combination. We fit together like a glove. So, they're pushing on themselves. We're pushing on them. We're all pushing together and we're all working as one team globally. So, very pleased. Obviously, the timing was not great. So, I think what we've seen happen is I would, in my mind, put it in three phases. The first phase in terms of timing is we had to clear out some of the excess backlog. So, we took some medicine there as we had excess backlog out there and we had to see that come down.

Now, in this kind of middle phase of what we're seeing is we got to clear out some of this transition where we're very well-positioned on boilers and we're very well-positioned on heat pumps, but heat pumps has been growing exponentially higher than we even thought, which is great news.

Boilers has been coming down more than we thought. So, we got to kind of let that [audio gap] (00:23:24). German resi units will be a little bit lower than we thought. We had said originally total units would be around 715,000. Then we said it was going to be 650,000 to 665,000. It could end up around 600,000. So, total volume is a little bit lower than we thought and that impacts boilers where we make great margins, but that's fine.

We're going to get – just like resi in the United States. We're going to take some medicine right now. We're not happy about it, but we're going to take some medicine and position ourselves for 2026.

Now, in Germany, got to let those volumes – you're kind of at historic lows now and then with the demand on heat pumps, which we're going to see continue to grow in Germany regardless of kind of people talking about what's happening in politics, the demand in Germany for heat pumps is exponential. So, we're really well-positioned as we go into next year and it's a great, great company. And I love the fact of how that we're leveraging that technology globally.

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**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Appreciate that. Maybe just on the synergies, maybe an update on the cost synergies, but I also wanted to ask about the revenue synergies. That was always something that stood out from the deal. So, I guess how are the revenue synergies progressing and have those been negatively impacted by the tariffs? Is it harder to drive some of that with the policy that's out there?

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**Patrick P. Goris**

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

A

I'll start with the cost synergies. We said \$200 million – over \$200 million over three years, and we're on track to do that. And so we did about \$75 million last year. We'll do the same this year. So, that will continue to build.

On the revenue synergies, I think we said earlier this year that will be about \$100 million of revenue synergies and we're basically on track to deliver that. And that is revenue synergies, both revenue we see in the US and in Asia as well as then cross-selling within Europe as well.

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**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

And if I may add to what Patrick just said, Chris, is that you think about a specific revenue synergy like air conditioning in Europe. 90% of homes United States have air conditioning. It's something like 20% in Europe and we, of course, know with climate change and other factors, demand is just going up.

We never would have participated in that. So, we have the channel. We have the brands. We're kind of, in some cases, using Carrier, in some cases the Viessmann brand for air conditioning. We're training our channel. We have 80,000 direct installer relationships. That's just an enormous opportunity. [ph] Systems Profi (00:25:47), which is our fully integrated home energy management solution that we have in Europe, we could – it's fully being leveraged for our HEMS solution here in United States, which there's a lot of interest from the utilities. We have an agreement with Google on the hyperscaler side on that specific solution. So, a lot of these technologies. It's hard to – for, I think, investors to put a specific number on what that is, but there's opportunities that we would have been on the sideline in that we're now in a leadership position on.

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**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah, yeah. The penetration opportunity is interesting. Maybe switching over to Asia, it feels like it's been a mixed bag over there. I guess what's been good, what's been holding back overall growth? And then when do you think Asia can return to growth?

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**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

Yeah, I think the short answer – I think Asia, that segment, we believe, will return to growth this quarter. China is a bit worse than we thought and the rest of Asia is better than we thought. So, outside of China, I think we'll be north of 10%.

So, we're seeing great growth in India, great growth in the Middle East, Saudi. UAE, our leader for that business, is just working so well with the team to drive very specific sales initiatives and we're seeing Michael Gierges in the team. We're just really stepping up.

China continues to be challenged. China will be lower than we thought on both the RLC side and the commercial side. There's a lot of opportunities on the commercial side, so we just got to keep pursuing those and keep winning and we'll be fine there.

What we need on the residential side is there's excess inventory in that channel. What we basically want to do here in the rest of Q3 and Q4 is let that inventory in the channel get back to what is sort of normal levels with our retail partners and then position ourselves for growth in Q4. But in the meantime, we're using outside of China to help get the growth we need for that segment.

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**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Of all the industries and verticals I cover, I'm not sure any of them are more attractive or a better opportunity than commercial HVAC service. You guys talk about the double-digit forever mantra on that aftermarket business. Like do you really think you can grow double digits forever? What's the [ph] outlook (00:28:01)?

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**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

What's your definition of forever? I say it because it's hard to see when that would come to an end. We get 25% of our own aftermarket. There's so much opportunity around parts, so much opportunity around service and then you add on top of it all the capabilities enabled by digital.

So, we have Abound for buildings. We have one base for residential, which is our digital system that we inherited from Viessmann, which is a phenomenal way they keep connected between the installer, the homeowner, and the company to make sure parts and other aftermarket stays in that in our own ecosystem.

We're applying that to the United States and outside. And then we have Lynx for our digital platform for the cold chain. So, when you look at parts, you look at service, you look at the opportunity to use digital, to drive prognostics, diagnostics, use AI to drive outsized solutions for our customers, I think it's double-digit as far as the eye can see. And it's – there's no time soon where it should be below that.

If it's below that, then we're doing something wrong and, look, we were, I think, 13% last quarter. This quarter is looking good. We are controlling the controllable. So, again, resi softer than we thought, driving things like aftermarkets within our control, and the team is incredibly focused and energized by that.

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**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Could you talk about Carrier energy? You guys talked about it at the Investor Day, maybe some new people here. So, can you just kind of talk about what that is and then any sort of progress or updates around that?

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**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

We're very excited. The short version of what Carrier energy in the Americas, United States is it's an integrated battery with your heat pump. So, you're going to run your heat pump, whether it's cooling or heating, which is electric, it's going to be run off of your battery during peak hours. And if you look at the demand that's happening on the grid, especially driven by the data centers is the capacity and the demand are just out of whack during peak hours.

So, that's why folks like Google and other hyperscalers and certainly the utilities are very interested in our solution. So, our traction has been great. We now have an integrated battery heat pump. We're doing field trials. We're installing them in our own employees' homes. We have our first one that's been now installed to validate that it properly runs off of the battery during peak hours and it's returning the energy to the grid.

So, we're doing field trials. We'll have units that are in revenue service, probably in the early part of next year. The technical team has done a phenomenal job. Relationships with the utilities have been great, incredible demand because you think about how long it takes to invest in nuclear or even gas turbine engines or whatever the alternatives are very expensive, take a long period of time.

We are in one out of every three homes in the United States. So, we have a seat at the table. Hakan Yilmaz and the team are meeting with utilities around the clock. We've established relationships with them. I will tell you that when we look back five years from now, what's an area that might surprise to the upside in terms of revenue growth, I think HEMS in the Americas is one of those.

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**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah, no, seems like a lot of opportunity there. So, obviously, there's a lot of market – cycle market pressure out there. It feels like the message is that we're ripping off the BAND-AID in the back half of 2025, positioning the company for a clean slate into 2026. So, I guess any commentary on the end markets or outlook on what the market should expect next year?

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**David L. Gitlin**

*Chairman & Chief Executive Officer, Carrier Global Corp.*

A

I'll start and then Patrick will add. The way I think about it is we're obviously not going to talk 2026. We're not even talking Q4 until we get into our 3Q call, but what I would say is if you think about our portfolio, \$6.5 billion commercial HVAC and it's just very, very positive.

A quarter of our – and we're really well-positioned going into next year, right? We've been growing double digits for four, five years in a row and we're very well-positioned to continue to have outsized growth in commercial HVAC with the investments we've made and the position we have.

25% of our portfolio and there's some double counting there because some of that's in commercial, but 25% of our portfolio is aftermarket and that's continued. That's going to – in our mind and in our belief and given the actions, that should grow double digits.

And then if you think about resi, whether it's the Americas, you think about Europe or you think about China, all of those Resi businesses are looking at multi-year lows of what we're seeing back in 2025. Does that mean what we're going to necessarily grow go through the roof next year? Of course not. We don't know just yet because it's short cycle as we've proven out over the last few months.

But if you look at the resi part of our portfolio, you are going to be facing some relatively easy historic comps as you go into next year and then transportation is similar phenomenon as you think about things like North America in truck trailer where there's clearly going to be some pent-up demand. So, I feel like, yes, there is some medicine taking to be had in Q3, Q4, but if you think 2026 and beyond, I think our positioning as a portfolio is really positive. You want to...

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**Patrick P. Goris**

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

A

The only thing I was going to add was ongoing lower tax rate starting next year and the benefits from all the people we're doing this year and plan to do next year.

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**Chris Snyder**

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah. I wanted to ask on margins. Dave, you said in the prepared remarks like you guys have been running at about 100 bps of margin expansion a year. The target's 50 bps. Maybe next year, a bit of a weird year with some of easy comp – margin comps, I would imagine in the back half. But I guess when we – like what's the ability for you guys to maintain that 100 bps – like something closer to 100 bps, then 50 bps in the guide, what would that upside come from?

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**Patrick P. Goris**

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

A

First of all, we haven't changed the 50 bps or more. That will remain like this, but it's the combination of, of course, organic growth, but with the huge opportunity we see in productivity throughout everything we do internally.

We still have tremendous opportunity from a footprint point of view, from a materials point of view. At our Investor Day, we talked about warehousing and logistics. If you look at our residential HVAC globally, we just started platforming. We just started now. We haven't launched a product yet that uses platform technology and we know that benefits our engineering efficiency, benefits inventory, benefits our purchasing power. And so the productivity well that we have is nowhere near empty and we will continue to go after that. And that will certainly help us expand our margins.

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### Chris Snyder

*Analyst, Morgan Stanley & Co. LLC*

Well, we're up on time. Really appreciate you guys coming today. Thank you. I don't know if Dave – sorry, [indiscernible] (00:35:00) Dave, just want a wrap...

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### David L. Gitlin

*Chairman & Chief Executive Officer, Carrier Global Corp.*

No, no. Chris, thank you. Appreciate your time. I know we're at the end, but thank you all very much.

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### Patrick P. Goris

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

Thank you.

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