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UTX - Carrier Investor and Analyst Meeting

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PRESENTATION

Sam Pearlstein - *Carrier - Investor Relations, Vice President*

Good morning, everyone. I'm Sam Pearlstein, vice president of investor relations, and I'd like to welcome you all to the Carrier Investor Day. To give our cautionary statement, I want to remind you all today that we'll be making statements regarding earnings, cash flow, expectations, and other forward-looking statements that are subject to risks and uncertainties.

Carrier's Form 10 and UTC's 10-K and 10-Q filings provide detail on factors that could cause actual results to differ materially from those anticipated in the forward-looking statements.

With that out of the way, I want to give you a sense of the agenda today. We're going to start with David Gitlin providing the company overview before turning over to Chris and Matthew to talk about commercial and residential, respectively.

We plan to hold off questions until the end and we'll bring all the presenters back up on stage. After the break, we're going to have David discuss the refrigeration segment, Jurgen the fire and security segment followed by Tim to provide more details in the financials.

Afterwards, we're going to bring all six presenters back up. We'll take as many questions as time allows and we're going to finish by 12:15 followed by reception.

First speaker is David Gitlin who's been with UTC for 23 years in a variety of roles, most prominently leading UTAS and Collins. I got to know him during many of those years covering the company on the sell side and now, I'm excited about joining him here at Carrier.

And with that, I'd like to turn it over to Dave Gitlin, Carrier President and CEO,

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David Gitlin - *Carrier - President and CEO*

Okay. Well, thank you, Sam, and good morning. Welcome to Carrier's investor day. It's great to see so many familiar faces and I look forward to meeting those of you that I don't know.

These are exciting times at Carrier. We are on track for an early April spin and I will tell you that there is tremendous energy in our company. You see our new tagline here and we have lots of important content for you today, but I hope that when you leave here, it will be very apparent to you the change is in the air.

This is one of the most important years in our company's proud history and we are seizing this unique opportunity because when you have a company that goes back over a century and now you're going to become a public company, you have an opportunity to step back and define your vision and that's exactly what we're doing.

What is our vision? What is our roadmap to get there? We can define our priorities and our strategic imperatives. We can ensure that our capital allocation approach and our portfolio analysis is deliberate and it's aligned with our vision and our priorities.

We've taken this opportunity to define a new culture, a new management system that we've already deployed and a new operating system that makes winning and growing and performing a habit. And we put together a leadership team that I know will deliver results.

There is a change and an energy that is incredibly energizing and I am confident that these changes will yield results for you, our shareholders.

So, summary of our investment pieces on Slide 4. First, our industry will see sustained growth because there are 4 key megatrends that will drive sustained demand for our products. So, it starts with the fact that our industry is poised for growth.

Then the question becomes, why Carrier? And the answer is very straightforward. It's that we start in all aspects of our business. We start from a position of strength and there is great runway ahead.

You take market share. We're number one or two in just about every segment in which we compete globally and there's an opportunity to pick up share and also grow into adjacencies.

Performance, we've generally had solid performance but there's runway to make sure that we consistently deliver on our commitments and on our results.

Growth, you look over the last five to 10 years, we've generally had very consistent growth but there's an opportunity to consistently increase that growth on a consistent basis.

Same with cost reduction. It's generally been quite solid but we're taking this opportunity with new talent, new focus, new process maturity to make sure that we drive even more cost reduction. And you'll be hearing from us today on Carrier 600. That is our commitment to take out 600 million of cost over three years.

And that's the same with margin. We have very solid margins frankly especially in some of our key segments, very strong margin, but there's certainly room for margin expansion and it's the same with our portfolio. We have a superb portfolio that we're very proud of but there's runway ahead.

So, looking at Carrier overview on Slide 5, some more detail. You can see here that we're just under $19 billion of sales and the numbers on this page reflect 2019 actuals, restated to adjust to a standalone Carrier which now adds about $225 million of public company cost and a few other adjustments, and Tim will describe both of those in his section.

Before these adjustments, we were about a 16% ROS. You see here, 14.2% reflecting these pro forma adjustments. Our EBIT is about $2.6 billion EBITDA of about $3 billion and the segment presidents will take you through each of their financials, solid margins but, again, room for margin expansion in each of the segments. And I will tell you, there is room to take out some of the central costs which we will do.

When you look at some of our splits along the right, 85% of our sales today are in the United States and Europe. So, there's an opportunity for us to have a higher presence in some of the higher growth parts of the world like Asia Pacific and you will see us doing that.

We are 70% OEM, 30% aftermarket. So, there's room to drive more aftermarket sales, which we will do, and 80% of our people are located outside the United States. So, we are a very global company, very good low-cost presence and also good proximity to our end customers.

So, before I get more specific on Carrier, let me talk to you about these four key megatrends on the next slide. It starts with climate change and regulation. Today, HVAC contributes 15% of the world's greenhouse gas emissions and demand for air-conditioning is only going to increase in part because the world is getting warmer but in part because populations and incomes are increasing.

So, at Carrier, we recognize that we can and frankly, we must be part of this solution to actually decrease emissions in the face of rising demand. We must drive more energy efficient products and that's exactly what we're doing, and frankly, regulations will mandate it in any case.

So, when you look at our U.S. HVAC residential portfolio, in 2023, those units will be 10%, nearly 10% more efficient than today's unit. So, what does that mean for the business?

This is a very unique phenomenon because what it drives is a structural product refresh. By 2023, 2024, 95% of our U.S. residential and commercial HVAC product portfolio is impacted. So, when you're doing a relatively significant redesign of your product portfolio like that, that enables you to make sure that as you do the redesign, you differentiate yourself.

You design it for connectivity. You design it for low cost. A huge opportunity to differentiate and to drive new revenues.

Urbanization, every day, there are 400,000 people moving to urban areas, every day. So, what does that mean for us? That drives criticality of our cold chain solutions because people want to get fresh produce from the farms into the cities.

Think about this, in China, the regulation is that you only need smoke detectors in common areas. So, what you'll see in these multifamily high-rises in the cities throughout China, you will have smoke detectors generally in the hallways but not in the living spaces.

In China, there are 800 million people living in these urban areas with multifamily high-rises. Imagine a smoke detector and a carbon monoxide detector in all of those living spaces.

Growing middle class, as incomes rise, families want security systems and fire protection systems for their families. They want fresh food on their table and they want air conditioning for their families.

And digitalization, think about 25 billion connected devices. That's a 400% increase over 10 years. We just signed a deal with AWS with Amazon to be our preferred cloud provider so we can use data and AI to drive customer value and new revenues.

So, look, the market is poised for strong growth. We at Carrier are confident that we will outgrow a growing market and it starts in part because of the market position that you'll see on this next slide.

This spin from UTC, it's about focus and it's about value creation. We start with great positions and iconic brands. You look at HVAC. We are in the clear leader in U.S. residential and light commercial.

In refrigeration, we're the leader in all three key segments, North American truck trailer, European truck trailer and the container business.

The fire and security business is a bit more fragmented but we have great leadership positions in fire detection and alarm and access control and the field business.

So, there's opportunities for us to grow where today, we are the market leader and frankly, there's an opportunity for us to grow where we're not number one like the global applied business or APUs or commercial security systems.

One of the keys is that our global infrastructure and our scale and our customer-centric approach, it really does enable us to drive best-in-class results and you see that on Slide 8.

You can think about this as our winning and our growth formula. It starts up top with winning new business, having the most sought-after products, having the right channel, having the right sales people. At Carrier, we have 3,600 engineers. We have 7,000 either awarded or pending patents. We launched more than a hundred new products a year. It's a rapid innovation cycle.

Having the right products and then having the right channel. We're very proud of our channel. Matthew when he gets into the resi section, he will tell you that we have our dealers in the United States for HVAC resi, have a 15% higher net promoter score than competitive network dealers.

You need the right products, you need the right channel, and you do need salespeople, and this year, we are investing in salespeople. We will be adding 500 net new salespeople this year.

So, it starts with winning. You cannot get to the next box down about taking cost out unless you win, unless you're in the arena and you're fighting every day and you're winning, and that's exactly what we're going to do.

And then you take cost out of the product tenaciously and that's exactly what we know how to do. And the good news is we don't need to go build a new low-cost center of excellence green field somewhere in the world.

Seventy-five percent of our manufacturing hours today are in low cost and we have 27 low-cost COEs located strategically throughout the world. Fifty percent of our buy is low cost and we have an opportunity to increase that number.

You win, you take out cost and then you support your customers in the aftermarket. It starts with having a strong installed base and because Carrier is so ubiquitous, we have a very strong installed base.

We have 29 million air-conditioning units in the United States that are out there. David in refrigeration has delivered 1.1 million container units over the past 20 years.

So, we have the units out there. The key is to leverage technology and service offerings to support our end customers. So, for example, today, not a plan but actually today in our Singapore monitoring center, we are monitoring and anticipating and fixing issues remotely.

And the good news is that where we do that in our Singapore monitoring center, we have a 100% renewal rates with our customers. The bad news is it's a relatively -- it covers a relatively small percentage of our portfolio. All we need to do is scale it.

We know the formula. It starts with winning. It starts then to take cost out. You support the customers. You use those revenues to drive up margins and to reinvest in the business. And the beauty is that we have the team, we have the processes and we have the culture to make this happen, and you see that on the next slide.

I joined Carrier in June and I have spent a lot of time on the leadership team because I truly believe that leadership matters. And you'll hear from the four key P&L leaders today, great industry experience, great leadership.

And then when you look at the functional leaders, seven of 10 are new in the past six months and you can think of it as three, three, two, two. Three of them are in the same roles. Great leaders Nadia Villeneuve leading HR and Bobby George leading digital and Mary Milmoe in communications. Great talent.

Three, we consciously decided that for our next phase as a public company, we wanted to go outside and bring in people with public company type experience. So, I wanted a CFO who had been a CFO with a public company before. It just so happened I got a CFO who's been a CFO with four public companies before.

So, you'll be hearing from Timothy McLevish who -- I can tell you that when we were going through the courting process, I actually interviewed about 10 different CFO candidates and I kept having dinners and meetings with Tim, asking a lot of questions of each other, and then we had a moment one night at dinner where he just said, look, after all is said and done, I cannot miss an opportunity to be part of something that is so unique and so special, let's go do this together.

And it was very similar with Kevin O'Connor who's joined us as our GC who brings great gravitas and experience to the General Counsel role and same with George King who came from Arconic to Carrier to lead business development.

And then two from Collins, Ajay Agrawal leading strategy and services and Rishi Grover leading operations. I have worked with them over many years and I can tell you for a fact that they know how to drive results, they know how to drive strategy and they will get results.

And same with the two from Pratt & Whitney who I've known for a number of years, Chris Kmetz leading engineering, Eva Azoulay who's joined us to lead transformation and G&A. Huge confidence in them and our entire leadership team.

Then you look at the right, we have implemented a new management system where we've aligned on our priorities. We've cascaded those. We have dashboards. We put rigor around the management system and around the operating system.

The operating system is founded on ACE, and those of you that have covered UTC, you know that it's a great operating system for driving quality and lean. We've customized it a bit to make it more agile for our commercial only division and our foundation is the Carrier way.

We took the opportunity to define a new culture and we wanted to be 100% sure that it's authentic, it's not, words on a piece of paper that we don't live by every day, it's authentic and it's about being the best at everything we do for our shareholders, our employees, our customers, and it's about making winning and performing a habit.

Now, as part of our culture, we will be driving a high ESG score and you see that on Slide 10. People often ask, are you focused on profits or sustainability? The answer at Carrier is yes.

Sustainability is not a side activity for us. It's core to our business and we take pride in leading the way for future generations. Also, internally, you can see here what we've done in our own factories to reduce our carbon footprint.

We actually signed an agreement last week to partner with the Nature Conservancy. We'll be working together with them in engaging our employees to help make the cities of tomorrow sustainable.

In the middle, UTC has always invested in our employees and Carrier will surely continue to do so. And we truly believe that diversity in the workplace drives better results. We have increased our women and senior leadership roles by 75% since 2012. It's now 30% of our leaders are women. We're on our way to 50%.

And even though it's not reflected in our presenters today, between 40% and 50% of my direct reports and our executives are diverse. More to do but progress being made.

And also, on safety, I believe we are a benchmark in the industry. We have reduced recordable injuries by 75% since 2006. And on the right, we are very, very proud of the board that we've assembled with John Faraci as our Executive Chairman, JP Garnier as our Lead Director and the rest of these truly world-class board members that you see here.

And one key takeaway is in the bottom right. Management incentives aligned with shareholders incentives. We have always been focused on shareholder value but now, with a more focused company, it's even clearer accountability where it's easier to correlate the performance of our refrigeration business unit to the Carrier stock price. That drives empowerment, focus, accountability at all levels of the organization, and I can assure you that when it comes to incentives, the compensation structure of our leadership and the shareholders will be directly correlated.

The key for us is to drive profitable growth and you see that on Slide 11. I'm going to pause on this chart a little bit to make sure that I explain it well because it's a really, really important chart.

We are laser focused on three areas of growth all funded by Carrier 600. So, we'll talk about larger strategies but when it comes to an organic strategic roadmap, this is it.

Three areas of focused growth funded by Carrier 600. So, no matter what site you visit in Carrier in the world, you could go into that site and say, tell me what you're specifically doing in each of these three categories of growth, what is your piece of Carrier 600, and they will be able to answer it.

And you will see that and here today from our P&L leaders that will each talk to you about what they're doing in each of these three categories of growth and what their piece of the Carrier 600 is. So, when you think about Carrier, the first bucket here is strengthening and growing the core. What we're going to do this year is invest more in R&D and invest more in salespeople to make sure that we can pick up share.

So, if you look at us over the last five to 10 years, our sales CAGR has been about 3%. What you're going to hear from me in a few minutes is what I'm going to tell you is over the mid-single -- over the midterm, we're going to be growing mid-single digits.

So, the question is you've been growing generally about three, which is a little bit higher than our way to GDP, and you're going to be growing mid in the future, how do I get from here to there. And the answer is this, number one is we are going to make the right investments. We are going to invest in things like R&D and salespeople in digital to help drive that growth but also it's because of these two other categories, bucket two and bucket three that you see on the slide, where I would say historically, we've primarily been focused on this first category of strengthening and growing our core and we've done it well and now, we have market-leading positions.

In the future, we're going to focus as well on this second category. So, what's the second one? These are very targeted adjacencies or geographies that we're not participating in today but that are right in our wheelhouse.

The only thing they require is focus, it's focus. You put a team together of 10 or 15 people. You have a dedicated team with a leader, with a mandate, with a budget, with deliverables, and you focus on it.

So, a few examples of what we're talking about. VRF, we've talked about variable refrigerant flow. It's a $12 billion market, it's growing high-single digits, and today, we are a very small player in it. That will change.

It won't change this quarter and it won't change next because if it we're easy, we would have done it. It's complicated. But I can tell you that we have a dedicated team that's doing a number of role-playing exercises figuring out how we significantly grow in this area and we will.

The B2C business for smoke detectors in China, an example I mentioned before. We are the market leader in the United States for this B2C business in our Kidde business and we basically have no share in China. All it requires is a slight tweak to our product, we got to make sure that we have the right channel and the right infrastructure to go drive it in China but that's a business that with the right focus, we can and will drive.

David in the refrigeration section will talk about warehouse refrigeration. There's a huge pull for CO2 today. We have differentiation in CO2. It's lower cost, it's lower maintenance, it's better for the environment. We just need to focus on it.

The third category is services and digital. I mentioned that Ajay Agarwal has joined us from Collins who's now over at Carrier. I will tell you, and those of you that have covered us know, that we've done a lot in terms of our aftermarket strategy on the aerospace side and we, here at Carrier, have done a lot and are doing a lot more and a lot of that energy and strategic focus is coming from Ajay.

He has put together an aftermarket counsel within Carrier. He's working closely with the BU presidents that you'll hear from today to really focus on this area. There is so much opportunity to drive revenues in the aftermarket and in digital. I'll give you an example.

In Chris's business in commercial HVAC, when a chiller comes off warranty, we should get a long-term agreement 100% of the time. We can provide the most value to the end customer. A 100% of the time, we should get the long-term agreement.

We have peers that are getting attachment rates of 50% and we're at 25%. That has to change and that will change. We're also working digital. We're working tiered offerings from basic and platinum, giving the customers what they need to be successful so we get end customer stickiness.

So, I am very confident in our growth strategy. One of the key enablers is digital and you see that on Slide 12. Bobby George leads this critical area for us and a key trend in our industry and frankly, most industries is a shift towards intelligent and connected and autonomous products.

One of the keys to leading in this transformational shift rather than getting disrupted by it is data. You need access to data. You need to be able to use it seamlessly to drive operational improvements, customer value and new revenues.

But to do that, to really leverage the data, you need to be able to connect the dots through a digital thread. So, when you look at the slide, it starts in the lower left with run. You can think about that as connecting the digital thread internally.

So, now, you have a thread between engineering and manufacturing supply chain services. I mentioned that we just signed a big deal with AWS a few weeks ago, we were out with Andy Jassy and his team. We will be moving 70% of our workloads to the cloud in the next 36 months.

So, now, you've aggregated the data. You can now access the data. You can create data lakes and cloud-based solutions and then leverage the data to drive operational efficiency and improve product design and better service offerings.

Then as you move up the digital value chain, you get to grow. Think about that as extending the digital thread to your customers. You're not talking about things like remote controls and monitoring and prognostics, diagnostics driving new revenue streams and you can see here on the slide, we're rapidly increasing usage of our customer portal.

And then as you go up the right, now, you're into transform. Transform is about connecting the digital thread to entirely new ecosystems. Being a leader in creating an intelligent building or smart home. We're really connecting the dots between the cold chain.

So, one of the keys to funding growth and funding this digital transformation is Carrier 600, which you'll see on Slide 13. So, those of you that have covered us, you know that we know how to drive cost reduction.

And I will tell you, I don't like to look back., I do want to look forward, but I am going to just take one last look back to just give you the same kind of confidence that I have that when we say we're going to drive $600 million of cost out over the next three years that it will happen.

So, those of you that remember, when we -- when UTC Aerospace Systems came together with Goodrich back in 2012, we said that we would drive $375 million of synergies. We stopped counting at $600 million.

And then back in 2015, I was afraid that we would lose that energy and that focus and that momentum and that playbook. So, in 2015, we launched something that we called UTAS 500, which was $500 million of cost take out over three years, which we did.

And then we were about to launch a new program and the business came together with Rockwell Collins and that team will exceed the synergies there. It's a playbook that we know well.

One of the key leaders of developing the playbook and implementing it was Rishi Grover who is now leading operations for Carrier. He's overseeing it and he knows how to drive results working with the businesses, working with the extended operations team, this is the playbook that we know how to do, it starts with supply chain.

More than half of the savings will come out of the supply chain. At Carrier, we have 6,000 suppliers, product suppliers, not indirect, just product suppliers. We have 6,000 and the top 30 make up 30% of our spend. So, we have to drive consolidation and we have to drive consolidation in low cost.

In the factory in the middle, it's about implementing lean tenaciously and it's about automation. Automation, I was in our factory in Athens, Georgia a couple of weeks ago where we do our North American truck trailer units and on a typical frame, there's about 150 RIVNUTs that used to get manually fitted.

We've now automated that process. We've reduced the labor cost for that process by 80% and we're at 99% for first yield pass. And then G&A, I will tell you just straight up, our G&A is just too high, too high as a percent of sales and the absolute number is too high and we will drive that down.

But we can no longer rely on brute force. You typically will get high G&A when you have a very decentralized business with a lot of sites replicating various back-office type services like HR, finance and others, other things.

So, we have now brought in Eva Azoulay to lead transformation in G&A to a new playbook because the brute force one is done. We did it last year.

I joined halfway through the year. The financial sales forecast wasn't what we thought it was going to be. We mandated a headcount reduction. We said we were going to take out a thousand indirect labor in the second half of last year. We ended up taking out 1,300 people, which is not fun but we had to do it.

But that playbook is done. What we have to do is be a lot more strategic about G&A reduction using standardization, automation, spans and layers, low cost. What we want is to leverage low cost and bots and do it in a much more focused strategic way so our leaders are off thinking about strategy and growth and customers and we can manage a lot of that back-office activity centrally and in a low-cost place using automation.

So, look, Carrier 600, we know how to do this, we will do it. But not only do we need to execute, we do know that we have the potential for further value creation through a disciplined approach to our portfolio, what you'll see on this next slide.

So, on the outside chance, I can preempt the question here. Let me try to tell you how I think about the portfolio. Number one, it starts with execution. That is our focus as a team. We know that we can increase shareholder value by performing, performing in 2020 and meeting our commitments in 2020, setting ourselves up for the kind of growth that we all expect of ourselves as we go forward but it starts with focus and execution.

Number two, we will take a very clinical look at our current portfolio. We will put all parts of our portfolio through a disciplined set of criteria. So, look, I'm relatively new to Carrier. I don't come in with any preconceived notions and there's others that are new and there's others that have been here. But we are all disciplined, rigorous, dispassionate.

Greg often said that he was -- and Akhil and Neil we're our own activists and that's going to be the same at Carrier, we will be our own activists and we will put all parts of our portfolio through these lenses. Are we the right owner? Does the business strategically fit? Does it need our financial expectation of sustained growth and margin expansion and cash conversion? If we determine that there's parts of our portfolio that don't fit these criteria, we'll deal with it.

And then third, as a pure play, we know that there's more transformational opportunities that are out there. We'll evaluate those. We'll look at those. I can tell you that I've seen firsthand how the right combinations can create shareholder value but it does need to be the right partner, the right price, the right terms and frankly, it has to be at the right time.

My commitment to you is that we will be disciplined, we'll be clinical, and we'll be thoughtful and that you can count on us to do the right thing here. But like I said, our primary focus is on performance. So, let me give you a little bit more color on our 2020 Outlook on slide 15.

We expect sales this year to be up slightly. Resi feels pretty good up mid-single digits. Commercial HVAC will be up low-single digits. It's tamped down a bit by our exposure to Europe and the Middle East.

The overall sales at Carrier this year especially in the refrigeration business is constrained by North American truck trailer and European truck trailer will both be down this year.

What David and the team are doing in refrigeration is to drive growth and telematics and growth in that bucket two category that I was just talking you about like warehouse refrigeration to get that business to flattish.

And in our fire and security business, last year, in the second half of last year, we did wind down our U.S. residential intrusion business in the United States. If it were not for that, we'd be up 2% to 3% in Jurgen's business in fire and security, but because of that, you can see we're up slightly.

On the EBIT side, we'll be up $25 million to $75 million this year. Now, we actually have 250 million of tailwind coming into the year, $75 million of price and volume, and we actually have $175 million of cost reduction.

I mentioned Carrier 600 over three years. So, you average $200 million a year over that time but will start to increase a little bit more in years two and three. This year's $175 million of it. So, you have $250 million of tailwind.

But it's offset a bit by we are going to make $150 million of incremental investments this year and it's about evenly split between R&D, salespeople, and digital. And then we do have about $50 million of one-time headwind mostly from things like incentive comp compares and group insurance.

There is another point I want to make on calendarization. We do expect more sales and EBIT momentum and that growth to accelerate in the second half of this year accelerating into '21. We have tougher compares in the first half.

You will recall in the first quarter of last year, we were still seeing significant growth in transport refrigeration which was up about 10% and resi was up pretty strong in the first quarter of last year, first half, as there was a pre-buy for gas furnaces out in front of the fan energy regulation changes.

So, we kind of came into the year with our plan being a bit back-end loaded and that will probably be exasperated a bit by the coronavirus. So, just a couple words on that. Number one is we are deeply focused on supporting our employees. We have 6,800 team members in China. We have [9] (corrected by the company after the call) factories and we have a thousand suppliers in China. And I can assure you, we're doing everything we can to support our people and their families.

From a financial perspective, it's about 8% of our sales are in China, it's about $1.5 billion, and we export about that same number, about $1.5 billion from our own factories and from our supplier factories.

Now, we were all as a team on the phone with our teams in China last night because today was the day that the factories, February 10th, were reopening. So, we had planned to reopen around January 28th after the lunar new year. We probably lost a couple of weeks in there.

So, the couple of weeks is not the issue we're dealing with. The issue we're dealing with is there's still people quarantined. Transportation within the country is still not great. Some of the projects with our customers on the construction side will probably have a slow ramp. There's going to be some supply chain disruption waiting for parts.

So, the way we're looking at it right now is that there will be a bit of movement from the first half or at least the first quarter into the second quarter. But our plan today assumes a full recovery in 2020.

The other thing I'll tell you is we have a war room setup. We are reviewing it by partner. We're doing everything we can to mitigate any impact. So, 2020, this is a year of focus. It's a year of making sure that we deliver on our commitments that I'm laying out here today and it's a year of making sure we make the right investments to set ourselves up for the growth that we see ahead and that growth over the medium term is what you see on Slide 16.

Over the medium term, we expect sales at a steady-state basis to be at mid-single digits. I mentioned that before, mid-single digit growth and you can think about medium term over three to five years.

Steady-state growth driven by the formula that I laid out for you before. We expect EPS to grow high-single digits driving margin conversion. And on cash, we do project free cash flow to grow faster than earnings and we are driving for 90% to 100% cash conversion.

So, here's the story. What we expect of ourselves and you should expect of us is to drive industry-leading financial results. We are investing this year. We are putting the people and the processes and the metrics and the portfolio and other ingredients in place to make sure that we do so.

So, in closing on 17, even though Willis Carrier invented the modern air-conditioning in 1902, we're viewing this as the first inning. There is a change in the air that is palpable. We know at Carrier that we control our future. This is a great business with a great foundation and a proud history. And the most exciting thing is that our best days are ahead of us.

So, with that, let me turn it over to our president of our commercial HVAC business, Chris Nelson, and we'll all be up at the end for Q&A. Chris?

Chris Nelson - *Carrier - Commercial HVAC Business, President*

Thank you, Dave. My name is Chris Nelson and I am the president of Carrier's commercial HVAC business. I can't tell you how excited I am to be here with you all today as we kick off this new chapter in our company's history.

And I'm going to kick off the discussion about our overall HVAC segment, which is about $10 billion in annual revenue and it's split 60% commercial and 40% residential. Matthew Pine and I, Matthew is the President of Carrier's residential business, are going to tag team this presentation.

But before I get started, I'd like to share a little bit about my background. I've been with Carrier, the Carrier Corporation, for about 16 years now and all of that time with Carrier has been in HVAC. I started out in product development, worked into different roles within sales and marketing and then spent a fair number of years running our North American HVAC businesses at Carrier.

Fairly recently, I was given responsibility for Carrier's global commercial HVAC business and that's where we're going to start is with Carrier's global commercial HVAC business. And I believe that that is very appropriate because commercial is not only the business upon which the Carrier Corporation was founded but is also the business that helped found the industry.

So, it will be very difficult for me to overstate Carrier's legacy as both a leader and an innovator in this space. But change is in the air. We're not focused on the past but how we drive and build upon this legacy as we move forward as an independent company.

So, I'd like to start by giving a brief overview of this business. At the highest level, it's a fairly simple business. We design, make, manufacture and sell heating and cooling equipment for application in commercial buildings. And then we provide service aftermarket and controls support for those products in the field.

So, the businesses or the activities are very linked. First, we need to win the initial installation and then we work to convert that to a service opportunity, not only so it provides recurring revenue to the business but also so we maintain a great relationship with our customers and building owners on a go-forward basis.

So, what does it take to be successful in this business? First, on the equipment side, you need great products and great technology in order to compete and win that initial installation. And then to turn it into a service opportunity, you need the network and infrastructure to provide the service coverage that our customers are looking for. And then great tools and technicians to then deliver on that service promise.

I will show you throughout the presentation how Carrier in the commercial HVAC space is able to do both of those things. So, now, I'll transition for a couple of high-level statistics about the business.

First, it's about a $6 billion business on an annual basis and it's, from a geographic perspective, about 50% North America and 30% Europe. At 30%, as Dave mentioned, is a fairly high percentage and what it does is it reflects our leadership in that marketplace that we're so proud of.

The balance of the business or 20% is in Asia and we believe that really presents a great opportunity for us moving forward as we look to increase our mix of business in Asia in that large and growing market with a specific focus on China.

So, moving on, you heard earlier a little bit about the megatrends that will support Carrier's overall growth. Similar to that, Carrier commercial HVAC will benefit from industry trends that will drive long-term sustainable growth in the markets that we serve.

And I'd like to take a few minutes to be able to connect the dots between how a trend drives real and measurable growth in the industry and how Carrier is well positioned to take advantage of and benefit from that growth in the industry and I'd like to do so by focusing in one area and that's climate and regulation.

As concerns about climate change grow around the globe, more and more countries are adopting increasingly stringent minimum efficiency standards. This in turn drives higher demand for high-efficiency equipment.

That's great because these products, they consume less energy and less electricity. These are the types of products that this planet needs.

In addition, they're not only higher efficiency but they're higher value. So, as the market moves to a higher efficiency mix, there is inherent topline growth that will be driven in the industry.

And currently, 25% of Carrier sales are in this high-efficiency segment. So, we have the products currently to be able to benefit from this trend to higher efficiency and we will continue to develop and launch new higher-efficiency products that will continue to allow us to benefit from this trend towards higher efficiency.

As you look at the other trends that are listed on this page, they will drive the same type of real tangible growth in the markets that we serve and we know that Carrier is equally as well positioned to benefit from these trends in the marketplace. So, we serve markets with solid growth fundamentals and overall, we are a global leader in the commercial HVAC space and that is a great place to start.

I mean, I can't say, when you're thinking about going off and becoming an independent company that is a wonderful position to start from. But what's really exciting is that you take a step back from the overall commercial HVAC market and break it down into the segments that comprise that market.

You can see that there are clear opportunities for us to improve our position, improve our performance and thereby grow at a faster rate than our underlying markets. So, take a look at those segments real briefly.

So, starting at the top of the page, the unitary segment, we are the overall global leader in commercial unitary products and this is driven in large part to -- thanks to our success and leadership in that market in North America.

We are going to continue to build upon that strength that exists in that market portfolio by launching great products and continuing to build out our channels to market with a specific focus on the international markets to take those great products to our customers.

As I move down, and Dave hit upon this a little bit earlier, in applied, point blank, we're not where we want to be. We're currently the number three player. But we have a target to become the leader within five years and with the plans that we have in place, we know that this target is attainable.

The driver for the growth is going to be launching new products and investment in salesforce. I'll hit more upon this later as we talk about our growth strategy within commercial HVAC.

I'll move down now to the service. Now, service is something we have not traditionally talked a lot about within Carrier. But it's important to know in the commercial HVAC business, we have a large and profitable service and aftermarket business and it represents a great opportunity for growth in the near term as we move forward, not only by driving the increased attachment rates as Dave pointed out earlier in the presentation but also our growth in service is closely linked to our strategy to grow in the applied market because these applied products have the largest service content opportunity out of all products in the commercial portfolio.

So, not only can we increase our attachment rate but as we get a larger installed base and we win more of those initial installations, we have a greater opportunity in a playing field to grow that service business. In addition, our margin rates in our service and aftermarket business are higher than our average margins in the commercial business. So, as we increase our mix of business in service within commercial, we have an opportunity to raise our average margins.

I'll conclude on this page by talking very briefly about variable refrigerant flow or VRF. Dave hit upon it earlier, it's a large market, we have very little penetration and we have an opportunity to grow this organically and we have plans we're taking actions right now to do so.

And like Dave said, it will be a gradual build that we will build upon as a key growth lever going forward. So, before I talk about the strategies for growth, I would like to take a quick step back and hit regulatory. Why? Because I believe that the regulatory changes that are coming are an outstanding opportunity for Carrier to enable growth moving forward in the next five years.

Over those five years, every player in the commercial global HVAC market is going to need to, in some way, upgrade, refresh or improve their product line in two key areas. First, we'll have to transition to new lower global warming potential refrigerants and second, we'll have to then increase the average efficiency level of our products in order to comply with those increasingly stringent minimum efficiency standards that I referenced earlier.

Within Carrier, we estimate that that will impact approximately 95% of our products in the portfolio and that's a great opportunity because in times of regulatory change, there are winners and there are losers, and Carrier will be a winner.

Why? First, we're a global manufacturer with global scale and as we refresh our product line and upgrade it for the pending regulatory changes, that scale will make it possible for us to efficiently and cost effectively make those changes across the entirety of our global platform

Second, this represents an outstanding opportunity for us to insert new technology at scale across the entire global product line. We have been investing in new technology in the recent years within Carrier from variable speed compression to vane axial air management to communicating controls and the application of new refrigerants.

Carrier has developed the building blocks for the future and we are looking forward to the next five years because we believe we have a product roadmap that will drive growth for years to come.

So, now, Dave outlined the Carrier growth strategy and unsurprisingly since he said you'd be able to find it everywhere within Carrier, we're very well aligned with that strategy. And actually, what you see here is the exact same three buckets of growth the Dave hit on earlier.

So, by starting all the way to the left, in grow the core for commercial HVAC, it's really all about applied share gain. I just finished talking to you about the new products that we are going to launch as a part of the regulatory refresh. But as or more importantly, we will make investments in our sales force capacity as well.

Our existing sales force is outstanding. We have global reach and global scale and our salespeople boast best-in-class sales force productivity. However, simply put, we need more salespeople, more feet on the street in order to have the capacity to grow at the rates that we want to moving forward.

So, we're going to make targeted investments in regions where we know we are underpenetrated and have an opportunity to improve our position. Initially, we'll start out with a significant focus in both China and North America.

As I move to the middle in the product extensions, here, I'm going to talk more about VRF. I talked a little bit earlier and said that we have plans in place to grow this organically. In fact, we have a plan to grow at double digits over the next five years.

And these aren't just plans, we've already started. We recently launched a new Carrier branded VRF solution in the China market and we're making the investments in the channel to be able to bring those products to our customers in that region.

In addition, we will be launching Carrier branded VRF solutions in key regions around the globe throughout 2020 and making the investments in the channel to take those products to our customers and grow in those regions. So, we have solid plans in place to grow that business organically and it is a very important focus for us. So, we will also evaluate inorganic opportunities as they present themselves over the coming years.

Moving to the far right, service, Dave talked about the imperative within service -- within Carrier overall to grow the service business. And with where we started as a base with our nice business in service currently within commercial HVAC, we know this represents a big opportunity for us, not only because it's a large and growing market with a nice growing installed base but because we can see and we know some of our key competitors are roughly two times our size in this space. So, we know that we have an opportunity to improve our position.

I talked a little bit at the beginning about what it takes to be successful in this business. First, I talked about having the infrastructure and network to provide the coverage that our customers are looking for.

Within Carrier, we have hundreds of service branches worldwide in more than 40 different countries and we will be looking to expand this network in the coming years to both enable and drive growth in the service business to allow us to drive a higher attachment rate and grow that service business.

Second thing I highlighted was having great tools in order to both win the service opportunity and deliver on that service promise and at Carrier, we believe that the right way for us to differentiate and win in the future in the service business is by an investment in digital tools.

An excellent example of that is Carrier SMART Service. It is a cloud-based AI-enabled service analytics platform. In fact, it's the brains behind the Singapore monitoring center that Dave highlighted earlier. Those brains allow us to remotely diagnose chiller performance, health and efficiency, translate them into both predictive and proactive service opportunities and then give them to both the Carrier service technician as well as the building owner.

We've been rolling this out over the past year plus in key markets and we've seen great results. In our target markets, we've seen Carrier SMART Service customers have an increased retention rate of up to 15% and we have seen up to a 15% increase in pull-through in the service business as well.

So, said another way, our customers are staying with us longer and they're trusting us to do more work outside the initial scope of our service agreement. I think this provides compelling evidence that these digital tools and others like it are going to be a way for us to drive service growth moving forward within Carrier.

Dave mentioned that each of us is going to have the opportunity to talk about a case study in our business and I'm very excited about the one that I get to present because it highlights one of the things that I love most about this business and that is with a well-established channel, targeted investments have an opportunity to pay back quickly. Said another way, you can spend a little bit and get a lot back.

The example I'm going to use here is our hair -- our new air-cooled chiller platform. We recently launched this new platform, inserted new technology that being variable speed, screw compression, filled an existing product gap and in doing so, set the industry standard from both efficiency and footprint standpoint.

Since launch, sales have grown nicely but more importantly, we moved from the overall number three player in the air-cooled segment globally to the number one player, all with roughly a two-year payback.

This reflects and highlights the types of opportunities that exist within the commercial HVAC portfolio with discipline and consistent investment. So, how are we going to fuel these investments? The answer is Carrier 600.

In commercial HVAC, our Carrier 600 contribution is really all about supply chain. In fact, roughly 60% of our savings are going to come from increased supply chain efficiency, which makes sense because we have a relatively high percentage of our cost of goods sold that comes from purchase components and raw material.

So, how are we going to do it? I mentioned earlier our approach to platform management. As we move forward in regulatory refresh, we're going to drive to increasingly higher level of component commonality across our global platforms. This unto itself will not drive the cost reduction and we'll need to leverage that improved scale at the component level into better procurement costs.

And that's exactly what we are doing, we have a plan to go supplier by supplier, vendor by vendor and reach out to negotiate better pricing due to that improved scale.

So, in summary, this is a great business. It has global scale and global reach and the iconic Carrier brand, which is synonymous in the commercial HVAC space with both innovation and leadership.

We have clear opportunities to improve our positioning and grow in excess of already growing markets and we're going to do that by accelerating our investment and growth in the service business and focusing on key investments in both products and our sales force to drive growth in those segments and we're going to fuel it all with cost productivity driven by Carrier 600.

With that, I'm going to turn it over to and introduce Matthew Pine who is my partner in running the business and he is responsible for our Carrier residential business.

Matthew Pine - *Carrier - Residential HVAC Business, President*

Thank you, Chris. As Chris said, I'm Matthew Pine, I'm the president of residential HVAC business. Very happy to be here with you today. I've been with Carrier about eight years. So, I'm the young guy on the team.

So, I've been in the industry though for 20 years. So, I have a lot of experience in this industry. I look forward to spending the next 15 or 20 minutes walking you through the residential business.

We are the industry leader in residential in North America. We have strong brands, strong products and a strong distribution network. We're focused on growth specifically in underpenetrated markets and underpenetrated geographies within the U.S. specifically.

And then lastly, we're making big investments in R&D and digital for near-term and long-term growth funded by cost excellence, which I'll talk about more in a moment. Really, residential starts with the brands and we have the iconic Carrier brand in our portfolio. We also have a very strong brand portfolio that has other brands like Heil, Tempstar, Bryant, Day & Night which really give us access to multiple tiers in the industry from the value tier to the mid tier to the premium across all market segments, which really translates into leadership.

We're number one across the three major categories for residential. For package products, for gas furnaces and AC and splits, we're number one. We have grown market share over the past three years. However, we're really going to accelerate that growth in 2020 and we've got plans to do that.

And then lastly, distribution. We have the most comprehensive distribution network in North America. Additionally, we have the most trusted. You heard Dave talked about our net promoter score, which is a measure of customer satisfaction. Our Carrier dealers are 15% higher in customer satisfaction versus the competition, which is a great metric. We have a lot of confidence in our channel partners in our go-to-market distribution strategy.

Let's pivot to trends. There's three trends I want to highlight here but listen, we see growth in the residential space over the next three years, full stop, and it really starts with the replacement cycle.

I know there's a lot of talk around the replacement cycle and we actually have buildings -- been building our models since 1982 and believe it or not, the guy that started it is still with us in Syracuse New York four decades later. So, we got a lot of confidence in it.

And what it says is really our mean average life of a system is about 17.5 to 18 years. And so, when you think about that, the average life is around 14 but it gets extended. It pushes to the right because a lot of consumers, they don't just replace their system, they actually fix their system. And so, it pushes the mean out to about 17.5 years on average.

And so, if you look at that and you add that to 2005, it really says we got about three more years of really solid growth in the space and that's our point of view on it.

And then -- and there's another commentary around a cliff, we don't really see a cliff because the replacement cycle looks like a normal distribution curve, like a bell curve. So, we don't see a cliff, but we will start to cycle down at some point here in later years.

The other thing I'd point out is if you look at 2022, that is elevated and the reason that 2022 is elevated is there's going to be a pre-shift ahead of the DOE energy regulations in the U.S. Much like in 2005, you see that elevation, that's largely because of a pre-shift before '06. So, that will happen.

Housing starts there's a great low-interest environment right now. The Fed has been making moves to make it very attractive for housing. We have housing starts up 3% in our model coming out of a really strong Q4. They really ramped up the back half of 2019 and builder confidence is at 20-year high and that really bodes well for us because 25% of our sales are new construction, which is above the industry average and that's going to benefit us.

Unemployment rate, the unemployment rate is a 50-year low, high threes, that has a direct correlation to consumer confidence. I don't see that -- we don't see that slowing down anytime soon and when you have a strong consumer and you add up the other trends, we see growth in the industry.

Let's talk about differentiation with our product portfolio for residential. We have a very strong breadth of offering but we also have meaningful differentiation. We are launching a new green speed air conditioning and heat pump unit in Q2 of this year.

It will extend our heating leadership. We have heating leadership in this space today. It will give us cooling leadership. We will have leadership in sound and we will have digital leadership.

And what do I mean about digital leadership with an air conditioner in a residence? Well, we borrowed some technology from my friend Jurgen at fire and security called mobile credentialing and if everybody in here has a mobile app for a hotel, it allows you to check into your app, bypass the desk and credential into your room.

We're bringing that technology into residential and giving that to our technicians so they can credential into the unit when they're on the job site. That gives them all the diagnostic information and specifically, which is an industry first, allows them to download software from their phone to the unit.

Think about that. Today, when a technician goes out to replace the unit or work on the unit, a lot of times, they have to take out the printed circuit board and then put a new one on or try to flash it in the field. So, having an app that downloads a software right on site saves a lot of time and energy and really drives time on rent savings and productivity, which is a key differentiator going forward.

We've seen tremendous growth in our ductless product line really going back four years. We were mid-single digit share four years ago. We're high teen share now.

So, we've seen significant growth in this space. We have a great product lineup and we have the industry-leading 42 SEER system for the ductless product in North America.

And then with gas furnaces, we have the most comprehensive gas furnace lineup in the marketplace today and what does that mean, the most comprehensive? Well, really, it allows you to really truly optimize the system. When a contractor is in with the consumer, they can really dial in the system because we have enough of a broad enough offering of SKU counts to dial in the efficiency and also dial in the comfort level for the consumer.

And then lastly, I'll talk about the mobile app, the digitalization of our space. I talk about mobile credentialing and the software download. But also, we're getting lots of signals off some of our equipment that will give analytics to the technician to improve time on wrench, help them with diagnostics and then using fault trees to get the problem solved right the first time.

In a lot of cases, we find that 50% to 80% of our parts come back at no-fault found. So, huge opportunity for us to drive better customer satisfaction and drive out cost and productivity.

Let's pivot to growth strategies for residential. I talked about underserved markets. We play in every market. However, there are markets where we're underserved today.

And I'll give you an example of one. Manufactured housing. we had very little presence in. We have a package unit. Package units make probably 15% of that market. So, we're very small portion of the market which can be up to 350,000 units.

So, we worked on a product design and then we partnered with Clayton Homes, which is a Berkshire Hathaway company and the leader in manufactured housing and we signed a long-term contract with them. It really started in Q4 but really will be in earnest in 2020 and we're super excited about that relationship.

You heard Chris talk about regulation. For resi, we've got the refrigerant changes on the horizon and it's going to be a state-by-state thing it looks like potentially. So, there will be a decision to be made on how you address California, how are you going to address Canada and then other states around the climate alliance.

But we're focused on refrigerants. We announced our refrigerant back at the end of 2018. We're already in development. We feel good about it. It's low GWP and we think it will take us into the 2030s with the design.

And then we've got the regulations around energy efficiency in 2023. We're doubling down. We've got a second staff of engineers for three years working on this. And so, we believe we're going to have the right cost, the right product and the right application to win and be able to grow the base.

Couple other points I'd like to make on this slide is we're seeing -- again, we have really strong presence around North America. However, there are pockets when you dig in and it could be at the state level, it's probably down to a county level, where we have opportunities to grow share where our share is not at the national average.

So, we put together a team within residential to go out and work with our distributors to focus on areas that we can improve our share. And so, we have that already, that flywheel is already in motion and that's going to pay dividends in the years to come.

Ductless is becoming more and more a prevalent part of our industry. You can see we had tremendous growth in this space over the past four years. We're working on a hybrid system where we take a traditional ductless outdoor with a ducted indoor and the team in Atlanta has actually got some unique IP, intellectual property, around this design that we believe gives us a competitive advantage in the marketplace.

And then lastly, connected platforms. We are really focused on driving connected thermostats into the home. We've got a great strategic partnership with ecobee out of Toronto, Canada, they've been a long-term partner of ours, to really continue to drive that digital engagement, get data from the home and help the technician be more productive.

That's really where the value is created going forward. We got to make the technicians more productive because there is a large mass of technicians needed in our space. We just don't have enough technicians. So, we got to make our contractors more productive.

We're going to be accelerating our product innovation. We're making big investments in R&D and residential. We're going to spend 30% more in R&D in 2020 than we did in 2019 alone.

And you can see, Dave talked about 95% the platform being refreshed, we're going to have almost 100% residential. And you can see with the air conditioner and heat pump, we're going to open up the patient if you will for the regulation and we're going to get the cost right. We're going to get the design right. We're doing voice with customers we speak and we're going to win in that space.

Material substitution, I'll give you an example much like Chris did on a case study around how we're going to drive meaningful material substitution on the outdoor unit. And then we've got to get digital connectivity down through the breath of the offering so we can get every unit to bring information to the technician so they can be productive.

On our gas furnaces and coils, we implemented some new blower technology for the fan energy ratings last year that Dave talked about that went into effect in July that we put in discrete models to test and also to get those to meet the regulation. We're now going to take that technology and proliferate it across our entire furnace platform driving more efficiency and sound.

We're going to work on the heat transfer technology for our coils to drive air-conditioning efficiency. And then lastly, much like on the outdoor unit, we're going to be driving digital connectivity with our gas furnace platform.

Now, with the regulation, every gas furnace is smart. And so, we're going to take advantage of that.

And then wrapping up on the product innovation with small packaged product. We're taking a design that actually came from David's business in refrigeration. It's called the vane axial fan then Chris stole it and put it into commercial rooftops and now, we're going to bring it into resi.

It's got great application for resi. It's going to drive down decibels in sound, which is a big deal for those units on a consumer's house, and it's going to drive more efficiency. We're going to get that product line ready for ultra-low NOx in California for October.

The package unit products come up in October of this year. We're way ahead of the game. We'll be ready to go for that regulation. And then we're going to be really increasing the efficiency with a package unit product line with variable speed technology insertion there.

And, again, how are we going to fund it? Again, Dave talked about consistency. It's going to be Carrier 600. Residential is going to make up roughly 25% of Carrier 600. You can see G&A, factory and supply chain productivity as well as material productivity are going to be our focus and we're well on our way.

We started this journey really the back half of 2019 getting focus, getting the teams aligned and getting some inertia. A couple of examples that we've already began to get some inertia on is supply chain, for example.

In the resi business for North America and commercial for that matter, we're working together hand in glove. We built a command center in Indianapolis, Indiana to focus on our freight specifically our outbound freight.

And what we found is really turned the lights on and digitized our supply chain and we found out we weren't optimizing loads properly and we weren't always adhering to the routing guide compliance to drive the lowest provider for shipping.

And so, we put the control tower in place. We turned on some DCs and we've already seen a 5% improvement in outbound freight savings. We'll have the rest of those turned on by mid-2020 and then we're going to turn our focus on inbound freight, which is another issue we got to focus on.

And then lastly, factory productivity, you heard Dave talk about lean and automation. We're using the tools, the Carrier ACE system, and we've got teams around this right now.

We will get $25 million of cost out of resi in the next three years. Full stop. And then we've got a really strong pipeline behind it but we're going to go after and we're going to do it and we've got clear sight to the products or the programs to get there.

So, wrapping up, I'll give you a case study around Carrier 600. We know how to do this very well. Back in 2014, we had a coil design in our fan coil which gets matched with the heat pump for air-conditioning and heating that was copper and aluminum.

We changed it to aluminum and obviously, there's a lot of benefits by moving to aluminum from a cost perspective. We saved 13% when we made this move back in 2014.

And really, the kicker is we saved 24% in the quality. We improved quality by 24% by moving to all aluminum. So, we're taking -- a lot of the people are still around. We're taking these teams -- we've taken these teams and we're focused on outdoor design right now.

So, we're going to be launching in mid-2020 an all-aluminum outdoor coil starting in Collierville, Tennessee. It probably takes us around two years to get the run rate but run rate is going to be $20 million to $30 million in savings. And we feel really good about this design and we're in process of launching that, like I said, mid-year this year.

So, wrapping up for residential as part of HVAC, we're the clear leader in the industry. We've got work to do to grow share. We're on it. We're going to grow in 2020 further.

We've got strong brands. We've got strong products and we have the best distribution network in the industry. We're focused on underserved markets. I gave you examples of manufactured housing and we're going to focus on geographies where we have less market share.

We are investing heavy in R&D and digital and we're going to fund it through Carrier excellence through the Carrier 600 program. With that, I will wrap up and I will take us to break. Thank you.

David Appel - *Carrier - Global Refrigeration Business, President*

All right. So, good morning, everyone. I understand that UTX shares is trading up a bit and I will do my utmost best over the next 15 minutes not to reverse that.

So, my name is David Appel, I'm head of the global refrigeration business. I joined Carrier three decades ago and I've been in my current role for the last 10 years and I am delighted today to talk about this great business.

So, refrigeration is a $3.8 billion global business with an adjusted operating profit of 13.5%. Today, we operate across two broad segments. Two thirds of what we do is in transport refrigeration and the third is in commercial. And in terms of product mix, 75% of what we do is in equipment and 25% is in services and digital.

So, looking across the businesses from left to right starting with transport refrigeration. So, here we operate under the Carrier Transicold and the Sensitech brands. We have container that sells refrigeration container units to the world's largest shipping lines. We have truck trailer for refrigerated trucking fleets and we have Sensitech, which is our digital cargo monitoring and tracking business that covers the food and pharmaceutical industries. These are all great businesses with industry-leading brands and solid profitability.

So, next is our commercial refrigeration business. Commercial refrigeration business operates under the Carrier and Profroid brands in Europe and Asia in food retails. So, think of supermarkets, hypermarkets and convenience stores. We have a solid share position in this business with room to improve overall profitability.

So, let's talk about what we do. While we make things cold, we preserve, we protect and we extend the world's food and pharmaceutical supply and we know how to win. The cold chain is about moving perishable goods from the point of production to the point of use and that each step of the cold chain, we do have industry-leading products and technology that helps ensure the safety and quality of perishable goods as they move along the cold chain.

Now, here is a visual representation of what we call the farm to our cold chain. So, starting in the upper left-hand corner, so, here, this is where we have our pre-cooling equipment that is used to put perishable food into a temperature-controlled environment as quickly as possible post-harvest.

Next, is long-haul transport. Long-haul transport can be over the ocean in refrigerated containers or can be over the road in refrigerated trailers. Next, we have intermediate or inner city distribution.

And shown here at 3 o'clock is our refrigerated truck unit, very popular in Europe. Following that is our point of sale food retail where we have refrigerated display cabinets available through our commercial refrigeration business.

And finally, we have last mile delivery where we have refrigeration units for light commercial vehicles and vans. Now, supporting all of this is our global service and digital business, which is comprised of aftermarket parts, labor-based service contracts includes our fast-growing digital business such as Sensitech, which monitors and tracks the condition of perishable goods as it moves along the cold chain, and it includes our wireless telematics devices that are used to track the performance of mobile assets.

Our global services and digital business today is $1 billion with great opportunity to grow and no one else, no one else in the industry has all the capabilities that we have under a single roof.

Carrier is set up to win in this space. Today, we are one and a half times the size of our next nearest competitor in combined refrigeration sales. We have a broad network of more than 1,300 dealers, distributors and service centers operating around the globe 24/7 supporting our customers and we do benefit from a large and growing installed base.

More today, we have more than 1.2 million refrigerated container and trailer units operating around the globe. Our Carrier commercial refrigeration equipment is installed in 50,000 food retail locations in Europe and Asia and where there -- this year, our Sensitech business will track more than 15 million perishable cargo ships.

Innovation is in our DNA. For more than 50 years, we have been developing industry-leading technology in support of the global cold chain. Major Carrier inventions include things like the first ever refrigerated container unit, our all-electric drive for trailer and the first of its kind natural refrigerant system.

And we are accelerating our pace of innovation. New product launches include things like our new high-efficiency trailer unit, our new state-of-the-art controlled atmosphere devices to extend the perishable -- the shelf life of perishable goods, and our new real-time cloud-based cargo monitoring platform.

So, let's talk about growth. So, we are in segments that are growing sustainably well into the future and this is how we kind of look at things.

Globally, we know population is going to grow 25% over the next 30 years and we, like other businesses, we know we will ride that growth curve. But unlike other industries, there is a greater societal demand for refrigeration to extend the world's food supply and to feed more people.

Today, nearly 1 billion people go hungry every day and that's because in part, one third of all the food that is produced worldwide is wasted when refrigeration is a key answer. So, as the world considers how it will feed 9.7 billion people by the year 2050, it increasingly points to the accelerated adoption of sustainable cold chain technology.

Urbanization. As more people move in the cities and further away from where food is produced, the cold chain gets longer and more transport refrigeration capacity is required.

We see increasing regulations with respect to low-noise, low emissions, sustainable refrigerants and this will continue to drive demand for our additive green technology.

And as our customers ask for more real-time data, for data analytics, and prognostics we do see increasing pull for our digital technology and tools across our businesses.

So, solid long-term fundamentals support sustain growth.

So, let's take a look at a couple of growth curves. Shown here, Container, North America Trailer. Two key transport refrigeration segments.

Now, if you look at this, the compound annual growth rate in units over this 23 years have been a solid 4% and 3% respectively, and by the way -- and by the way, up to two times that for Carrier up to two times that for Carrier when we consider our share gain over this 23-year period.

Now, more near-term. So, here I'm talking 2016 to 2019. If you look, we've been a pretty solid growth cycle. But, as many of you here know, our segment, transport refrigeration is cyclical. So, let's take a moment to remind ourselves why that is.

Well, we sell to big shipping lines. We sell to trucking fleets. And they buy when the economy is strong and they hold back when the economy weakens or when they see potential overcapacity in their segment.

They are sensitive to things like freight rates, fuel prices, fleet age, utilization, of all the things that go to determine the underlying profitability of their businesses and [ultimately] their ability to invest. So, at the moment, this is how we see things.

So, let's start with containers. So, the container segment was actually down last year. We estimated about 10%. It was up in 2018, up 28%. But this year, we're kind of looking at a flattish market, overall flattish. But if you look at the total demand, we do expect it to be over 100,000 refrigerated container units. And if you look at history, over hundred thousand, that's not too bad.

Now, North America trailer. Little bit of a different story. North America truck trailer. Two, back to back all-time record highs, 2018, 2019 huge demand. Industry analyst.

And here, I'm talking -- when I say industry analyst, I'm talking about ACT, FDR, who look and studied this segment.

They, right now, are projecting that the North America trailer segment will be down this year. Trailer production will be down on average 20%.

So, for us, we do expect some pretty tough comparison in the first of this year followed by more favorable compares as we move into the second half and into 2021. Now, keep in mind we have seen, we have managed through these cycles before. And it is true that within the transport refrigeration segment, we have saw the long-term fundamentals.

And what's also true, that in this segment what goes down does come up. Whether that's going to be in the second half of this year or in 2021.

And for us, the story absolutely does not end here because we see a lot of opportunities to grow in other parts of our business and that's what I'm going to talk about next.

So, like other parts of Carrier, you've heard -- you've heard the others speak about it this morning. We are laser focused on our three growth strategies.

Number one, strengthen and grow the core. With industry-leading technology, for us like our best in class high efficiency trailer unit. We see opportunities in product extensions like our fuel savings auxiliary power units which, by the way, that's a business which has tripled since we acquired it three years ago and has solid long-term potential.

Warehouse refrigeration, Dave mentioned, is another big opportunity for us and I'll talk about that on the next slide.

Now, moving to the right. Services and digital, a $1 billion business that has been growing for us mid-single digit year on year. And here, we're targeting to grow our digital business in terms of cargo monitoring and telematics and we're targeting to grow our aftermarket parts by leveraging our large and growing installed base.

So, this year, we do expect that the focus in these areas will have offset the softness we see in our core transport refrigeration business and position us for further growth as we transition into 2021 and beyond.

So, case study. Now on this slide, I do want to give you a very specific example. A very specific example of a growth strategy that we are leveraging across our product portfolio.

So, across our product portfolio. So, from food retail to warehouse refrigeration, container, and truck trailer. So, 15 years ago, we launched -- Carrier launched the first of its kind natural refrigerant system using CO_2 in a food retail application.

These systems called compressor racks are used to provide cooling towards storage refrigeration systems and are typically located in the back of what we call a mechanical room. We remove CO_2 from what is already in the atmosphere and we use it in our refrigeration systems.

CO_2 by the way, is an efficient low-cost refrigerant with a global warming potential index of only one meaning thousands of times lower than many traditional refrigerants.

We pioneered this technology and our customers love it because they know it's sustainable and they know it's future proof against new regulatory standards for refrigerants.

Today, we've sold more than 10,000 of these systems in Europe and we see a big opportunity to extend the reach of this technology upstream into warehouse applications as well as into container and potentially truck trailer. In Europe alone, warehouse refrigeration is a $1 billion segment where CO2 has an inherent design advantage over incumbent technology in terms of cost and serviceability and where we can expect more growth.

Carrier 600. So, we've been talking about Carrier 600. I've talked about top line. I'd now like to move on to cost.

Now, for us in refrigeration, of that Carrier 600 number, we represent 25% of that cost savings and we are targeting efficiency improvements in three areas. Number one, factory, where we see opportunities to optimize our factory footprint and decrease our levels of automation.

Supply chain. So, for us, this is where 80% to 85% of the total cost savings we expect to get over the next three years will come from and we are targeting a minimum 2% material productivity per year through low-cost sourcing, to design and supplier rationalization.

And in terms of G&A and overhead, we see opportunities to improve our process times using digital tools. We see opportunities to optimize the efficiency of our back-office through shared service, and to approve our overall field service productivity as we grow the business.

So, let me wrap up and say the following. We have industry-leading businesses. We have a broad network of dealers, distributors, and service centers located throughout the world and we have a large and growing installed base.

Our technology is world-class. We have a solid pipeline of new products and we are accelerating our pace of change. Our businesses are supported by solid long-term fundamentals and we have plenty of runway to grow our top and bottom line.

So, for us, change is in the air and we are truly excited about the future of the refrigeration business.

So, thank you very much. Please check to see what happens to UTC share price. In the meantime, I'd like to turn things over to Jurgen Timperman, President of our Fire & Security business.

Thank you very much.

Jurgen Timperman - *Carrier - Fire & Security, President*

Thank you, David.

My name's Jurgen Timperman and I'm the President with Fire & Security at Carrier.

By means of introduction, I've been in the industry for the last 15 years, spent most of my time on the product side of the business, and I've been with Carrier for the last 10 years and before that was with GE in different roles and different businesses and came to Carrier through the GE Fire & Security acquisition back in 2010.

Pleased to be here this morning. I'm with you at the New York Stock Exchange and really have an opportunity to talk to you about our segment and our strategy.

And at Fire & Security, I want to start out by saying that we're in the business of producing and selling high quality market-leading products and services that protect people and what they care most about, their loved ones and their assets. And that's really why all of us at Fire & Security believe that what we do really matters.

With that, I want to just start with a quick overview of our segment and our business. Overall, we're about a $5.5 billion dollar business. About 60% of that is products about 40% is field. We're evenly split geographically.

If you look at the top right with Products more weighted in the Americas and Field, more weighted in Europe. In terms of the customer and segments that we serve on the bottom right, you'll note that we're primarily in commercial buildings and applications, and at the same time, we are the leader in residential fire globally with Kidde and we're going talk more about the great opportunities there for growth in the future.

We showcase here a few representative products and services on the bottom left and starting with products and fire, we're are the -- our main focus is around detection and alarm in residential, commercial, and industrial applications. We also have a leading suppression portfolio and the highlight here is our Marioff high-pressure water mist offering.

In security, our core business is really centered around the electronic access solutions providing integrated security solutions for commercial buildings, businesses, and critical infrastructure.

And then in controls, we're primarily focused on HVAC equipment controls and we enjoy selling to my colleagues here today, any day in the week. We also enjoy selling to many of the HVAC competitors out in the industry.

Now, switching to the field side, that's really our Chubb business and we really do three things there. It's about installation, servicing, and monitoring of Fire & Security sites all around the world, businesses as well, with a large install base with more than 1.3 million sites under service and more than 800,000 mostly commercial monitoring lines.

Now, just a few comments on growth, for those of you who have followed us for a while, we've historically seen low single-digit growth in Fire & Security with growth in products outpacing growth in field, our outlook, as you've seen from Dave, is to be slightly up in 2020 with the impact of the [wind down] of our North America residential intrusion business at the end of last year.

Now, our goal is to accelerate growth to support the company's mid-single digit outlook for the midterm. And what's going to be different going forward from the past for us is really very similar to what you heard from Dave for Carrier. That is that as a standalone Carrier, we will invest in our own future to drive growth with a focus on innovation, feet on the street, and digital. I will talk more about what that looks like for us in the coming pages.

Now, in terms of the megatrend, we see the very same compelling megatrends that are driving growth for Carrier drive growth for Fire & security. We'll talk more about digitalization as part of our case study and that's a big deal for our companies. I want to focus the conversation here, really, around regulatory. And so, for the fire businesses, that's an extremely important area.

Now, codes and standards are being issued for fire by government and regulatory agencies all around the world. We see more and more countries adopting them and we see the speed with which they get updated, accelerate over time as governments really grow more conscious about the protection of their population.

Now, where in countries where standards are in place, we see relatively low penetration for fire products in a number of cases still. And that's really a function of enforcement and awareness.

Now, let me give you a few examples of what that really means and why that's important for us in terms of growth. Now, take the U.S. We have here one of the most established fire codes in the world. And despite that, we see the number of homes adequately protected for fire safety according to the NFPA standards to be less than 30%. You think about that. Less than 30% and FPA being the National Fire Protection Association.

Now, what does that mean? Well, think about your own homes. It means that in an average home, to be adequately protected for fire safety, one ought to have a smoke sensor in every bedroom, in every hallway, in every common space like your living room. One ought to have a carbon monoxide sensor to avoid accidental poisoning, like carbon monoxide in wintertime, typically, outside every sleeping area.

And one ought to have a minimum number of fire extinguishers, one at every level in the house and likely one in higher risk areas like your kitchen or your garage.

And so, less than 30% means that either these things are not there or they're there and they're not there in enough quantities or that they're actually there but they're not functioning, maybe because the battery is depleted or they're simply too old.

Now, the second example is China. I think Dave mentioned that earlier where we see in the residential housing, social housing, we see basically codes really focusing on the common parts of the building and I think the opportunity really there is to go and further penetrate within the home.

So, growth potential exists in the space and we see regulatory and awareness creation, really, as key items for us going forward. Now, moving to our segment position.

I want to start out with the first take away here that we have a very strong base to grow from. When you look at the segments we play in, we're a leader in each one of them.

Now, as you might know, fire & security is a relatively fragmented space and I think we believe that that provides a lot of opportunity, both for organic and inorganic growth going forward.

Now, on the product side, starting with fire, we've got the largest combined, residential, commercial, and industrial fire business globally focused on detection and alarm and suppression. Now, with brands like Kidde, the leader in global residential fire, like GST and Edwards leading in commercial fire, respectively, in China and in North America.

Like Det-Tronics, the leader in flame detection for high-hazard applications globally. And like Marioff, the leader for high-pressure water mist in the world.

In security, we're the leader in electronic access control with LenelS2. If you include intrusion detection and electronic locks in the segment, we're actually number two overall.

Thirdly, in HVAC equipment controls, again, number two with key brands like UTEC.

And then lastly in field, that's our Chubb business. If you look at our global position we're overall number two, if you look at the top six countries really making up the bulk of our sales, we reckon we are leader there.

Now, with that as context, let's get in to our growth strategy and I think consistently, with what you've seen here before, you find the same three buckets back.

The first remark I want to make here that's different for us with future growth versus historic growth, it's about two things. It's about, one, accelerating innovation in R&D and in innovation. Two, it's really about buckets two and three and accelerating growth in both of these areas.

And we know that in the places where we have done so in the last three years, if I look at LenelS2 globally or I look at commercial fire with GST in China, we have seen the type of growth rates that we like. With last year's performance being in that mid-single digit to a high single-digit area.

So, a few more comments on each one of the three areas, strengthening and growing the core, it's about continuing to grow our North America residential fire business with Kidde. We're leading in the space, we see continued opportunity for growth there on the back of the under penetration that I mentioned earlier.

Second, accelerating innovation and it's really about we've underinvested in a number of areas historically and we're fixing that. We're increasing our R&D spend by 10% year-over-year and we're going to continue to do so in the coming years.

We've seen it work with access control in the LenelS2 world. And in fire, particularly, we consider platforming as a key opportunity going forward.

Now, many industries have done that like that automotive world. For us, it's really about doing things more efficiently in fewer places, leveraging our global engineering footprint, and also use that as an opportunity, not only to accelerate innovation but also to get further cost out of our products.

And finally, under core, it's about being more selective. And I think that you heard Dave mention the wind down that we did at the end of last year in North America residential intrusion business under Interlogix and I think this was really around focusing on higher growth, higher margin areas, like LenelS2 in the security space with access control.

The middle bucket is about two things for us. It's about doubling down on Asia particularly in China. We're leading with GST and commercial fire and we see continued opportunity for growth there. We had above industry performance last year and I think we're looking at the opportunity of further penetrating within the home as the next step in that business.

Second, it's about HVAC equipment controls. You see that we enjoy great share in North America and the opportunity really lies in the rest of the world. And here, we have last year, combined our global controls companies under one leadership and one single global business with the goal to go after this opportunity.

Now, lastly, it's about digital and service.

And so digital, I will talk to you about on the next slide. I want to highlight and close out this page with the bottom right and that's really what we're doing in our Chubb business to drive growth. We're focused there on our top six countries and really driving growth in our services portfolio by doing two things, adding feet on the street in targeted geographies as well as implementing digital tools to improve our sales force effectiveness.

Now, let's talk digital. And so, from having run the security companies globally for several years, I want to start out with the fact that this is not new. We have had an intense focus on digital cloud and software for many years and we've been in the cloud for almost two decades, I would say with a great number of our companies.

Now, our strategy has been to take our core capability of cloud-based access and identity management and really taking that across critical customer segments to help address unique challenges people had and also on the back of that, drive profitable growth. And you see a number of examples on the slides here in our Supra business with our EQ offering.

Today, we have more than 800,000 realtors that are using a cloud-based suite of services to go about doing their business every single day including using their handhelds to get access to the properties to do showings.

Onity with DirectKey. Today, we have provided many of the large hotel providers in the world and consumers the ability to not only get into the room using their handhelds but also interact with the services of the hotel and truly bypass the front desk.

And then most recently, we have taken that capability with BlueDiamond in our LenelS2 business and have really, I think, used that as a way to grow, not only by providing folks with the ability to use their handheld as a secure credential to navigate the building, but also interact in a more seamless way with the facility and its services.

So, we're just getting started in LenelS2. I think if you think about the opportunity in the install base, more than 50,000 systems globally and a penetration of more than 50% with Fortune 100 companies.

So, you've seen here that this is the type of effort that has driven the outcome that we're looking for in terms of topline and bottom line and we're excited about looking to continue to take that across our install base, not only in fire and security, but also in targeted parts of Carrier.

Now, how will we fund these initiatives? And the answer here is simple. Again, consistent, I think of what you've seen all morning, it's called Carrier 600. Now, for us, the three -- at Fire & Security, the three largest areas are around footprint consolidation, they're around supply-chain productivity, and they're around cost reduction in the G&A area.

So, you see here, based on the statistics that, basically, we know how to do that and I think what's even more exciting about this is that we see continued great opportunities going forward in each one of these areas whether it's more footprint consolidation whether it's more productivity with initiative, new initiatives like the platforming that I talked about on the fire side or whether it's targeted opportunities to take cost out like in our field business where we're targeting a few percentage points of sale as an opportunity by implementing digital tools in the right places.

And I think the example I'll give you here is really about the implementation of handheld and dispatch planning tools for the field techs out there. And what it does is, I think, create an opportunity to spend more time with customers, less time on the road, and then opportunity, for example, when being able to quote real-time to basically do the repair the same day versus having to come back the next day.

So, in closing, I want leave you with the following. We are a leader in every one of the core segments we play in. We have a great set of brands and a great set of customers. We have a phenomenal install base that we're looking at leveraging for growth in digital through digital and services.

We're going to continue to be laser focused on productivity. We know how to do that. And we're going to invest in the right places and it's really for us about innovation, about feet on the street, and about digital.

I hope you're as excited as I am about the future of the segment and in the spirit of fire safety, I can't help it. Please don't forget to check when you get home tonight and make sure you have the fire safety devices you need to keep your family safe. And if not, buy Kidde.

So, thank you for your time and with that, I'm going to hand it over to my friend and colleague, Tim.

Timothy McLevish - *Carrier - CFO*

Thank you for joining us today.

My name is Tim McLevish. I joined Carrier back in October last year and as the chief financial officer. And prior to that, I had spent a number of years with a number of different public companies. Most importantly among them were -- I was chief financial officer of the Mead Corporation. Then went on to be a similar CFO of Ingersoll-Rand. And then went to Mead also as chief financial officer. And most recently, I was officer of Walgreens's.

So, let me tell you the spin of Carrier from United Technologies will be my fourth corporate spinoff. And I will tell you, I'm very excited to be part of it. From my prior experiences, enabling newly independent companies to focus their attention and resources on their customers, their businesses, and their opportunities have enabled them to grow and prosper, creating considerable shareholder value.

So, I want to start by telling you a little experience I had a few years ago and a large a spinoff. Back in 2016, Conagra Corporation a major global leader in consumer packaged goods had a business in their portfolio called Lamb Weston which, similarly, was a global leader in the processing of frozen potatoes for quick-serve restaurant and also for food service.

Admittedly, it didn't fit very well in that portfolio and they made the decision to spin it. I had a bit of unique perspective and kind of a 360 view because I had sat on the board of Conagra when it was deciding to do that spin and then I sat on the board of Lamb Weston after the spin was completed.

And I will tell you that there was a stark contrast of the discussions around from the management team and our focus there was a stark contrast of the discussions around -- from the management team and our focus. There was a stark contrast at the board level, [their] conversations there. And there was a stark contrast in the resources applied to the businesses between Lamb Weston as a division of Conagra and then Lamb Weston as a standalone company.

As a result, the performance of Lamb Weston was a dramatic improvement, not that it was bad to begin with, but it really stepped up their game and considerable shareholder value was created. And I would encourage you to take a look at the ticker LW on your charts and you'll see that the value creation was very considerable.

So, back to Carrier. You heard from my colleagues the strong foundation we have with ubiquitous brands, leading market positions, well invested assets, a focused strategy, and a strong experienced leadership team to deliver on our solid execution plan.

As we become independent and focused, I'm confident we will grow faster, expand margins and improve cash flows all creating considerable shareholder value.

From a sales standpoint, we ended 2019, at $18.6 billion. Going into 2020, we have some headwinds including the closure of our residential intrusion business and continued softness in the trailer market as you heard from David earlier.

On the positive side, HVAC volumes will be up. We're targeting modest price increase and will expand adjacencies and services all for a sales outlook of up slightly for the year as we look past 2022 to the medium-term, first, we expect strong macroeconomic trends to support stable industry growth.

In addition to growing the base, we are launching core strategic initiatives, many of which you have heard about today. The benefits of those investments in sales, technology, new products, geographic expansion, digital, and aftermarket are expected to drive mid-single digit growth for Carrier.

From an operating profit and cash flow standpoint, 2020 will be a transition, investment, and foundation building for the company. As we separate from United Technologies, we'll take on costs associated with the spin and public company and additionally invest in our future as has been laid out by my colleagues.

Our adjusted operating profit in 2019 was about $3 billion. But to put that on a comparable basis, our pro forma 2019 would be 2.6 billion. The $400 million delta is largely comprised of $225 billion of standalone public company costs and a variety of other individual items that you can see identified in the appendix of the presentation today.

Let me -- I guess there's been some confusion about our standalone public company cost by some comments that have been made. Let me provide a little bit of clarity.

First, let me kind of walk you through something you probably already know. But the Form-10 starts with Carrier as a division of United Technologies then what is represented as a carveout business. It is the carveout of United Technologies and includes some costs and perhaps some benefits associated exclusively with Carrier from the United Technologies total.

And then from there, it goes on to do a pro forma which adjusts for all of the things necessary to do -- to be a standalone public company.

So, go back to the carveout part of Carrier is there's about $115 million of standalone cost reflected in there which are kind of direct costs associated with Carrier that has been then reflected from United Technologies. And to that, we expect on a pro forma basis there's another $110 million to total the $225 million that I just talked about.

So, back to our 2020, our expectation is that we will deliver improvement on the base of that $2.6 billion of $25 million to $75 million for the year. And all of our investments that you heard about today will be funded by our Carrier 600 costs savings program.

Then moving on to the medium term, we will grow our operating profit at a faster rate than sales by leveraging our topline growth. We expect we will get higher margins on our new products, technologies, and aftermarket and we'll continue to improve our cost structure.

And generally, the flywheel will spin up as we invest some back and drop some to the bottom line, delivering adjusted operating profit in excess of sales growth. Looking at cash, our Form 10 reflected 2019 free cash flow of $1.8 billion. In 2020, after all public company and spin related costs and expenditures, we expect to deliver between $1.3 billion and $1.4 billion which is a net income conversion of about 80% to 85%.

In our medium term, we expect to grow cash faster than our earnings aided by more normalized cutbacks, working capital improvements, and improved joint-venture conversion rates.

Now, I want to move on for a minute to our capital allocation priorities. First, we believe that the strategic and operational profile of Carrier dictates an investment-grade credit rating. We expect to maintain balance sheet and financial policies consistent with this.

Then as you saw in our Form 10, our annualized dividend initially will be $550 million. This represents a payout ratio of approximately 30% of our adjusted net income and we expect our board will support a healthy and competitive dividend policy going forward.

We have been rated investment grade by two major agencies, although initially, our ratios will not be fully meet the standards required by them for those ratings. Therefore, in the first couple of years, we will focus some of our free cash flow on debt reduction to bring them into line.

But once these are aligned, we will then discuss the share repurchase program with our board and we will be balanced and disciplined in all of our sources and uses of capital including acquisitions and divestitures with a focus on risk reward and strong economic discipline.

And now, I will summarize and repeat some of our 2020 guidance and identify a few of the assumptions included within.

Dave presented earlier our sales forecast of being up slightly across the enterprise in 2020. HVAC will be up low single digits. Fire & Security, up slightly, and Refrigeration flattish. As you have heard, we expect operating profit growth of $25 million to $75 million for both actual and constant currency as our current FX outlook is about flat with 2019. So, no net difference.

Our initial share balance is expected to be established at approximately 880 million shares. And until we go to market with our bond offering and determine our final debt balance, we cannot provide interest specificity.

The Form 10 in the pro forma statement identified $11.1 billion of gross debt and interest expense of $370 million. Remember, this $370 million reflects a full year of interest and at an assumed interest rate and debt balance and this will be fluid until the spin is completed in the next quarter.

We've expect initial tax rate of just over 26% and Capex will be higher than normal between $350 million and $400 million where a typical is more in the $300 million range.

This is a result of increased regular -- changes of our product required by regulation, spin-related expenditures, and other growth initiatives you heard about.

And as I mentioned earlier, we expect free cash flow to be between $1.3 billion and $1.4 billion for the year.

Our expectations for 2020 reflects solid performance but it is a foundation building and investment year for us. And we will be investing to change the trajectory for the future.

Let me map our investments that you've heard about today into our growth model. We will invest in sales, R&D, new products, and new geographies to grow sales faster than the market. We will leverage those sales generate higher margins with new products priced to the value we bring and manage our cost structure to Carrier 600 to grow operating profit faster than sales.

We will pay down debt to improve our leverage ratios, to reduce interest expense, and also to lower our tax rate to grow EPS faster than operating profit. And we will prudently manage capital expenditures, working capital, and our JV cash to grow cash flow faster than earnings.

This will result, as Dave pointed out earlier, in a Carrier with mid-single digits sales growth, high-single digit EPS growth, and free cash flow growing faster than earnings.

With that, I'd like to invite my colleagues up to take your questions.

QUESTIONS AND ANSWERS

Sam Pearlstein - *Carrier - Investor Relations, Vice President*

Okay, guys. We are going to go through Q&A. We are going to have everybody kind of direct their questions at Dave. He'll decide if he wants to pass it along, get everybody else involved.

If you can do me a favor, wait for the microphone for the webcast. Please say your name and company and then we can go ahead from there.

Julian, go ahead, since you're standing there.

Julian Mitchell - *Barclays - Analyst*

Thanks, Sam.

Julian Mitchell of Barclays. Maybe two quick questions. The first one, of that $600 million of savings, how much do you think can be retained in the bottom line and not reinvested? And then on the free cash flow, there is a big drop in 2020. Understand that CapEx is elevated but are there any other sort of one-time factors that are weighing on it this year and what slope of free cash recovery should we think about?

David Gitlin - *Carrier - President and CEO*

Let me take a crack, Julian, at the first and then Tim will do the second question on cash.

I think when we look at the Carrier 600 savings, I think it will be a balance between using it to reinvest in the business and having a drop through. I think what we -- the target that we're setting for ourselves is to grow our margins 50 basis points a year. So, we will be seeing drop through as we go forward.

And not only through increased sales in the drop through that we'll get in. hopefully. higher-margin sales, but also, as we can to modulate investments over time.

Tim, on cash?

Timothy McLevish - *Carrier - CFO*

So, the largest piece of the change, as you might imagine, is the interest. You saw that full years interest is expected to be a $370 million. We obviously won't have that outstanding for the full of the year and there may be a bit of difference we haven't established when our interest will be paid,

Obviously, we'll accrue it for the P&L, but for the balance sheet, it would be depending on the actual payment.

So, there is -- the biggest component is that. The -- somewhere between $100 million and the $150 million worth of CapEx, as you point out, will be another piece of it. And then the kind of a second tranche of the public company expenses, that $110 million dollars that we talked about will be the third component.

Some of that will be -- I mean, there's a few other small things but that's the preponderance of it. And some of that will be off, again [that's going to add up] for more than the $400 million delta, [405]. But it's -- there's some tax benefit associated with some of those expenses, obviously, we get some interest rate, the tax deduction.

Sam Pearlstein - *Carrier - Investor Relations, Vice President*

Jeff?

Jeff Sprague - *Vertical Research - Analyst*

Thank you. Jeff Sprague from Vertical Research.

First, just picking up kind of on the first point, the reinvestment, do you see this as kind of a multi-year catch-up that needs to be done? Obviously, you're trying to get a bit of a running start here. But would you envision that you're kind of at steady state by the end of kind of the three-year window or is there more of a heavy lift on the other side of that?

David Gitlin - *Carrier - President and CEO*

I think this will be kind of that the peak in terms of the year-over-year increase in investments. I mentioned an additional $150 million this year. The way we look at that, it probably comes down from that $50 million a year. So, I think the incremental investment next year is more like 100 and then down 50 from there and the year afterwards.

So, we still -- we do need to continuously reinvest in the business. One of the interesting things about this space is that a relatively small investment can yield a quick payback and pretty good returns quickly. So, we'll continue to invest just not as this year-over-year increase that we saw this year.

Jeff Sprague - *Vertical Research - Analyst*

And, Dave, this is probably for Tim, but just directed at you.

In terms of what you're thinking about the balance sheet, what you have to do to kind of satisfy the rating agencies that you are within the metrics that would allow you to open up the aperture on share repurchase?

Timothy McLevish - *Carrier - CFO*

So, if you look at the statistics, we're somewhere between $1.25 billion, $1.5 billion high euro debt than would be fully reflective. There's one agency that is particularly the constraining factor and to get within their parameters, there's probably $1.25 billion and $1.5 billion of debt reduction necessary.

We do strong remaining cash flow. You kind of subtract out the dividends and a big piece of that will go to dividend or to debt reduction over the first couple of years. Once we get past the first couple of years, we'll be in good shape and we'll be having discussions about share repurchase.

Sam Pearlstein - *Carrier - Investor Relations, Vice President*

Steve?

Steve Tusa - *J.P. Morgan - Analyst*

Hi. Steve Tusa from JPMorgan.

I think working capital in the Form 10 was kind of a big drag in -- maybe there's an allocation dynamics there. You mentioned working capital will be an opportunity. What should we expect as you guys grow is kind of the normal level of working capital drag on an annual basis? Then I have a quick follow-up.

Timothy McLevish - *Carrier - CFO*

Well, it was a drag this year because we kind of cleaned up some balance sheet elements, adopted some new accounting standards, and so forth. But on a going forward basis, I think we will continue to -- I won'tsay that working capital is fundamentally broken within the company, but I will say there's some clear opportunities as I've seen in every company I've been. We will focus on that and we'll gradually bring it back in to the line to realize what we've done till we can.

Accounts payable, generally, I mean, we have some pretty good accounts payable terms. Receivables becomes an opportunity for us and the inventory as well, some opportunity.

David Gitlin - *Carrier - President and CEO*

I'd say, just to add to it, Steve, the inventory turns are, frankly, better than other places I've been. So, I think, overall, pretty good turns but there's definitely an opportunity for churn improvement especially as we drive to a bit more linearity and a more seasonal business. That's one of the key focus areas for us. I think the biggest opportunity is with our AR overdue.

Steve Tusa - *J.P. Morgan - Analyst*

And then just on portfolio, Carrier's kind of an iconic brand across all the verticals. Is there any hurdle towards -- do you view resi and light commercial and then secondarily the commercial business as kind of a product portfolio or are they so separate that if I came to you and wanted to take the resi business off your hands, you'd be able to kind of carve that off without having real channel conflict.

David Gitlin - *Carrier - President and CEO*

Yes. Resi is pretty iconic for us. It's very core.

So, we view, obviously, that HVACR is very quite interconnected. And quite honestly, we really like the hand we've been dealt. I mentioned that we would put every aspect of the portfolio through these rigorous lenses and we will. But certainly, if someone kind of came and say we'd like to take your resi business off your hand, that would be a short discussion.

Sam Pearlstein - *Carrier - Investor Relations, Vice President*

Nigel?

Nigel Coe - *Wolfe Research - Analyst*

Nigel Coe from Wolfe.

You talked about going from number three to number one in global [appliance] which seem aspirational, I'd say. And I think you mentioned your Services is roughly half the size of Ingersoll's business. So, given how integral services to applied kind of how'd you get to number one without significant investments in your services capability?

Chris Nelson - *Carrier - Commercial HVAC Business, President*

I guess I'll field that one. So, actually, if you look at the gap, I wouldn't say that the target to become a leader in five years is aspirational. I mean, the gap, when you take a look on a global basis and the data that we have for whether it'd be euro vent or AHRI in the U.S., the gap's not that large, just a few points.

So, it's a kind of a disciplined continued investment in our product line to make it 50 basis points type of thing a year. We think that's completely within our control. And it's a doable target, like I outlined.

Now, you're right. Service and applied are very linked and when I talk about the difference in size between us and some of our key competitors, it's important to understand that what we're focused on as investing in our business at the local level because we're not necessarily competing against what you think about the multinational OEM's. It's local service providers.

And I think we have an opportunity through investment in digital as well as branch structure and our service salespeople to close that gap and it very clearly, supports growth in the applied segment as well.

Nigel Coe - *Wolfe Research - Analyst*

And then as a follow on on the JV structures. You've got a number of JV's, principally with Toshiba and Midea. You talked about improvement of cash flow conversion. I'd be interested to know how you improve that because it's always a bit of a difficulty to do that.

But are we happy? Are you happy with the structure of these JVs going forward?

David Gitlin - *Carrier - President and CEO*

Yes. We actually have 58 joint ventures. And about half of them are where we have a minority position. Just like I said with a portfolio that we're going to put all parts of the portfolio through these rigorous lenses, we'll do the same with our JV structures.

The JVs that you mentioned with companies like Toshiba and Midea go back decades. We're very -- these are phenomenal partners. We love the relationship we have.

In many cases, we're really emphasizing growth and that's a big theme that we want you to take away from today is growth. We would like, in some areas that have historically been a minority position to be in an area where we can consolidate and we can't consolidate in some of the high-growth areas. So, we'll look at all of our JVs, but I could tell you that the relationships we have are strong.

Anything you want to add to that?

Chris Nelson - *Carrier - Commercial HVAC Business, President*

I think the only other thing is we have certainly the Toshiba and Midea are the highlight. But another key area for our JVs are in local go-to-market.

So, if we take a look at a minority joint venture in a middle eastern company to get their country to give us access to market and we think that those are differentiator and really provide us an opportunity to be successful across the globe and they've been something that we have had in the company for a long time.

And then we'll continue to improve as we go forward.

Timothy McLevish - *Carrier - CFO*

And can I respond to the conversion? I mean, I -- we are targeting 90% to 100% conversion. We have some structural problems and JV's is being one of them. Our pension income being the second one but we aspire to continue to address that and move up in the chain.

I would expect that our joint ventures[assimilate] that they're not paying out 100% of their earnings as dividend up to us and I would expect to have the conversation to improve that ratio as well.

Sam Pearlstein - *Carrier - Investor Relations, Vice President*

Go to Deane. Right here next to you.

Deane Dray - *RBC Capital Markets - Analyst*

Thank you. It's Deane Dray from RBC.

I might have missed this but will there be a period after the separation where you will exclude separation costs? How long do you think that duration would be where you would separate cost or would this be all paid as you go?

Timothy McLevish - *Carrier - CFO*

Yes. Well, we have -- I mean, there's a whole bunch of different things. I mean, one of which is we talked about the kind of the $225 million worth of standalone costs.

Certainly, I mean, we took this clone and cleanse approach to whatever is sitting at UTC and what we need to bring in and then what we need added to it. But as we go forward, we will scrutinize that and scrub it and we think there's an opportunity to bring that public company standalone cost down. We're focused on that.

And then, there is kind of the transition cost. And, yes, we will incur somewhere in the $80 million worth of TSA costs in 2020 and extending a little bit, probably, the first quarter into '21. And there will be some exit costs as we put the replacement for those actually into our company. Some of those will also be encouraged, so there's maybe $100 million dollars' worth of combination of TSA cost and exit costs but we would expect by the second quarter of 2021, that would be behind us.

David Gitlin - *Carrier - President and CEO*

And, Deane, let me try to -- and, Tim, correct me if I say this wrong, of course. But I think within the [$225 million] (corrected by the company after the call), it includes ongoing TSA cost that after the TSA ends after a year, we would pick up on our own. Outside of the TSA, there will be one-time exit cost that would be on top of it and we would report that separately.

Deane Dray - *RBC Capital Markets - Analyst*

That's very helpful. And then as a follow-up for Matthew on Residential or, Dave, you can decide if it goes to Matthew.

David Gitlin - *Carrier - President and CEO*

It's going to Matthew. Let me actually wait. Go ahead.

Deane Dray - *RBC Capital Markets - Analyst*

Okay. There are no mention of distribution. And so, the decision had been made several years ago with distributors being sold to Watsco. Just give us a sense of whether the pluses and minus of that structure and might there be an investment and distribution on the go-forward?

David Gitlin - *Carrier - President and CEO*

Go ahead, Matt.

Matthew Pine - *Carrier - Residential HVAC Business, President*

Yes. Listen. We're very happy with our relationship with Watsco, with the CE joint venture. And really, it allows us to focus on being an OEM.

I mean, being a distributor and being an OEM are very different business models. And we need to focus our capital and our OpEx into developing great products, great manufacturing and great engineering and that's what we're choosing to do in working with partners like our CE joint venture with Watsco to allow them to go out and execute, hand in glove with us, in the field and it's working for us very well and it's a strategy we're going to continue with.

Sam Pearlstein - *Carrier - Investor Relations, Vice President*

Josh?

Josh Pokrzywinski - *Morgan Stanley - Analyst*

Josh Pokrzywinski from Morgan Stanley.

Two questions, I guess first, Dave, on some of the big growth initiatives that you're focused on, VRF China and cold chain, I think we're higher on the list. From a mix perspective, I think -- other folks who have made pushes there and talked about incremental margins being a little bit lower, is that something we should look at as kind of a netting item with Carrier 600 or some of the other initiatives, but hey, just keep in mind that the drop through were here may not be as high initially.

David Gitlin - *Carrier - President and CEO*

Honestly, I'd say it's a mix. When you look at our overall growth initiatives, some will actually come with higher margins than the base business, especially as we lean forward on that sort of bucket three item, services and digital. That ought to come with higher margins in some of the base products.

Some areas in this bucket two item where we're expanding into an adjacency, it may be a little bit lower margin, but I think steady-state, our plan is at 14.2%. Our plan is to improve that. And on balance, we will be able to.

Josh Pokrzywinski - *Morgan Stanley - Analyst*

And then just a follow up on the components of Carrier 600, I was surprised to see that supply chain and factory were bigger pieces, I would have thought, coming out of the bigger company, maybe SG&A is just kind of allocated unfairly down to the divisions. I guess, is there some reason why that was not focused on earlier, hearing about ACE Gold forever, one would have thought that maybe those two buckets had less opportunity. Is there a cost to achieve or some other focus that UTC didn't apply to take that out earlier?

David Gitlin - *Carrier - President and CEO*

Well, more than half of Carrier 600 is supply chain. But keep in mind that 85% or so of our cost of goods sold is buy. So, we are very weighted towards the buy element. So, it's only natural that a lot more of the savings will come from really going after the supply chain in a very structured and creative way.

G&A, I think, is really going to leverage a new muscle for us. As we look at this more strategic approach to really take down, G&A. Like I said, it's just too high a number. It's about 9% of our sales. It's just G&A and it will come down.

I think it's -- what we're going to do differently is really look at a really transformational type approach to it. And driving factory lean and driving automation, we're probably really in the first inning on automation. There's a huge opportunity of automation ahead.

We now have a group centralized focusing on it. We're deploying some specific tools in some of the sites that are taking hold and we just see that as a growth area for us ahead.

Sam Pearlstein - *Carrier - Investor Relations, Vice President*

John?

John Walsh - *Credit Suisse - Analyst*

Hi. John Walsh with Credit Suisse.

A question kind of around management incentives, and obviously there are multiple programs, but looking through the Form 10, you did call out absolute EBIT and absolute free cash flow growth. I just wanted to kind of understand why those are the metrics you chose and maybe any other views you have of that?

David Gitlin - *Carrier - President and CEO*

Yes. When it comes to overall management incentives, what you saw in the Form 10 is that coming out of the gates as a new public company. We basically take in a lot of what we have done at UTC and said that's going to be our initial framework. It's really going to be up to us and our board to work together and think about how we may want to modify that as we get into 21 and beyond.

The pieces you mentioned, that relates to our incentive comp piece. History, UTC is focused on EBIT and cash as the ICPs. LTIP has typically been more weighted towards total shareholder return in some of those elements.

We'll look at all of that. When it comes to IC, might we want to put sales as an element of that as we really emphasize topline growth? That's something we're debating and we'll work through with our board and our comp committee and you'll see more as we get into '21.

John Walsh - *Credit Suisse - Analyst*

Great. And then maybe just a follow-up on residential. Looking at the growth, you're looking for out in 2023 around some regulatory changes, you referenced to 2006 time period.

As I remember that, it was a pretty significant change in your standards at the time, like a three-point jump. Just -- I thought the industry was moving towards kind of smoothing, some of those regulatory impacts. Just curious why you think there'd be such a big kind of step change out in 2023?

David Gitlin - *Carrier - President and CEO*

Yes. Matthew?

Matthew Pine - *Carrier - Residential HVAC Business, President*

Yes. So, this one is more national in nature. So, you had the '06 and you had 2015 which was regional. And back in regional, really, the only -- the south markets got the increase in efficiency. So, you fast forward to this model, the entire country gets it.

So, the north goes from 13 to 14 and the south goes from 14 to 15. Now, without getting into a lot of engineering and design, when you start to get around 14.5 SEER or 15 SEER, you start to hit a cost curve and that becomes the challenge that we all -- we're trying to solve for. So, that's why it's going to be a challenge.

Sam Pearlstein - *Carrier - Investor Relations, Vice President*

Jeff, go ahead.

Jeff Sprague - *Vertical Research - Analyst*

I'm just wondering if we could just take a few more minutes to kind of dive in to VRF, in particular, and where you find it attractive. Certainly, there's concerns that just kind of the resi side of it could kind of be a little bit of a profit graveyard. Maybe there's other places that are interesting. So, a little more, just meat on the bones on where we go with this and what your plan is.

David Gitlin - *Carrier - President and CEO*

Profit graveyard. I'll give that to you, Chris.

Chris Nelson - *Carrier - Commercial HVAC Business, President*

What's that? No, we actually we see the -- so we're very present in North America in the VRF segment. And we actually play through our Toshiba joint venture on a global basis.

So, we understand the market fairly well. And we see the margin rates as, generally speaking, in line with our other equipment businesses.

So, I think the key is that what we need to be able to do is be on the cutting edge of development and growth. And any time you're entering a new market, you've got to have the right products and you can sell it in at average margin rate that is in line with your other equipment businesses.

So, we're going to focus initially on some areas in China. We're already up and running and growing in North America then we have other key regions that we find attractive and we know the dynamics of where we want to invest.

Sam Pearlstein - *Carrier - Investor Relations, Vice President*

Yes? Steve Tusa, go ahead.

Steve Tusa - *J.P. Morgan - Analyst*

There's not really questions, so I'll take a couple more.

Just a follow-up to Jeff's question. Specifically, on residential VRF, Daikin has a new kind of hybrid system they were showing at the show last week, looked pretty interesting. How does yours kind of compare that this kind of hybrid ductless system and do you see that as these regulations come along that that's going to chew up a little bit of kind of what had traditionally been a high-barrier to entry to the traditional kind of [ducted] replacement market?

Chris Nelson - *Carrier - Commercial HVAC Business, President*

So, I'll take the beginning and pass it out to Matthew. I'd say that you're talking about specifically in the North America --

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Steve Tusa - *J.P. Morgan - Analyst*

North America resi that kind of -- you called it a hybrid system --

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Chris Nelson - *Carrier - Commercial HVAC Business, President*

Yes. The hybrid ...

Steve Tusa - *J.P. Morgan - Analyst*

-- handler and the mini split and the --

Chris Nelson - *Carrier - Commercial HVAC Business, President*

Yes. We actually see it as a nice market opportunity to -- when you take a look at ductless in North America, it's already 10% of that marketplace, so we think it will be more, taking a look at that 10% and saying how do you then make a hybrid system that then interacts with our traditional ducted technology.

We do believe that we have a nice product in development and that it will be something that we can take a look at spurring further growth moving forward. But I guess I'll turn it to Matthew.

Matthew Pine - *Carrier - Residential HVAC Business, President*

Yes. I think it's opportunistic. Some of it's application-driven. It's zero lot line, it's noise. I do think that you're going to see a lot more electrification especially out in California and it makes sense there to have a hybrid system from a total cost of ownership perspective.

So, I don't think it's going to take over the world, but I do think that it's going to start having more penetration in certain markets.

Steve Tusa - *J.P. Morgan - Analyst*

And that will be able to kind of take some business from the replacement traditional ducted --

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Matthew Pine - *Carrier - Residential HVAC Business, President*

Correct.

Steve Tusa - *J.P. Morgan - Analyst*

-- replacement market.

Matthew Pine - *Carrier - Residential HVAC Business, President*

Which, listen, I think we're already starting to see some of that. If you look at the ductless market in general and how it's grown at 15 CAGR over the past three or four or five years, it's starting to eat in a little bit into the traditional ducted product.

And you heard me talk about it earlier about our performance has been stellar in ductless going from mid-single digit to high-teen shares. So, we do see it eating a little bit into the ducted market already today.

Steve Tusa - *J.P. Morgan - Analyst*

One more quick one on the commercial front. You guys mentioned you had had from number three to number one with this AquaForce chiller. What regions and applications did you guys kind of have such a nice like leapfrog type of event?

Chris Nelson - *Carrier - Commercial HVAC Business, President*

It was really in a -- it was focused in North America and Europe. Specifically, in North America. We actually -- it was a big product gap we had that we entered into the variable speed segment in the screw chiller market.

And that same type of product line in Europe allowed us then to get more heavily into the industrial segment. We've been very successful in doing that. So, it's really been a lot of Europe and North America growth.

Sam Pearlstein - *Carrier - Investor Relations, Vice President*

Rob, in the back.

Rob McCarthy - *Stephens, Inc. - Analyst*

Rob McCarthy with Stephens.

Two questions. I guess the first one, talking about supply chain a little bit. If you think about compressors are in one end and the motor is the other, there's certain areas where you could have more opportunity than others.

I mean, how do you think about the health of your supply base versus just basically driving as much cost as you can out of the system. How do you wrestle with that?

And then I have one follow-up.

David Gitlin - *Carrier - President and CEO*

Yes. On the supply chain, what we've done over the past year is look at how we work as one Carrier with respect to commodity management. So, we have different commodities. You're talking in compressors and motors, you're more into some of the engineered items.

And we do think that there's a lot of opportunity there. We have great partners that we buy compressors and motors from today. We have suppliers that are sort of relatively nascent that we're working with as well, and we see a lot of opportunity to grow with our current partners and grow with some new partners there as well.

And then in other parts of the supply chain, whether you're in raw materials or you're into some of the machining work, working as one Carrier can provide enormous leverage with the supply chain. And that that's what's in front of us. Because when you don't leverage it, you have local sites that end upbuilding local suppliers overtime, and you don't really leverage the overall scale that we have at Carrier. So, that is changing.

Rob McCarthy - *Stephens, Inc. - Analyst*

I think the second question would be around your kind of global productive base and how you feel about it in terms of fixed make and sell, what regions particularly give we're having a difficult time with Paris and other concerns globally.

And then how do you think about ACE and does ACE get translated from UTX into Carrier fully or you're going to have to do kind of an overhaul to have your own Carrier business operating system?

David Gitlin - *Carrier - President and CEO*

Yes, I think when you look at our footprint, we have 49 manufacturing sites worldwide and that will come down overtime. And we do have low-cost centers of excellence. So, we'll continue to make sure that we have the right work in the right locations.

So, a little bit of decrease in some of the subscale site. But overall our footprint is pretty good with 75% of our manufacturing hours in low-cost. We did just release a new operating system that we're calling the Carrier Operating System. And ACE has evolved a number of times over years. As part of ACE, by its definition is continuous improvement, so the system itself has to evolve. I think were on version 12.3 or 12.4.

And what's interesting is as we've done at UTC acquisitions, we always try to take the best of the best and incorporate ways to upgrade ACE and we have done it many times over UTC.

We took this opportunity as we become a public company, to keep what we think really works very well, maybe eliminate some of the reporting aspects or other things that we think can provide some more agility for a commercial-only business. So, we've released a commercial-only Carrier operating system. We think it will give us great runway.

Sam Pearlstein - *Carrier - Investor Relations, Vice President*

Julian, go ahead.

Julian Mitchell - *Barclays - Analyst*

Thanks. Just two quick ones. Maybe going back, Tim, to that restructuring. Of the 600 million of savings you target, what are the costs to achieve that? And maybe give us some sense of the phasing of the cost to achieve.

And then a very quick one. The HVAC controls business is put with fire & security, maybe just explain why it's not with HVAC.

David Gitlin - *Carrier - President and CEO*

Well, let me hit the second one quickly. I kind of want to give it to Jurgen because he hasn't had any questions. But I'll just -- part of the reason is that he sells to our peers. So, we kept it separate, for primarily that reason.

It gives us an electronics COE and Jurgen and his team have done a superb job with it.

You want to add to the --

Timothy McLevish - *Carrier - CFO*

The cost for Carrier 600 are embedded within the savings. So, that's already reflected in the net savings. It's net -- 600 is net.

Sam Pearlstein - *Carrier - Investor Relations, Vice President*

And Jeff, go ahead.

Jeff Sprague - *Vertical Research - Analyst*

A couple quick cleanups from me, too. I know we're going to hear, Tim, tomorrow on Otis that suboptimal tax rate. This -- is 26% your kind of natural tax rate that seems high? Maybe you have some work to do. What work can that had overtime?

Timothy McLevish - *Carrier - CFO*

We have some work to do and that sort of start out with kind of the hand that has been dealt. We would expect and have a plan to bring it down. I don't want to quite dimensionalize it until we've finalized the plans but we think that there's some good opportunity to reduce it.

Now, one of them is [obvious]. We sit with a high -- with a high debt rate. And as you know, the new tax provision, we have some guilty penalty within it. That's why a comment, when we said we bring EPS down, it's I would expect the tax rate to come down as we bring our debt down.

Jeff Sprague - *Vertical Research - Analyst*

And also, just maybe on that same point. The free cash flow conversion target, do you think you're inside your window for 2021? The 90% to 100%?

Timothy McLevish - *Carrier - CFO*

I'd say we may take to 2022 to get to it but we're close.

Sam Pearlstein - *Carrier - Investor Relations, Vice President*

And, Nigel?

Nigel Coe - *Wolfe Research - Analyst*

So, on the -- you got a relatively small retail projection business, [Salinda], in Europe. How integral is that business to the industrial refrigeration strategy expanding into that adjacency? Is that integral to that?

And then on containers, good business, great market share, good margins. How impacted has that business been by the trade war and would you expect some sort of [resolution] if that continues to kind of impact that business to the good in 2021?

David Appel - *Carrier - Global Refrigeration Business, President*

All right. So, on the first question concerning the criticality of the technology we have today in commercial refrigeration moving into industrial, it's very core to what we're doing because we're actually taking an application that we developed 15 years ago in food retail using CO2, first of its kind, great installed base, and we are focusing on a specific segment.

So, when we talk warehouse refrigeration and just definitional, some people might call it industrial, we're not going after the big ammonia-based, large type industrial process and we're really focusing on cold storage warehouse up to 1 megawatt where for us is a sweet spot.

If you look at the cost curve, we have an inherent advantage over the ammonia technology in terms of cost and serviceability. So, that's number one.

Look, on the container side of things, I said, it's a flattish market this year. Our big shipping lines are telling us, look, right now, we think we're going to buy from you roughly at the same level as we did last year.

But I would say it's a market that feels like it wants to grow this year, and there are concerns over trade war and what that's doing. But I'd say, the trade war is -- the tension is depleting. People are feeling a bit better about that.

Refrigerated trade growth is very strong. It was up 4% last year. It should be up 4% this year. So, we like that. One metric that we really like to look at is -- that could signal some upside is half the fleet today in the industry is owned by these large leasing companies. They own half the inventory. They're leasing out to the big shipping lines.

One thing we look at is the lease utilization rate and the leasing utilization rate right now is at 98%. That's very, very high. So, you start looking at that and say, could that be a potential buy signal?

So, it feels like it [wants to go] at couple of watch items. Number one, obviously, what's going to happen with the virus and number two is fuel prices. A lot of these shipping lines are very sensitive to fuel prices. It's a big part of their operational cost.

Fuel prices jumped this year because of new IMO regulations around using low sulfur fuels. So, we see the jump. Shipping lines are passing that on as surcharges. I don't know if they're able to pass all of that on. So, we want to see if that has an impact on profitability.

But overall, look, it's still going to be at a good level. I would say, again, we'll have a couple of watch items but it feels like it's a segment that wants to grow.

Sam Pearlstein - *Carrier - Investor Relations, Vice President*

Gautam?

Timothy McLevish - *Carrier - CFO*

Before we go on, can I go back to Julian's question on the -- and provide a little bit of a clarification. Most of the cost associated certainly with supply chain and a lot of the factory and some of SG&A is embedded within the Carrier 600. We have set aside a little bit and embedded within our plan for additional restructuring costs associated. We're going to move factories and lay off people from an SG&A standpoint and so forth. There is some embedded within our plan but it may not be fully consumed within Carrier 600.

Gautam Khanna - *Cowen and Company - Analyst*

Thank you. Gautam Khanna of Cowen and Company. I have a couple of clean-up questions. First, you mentioned 50 basis points of annual margin expansion. Can you put a finer point on how much of the Carrier 600 than actually you net by the end of this time period? It would seem like most, if not, all of it then is reinvested. Is that a fair assumption?

Timothy McLevish - *Carrier - CFO*

Well, so, we think about it. I mean, they've talked about to some statistics. I would say that the first year, we're kind of $150 million out of the $175 million we would expect to see from this year.

We will taper that off over the next couple of years past that. So, it will be an increasing contributor to actual the bottom line. I would say maybe a third of the improvements come just from the cost savings effort.

Gautam Khanna - *Cowen and Company - Analyst*

Okay. And what is the delta between the JV income or JV income and net income relative to what you dividend out, so, what you get a delta on the free cash conversion just from JVs?

Timothy McLevish - *Carrier - CFO*

I think our JV income is $230 million and I think three fourth of that or 80% of it is actually dividends out.

David Gitlin - *Carrier - President and CEO*

Yes. When you look at our conversion and the reason we're saying 90% to 100% because our expectation of ourselves would be 100% but there's -- one headwind is we probably lose about five percentage points because of this disconnect between JV income and JV cash and about 5% just from pension.

So, we come out of the gate and set about 90%. We got to really drive working capital to make sure we can get to that 100%.

Gautam Khanna - *Cowen and Company - Analyst*

And last one for me, David, maybe you can talk about the timeline to review the portfolio when you might expect to have divestments announced and any sense for the aggregate size of what might ultimately be jettisoned.

David Gitlin - *Carrier - President and CEO*

Look, the portfolio analysis is something that's a way of life. Anytime you oversee a portfolio, you're always looking at the portfolio. So, we've been looking at it. We'll continue to look at it and we'lllook at it for decades to come.

So, that's not -- it's not something where we say in a period of time we're going to come forward with some big revelation. We're going to continuously to be rigorous, disciplined and look at that portfolio as we go forward.

There's no size. There's nothing. We're just making sure that everything we look at makes sense for us. There's, obviously, natural constraints out there. We have that. We have -- there's regulatory things we'll pay attention to. There's the tax-free spin. But we'll look at everything through a very rigorous set of lenses.

Sam Pearlstein - *Carrier - Investor Relations, Vice President*

We could just have -- we'll take these two as our last two questions with Dean and Martin.

Deane Dray - *RBC Capital Markets - Analyst*

Yes. If I'm not mistaken, the only time we've heard about price increases was from Tim and I'd be interested in hearing from the businesses what they're embedding for price increases for the next couple of years.

David Gitlin - *Carrier - President and CEO*

We can -- I can try it at a Carrier wide level. I mentioned that we're going to get 75 of tailwind this year through volumedrop throughand price increases and probably 50 of that 75 is from price.

Martin Sankey - *Neuberger Berman - Analyst*

Okay. Thank you. This is Martin Sankey from Neuberger Berman. A couple of follow-up on these types of questions. First, as a follow-up to the portfolio question that was asked, is there any glaring businesses within the portfolio now that just stand out as being nonperformers or issues? And then I have a follow-up.

David Gitlin - *Carrier - President and CEO*

No. I would say that when you look at our portfolio, there are some that are just clearly high margin, high growth, very well positioned and we just got to keep investing and some are lower margin, lower growth areas than others that you would naturally focus on. We won't get into specifically which parts are those. But there's some that really stand out as very high and some that really needs some improvement.

Martin Sankey - *Neuberger Berman - Analyst*

Okay. And going back to capital spending, you mentioned -- there's been many mentions of the increment to investment that are going on. How do you see it normalizing over time going from 300 to 400 to 450? Does that come down over time or are these -- and where do you think capital spending versus depreciation comes out that's normalized?

Timothy McLevish - *Carrier - CFO*

So, if you look back after -- at Carrier's history, we spend on average, it fluctuates, $50 million or so a year. Last year, it was 243. But we would expect it kind of normalizes at a 300 with some fluctuation from year to year but that's kind of the sweet spot of our portfolio.

Historically, I don't see any reason why it would change materially on a going forward basis. Again, we're 100 million to 150 million higher in 2020 but that's the result of some of the spin-level spending and some of the regulatory changes and so forth.

Unidentified Participant

(Inaudible-microphone inaccessible).

Timothy McLevish - *Carrier - CFO*

It will -- we would expect to maybe a little bit higher than normal in 2021. I would say by 2022, it should normalize.

David Gitlin - *Carrier - President and CEO*

Okay. Well, look, let me just wrap it up. First of all, my thanks to the presenters. My thanks to all of you that have joined us here in the room and thanks to those that have dialed in.

I hope that you took away the confidence and the energy that this leadership team has. We're up here representing 54,000 people and I really believe that change is in the air and our best days are ahead of us. So, thank you very much for joining and we'll see you out in the reception.