IngersollRand

September 13, 2018
2:00 PM EDT

Josh: All right, welcome back everybody. On stage we have Ingersoll-Rand, Chairman and CEO Michael Lamach, CFO, Sue Carter. Folks, thanks for taking the time, thanks for braving the incoming hurricane to your hometown. I know not everybody from your region made it and we'll be sure to pass along your bravery.

Mike, if you wouldn't mind just starting off, kind of giving us a state of the union, how everything has trended? Clearly, non-residential markets have been very strong for you guys but maybe just update on where we stand on some of the bigger picture issues.

Michael Lamach: Yeah, bigger picture, you can't hang around anybody from Ingersoll-Rand for very long without hearing about three things; sustainability, a business operating system and a culture. Why does sustainability matter so much to us, why do we think it's such a big strategy for the company? And it's because there's no bigger demand energy user in the world today than HVAC systems in buildings, in transport refrigeration, transport refrigeration systems and then industrial process; heating, cooling and air compressors. If you think about demand for energy and Greenhouse gas emissions, we have a massive opportunity to change the energy intensity of the world but reduce gas emissions.

As shareholders it's good because we get paid for that, that's certainly where the markets are going to grow faster than the overall economy which brings me to the second point, a strong operating system, years to build. We know that when we put revenue in the top of the system we feel like we understand we're going to get something that our time looks more like gross margins incrementally back out. That's important to us because in terms of the cash generation of the company it's been strong, it's been consistent. We've been able to build business that technology matters, customers buy efficiencies, they buy what we sell. We service this which has some resiliency in various economies whether it's good or bad in our compressor business and in our HVAC commercial business, almost half the business now is services which is something that we worked hard over the last decade to make that an important part of the mix of the company.

And then we've been pragmatic at (inaudible) in terms of our capital allocation and how we think about that. We've invested heavily in the business. We're going to continue to do that organically. We've always had a view toward growing the dividend at or above

the rate of earnings growth. We've been pragmatic about share buyback, we said we're always going to at least control dilution in the stock and then we're going to be thoughtful about deploying from there as to whether we think the best returns are back in our own stock or into acquisitions.

And then finally the culture of the company. It's been a steady and strong management team over the years. It has a deep understanding of the businesses that we're in and we've built a culture in the company based on lean and interoperating system that I think is something that is sustainable within itself, it's something that we can perpetuate through lots of generations of management going forward.

Josh: Great, thanks for that. So, I guess thinking about the fundamentals of the business. I know it's been fashionable to call the peak and non-res from time to time over the last few years. Clearly your business has not seen that or any evidence of that. Thinking about bookings, you know, kind of year-to-date, up strong, double digits. Nothing about that seemed unsustainable or some big late cycle push. How would you characterize what's going on in the market right now? I mean, these in theory are strong replacement-based markets that shouldn't grow 17% but yet here we are.

Michael Lamach: Yeah, sometimes we get used as a proxy for non-res North American construction. I want to put that into perspective for you first. Only about 30% of the company is HVAC North America and of that 30%, 50% of that now is services. So 15% of the company is in non-res construction in the U.S. with the Trane business. When you think about that 15% of the company it really splits between institutional construction which is growing, it's booming, we're building a backlog, we're winning share and margin there. And the other half of that, so 7.5% of the company, is everything else which includes manufacturing process heating and cooling, which arguably is growing, and then it includes the commercial end of HVAC which goes from datacenters which are booming all of the way down to retail centers.

So, it's become less important to us with growth in the service business and more diversity around markets than in the past. With that being said, when you answer the question where are we in the North American commercial cycle? Institution is growing, great backlogs in growth going forward, markets like industrial process, heating and cooling are growing and markets like datacenters and some of the larger more complex commercial targets that we have are also growing. And everything else is fairly stable. So it's a good environment.

By the way, the rest of the world is all growing too so this is one of the only times that I can tell you that I've really seen where we're having great success throughout the world in every line of business in our HVAC and climate segment in particular.

Josh: So when I think about the equipment side of the business, you tend to tilt a little bit larger or at least more balanced then some of your peers who I think are a bit more overweight unitary. I would imagine that means you get a little bit better look vis-à-vis backlog, maybe even into 2019 at this point. Is that a fair assessment just given what markets are growing and the product mix you have out there?

Michael Lamach: Yeah, for the 15% of our company, that is product North America. Half of that is applied, 7.5%. So the institutional is one of the applied and the other 7.5% is generally

you can think about that as unitary which runs from very, very large unitary to go in the datacenter all of the way down to what would go into a retail setting. And it is balanced, it's about 50/50.

Josh: And when I think about the push you've been making in China, I would imagine a lot of that ends up in backlog visibility as well. So, clearly some strong growth there. I think some investment diluted the margin up front but that seems to be getting better as well.

How should we think about trends layer in there overtime given that we're over the first wave of investment; growth seems strong, you know, maybe contrary to how people feel about China, it seems a bit more idiosyncratic to Ingersoll-Rand but maybe contextualize what's going on there and the level of visibility that you have in that --

Michael Lamach: Well, when you think about China, you have to think about that the built environment in China is ten times larger than North America. So if we do $4.5 billion in North America commercial HVAC. If we had the same share in China we'd do $45 billion if you think about that in the long run. Most of that Chinese infrastructure would have been built over the last 25 years. When you think about that infrastructure from three to 25 years ago it would have often been built with less efficient codes and standards and all of that now is really available for retrofit for improvement. It's also [timed] with the fact that the Chinese government has really put an emphasis on the environment; clean air, clean water and on the energy intensity that China has.

No one is better positioned to reduce the energy intensity, again, at HVAC and buildings and industrial process heat cooling and air and the Chinese will pay for the technology now to get the efficiencies and to get the Greenhouse gas reductions. And so it's really a good perfect storm of having the right technology, the right channel structure, in a market that's ten times larger than the U.S. that's made it a critical imperative to clean up air and water in China and reduce the intensity of energy in the country.

So, when we put in place the last piece for us which was a direct selling organization into the complex applied systems business, it's been very successful. We were able to dramatically grow the market share that we've had and apply it but I also see the service business almost immediately trailing that which is the part we would hope to have happen which would be a service business over time that will be about 50% of the equipment business.

Josh: Have you seen competitors follow suite or adapt their strategy in China based on your early success with the direct sales model?

Michael Lamach: Well, strategy is a system of things which includes how we would think about the analytics around product management and how we think about the products design and systems to put in the marketplace, about the channel structure and of the training of the technical sales force to be able to sell a technical product into the market. We've had an investment in our physical footprint for service. We're the largest service provider in China, direct resources into China, and we've invested in all of the digital aspects of buildings to go around that. So, when you say competitor modeling, what we're doing in China, you'd have to model a system of things over a long period of time. So I like our position globally, I like the position in China. China has always had a higher margin profile for us than the rest of the world and even when we were investing in China in the

direct sales force, it still had a higher margin profile. We think that 2018 margins will look like 2017 margins so we've done the heavy lifting and we think that 2019, 2020 and on it's a tailwind to growth margins.

Josh: And why do you think that is such a richer margin environment? I mean, you hear about price competition in China. From some players I think it's probably a different product set and maybe more of a bias on the mix itself to mid-tier versus high-tier but I've heard that comment from you consistently now that it is richer over time but what about that market is different than say North America?

Michael Lamach: Well, one of the things that most of our competitors go to market sort of an indirect distribution model and it's a bit of a book and turn distribution model. If you think of the complexity of being able to model systems, come up with system alternatives, specify, install and service those systems, it doesn't lend itself toward a distribution model taking care of that. So that's one important element.

The other thing is just the work we've done around product development and new technology introduction of being able to get not only the most efficient systems out there in the marketplace but have those systems use next generation refrigerants which have 99% lower global warming potential then the predecessor refrigerants. So if you think about that combination out there of getting best efficiency with best Greenhouse gas emission performance, that in and of itself is a significant advantage.

Josh: Now, [VRS] is obviously more -- a more dominant technology there or at least more relevant than it is elsewhere in the world. In this direct model, have you seen customers say that's really great but we're going in a different path or is the market big enough on the applied side to say we can be very active there?

Michael Lamach: Well, no you wouldn't say customers that are saying that because you can't control industrial process and heating through ductless air conditioning. You can't control pressurization in healthcare or electronics industries where there's clean rooms with ductless and so what you're seeing is a higher growth rate of applied systems in Asia than ductless which is mature and in the U.S. we're seeing a higher prevalence of ductless coming in. It's normalizing a bit now but you saw that for a while that was coming in which explains the theory about why we think you have to have all technologies everywhere in the world because at some point in time, you're applying the best technology to the best application in the building. There's a reason and a time for -- and choices to be made between those various alternatives. That's also why you have to have a technical sales force capable of explaining the differences and being agnostic as to what those actually are.

If the only thing on your applecart is ductless or the only thing on your applecart is applied, you're going to sell us on your applecart. When you've got an applecart with everything on it, you can be a lot more consultative in that relationship with the customer and that's an advantage.

Josh: Now one thin you just mentioned about the demand curve in China or what your customers are demanding there, it sounds a lot more industrial than it does commercial. So if there's a commercial property overheating in China, would you really say less of a big deal because we're tilting more industrial now?

Michael Lamach: What I'd say to tilt is really it's residential and everything else. Residential we really haven't had much of a interest in the market there in the residential side, not a lot of differentiation and handled very well by sort of an [impend] distribution base. Sort of the commercial and then certainly the industrial and the institutional lends itself very well toward a direct model with a full applecart of product services on the cart.

Josh: That applecart thing.

Michael Lamach: Applecart, yep. Got --

Josh: Ingersoll-Rand, more applecart.

Michael Lamach: Right.

Josh: Going back to the service model and you mentioned that [a lot] is kind of the end game for a lot of the push you've made to bring services in behind it. I think your path in that market has been different than some of your peers which defines services pretty broadly and in some cases have guys driving around in trucks changing filters. Where do you see yourself in the service component? Is it all very high-end, are customers saying look, if you want to do the high-end service you have to do the lower end stuff as well? You know, maybe kind of place yourself in the industry there where you compete in services versus some others?

Michael Lamach: Yeah, at the end of the day customers make large investments in these systems. Ten-percent of the investment is the install cost, 90% is the energy consumed and maintenance intervals, the refrigerants that leaked over time and so when you're able to sell a customer a total cost of ownership over a 30-year life of the equipment, 90% of the value is in the services.

And the services that matter can depend by customer and by end market and what's important to them but we've got customers that are very focused on the energy consumed in the system. So the ability for us to be able to model a building and then commission the building and continuously commission the building back to the model is very important for customers that want to control the energy usage in the building and the dollars associated with the energy. Some customers are most concerned about up-time, think about datacenters. And so here, you know, what can you assure me in terms of absolute up-time or unplanned downtime for my datacenter? And so there's an offering that we've built that would allow us to do that supported by even rental fleets that can temporarily provide support if required.

We've got customers that have incentives to have zero Greenhouse gas emissions or to limit the Greenhouse gas emissions by X percent. We're able to guarantee in those cases lack of emissions or lack of using the wrong gas and be able to get their credits in the market for using the right sorts of refrigerants around the environment. So we're tailoring offerings around that.

What we like is when we're able to take some risk and have it shifted away from the customer to us and we can manage that risk through all of the automation, all the digital support that we have about being able to see what's happening within the system and then

decide how to provide that service or how to provide that guarantee to the customer back. So in essence, it's eliminating a lot of sort of the more trivial and mundane tasks and it's allowing us to really perform a service that's valuable to the customer.

Josh: I guess the other end of that is that that's not a service technician that grows on trees. So is it harder to find that technician out there in the wild to bring them in and grow that business versus throwing someone in the truck to change a filter?

Michael Lamach: That's why culture matters and that's why we historically have been 95%, 97%-plus retention of the critical roles inside of the company because the best way to eliminate that issue is not to lose the good ones. So, having the right kind of culture to support their development, their growth with the company is critical. Being a great place to work that respects them and it keeps them safe is an important thing to those folks.

After that, there's opportunities with technology to bend the curve where if not the linear one-person equals X dollars of revenue capacity, we could use technology to bend the curve. We can use master technicians that use digital apparatus to be able to view and see what's happening with more junior technicians on site where we have the opportunity to look and inspect the system before we go and work on it to make sure that we understand sort of what to bring, how not to have a second call, potentially even to fix the issue remotely would be another example of that. Those are ways of bending the curve.

Yeah, and then finally we're always looking to recruit and find great technicians and so we're the largest service provider now of commercial HVAC systems in the world in terms of our own physical footprint and we've always got an open ticket for new technicians to come join the company. We know we're going to need them and use them and we have an open door for that.

Josh: Got you, when I hear all of those things around technology and retention it triggers the idea of investment and a drag on margins that you guys haven't really talked about. Although clearly it would have been in the business, you've absorbed it along the way. Does there come a tipping point where you've said, look, we've made substantial investments and now we get to harvest those and you'll see incremental margins accelerate or is this just continuing investment because there's always a growth output from it?

Michael Lamach: It's the latter. I think that when you say we're going to go harvest something, it's the beginning to the end. We're always trying to get one more kilowatt per ton of benefit than a competitor. We're trying to get, you know, one more digital advantage over how we could view and see and model buildings and systems and so there's a constant pace of innovation that creates a bit of a protective mote around the business. And if you're ahead of the regulatory curve and if you're ahead of the technology curve, it's something that you can get paid for from customers because you're creating economic value in energy not used or in maintenance that's not required over the life of these expensive systems.

Josh: So maybe shifting over to a smaller business, the one that ends up being topical whenever people have shorts on. Residential has had a strong year all year long. I think -- or all year long, we've gotten a little less visibility, your reporting structure has changed a bit for that so thanks Sue. I think [hardy] data up mid teens in July, so that's probably

continued but you've had a major competitor with some outage issues. Have you noticed share move around a little bit? Has that been something you can even see in the marketplace as something you've benefited from?

Michael Lamach: Well, remember, residential equipment again is about 10% of our company so we're -- we do parts and services a little bit beyond that but 10% is the equipment. We've had a really good run for a long time, four or five years around share and margin expansion. The business really runs with great operational excellence. I would say it's one of the higher, if not the highest, really operating performance in terms of margins that we see out there. For us it's been an investment in the product but really in the dealer base and making sure that we're covering the market with the best dealer base.

And so, yeah, we've had a competitor that had an unfortunate incident that we saw the videos and the pictures of that and happy that there was no loss of life there because it was pretty devastating in terms of looking at that. And surely that volume has to go somewhere and we would be a recipient and a part of that volume.

Josh: Got you. I think one of the bigger surprises in this space over the past call it 18 months has been the pricing power. This hasn't been a bad pricing industry in an extremely long time now but in an inflationary environment, the ability to [claw] back and then some I think has surprised a lot of people in the room. That said, we're kind of leveling off on some of these inflationary elements, particularly the metals, particularly copper. How should we think about price yield from here as inflation starts to dwindle? Do you anticipate that that starts to flatten out or an environment where demand is still growing pretty strong globally that pricing should following if only a function of demand.

Michael Lamach: Well, I've been in this business 33 years and I had actually not seen it ever not be a strong pricing environment. With that being said, there are periods, I can think of five, where material inflation has outpaced it for a period of time but anybody that's followed the industry for a long time would know that this is generally the proverbial pot of gold at the end of the rainbow there because the industry will price, hang onto price, and then eventually you've got even flat material inflation would allow some margin expansion. And of course in 2016 we saw we had priced in copper in 2014 and 2015, 2016 copper goes down. In our case we had 160 basis point positive spread just to give you an example of that sort of phenomenon. So, you go through a six-quarter period like the industry did in 2016 and 2017 -- I'm sorry, 2017 and even a little bit of 2018 here and you know, at the end of the day that it's going to be a positive margin expanded at some point in time. I think the dynamics shape up that way again.

Josh: Got you. Do you expect that to widen again into next year just because you're carrying over more price, I think some increases probably went through more mid-year than to start off and inflation comps get a lot easier and in some cases go down a little bit. Is it a fair scenario to see that widen next year?

Michael Lamach: The price activity this time, again if I go back to like the five times has been greater than I've ever seen. To me what I mean by affectivity is the amount of price and the pace at which price is realized has been higher than I've ever seen because of all of the noise around tariff and not even that, it's more -- even wage inflation to a certain extent.

So I do think at some point in time you'll get some moderation and I think there will be a

widening spread. Whether that's in 2019 or 2020, you know, I don't know, but I think it's certain that at some point in time that we'll see moderation.

Josh: So just to hit on tariffs while we're here, maybe just give us an update how you see that evolving from your own supply chain and how you think that has impacted your own inflation or how you see that playing out.

Michael Lamach: Well, I mean as a company in terms of the direct impact to tariffs, there's little direct impact because 95% of everything that we sell in the U.S. we make in the U.S. and the same would hold true for China as an example. What's happened though is that derivative effect where you've got a 25% tariff on steel and you've got U.S. producers that immediately raise prices 25%. So you end up with that residual effect of that or derivative effect to that. So that's happened, it's been well baked into at least what the thought around the cost structure needs to be which is then related into what we think we need to do from a pricing perspective.

So, you know, the industry is dealing all with the same dynamics on that and I think price is looking to be sort of accordingly matched across the competitive landscape.

Josh: So if I roll all of this in, and I won't go so far as to ask for 2019 guidance here, although you're free to offer.

Michael Lamach: Sure.

Josh: It seems like with investments starting to get into the base, particularly the ones in China, with pricing perhaps being more of a good guy in the next year, price cost being a bit more of a good guy that we should see incremental margins perhaps accelerate in the next year. Is that a fair starting point or is there some other investment that you can think of that we should be aware of that may bring that back down to a normal level?

Michael Lamach: Well, I think you take your starting point actually which is true and you add to that. You've got an institutional construction market that doing well and we're building backlog already for 2019 and even 2020. You've got a decent industrial environment where the backlog there certainly growing into 2019 and even 2020. And you've really got a Thermo King market which is building backlog for 2019 just because of the backlog of trucks and trailers that are available to fit refrigeration units onto is pushing that out into 2019 for sure. So I would expect 2019 to be a good year with noise that will happen in this whole tariff discussion.

But we're effectively managing tariffs well and it's being priced into our thought process going forward.

Josh: So it sounds like there's an above-average amount of visibility into 2019 or entering the year relative to what you would normally have in September. Is that fair, is there like a percentage coverage for next year that you can think of that would maybe help frame that?

Michael Lamach: The things we know right, we know what pricing we've put in, we know what backlog we're carrying over. I think it would be foolish to have some sort of pinpoint assumption on where commodities go. I think you have a range of scenarios where they go and we

would take a range of actions against that, right, you know, relative to how we would think about dealing with commodities if they were to further accelerate. One thing for sure is we know that productivity in the company will offset other inflation like it does every single year, that's just a core element to the operating system. So, you know, there's things about our operating system that gives us confidence knowing that we'll expand margins. How good the top-line will be and sort of what happens with material inflation. You know, those are the variables, the wild cards, kind of going in.

Josh: So going back to the industrial backlog, I think versus two of your bigger peers, you tend to tilt a bit larger on the machine size. So thus far, I think you lagged early on in the recovery, it's about even right now but I would imagine there comes a point where you take more of a leadership position just by virtue of these are bigger machines, it takes a little bit longer to get the pig through the python. Is that a fair characterization or is there something in your mix where you can say, well, we are exposed to Market X that hasn't been as cooperative under the surface?

Michael Lamach: Well general industry large compressors, which is our wheelhouse, we're $300 million still below the peak in 2014 and we've historically leveraged those at 40% to 50%. You can say it was $120 to $150 million of earnings potential just sitting in getting back to the old peak. In my mind they're sort of the hardest hit industries around this tariff discussion is general industry because here you've got our customers that need capacity but they're not quite sure what the rules of the game are going to be about where to put that capacity.

I think once the rules of the road are understood in terms of a logical place to put new capacity, capacity that's required, will be a benefit to us and being able to go fulfill that demand.

Josh: I think on the margin side in industrial, and you and I talked about this a little last night, that there's -- it's tempting to want to benchmark Ingersoll-Rand's industrial segment versus some of those peers with margins well into the 20's if not upper 20's on an EBITDA basis. Can you maybe help us benchmark kind of the apples to apples comparison and where maybe there's an opportunity to close that gap whether it's cyclically just from getting these big machines on or if there's something else on the cost side that you're looking at?

Michael Lamach: Yeah, so the compressor business is usually where people want to draw the comparison. Two billion out of the $3 billion industrial segment is compressors and we run that business in the high EBITDA range. If you take the earlier discussion and say what would $300 million of revenue do at 50% leverage, you can get yourself into the low 20's pretty easily. You think about compounding that with, again, continued good service growth there, you raise it from the low 20s perhaps to the mid-20's and then still attacking some of the areas that we have in technology in some of the oil free rotary strength that our -- one of our competitors has particularly in Europe, we're then able to have a full and complete roadmap to kind of where those margins come from. So, very clear roadmap around that. It starts with probably $300 million of revenue supplemented by the service business, supplemented by continual share gain in the oil free rotary air compressor segment and that's the roadmap for where we get there, how we get there.

Josh: Got it. So turning to a topic I know a lot of people have talked about in this room and

pretty much every room where HVAC is spoken about industry consolidation. So, I think there are no obvious air gaps in the portfolio that you would say, boy, we really need to scale up, you seem pretty well rounded and have a good channel strategy. Remind us how we should think of Ingersoll as potentially a consolidator in that industry and what may be appealing where it's filling out brands, taking out cost synergies, just thinking about the big moving parts of why you would want to be a consolidator?

Michael Lamach: Well, first of all you've got to start with a point of view that the baseline of foundation for us is we don't need to do anything; absolutely nothing. I mean, in terms of how the acquisition goes, we've got the technology, we've got the channel structure, we've got the model that we think is going to be successful and continue to build on that. And we're covered everywhere geographically. So that's a really great starting point because then anything that you want to think about beyond that has got to be really compelling. And the only way to think about what's compelling is you've got to think about these things one at a time. There's no reason to think about sort of in general how this stuff would work because you need to think about the specifics of the industry. I think it's tougher for the fifth through 15th players in this industry to keep pace with regulations with efficiency gains in the product with the service requirements and just the overall sort of technology investments. I think the national consolidation in five through 15, you know, again, how that would relate to how we think about that, where's the strong IT, is there something that we would think would be particularly leverageable in terms of channels, etc., because it would have to be beyond the run of the mill synergies, two companies coming together to generate.

Josh: Do you think within the top four that there's a need or a necessity for consolidation there. I think people talk about that most often. It's maybe harder to conceptualize on to your point, a specific basis versus a general one?

Michael Lamach: Well, the need, I mean, no. I mean nobody has a need to go do that unless it's going to be good for their shareholders too and necessity, I can tell you for one of the four, my answer still stands, you know, we don't have a necessity to do something. If there was something particularly meaningful that we would do that would be good for shareholders we would look at that but there's not a compelling strategic reason that we feel like we have to do something. Whether or not any of our competitors feel like there's a compelling reason that they need to do something, that's a better question for them. Of course we thought through what combinations, you know, what makes sense or not makes sense for them and for us and we've thought through kind of which ones -- how we would attack competitively if there were combinations that didn't involve us.

So, I mean, we're thinking through the game theory around that but for now, the main takeaway, there's no need that we don't have to do something or for the sake of doing something.

Josh: Now, one of the elements that I think has been a big focus for Ingersoll under your tenure has been kind of getting closer to the customer. I think Trane in general had maybe added layers in between that got a little disrupted along the way. But under IR ownership I think you guys have kind of reestablished contact there. If another property were to be brought on, I think everyone has their own different strategy; some are closer and some are further away. Is that a challenge to be managed for anyone who looks to be a consolidator that you have some things that are direct, some that are more distributed. Is

that something that prevents the industry from wanting to get too close?

Michael Lamach: Well, what I would say is that we have a strong model that's been consistent for a long period of time and it's work because it's proved out with share and margin expansion that it's the right model for us. So therefore, you know, we're not looking to change our model and we want to make sure that beyond that, any merger, any integration has got to be thought through from a cultural perspective how that would work.

You know, in our commercial businesses, we go to market directly. We don't go through distributors in that regard. That model works for us. We're going to have great controls and great equipment and we have a passion for the technology, for the efficiencies of the systems. We're going to invest in technology at a high rate and we believe you have to have a direct service model on this expensive complicated equipment. So, you know, that's the model that we have and we don't have a reason to want to change that model at this point.

Josh: Terrific. I think we have time for a couple of questions if there are any in the room? Mike, maybe just one more from me on capital allocation -- oh do we have one?

Unidentified Audience Member: This will be a really quick one. You guys just talked a lot about the China commercial opportunities and I just wanted to get a sense for how big the China business is now on the HVAC side?

Michael Lamach: Yeah, you can think about that as sort of the billion dollar range for us, growing --

Unidentified Audience Member: Going to 45?

Michael Lamach: Yeah -- You know, just the analogy, $4.5 billion commercial in North America, ten time larger market. You know, you think about the opportunity there, it's mind-bending.

Unidentified Audience Member: Yeah, (inaudible) would be pretty good.

Michael Lamach: Yeah.

Josh: You should do that. Maybe one more from me on capital allocation. You guys have stayed pretty shareholder friendly and done a lot of return of cash to shareholders. I would imagine that continues to be the preference unless something really compelling were to come along. Still kind of the modus operandi here as we get into a strong outlook over the next couple of years?

Michael Lamach: No changes to what we've been doing.

Sue Carter: No, I think we've committed to deploying our excess cash over the long-term. I think that starts with investing in the business which we talked about and you know, I would also say on the investment in the business, and we talked about this a little bit Josh, was that the investing in the business in ideas with great returns is a commitment in a company not just a special event. It's also continuing to grow the dividend at earnings rate. It's to look at M&A, it's to buy back shares to offset dilution and also when there isn't a better idea for the capital and when we're trading below our intrinsic value. So, you're absolutely right, it really hasn't changed but we've generated great cash flow, our

balance sheet has strengthened and we haven't changed the capital allocation strategy adn we're going to continue to do that.

Josh: Just more of the same with perhaps a zero on the end of it?

Michael Lamach: More of the same with more cash to be able to -- you know, it's -- I think that the cash flow IRC of the company, it's been a tough [quartile] kind of company, I want to say last year it was probably 21%, 22% cash flow IRC. This year it's kind of trending around the same rate. Probably five-year average has been around 19, 20, high teens. So, I don't know if cash compounding is the right term but 20% compound growth rate cash IRC is a great optionality for us to be able to do -- to make smart capital allocation decisions. And again, to Sue's point, I don't see us changing from what we've communicated as being our methodology for thinking about it.

Josh: Perfect. I see we're at time, Mike, Sue, thanks so much for joining us.

Michael Lamach: Thank you guys.

Sue Carter: Thank you.