

Trane Technologies at J.P. Morgan Industrials Conference

March 16, 2021

Steve Tusa: All right. Last but not least, we've got Trane Technologies and CEO Mike Lamach, and CFO Chris Kuehn. Guys, thank you so much for joining us and anchoring the running the anchor leg here of the conference.

Mike, I'll kick it over to you. Just want to remind people, email or IB any questions you have, or just put them into the conference Web page. We'll be sure to get those answered over the course of the next 40 minutes. But with that, Mike, take it away.

Mike Lamach: Steve thanks. It's been it's great to be back thinking about this morning. We were in the first pandemic virtual a year ago. We're laughing that we've got the second hopefully the last and are optimistic about that. Thanks for having us back. It's been a great event.

We also launched Trane Technologies a little over a year ago. It's been a year and a couple of weeks. We've had an opportunity to really drive the whole organization here under the challenges, the reason for existence.

Whether it's indoor air quality or its vaccine distribution, the innovation that we've brought to bear, I think, has been helpful in the marketplace. It certainly brought our team closer together over the past year as we've gone through this. I would say that we've had significant progress in the transformation of the company, the re-blueprinting that I often talk about.

We're looking at a run rate of about \$300 million. When it's all said and done, it's not an upper limit, for sure, but it's certainly something that we've got an absolute line of sight to doing by 2023. That just helps us continue to reinvest back into the business and then outgrow in sustainable leverage over the long term.

We're continuing to also deliver on a strong pipeline of innovation across sustainability, building intensity, global greenhouse gas emission reduction. We brought on some indoor air quality assets in the last couple months here. A few months, we've done well to get the vaccine distribution up and moving around ultra-cold storage.

In addition to what was in the pipeline, we've been able to be pretty agile around getting new things in the pipeline that would make a difference in terms of helping out with these pandemic problems. Then we of course, continue to invest in people, technology, and most importantly, the operating system of the company, which is critical to the culture.

Last year, we expanded EBITDA margins, even though we saw mid-single-digit decline in revenue. We had another year of great cash conversion. We're sitting at about 116 percent of the last five years. Of course, 158 percent last year was a pretty strong year for us. Extraordinary efforts by the by the entire team to get that done and staying true to long-term strategy at a company.

I am optimistic about 2021. We're looking at an all in growth rate of seven to eight and a half percent, something in the 6 to 7 percent organic line of thinking, 30 percent operating leverage, again 100 percent cash flow conversion during the year, but it will be part of what we expect.

Also, please, the last couple of weeks, we've been able to get our second set of science-based targets approved. We're only one of 47 companies in the world to have two sets of science-based targets approved. The first was done in 2014. We finished that a couple years early in 2018. This next set includes the Gigaton Challenge.

We've got ticking a billion metric tons our customers' footprint, as well as our own operations being net neutral by 2030, and then of course, the really important diversity and inclusion goals that we set for the company, as well. We've got a lot of optimism, Stephen. With that, Chris will take all the hard questions, and I'll pick all the soft balls you want to throw.

Steve: We'll move from talking about the Gigaton Challenge to something a little longer term in nature. A lot of optimism around resi still but pretty volatile year in store first half, second half. How do you guys see things playing out early in the year? How are you positioning yourselves in the channel from an inventory perspective?

Start with the latest and greatest on, what's going on in resi here early in the year as we head into the summer selling season?

Chris Kuehn: Why don't I start it off, Steve, it's hard for us to really give any intra-quarter updates. If I take you back a little bit to the earnings release, we entered 2021 with a very strong backlog in residential. It's giving us a lot of confidence around growth in the first quarter.

We know we're going to see growth in the second quarter due to the easy comparison that business compared to last year. The second half of the year, we expect there to be some tough comps. We know that we had record bookings in the second half of 2020. I don't know exactly how much that will be.

Ultimately, we do think first half of the year, story of growth, and second half of the year, we expect it to be the tough comps. Overall for the full year, we're seeing what we believe to be up a low single-digit in terms of growth. It could be a little bit stronger as things improve.

Right now, we're seeing that as up low single-digit for the full year for resi. Otherwise, we're executing well in that space, and things have started off the year.

Steve: Is that...?

Mike: Steve, inventory is on the guard rails. It's within the normal range, it's the upper end of the normal range, so we're not seeing anything here that would be a flag associated with any strange demand like we had in 2020.

Steve: That's like up top 20 in the first half down 15 in the second half. Does that sound roughly about what you guys expect?

Chris: Yeah. If I look at this example, the first quarter of last year, the resi business was down just low single-digits a year ago in the first quarter. It's easier, but it's maybe not as easy as we saw some other companies had in their first half of the year.

Hard to call at this point, but I would say we had a strong first quarter last year in commercial HVAC as well despite things shutting down exactly one year ago this week and having a very challenged second half of March.

Mike: Remember, the first quarter in res, the month of March is about half the quarter and the last week of March is half of March, so a quarter of the quarter is last week of March. We had shut down all of our facilities globally the last couple of weeks in March just to get all of the protocols in place to keep people safe in distance.

Again, Chris's point is there's a little bit of anomaly there but essentially first half, second half, should not be too far off what you were suggesting.

Steve: Got it. How's the orders pipeline and commercial trending on the equipment side? What kind of appetite are you seeing from building owners and managers to put real money to work to

upgrade systems?

Chris: Thinking about commercial, again, I can't give you a lot of new insights as to what we're seeing in the first quarter. We'll do that here as we close out Q1 in the first-quarter earnings release.

Where we started the year was we saw the unitary markets being a bit more resilient than we saw the applied markets. Still both challenged, but unitary having a little bit more strength and performance.

We are optimistic around the second half of the year in terms of the commercial markets. We saw that with vaccine distribution and what we saw two months ago. We expected the second half to be stronger.

That vaccine distribution looks like it's accelerating, so it's giving us some optimism that the second half of the year for commercial, thinking about our America's markets, so we're going to be strong versus where we were in 2020.

Mike: I'd just add to say that. Go ahead. Ask the question.

Steve: For commercial unitary, what's driving that from a vaccine distribution perspective?

Chris: Go ahead, Mike.

Mike: You get things opening, like retail restaurants, even K-6 schools, which are unitary users. We're optimistic that will happen a little quicker.

I was just going to say that the other thing we've seen is now, many thousands of audits having been completed from an IAQ perspective, so the feeling that the one to two percent long-term tailwind around IAQ is what we think that the opportunity looks to be about right.

We bake that into the 2021 guidance and my guess is we'll be right where we thought we would be. We're seeing a lot of uptake not only on these audits but around the long-term capital maintenance plans being laid out to be able to address some of the challenges there.

Steve: Are those audits now peeking out as most have done them and so you're moving on to the next day execution?

Mike: No. We stopped counting because it's what everybody's doing as a day job at this point. It's just not a point of counting. I saw a report from the GAO just a few days ago that, you probably saw the same report, where 40 percent of all K-12 schools are under the appropriate IAQ standard, which is about 35,000 schools. Just K-12 schools that are subpar.

You've got 80,000-100,000 schools that you'd have to go through, think about the university environment office buildings. This is going to be a long road toward rebuilding to a higher standard.

Steve: When you think about what they're spending on, when you see these audits and what they decide to do, does that revenue flow through your services business, or does it flow through the equipment business?

Mike: The audit certainly would flow through the service business.

Steve: what comes after the audit, new filtrate?

Mike: Any immediate remediation that we do will come through generally in service, because

what we found is we've got entire teams of people on site. They're capable of addressing and fixing things on the spot. Initially, we were doing audits and then offering proposals. Really now, what we've been doing is doing the audit and getting the really remedial stuff done right there on the spot.

That's generally going to be service billings. As you get through the larger capital retrofits that would be required, maybe a system just doesn't have the capacity or capability of getting through a standard, that's where you would start to see the retrofits start to show up more in equipment.

We're seeing both. We're seeing people moving very quickly. If it's a healthy school district with a good property tax base or maybe the ability to float a bond, we're seeing things move a lot quicker. If it's a poor school district, the opposite. Federal funding would help. \$130 billion going into K-12 ventilation is certainly a shot in the arm as it relates to improving that.

That really needs to be something that's spent largely between June and September. As kids are getting back into the classroom and being distanced, we just don't see kids being displaced to go do this work. That \$130 billion might be a 2021, '22, '23 spend. The initial tranche will go toward, again, the really remedial things that need to happen with existing infrastructure.

Steve: What are the types of things that they're doing? When you say it's the remedial stuff, what is the remedial stuff? I'm sure there's some filters that are put in, but is there anything else that you're seeing is a habit?

Mike: I'll just give you an example. We've got well more than a million pieces of connected equipment. We would know for any given piece of equipment what the temperature and humidity is at that particular point in time. We know exactly what the model of the building should warrant in terms of outdoor intake, fresh air intake.

We know if we're getting a reading outside of those bands, there'd be a broken outdoor damper linkage sitting in a system. We immediately could send out 25,000 proposals to go fix something on a server basis, because ventilation, really indoor air [indecipherable] dilution, and exhaust is the number one strategy.

Then you lay around filtration and other techniques beyond that, humidity control as an example. There's an example of using AI to go determine a subset of things are broken in the field, mechanically broken in the field. They can't be fixed with software but they could be diagnosed with software.

All the way through to set points that are overridden in systems, which can be adjusted from an automation perspective. There's a lot that could be done remotely to get a million-plus pieces of equipment functioning as designed.

You can get a lot of insight in terms of what's happening even with some of the work we're doing around sensing, pathogen sensing, volatile organic compounds in the air, we're able to change the parameters of the HVAC system depending on the readings that we're getting through these microducted sensors that come back into the unit. We've built the integration to make that happen.

It's a very high level of sophistication of controlling the system and modulating the system based not on occupancy or not based on schedule, but based on actual reading of pathogens and VOCs in the atmosphere.

Steve: That's pretty impressive stuff.

Mike: It's great. If you're an occupant, if you're a student, or you're a patient at the hospital, it's great to know that that thing is actually happening. There's more curiosity from owners and

building owners about how to make that more available, visible for people in the facility to actually see that happening.

Steve: I know inflation and supply constraints have been a key topic of this conference. Any updates on price cost or what you're seeing supply-chain-wise? I believe you have a major facility in Texas. Everything all good there after the storm?

Mike: We had about 100,000 square foot, about 10 percent of the plant was damaged. We lost four, five days of production. We're back full production there. No issues there. No real supply chain issues. The whole semiconductor thing really didn't hit us.

A year ago, we were doing daily or multi-times-a-day calls around the supply chain, chasing bottlenecks globally. We've done some work on resiliency. We've done some work on additional supply. We have had some concerns around steel availability, but it's mainly been an input cost issue, not a supply issue. It's been just a pricing issue, a cost issue there.

When you think about price cost, though, we try to get 20, 30 bips of the positive price of the cost. That's a combination of being able to have an understanding of the input cost and price that. It's an understanding of what innovation is coming online and where do we price the innovation relative to the next best alternative.

For a competitive proposal, we've got a really good sense of an applied system to be able to take an economic value estimation of our competitors' best system offerings and understand how much we might be able to price around total cost of ownership.

Those three things, I would say, give us quite a bit of confidence that we would be able to have top-line margin expansion through our operating system. I said to an investor earlier today, I said that's absolutely not one of the things that's keeping me awake at night at all.

Steve: There's some exposure. You guys have had periods of time where your negative price cost when things move up. You think that that's just not going to happen anymore because of your business model and your analytics around that?

Mike: Over maybe, say, 10 or 12 years, it happened once. It was in the 2015, 2016 timeframe for six quarters. You obviously know there was a heck of a positive spread between price and material deflation over that. That was the worst I've seen it in 35 years, but certainly 12 years since we're on the Trane business. It's possible in a quarter or two.

What happened in '15 and '16 was this really speculative demand creating these huge spikes in copper and aluminum. We're seeing more of this really being demand-driven to this point. It's been certainly pervasive but it's been more predictable. It's been easier to price that in when you know the volatility of speculation. So far, all systems are go and I don't expect having a problem.

Steve: When it comes to your price capture over the course of this year, is it total company? Are we talking one percent type price capture?

Mike: We've got 20, 30 bips built into the plan. If we can do more, particularly through any of the innovation capture or the economic value estimation capture that we do on competitive proposals, then we would do better. 20 to 30 bips is what investors think about. It's what we baked into the operating system. It's what our plans have been built for and how people are getting paid.

Steve: That's spread, right?

Chris: It's spread.

Steve: There is headwind, though, from raw materials that you're covering with price within that,

right?

Mike: Yes.

Chris: That's correct.

Steve: You're not giving us color on that?

Chris: We'll go quarter by quarter on that with the color.

Steve: Got it.

Mike: Steve, I don't think it's a 2015, 2016 event. That's important to note. Look, if you're upside down a quarter or two, it's a quarter or two, but I don't even know that that'll happen at this point.

Steve: I'm just curious as to...Like Carrier said tens of millions. Everybody's given a bit of a degree of what's price and what's cost.

Mike: I don't know that it matters. Yes, we know the number. Yes, we know what the price is over that, but it's straight stick operating system top-line margin expansion work that we would do. I come back to it. It's just not one of the top 20 things that I would be worried about or thinking about.

Steve: In a margin bridge, you guys used to give productivity and investments. What's the rule of thumb for that equation now in your mind?

Mike: Productivity pipeline to be 125 percent of what we think the non-material inflation in the company to be. We manage the pipeline, manage the calendarization of that scheduling of those projects to make sure that we've got enough coverage, because you get some breakage.

Some projects don't work the way you want it. Some supply choices, or BAV work may not be what you thought it would be. We know that 125 percent in the pipeline calendarized out by quarter and month gives us coverage of all other inflation.

We like 20/30 bips on price of material inflation. We like the total productivity to exceed other inflation, and we want volume to drop through at the right incrementals which in our view should look something like gross margins. Mix will affect that a little bit. Reinvestment will affect it a little bit.

This year, we'll do a little bit better, kind of 30 percent for two reasons. One being we've got a little better TK mix. The second being we've got a tailwind with all the transformation work that's been going on for the last year.

Steve: When we think about as commercial really starts to recover, and TK and residential flattened out, become a little less volatile, is that a bit of a drag on mix in '22, '23 looking beyond, or you'd manage around that of drive to the high end of the '25 to '30, or is that encapsulated in the '25 that you've got there?

Mike: I like the long-range plan we've got here. Even in res, you're going to have at least a 2023 efficiency change there. 2025, you'll likely have a refrigerant change to low-GWP refrigerant.

Commercial, I like what's happening from an IAQ, energy efficiency, greenhouse gas production. I like the uptake we're seeing around electrification of heat in places like the EU, China, California, potentially moving through the northern part of the US. That's a positive for commercial business.

TK, look, I think you could snap a line at 45,000 trailer units in North America. Plus or minus 10

percent, you'd be right the next three years. It's only been one year lower than 40,000 units, which was last year. If you think about the prior six years last year and then the next three years, 40,000 units, 9 out of 10 years isn't bad. It's 25 percent of TK.

Auxiliary power units will have a big year. That's 10 percent of TK. We're still busy with air, bus, marine, rail. We're looking at some larger infrastructure projects using rail as an example. There's good diversity there. I know investors think about that being a choppy business. We don't think about it being a choppy business.

Trailer got a little lumpy with order patterns in '18 and '19 and a little bit last year with the pandemic, but the balance of the business has been good. As you get into straight truck and small truck refrigeration units, we're seeing nice, steady, solid growth around last-mile delivery. We brought some technology from Europe to the US here.

Recently, we announced that last week to be able to really bolster an electric hybrid solution for last-mile delivery, which will be very popular, I think.

Steve: What I was talking about was more the mix impact if TK and resi flattened out a bit, not down but flat up as low single-digit trend and commercial becomes the real growth driver. What does that do to mix on the margin?

Mike: The spread from an EBITDA basis isn't that horribly wide to create such a wide set of anomalies and mix. When TK is up 26 percent in 2021, you get a little extra boost and mix there. When you think about the biggest opportunity for margin expansion probably sits within our commercial business, that's going to be a real opportunity over the next couple of years to continue to expand margins there.

No, Steve, to your point. I don't see a particular onerous headwind there. Chris, any other, you have on that?

Chris: I was just going to add, on that 25 percent operating leverage, our plan, Steve, is that all of our business units would lever at 25 percent or better. Just trying to give you some color. It's not like we're letting any fall above or a couple are really driving a higher mix or average there.

Over that long-term, we see that being 25 points of leverage, or 25 percent leverage for all of our business units.

Steve: That makes sense. On to commercial, you've made some commentary about this new product over in Europe, a commercial heat pump product I guess is what you're calling it. How long has it been around for?

Mike: We're on our fifth generation of products. We launched in 2015. We used to think was a billion-dollar opportunity. We think it might be closer to two billion, just from what we're seeing in total opportunity. It's fun because even though we think we're in the HVAC business, we're really in the VAC business as it relates to Europe.

This is an opportunity incrementally to be in a business we weren't in. We think the leading position in this technology in Europe. We're not going to give specific shares with data, for obvious reasons, but I think it's the fastest-growing part of the portfolio. It's going to be particularly relevant in China and potentially parts of the Northern US as well.

Steve: What's the brand name again?

Mike: Yeah, Trane.

Steve: Is there a particular model name?

Mike: Sintesis would be what's used in Europe. Sintesis, yeah.

Steve: OK. Just wanted to make sure I was on the same page on that.

Mike: It's really cool because it's a modularized system. We started to 2015. What we tried to do was adapt, so that from a modular perspective every time we're addressing new technology introduction, we're changing the module in the larger system application itself. Every year, we've been able to crank out a more efficient version of the machine.

It's analogous to a variable refrigerant flow system. This gets kind of geeky for the people maybe who aren't into this business, but it's a variable water flow system. We've got this now where you're actually using no or low-GWP refrigerant. You're 300 to 400 percent more efficient than replacing a fossil fuel boiler with a fossil fuel boiler.

In the EU, was a mandate on how much of the grid needs to be greened every year. If it's a green grid, you're actually in the market with net-zero solutions. We've done entire district heating systems for cities at this point in time, which is really exciting. Again, we never would have been in that space three, four years ago.

By the way, we've been heavily influencing these codes and standards because of this technology and because there is no downside to this if you will. It's really a green solution across the board. Checks all the boxes from an EU perspective.

Steve: You said you weren't going to give market share or numbers, but what are the advantages of your product versus other guys who would say, "Hey, I have a European heat pump too," which they have said on commercials? What are your advantages?

Mike: The first thing is we've done it with HFOs, olefin-based refrigerants. We're using low or no GWP refrigerants, global warming potential refrigerants in the process, that's unique. We may have a competitor with one unit out of that variety, but the whole platform is that.

We do it in cooling-only, heating while cooling, heating or cooling, heating while cooling, or heating and cooling, or any combination of that. That technology has eluded our competition about how to use, well, first of all, how to do that.

We've done this on this modular architecture to have us be able to literally build these systems, align, and swap out the modular components to create really five different versions of this, and then the system efficiencies.

This isn't like the US where it's a residential system and everyone is going for a certain efficiency. It's a combination of mechanical, electrical controls and software that can deliver a certain efficiency. We're delivering the best systems efficiency in the marketplace.

That's systems efficiency, modular design, the cost structure allows us to be very competitive in the way we've done this because we're just swapping out the guts of the system to give you the options that you want. It is using zero global warming potential refrigerants. That's a homerun. It's been nothing short of that.

Steve: The markets over there in Europe, are they pretty stable in general?

Mike: GDP has probably been zero to flat. We've been five, six, eight multiples of that over the last five years really by doing two things.

Reducing the energy intensity of buildings and transport refrigeration, making that hybrid electric as an example, and taking really chlorine and fluorine refrigerants, replacing that with next-

generation low-GWP refrigerants but doing that in a way that the efficiencies are actually lower than the chlorine- and fluorine-based refrigerants.

That combination has been a knockout because it's no longer a false choice. Do I want to have lowest efficiencies or the greenest solution in the marketplace? You have the best efficiencies and zero GWP in the case of this electrification of heat solution I'm talking about.

It's been fantastic. Therefore, we don't need a new green deal. We don't need European stimulus. We can get there all the way on our own by making it economically viable and checking the box around someone's own net zero plans and goals.

Steve: When it comes to services, everybody is talking about attachment rate. How do you guys define attachment rate? We'll just start there.

Mike: First of all, you have to think about what are you attaching to. We're not going to attach service to everything we do. We don't attach service to residential products, we attach parts.

Mike: As you move up through the commercial line, you're not going to find us necessarily unless a customer really wants us to do that on top of Home Depot changing filters out on 25-ton HVAC systems. There's people and cost structures that do that.

For us, we think about applied and complex systems where it's some combination of equipment and controls creating a system. We look for and get 100 percent linkage on that. If a chiller is involved, it's 100 percent linkage on that solution. That's been the case for several years.

I don't know of an example where we don't do service on an applied system that we installed in the last three years. Part of that is because they've just become more complex to get these efficiencies. Like anything else, Steve, you heard me say the car example.

You buy a Mercedes Benz and the engine starts knocking, you're probably not pulling into Jiffy Lube, no offense to Jiffy Lube, for the diagnostic. You're probably going back to the people that know the diagnostic to figure out what happened. That's what's happening certainly in the HVAC OEM space for large, complex applied systems.

Steve: How penetrated is your existing installed base?

Mike: Again, if it's something that's utilizing next-generation refrigerant, so it's HFOs, think about 2015 forward, 100 percent. If it goes somewhere back across 30 years, a little bit of a bell curve. The older these systems get, the more maintenance is required. Folks look for that bootstrap guarantee to keep things running, so it's high.

Today, the service business in Europe and North America is 50 percent of the mix. If that mix includes unitary, it's a very high mix of applied. It's like almost all of applied.

Steve: Got it. How many units do you think the market ships a year in the US, applied, total market?

Mike: It's a hard question because when you say units, there's the air side of applied and there's the water side of applied. When we're talking about the air side of applied, this is air handling units, custom air handling units, VAV boxes, multizone systems.

If you go to the water side, it's going to be air-cooled, water-cooled, centrifugal, chillers. It's in the millions and millions of pieces, billions and billions of pieces.

Steve: On the chiller side then.

Mike: Again, air-cooled, water-cooled, centrifugal, massive. We got number. We have a number. We all have a number. We should have a number. All of us in HVAC land should have a number. It's a big number.

By the way, you take this electrification of heat, essentially it's a chiller that we run in reverse. It's a variable water flow chiller that works as a boiler when you need to work like a boiler or in some combination. Think about all the units of electrification of heat that are actually chillers in the marketplace. That's all going to have a very high attachment rate to it.

Steve: What's your answer to OpenBlue and some of these other competitive products that are coming on the digital front? I know you guys have had Trane Building Advantage for a long time. Obviously, things continue to evolve. Is there something in the pipeline that's going to come out as an update to those digital systems? How are you approaching...?

Mike: Are you talking a marketing program? Is this a marketing program? I don't think so. We'd like to think about these as a system of things. We like to sell them direct. We like to service them direct. It's the same way we do indoor air quality audits.

We go in and start from the front end of the system where air comes into a building and we track it all the way through every mechanical, electrical, and system component all the way out through exhausting out of the building. That's the way we look at this thing.

I don't know what you're talking about exactly. If you're talking about point solutions for things, we really don't think that way. Frankly, we look for customers that don't think that way, that want to understand how systems work together.

Steve: It's the digital system that pulls all the metrics, ranging from the building management system, various sensors, and use it all together and provides the dashboard for the building owner. Whatever you want to call that, that's the system.

Mike: You've seen that pre-COVID when you were down in our facilities. We talked about what we do there. We've been huge proponents of open systems. We have been winning with open systems for a long period of time. You're seeing other companies getting on board with open systems.

We're in a world of open protocols today. The ability for us to work with hundreds, if not thousands, of companies that have something to bring to the party and do that in a seamless way, is critically important.

We were able to adapt all of this IAQ sensor technology into our control algorithms using a standard open system connect between those to create this opportunity to sense pathogens and control systems from that sensing capability in a matter of weeks. That's the advantage to open systems.

That's always been our take on this, and I think you're seeing more companies that are talking about being open in terms of their architecture.

Steve: Right, that makes a lot of sense. Within the services business, how big is the rental business now, fast? Is that grown?

Mike: Chris, I don't know if you've got an idea there or number but hundreds of millions definitely.

Chris: That's probably ballpark and growing quite well. That's been a place where we've looked at investments that could be offseason where someone's looking for emergency replacements of products or even thinking about Europe where they've got ice rinks. They need something in place for two months, three months, four months, another place where we're using and

leveraging how the rental fleets.

We've had some activity there in the past, and it's been a way for us to buttress the business as well.

Mike: I assume from a service perspective, you can think about data centers or hospitals, we'll do an installation of an applied system, mature system, and we'll pipe the outside of the building to be able to accept something on a skid if in fact it would be a catastrophic failure.

You're pulling up a skid. You're piping within, say, three or four hours, and you're back up and running the ability to price it into a service agreement to offer that kind of a backstop. Think about healthcare data centers, that sort of environment, that's been absolutely huge disaster recovery. That's been big vaccine distribution, seasonal ice rinks, winemaking. You name it.

There's a whole world out there where people need this for two weeks at a time or a month at a time. Again, just the ability to backstop anybody with a critical operation, and we'll place assets right out where we need them nearby. We'll set up a guarantee that within four hours or eight hours, whatever it is that you have running in your building, we'll get you back up and running, even if it's a catastrophic failure.

Chris: Utilization rates are high.

Steve: You obviously keep that stuff on your balance sheet. How do you provide that coverage? It's sitting at a distributor, or how do you go...?

Mike: Steve, cash flow – well, no, so it's direct. We're in this business. These are all our assets, our service people, our [indecipherable]. It's interesting. Cash flow [indecipherable] were 35 percent last year, they've been 26 percent over the last three years. They've been top quartile for the last 10 years. It's not like it's draining the balance sheet. It's not like it's hurting somewhere. These assets pay for themselves in a very short period of time.

We sell the assets when it's time to come out of the fleet. Oftentimes, somebody will take on that asset when they have a failure. We'll let them buy the asset. There's a rental life. There's a fixed life on a resale. There's a lot to this. There's maintenance on that.

Steve: How did the Mitsubishi JV performed last year? Can you remind us of how much of that is resi and how much of that is commercial?

Mike: Yeah, it's probably 80/20 commercial. It's just been a home-run. Whenever I talk to Mitsubishi guys in Japan, they love it. We love it. It was a marriage of a really strong technical channel, able to apply the product, and service it with incredibly good, high-quality, full-product portfolio. That combination is just created a leading position everywhere we work together.

It's a mature relationship as parts of the world where we work together like in the North America, there's parts of the world we compete. In Western Europe, we buy too and we sell to each other just a way of a modern relationship in the space, but the JV has been phenomenal.

Steve: That's all we have time for. Mike and Chris, thank you so much for joining us and best of luck into the summer selling season. We'll chat in April.

Mike: Look forward to it, Steve. Thank you for having us.

Chris: Thank you.